

DAIKEN

DAIKEN GROUP REPORT 2020

Integrated Report



DAIKEN CORPORATION

Message to Stakeholders



Message to stakeholders

Fiscal year (FY) 2020 was the first year of the three-year medium-term management Plan GP25 2nd Stage, which was started to accelerate the growth strategies for achieving the long-term vision GP25; consequently, our group steadily promoted measures for coping with the expected decrease in new housing starts, which included full-scale deployment in North America through mergers and acquisitions. Therefore, we strengthened proposals for functional building materials in public and commercial non-housing buildings.

However, a major change took place in the second half of the fiscal year as a result of the COVID-19 pandemic, which made it impossible to execute even former everyday business practices, not to mention restrictions on the business activities of our group. We recognized afresh the importance of personal relationships and that daily life was supported by a variety of different people.

Since the foundation of the company, our goal has been to contribute to people and society by providing industrial materials, building materials, and spaces that are equipped to offer a variety of different functions. We are more determined than ever as a company to continue to support the everyday activities of people by producing spaces that enable safer, more secure, healthier, and more comfortable lives for all the people around us; therefore, we must identify changes amidst the uncertainties of the COVID-19 pandemic and further upgrade our technologies, ideas, and passion for that purpose.

Our company will celebrate its 75th anniversary in FY 2021. This year is also the turnaround point for the long-term vision GP25, which is targeted for our 80th anniversary. During this milestone year, I, as the president, will play a leading role in navigating the business environment so that our company will continuously contribute to society through business based on a renewed gratitude for the relationships with the stakeholders that support the daily business of our group. We sincerely ask for your unchanged support.

Masanori Okuda

Representative Director,
President

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Editorial Policy

Based on the two policies in the medium-term management plan GP25 2nd Stage, I. "Accelerating growth strategies" and II. "Enhancement of the management foundation," the *Daiken Group Report 2020* explains the key measures aimed at medium-term and long-term corporate value enhancement, including the strengths that our group developed over time and the contributions to the resolution of social issues through our business both in the financial and nonfinancial aspects. In the preparation of this report, we endeavored to enrich its content so that readers could better understand our group by referring to input from shareholders, investors, and other stakeholders with increased financial information and statements concerning risk recognition. Please visit our website for details of the ESG and environmental information.

Company Information

DAIKEN CORPORATION and the Daiken Group
*Environmental information differs in scope.

Eligible Period

Fiscal 2020 (April 1, 2019, to March 31, 2020)
*Some contents include information other than the above period.

Reference Guidelines

- International Integrated Reporting Council (IIRC):
The International Integrated Reporting Framework
- ISO 26000

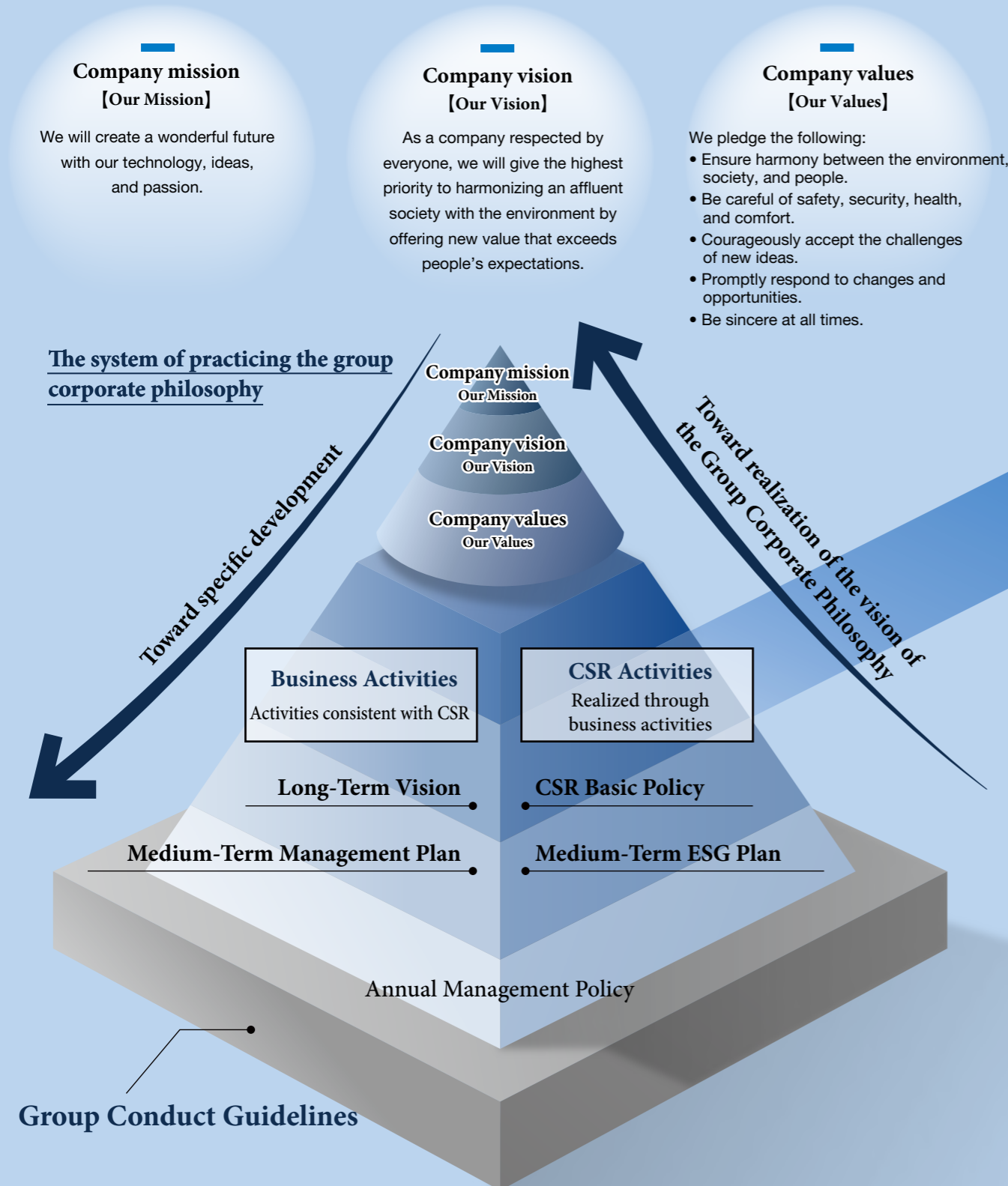
[Disclaimer regarding future prospects]

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

Daiken Group's Goal

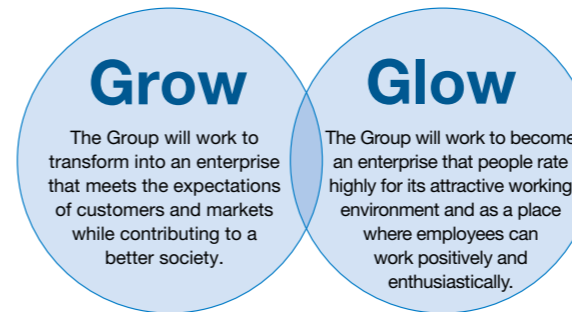
To have a concept in common with all of the Group's employees and adjust the direction to move forward, the Daiken Group has established the group corporate philosophy, which consists of the three elements of the Company mission [Our Mission], Company vision [Our Vision], and Company values [Our Values]. To achieve the philosophy, we will aim for the sustainable improvement of corporate value by uniting our business activities and CSR activities.

Group Corporate Philosophy



2025 Long-Term Vision GP25

Grow / Glow Plan 25



Significance of Existence and Ambitions

- 1 Contribute to the building of a sustainable society by efficiently using limited resources
- 2 Enrich people's minds by creating more comfortable and secure spaces

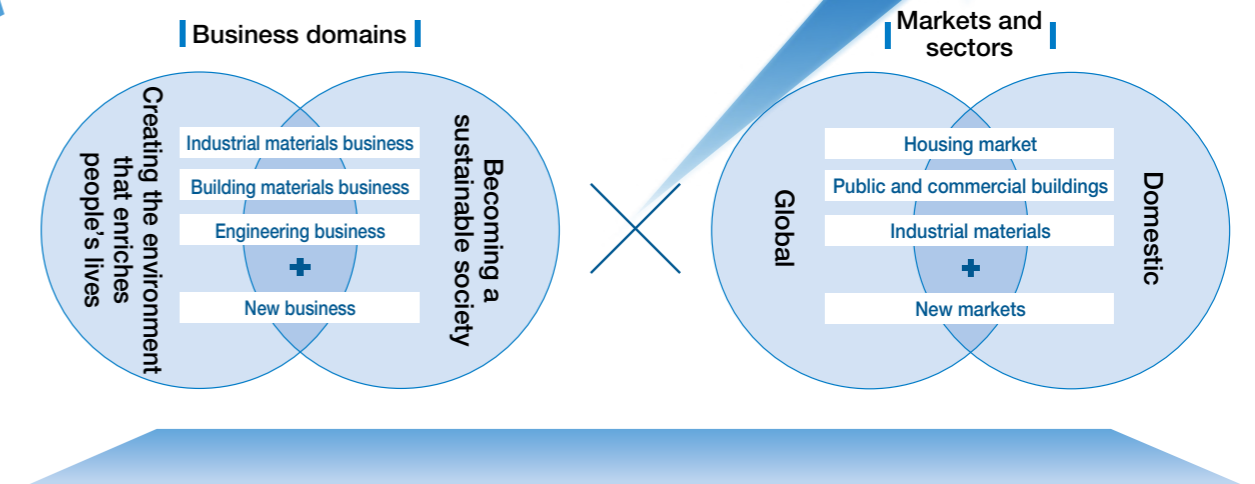
How We should be in 2025

- 1 Leading global company for industrial materials, building materials, and engineering
- 2 Continue to challenge new business areas and grow the fourth pillar
- 3 Earn a great reputation among professionals for consumer-oriented product development, proposal capabilities, problem-solving skills, and organizational strength
- 4 Company culture that admires challenges, and system established to support challenges
- 5 Governance is strengthened to support sustainable growth and improvement of medium-to long-term corporate value

Business domains, markets, and sectors targeting Long-Term Vision GP25

From the current image as a housing materials manufacturer to the following:

- Supply building materials and industrial materials for building materials as well as construction
- Expand business areas from housing to public and commercial buildings, and industrial materials
- Expand into global markets



CSR Basic Policy

Vision	Contribute to the realization of a sustainable society by creating values shared with society through activities for "Ecology" and "Improvements in the quality of space."
Policies	<ol style="list-style-type: none"> 1 With CSR and CSV* as the key axes, we will improve our corporate value and enhance our competitiveness to realize GP25. 2 Using CSR as an activity to enhance our ability to respond to and earn the trust of society, we will systematically pursue CSR with our responses to the environment, society, and governance as key axes. 3 Positioning CSV* as one of our management strategies, we encourage activities voluntarily and actively through the whole business process. <p><small>*Daiken's CSV is defined as finding solutions to social issues through the provision of common values capitalizing on Daiken's uniqueness.</small></p>
CSV Theme	<ol style="list-style-type: none"> 1 Building a sustainable society 2 Providing secure, safe, and comfortable spaces 3 Comprehensive use of wood building materials-encouraging the use of cascading

Process of Creating Value


The Daiken Group aims for the realization of a sustainable society and the creation of economic and social value by contributing to solving social issues, such as the Sustainable Development Goals (SDGs), through business activities that make use of our unique strengths. The Group also united CSR activities based on Environment, Social, and Governance (ESG) to make our businesses robust.

Medium-Term Management Plan

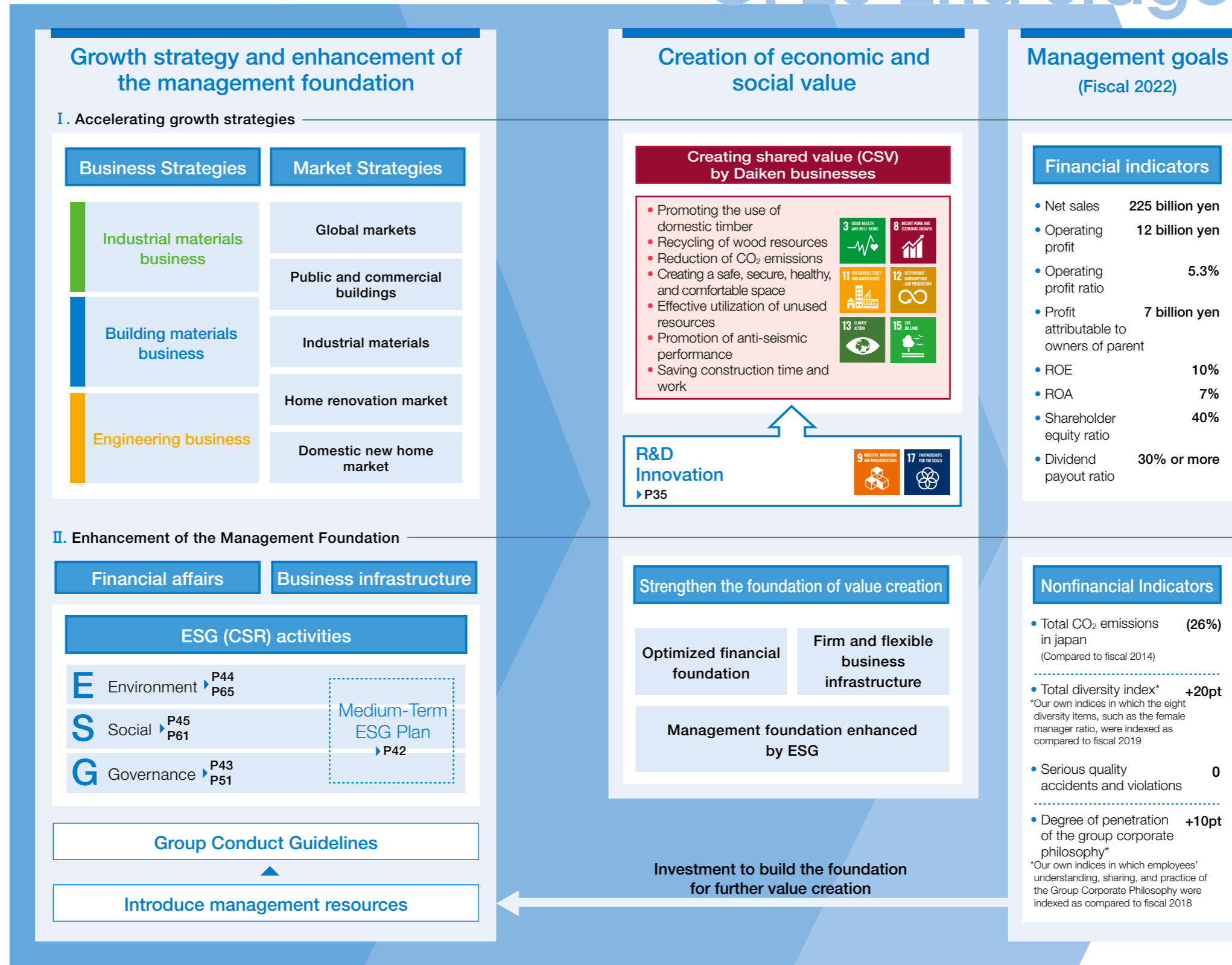
GP25 2nd Stage

Social issues and needs

SDGs



- Realization of low-carbon society
- Building a recycling-oriented society
- Measures for water resources
- Measures for biodiversity
- Conservation of tropical timber
- Decrease in labor force
- Promotion of diversity
- Promotion of workstyle reform
- Development of local communities
- Revitalization of the domestic forest products industry
- Preparation for natural disasters
- Improvement of the safe, secure, healthy, and comfortable living environment
- Response to the super-aging society



Investment to build the foundation for further value creation

➤

Achieve the Long-Term Vision GP25

Daiken Group's Value Creation
 Strategy for Value Creation
 ESG Serving as a Foundation of Value Creation
 Data
Achieve the vision of the Group Corporate Philosophy

Historical Development of Value Creation and Strengths

Ever since foundation, The Daiken Group has been developing a wide variety of products to help customer's daily life through our technological innovations which always meet social issues and needs. The Group effectively uses all the strengths acquired in our history and aims to grow into a housing material manufacturer that becomes an all-embracing company for building materials and thus creates new value.

1945 Foundation

Plywood

1946 Special plywood
Developed special plywood for vehicles to which durability and water resistance were given by the technological development of adhesives



Insulation board

1958 Insulation board
Started manufacturing insulation boards, wood fiberboards utilizing lumber sewing waste and construction waste



1964 Dai-Lotone

Started manufacturing Dai-Lotone, non-combustible ceiling materials using slag wool, which is a byproduct of steel production



1973 Door

Promoted making doors fancy and created the industry standard of modern design



Dai-Lotone

Started manufacturing Dai-Lotone, non-combustible ceiling materials using slag wool, which is a byproduct of steel production



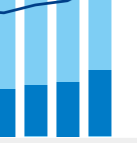
Interior projects

Started manufacturing Dai-Lite, an inorganic material using an unused resource Shirasu (volcanic ash) and slag wool



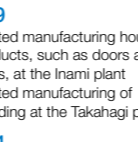
1971 Integrated storage furniture

Launched the first housing equipment Cabinet set and developed from a single product to an integrated product



1970 WPC

Developed a technology to harden wood veneers by injecting resin into the grains of the wood called WPC



1971 Door

Promoted making doors fancy and created the industry standard of modern design



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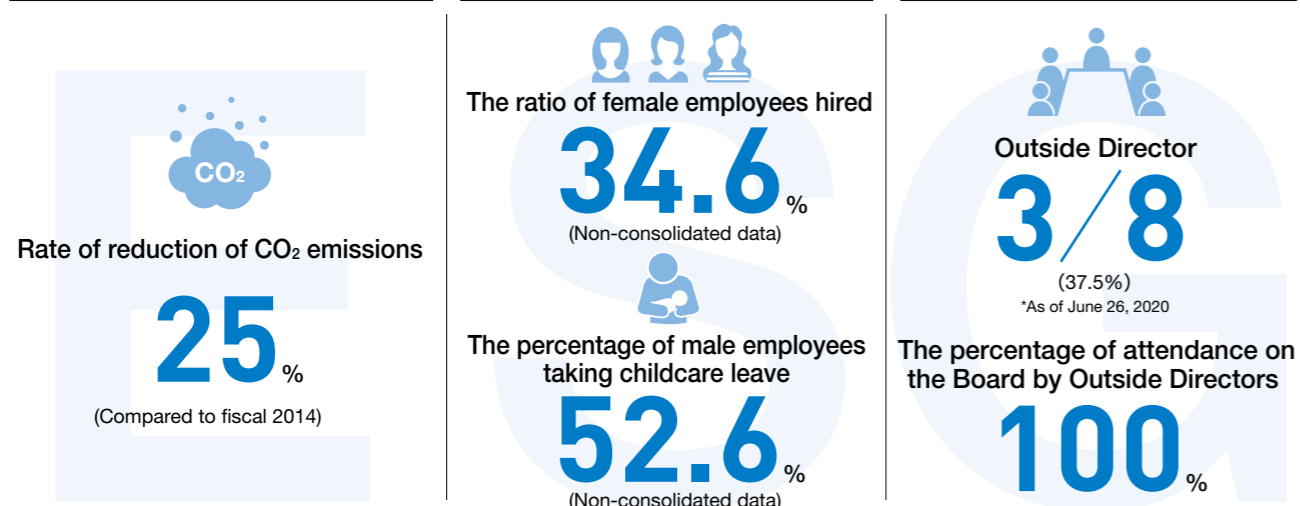
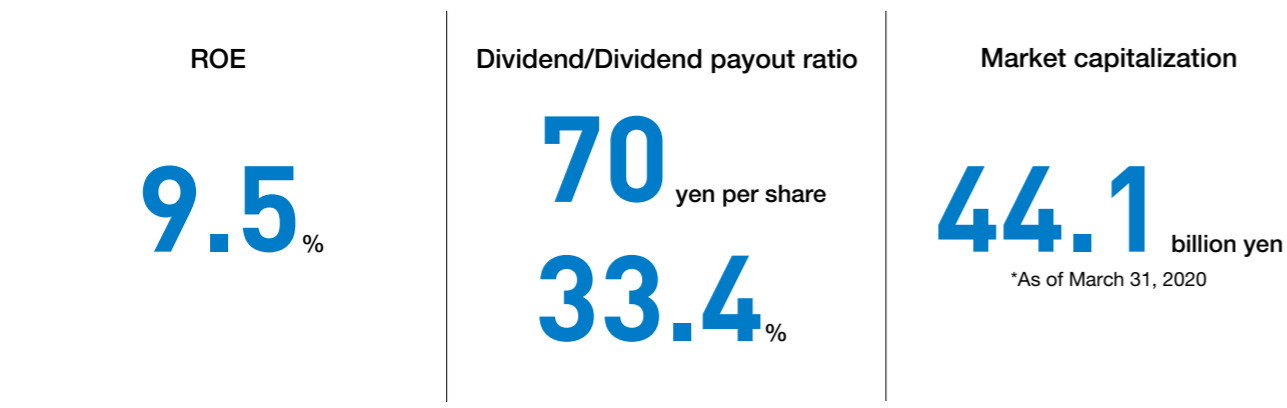
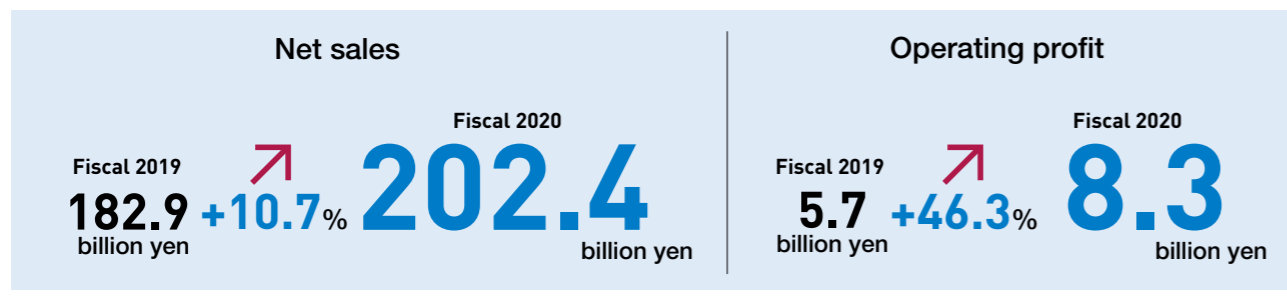
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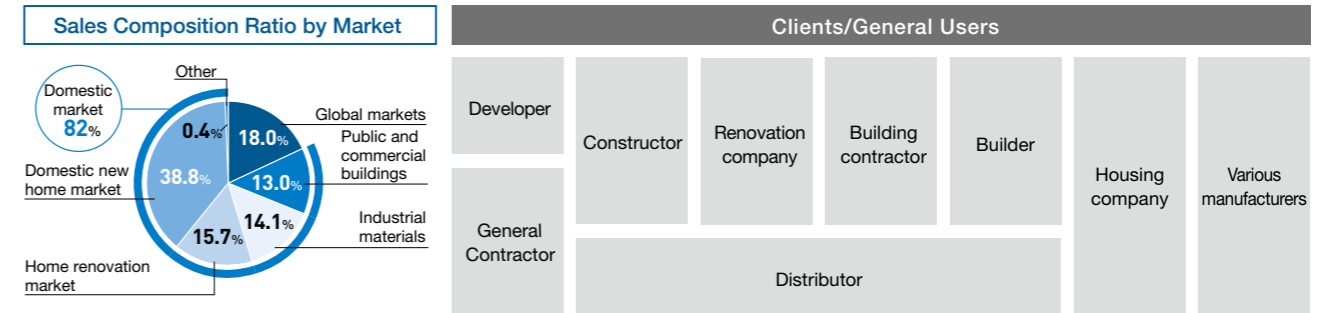
The Daiken Group at a Glance (Fiscal 2020)

The Daiken Group Expressed in Figures

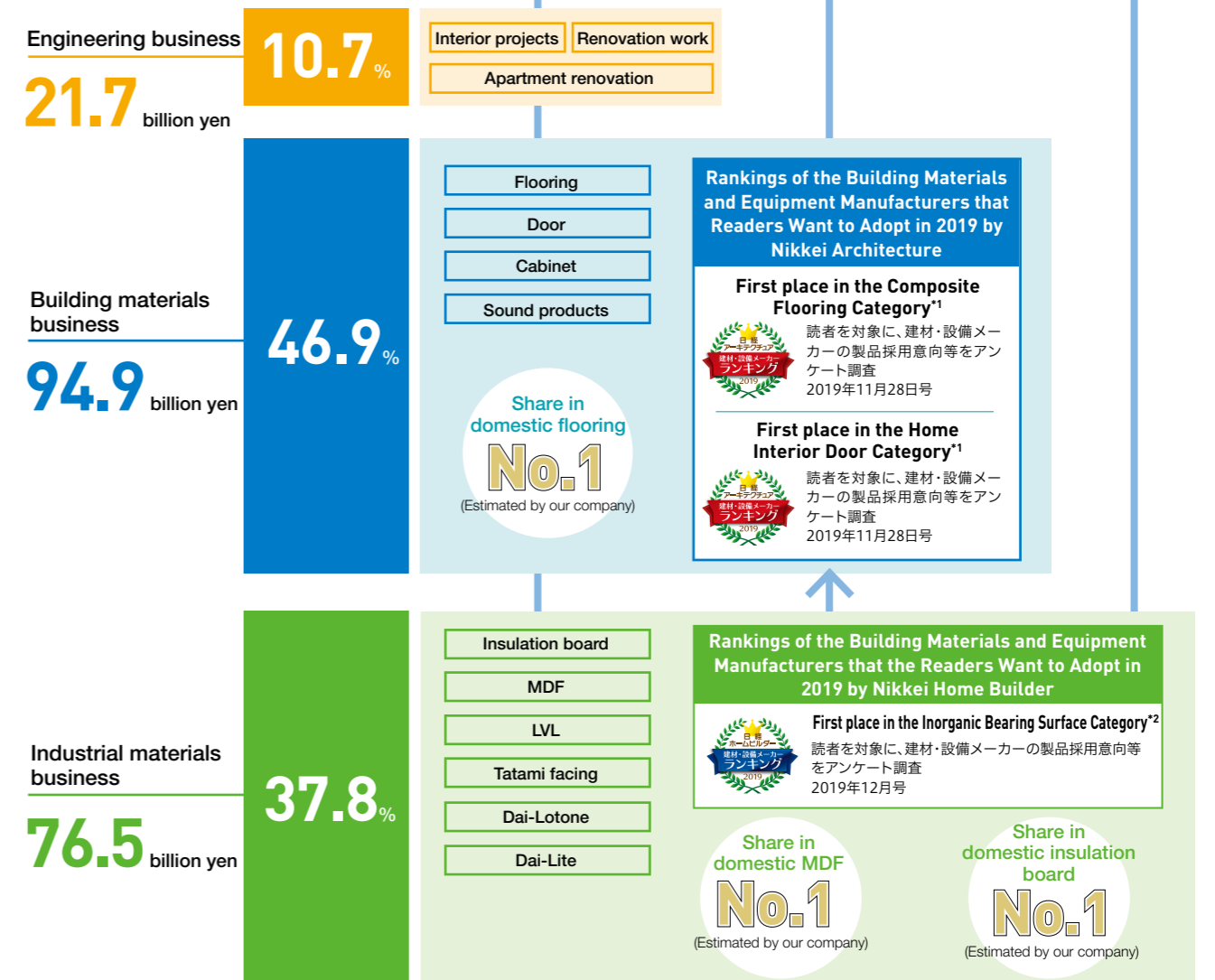


Business flow

The Daiken Group is consistently engaged in the development, production, installation, and construction of various functional industrial and building materials.



Sales Composition by Business Segment



Other Daiken businesses account for 4.6% or 9.2 billion yen in addition to the above.

¹: A questionnaire survey for the readers in regard to their intention to adopt building materials and equipment manufacturers' products. The November 28, 2019, issue

²: A questionnaire survey for the readers in regard to their intention to adopt building materials and equipment manufacturers' products. The December 2019 issue

Product Development Uses Strengths

The Daiken Group cultivated its technologies throughout our seventy-five year history and continues to offer products that are valuable for society and customers. Our diverse product lineup, with its excellent features, is used in a wide range of scenarios in houses and public and commercial facilities.

Industrial Materials Business

Developing and offering highly functional industrial materials

The Daiken Group offers various functional industrial materials having non-combustibility, anti-seismic, thermal insulation, sound insulation, humidity conditioning, and various other features required in our daily lives by making full use of wood and mineral resources from a sustainable perspective.

Daiken's Strengths
 Capabilities to develop unique industrial materials









	Overview	Features and Functions	Major Applications	
Effective use of wood materials	Insulation board Wooden fiberboard using none-used wooden waste for main raw material and molded into a board 	<ul style="list-style-type: none"> Heat insulation Moisture conditioning Cushioning properties Lightweight 	Inner part of a tatami mat	Protection board
	MDF Wooden fiberboard using residual wood offcuts for main raw material and molded into a board 	<ul style="list-style-type: none"> Dimensional stability Surface smoothness Workability Water resistance 	Materials for flooring	Base materials for building and furniture (Substrate of door, storage, and window frame)
	LVL A fabricated wood product manufactured by laminating veneers cut from a log all parallelized in the fiber direction and gluing them together 	<ul style="list-style-type: none"> Dimensional stability High strength Workability 	I-Joist	Structural material
	Tatami facing Tatami facing made from straw twisted machine-made Japanese paper strings and a resin coating 	<ul style="list-style-type: none"> Light resistance Water repellent Moisture conditioning Color variations 	Tatami mats	
Effective use of mineral materials	Dai-Lotone Mineral fiberboard molded into a board using slag wool as a byproduct of steel production 	<ul style="list-style-type: none"> Non-combustibility Lightweight Sound absorbing Workability 	Ceiling materials	
	Dai-Lite An inorganic material molded into a board using an unused resource, Shirasu (volcanic ash), and slag wool 	<ul style="list-style-type: none"> Non-combustibility Lightweight High strength Workability Moisture permeability Insect repellent Antiseptic 	Wall base materials	Wall materials

Building Materials Business

Developing and providing building materials best suited for the interior of various buildings

The Daiken Group offers high-performance building materials that form spaces focusing on safety, peace of mind, health, and comfort to be used for housing, public spaces, and commercial facilities.

Daiken's Strengths
 Capability to develop building materials with high added value and capability to propose total plans for interior spaces

	Flooring	Door	Cabinet	Sound products
For houses	A flooring of ultimate beauty A lineup that is particular about surface texture and that offers damage resistance, long-lasting beauty, good design, high function, and high performance 	Great range of design and variations Interior door that is highly functional and easy to use and can be coordinated flexibly 	Storage improvement A complete lineup of cabinets equipped with abundant storage capacity that is space-saving and offers other features to fit individual spaces 	Space for enjoying sound A complete lineup to meet the sound environment and sound quality needs of a variety of venues, including home theaters, musical instrument practice rooms, and audio rooms 
For public spaces and commercial facilities	A flooring for heavy duty areas A complete line of flooring that can be used in heavy duty areas, including those made of natural wood resistant to damage, sound-proofing materials, and those that reduce the impact when a person falls 	Functional door suitable for facility applications Interior doors with particular functionality for nursing homes, kindergartens, childcare facilities, and stores 	Cabinets inspired by consideration to users Cabinets mitigate the various risks to users for comfort during use 	Creating a comfortable sound environment A complete lineup suitable for sound-proofing, echo reduction, and other specific purposes 

Engineering Business

Total support for creation of spaces from the supply of building materials through installation work

The Daiken Group's major projects are interior construction for public spaces and commercial facilities, including schools, event venues, office buildings, and apartment buildings, to create spaces that optimize the performance of industrial and building materials.

Daiken's Strengths
 Capabilities to perform installation work by making use of the functions of building materials



Creating shared value (CSV) by Daiken businesses

The Daiken Group delivers value to society by operating businesses that utilize our unique industrial materials and technologies to respond to a variety of social issues and needs.

01 Promoting the use of domestic timber



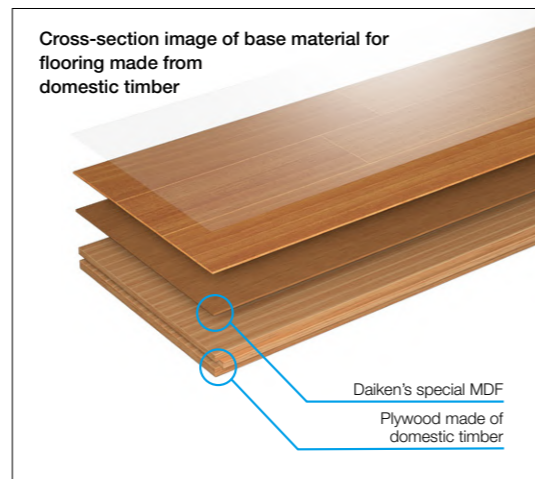
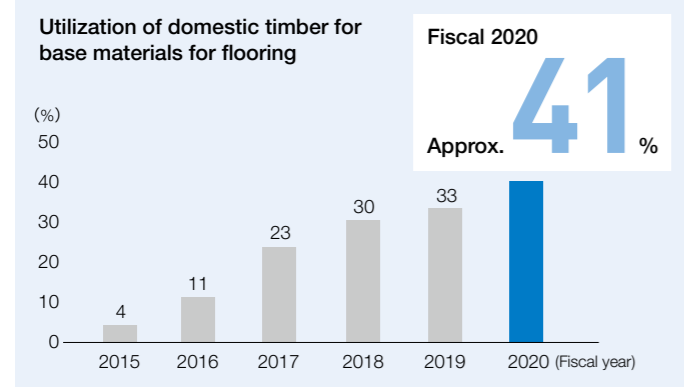
Promote the use of domestic timber with special MDF that offers excellent water resistance

Social issues and needs

Japan is one of the world's most forested countries with about two-thirds of the land covered in forest. Therefore, domestic timber should be more actively used in order to foster healthy forests that fulfill various needs, such as absorbing CO₂ and prevention of landslides. The Japanese government is aiming to increase wood self-sufficiency to 50% by 2025.

Daiken's strengths and value creation 1

The Daiken Group took advantage of the expertise cultivated as the leading flooring manufacturer and Daiken's unique MDF technology that offers excellent water resistance and surface smoothness and developed base materials for flooring combined with domestic timber. The group had made many improvements and increased the use of domestic timber for flooring materials, which was approx. 4% in fiscal 2015, to approx. 41% in fiscal 2020. The group will continuously proceed with product development that will draw out the appeal of domestic timber and further promote the use of domestic timber.



Expanding the scenes to utilize domestic timbers with the wood hardening technology

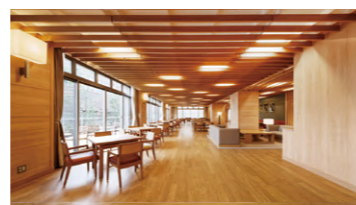
Daiken's strengths and value creation 2

With Daiken's unique WPC* technology to harden wood tissues by injecting plastic resin into and filling the tissues, it has become possible to offer flooring with excellent surface strength that uses domestic natural wood for decorative surface materials. Because many domestic tree species are soft materials, low durability in using them as flooring was an issue, but by taking advantage of this technology, we will expand the use of domestic timber while meeting the needs of using local materials.

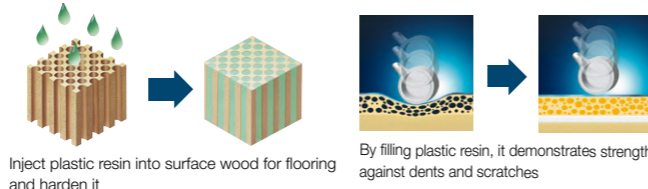
*WPC = The abbreviation for Wood Plastics Combination

Results of the commercialization of local materials with the WPC technology

23 prefectures



Mechanism of the WPC technology



02 Recycling of wood resources

03 Reduction of CO₂ emissions



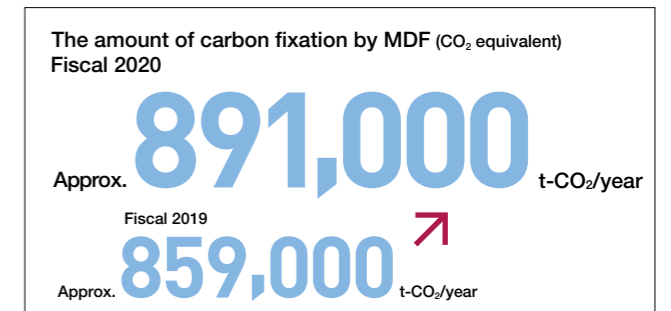
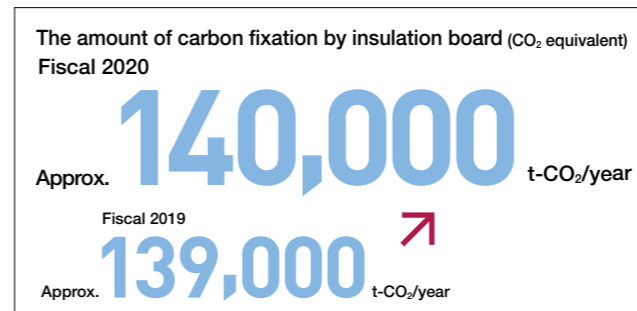
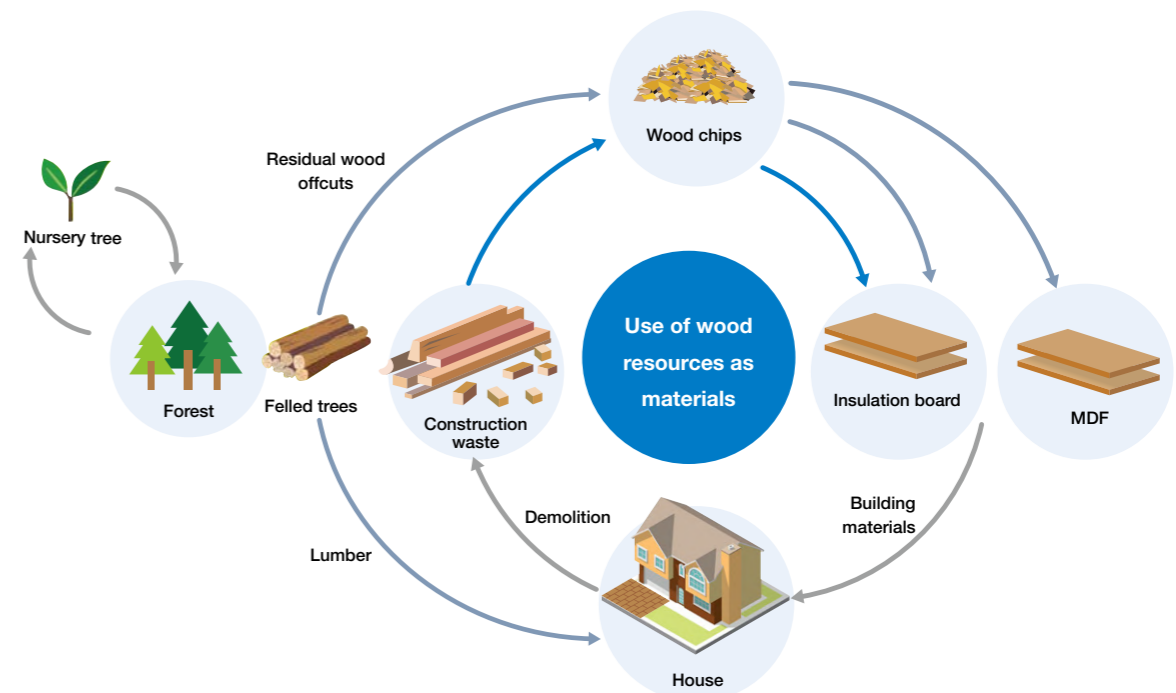
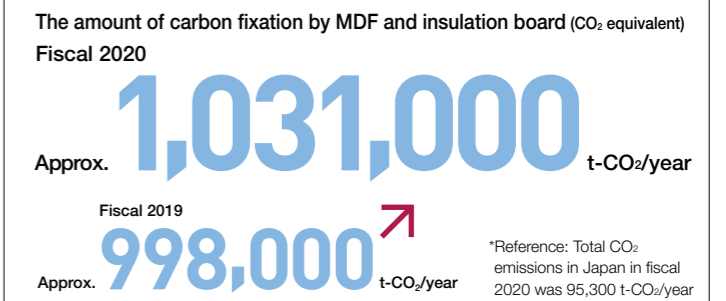
Prolongation of the carbon fixation period by using wood resources for materials

Social issues and needs

Considering the adaptation of two closely linked SDGs and the Paris Climate Agreement, the crucial challenge for the world is to create a recycling-oriented society that effectively uses limited resources and to promote measures against the climate change associated with global warming.

Daiken's strengths and value creation

The Daiken Group has been manufacturing materials that effectively use wood resources, such as MDF using cutoff materials from sawmills, and insulation boards reusing construction waste that used to be discarded or used as fuel. Trees function to absorb CO₂ in the atmosphere during the growth process and to keep storing it by fixing it as carbon. Using wood as materials as long as possible instead of burning will not only reduce waste but also keep storing carbon in wood, and as a result, it will lead to reducing CO₂ emissions into the atmosphere. Our group focuses on this function, continues to use wood resources in a wide variety of scenes as materials with zero waste, and contributes to the formation of a recycling-oriented society and the prevention of global warming.



04 Creating a safe, secure, healthy, and comfortable space



Creating a safe spaces to live together with the elderly

Social issues and needs

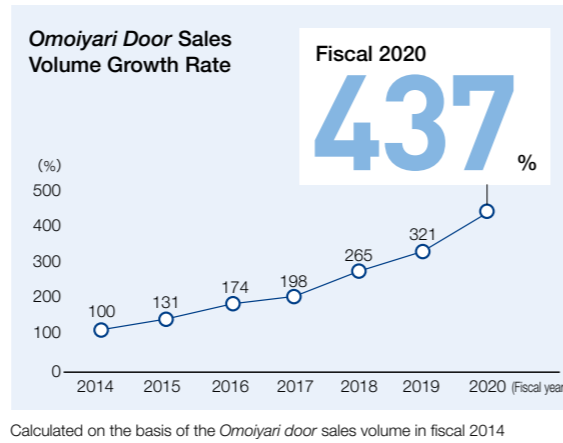
Japanese society is more rapidly aging than other developed countries and becoming a super-aging society with one in four people aged 65 or over. It is expected that the elderly population will reach about 40% by 2060. There is also concern about social problems with elderly people providing care for elderly people. So, the living environment of the future must be safe, secure, healthy, and comfortable.

Daiken's strengths and value creation 1

Based on our ideas and technologies for living spaces proven through our work, Daiken is committed to manufacturing from the perspective of all users, including elderly people, their families, and caregivers. In recent year, by improving the mechanism that can finely respond to the needs that vary according to facilities, such as elderly facilities, houses that are considerate of home care, etc., and having comprehensive product lines, our products have been widely adopted. Daiken pursues the creation of excellent and pleasant spaces using products that are safe and secure for people's lives and have functionality, such as indoor moisture conditioning, making it easy to listen to conversations, etc.



Cases of adopting the building materials from the *Omoiyari Series* for the living spaces where elderly people live
Moisture conditioning wall material that creates a comfortable indoor environment



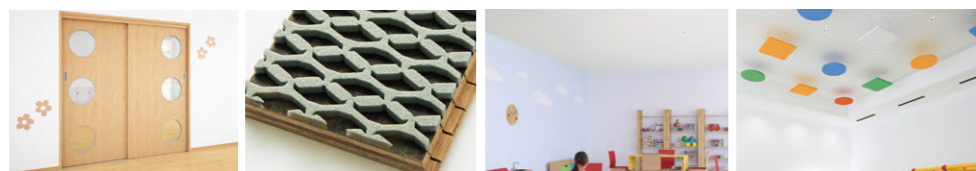
Creating spaces where children can spend the time safely

Social issues and needs

While cases of leaving children aged 0 to 3 in childcare facilities have been increasing more than ever with the increase in the female employment rate in recent years, a design that is more considerate of safety and the environmental aspect is required for these facilities. Lack of human resources engaged in childcare is considered one of the major causes of the problem of children on the waiting list, and it is imperative to reduce nursery teachers' burden and create a pleasant working environment.

Daiken's strengths and value creation 2

We thoroughly examined the performance required for the area around a door in a childcare facility where the risk of injury is particularly high and developed the door dedicated to kindergartens and childcare facilities, while taking advantage of the expertise in door manufacturing cultivated from past houses and elderly facilities. We also provide spaces where children who are in the auditory and linguistic developmental stage can optimally spend time through our products having the sound absorbing feature that can reduce noises. We will support a wide variety of problem solutions required for childcare facilities, such as improvement of safety and comfort and further reduction in the nursery teachers' burden by using Daiken's unique technologies and diverse products.



Doors that consider safety by assuming that children use them
Meshed cushion on the back of flooring disperses the impact and reduces the risk of getting injured
High-performance ceiling materials having excellent sound absorbing, moisture conditioning, and formaldehyde absorbing features
Sound absorbing panel for ceiling of which the color and shape can be specially ordered

The door dedicated to kindergartens and childcare facilities won the Kids Design Award* (Fiscal 2018)



*Design category that will contribute to the safety and security of children

05 Effective utilization of untapped resources

06 Promotion of anti-seismic performance



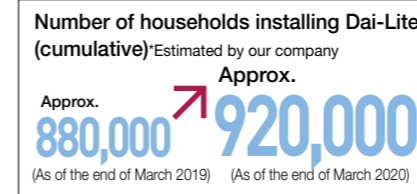
Promotion of anti-seismic performance of wooden houses using non-combustible materials that offer excellent durability

Social issues and needs

Japan has been devastated by earthquakes many times, including the Great Hanshin-Awaji Earthquake and the Great East Japan Earthquake. Large earthquakes, such as the Tokyo metropolitan earthquake and the Nankai trough earthquake, are predicted with high probability to occur in the near future, and the Japanese government has set a target or seismic resistance ratios and promotes the upgrading of houses and buildings.

Daiken's strengths and value creation

Daiken developed Dai-Lite, the world's first new industrial material using an unused resource, *shirasu* (volcanic ash) as the major raw material. It has all of the performance required for an inorganic bearing surface, such as lightweight, high strength, high durability, fireproof, and workability, that could not be realized with conventional inorganic materials. Daiken has contributed to a recycling-oriented society by finding value in a resource that was untapped, by expanding applications as the product, and by becoming popular as the leading brand for an inorganic bearing surface for houses, and it has contributed to improving the aseismic performance of Japanese wooden houses. By expanding the anti-seismic products for existing houses, it promotes further upgrading of the anti-seismic performance of wooden housing.



Dai-Lite
Anti-seismic wall
Shirasu, an unused resource available in the natural world

07 Saving construction time and work



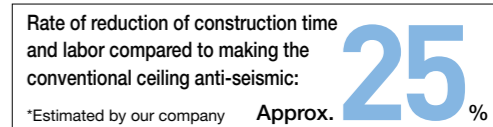
Contributing to the anti-seismic ceiling by developing the labor-saving construction technique

Social issues and needs

Because of the special demand for the restoration projects and various redevelopment projects, in addition to decreasing productive-age population ratio associated with the low birthrate and longevity, a shortage of workers has become an aggravated problem in the construction industry. While the Building Standards Act revised after the Great East Japan Earthquake requires higher aseismic performance of the ceilings of large public buildings, there was an issue that it requires much time and labor in making existing ceiling anti-seismic.

Daiken's strengths and value creation

To particularly respond to the needs of making the ceilings of large public facilities anti-seismic after the Great East Japan Earthquake, Daiken developed a unique ceiling construction technique that makes it possible to make the ceiling anti-seismic with the saving construction time and work. With this construction technique, we reduced the construction time and labor by approx. 25% compared to making the conventional ceiling anti-seismic. We will aim to further realize the saving construction time and work for not only ceilings but also building materials for renovation from the perspective of a new construction technique.



Our own anti-seismic ceiling construction technique
Flooring for renovation that can be easily constructed in a short construction period
Wall cabinet corresponding to the on-board construction technique that can omit substrate work and shorten the construction period

Interview with Top Management



Masanori Okuda
Representative Director,
President

Toward becoming an all-embracing company for building materials

To achieve the Long-Term Vision GP25, contribute to society by returning to our roots and leveraging the changes as opportunities

Q What has been the influence of the spread of the COVID-19 infection, and how have you coped with it?

The worldwide spread of COVID-19 has had a tremendous influence on social and economic activities. We are deeply grateful for the daily support of healthcare professionals on the frontlines and other persons working to prevent the spread of the infection. How the situation will develop remains uncertain. Our company will continue to place its highest priority on guaranteeing the safety of customers, business partners, employees and their families, and all other stakeholders to prevent the spread of the infection and minimize the impact from the crisis. Under these circumstances, we were fortunate in that the influence on our performance for FY 2020 was limited. In the early phase of the crisis from February to March 2020, there were concerns about the procurement of parts and materials from China due to the major impact of the spread of the infection. However, after strengthening our BCP structures following the procurement problems in FY 2019, we fulfilled our responsibility as a manufacturer for a stable supply for the end-term increase in demand for housing and building materials.

Since the start of FY 2021, the situation has been difficult because of rapid and continuous changes. Regarding company-wide measures up to June

when this interview was held, the Countermeasures Office was established, and I will serve as the director. Under the integrated management systems combining Japan and overseas, we are continuing business as much as possible, while taking precautions to prevent the spread of the infection. The key business production bases in Japan are continuously operating with partial production adjustments. Among the overseas bases, the MDF plants in New Zealand stopped operations for about one month from late March until the end of April due to the nationwide lockdown. The LVL plant in the United States was forced to reduce operations by approx. 40% to 60%. The impact has been greater overseas than in Japan with restrictions placed on other plants in Malaysia, China, and Indonesia. At the business offices in Tokyo, Osaka, and other regions, we switched to remote working, in principle, after the declaration of the state of emergency by the Japanese government, and we maintained operations of 80% or higher. Urgent measures were implemented, but our structures, which had been gradually established from the viewpoints of BCP and work style reform, took effect. The impact on sales and orders was limited at the beginning of the term in April, but difficulties are increasing with each passing month. The influence on housing and building materials emerges two or three months after the start of construction. Therefore, we are establish-

ing production structures to flexibly adapt to any changes in demand in preparation for a rapid decrease in demand expected in Q2 and after.

Q FY 2020 was the year to start the medium-term management plan GP25 2nd Stage. What were the achievements and problems in the first year?

The two achievements were the steady progress in the review of the market portfolio amidst the downward trend of new housing starts and the M&As aimed at strengthening key markets. As had been expected, new housing starts slowed following the increase in the consumption tax in October of FY 2020. Because of last-minute demand, there was a steady trend in the first half of an increase in owned houses and detached houses year-on-year. However, performance throughout the fiscal year was poor at -7.3% due to the reactionary decrease in the second half. Nevertheless, we maintained increased income in the building materials business for the new housing market by 6% by strengthening deployment in public and commercial non-residential buildings and the home renovation market. We felt confident that we could increase our presence by proposing differentiating products to acquire increased market share and by steadily reviewing our market portfolio despite the downturn in new housing starts. Another achievement was that we implemented M&A measures in three key markets (global markets, public and commercial buildings, and the home renovation market).

In the global markets, we took a substantial step by managing to enter North America, where the market size is large, medium-term to long-term growth is expected, and mainly wooden construction is used, an area of particular strength for us. We will promote sales in North America by focusing on the existing housing LVL for the time being. In the future, we will introduce products with high added value and additional functions (such as preservative and noncombustible materials) to

enhance the range of housing proposals. At the same time, we will expand sales channels to commercial nonresidential facilities and examine expansion into other industrial materials and building materials by leveraging the resources of ITOCHU Corporation with which we established a capital and business alliance in 2018. In this way, we will formulate medium-term and long-term strategies to pursue further expansion into North America.

In the public and commercial buildings segment, we started full deployment of solid wood flooring business, which had been missing from our product lines. We will strengthen proposals with a focus on educational facilities (such as gymnasiums and classrooms) that have persistent needs for solid wood flooring. In the meantime, we are promoting a major shift in the sales structures from housing as the main target toward public and commercial buildings. We hope to strengthen proposals for public and commercial buildings and thereby accelerate sales increases.

On the other hand, the performance of the MDF was a problem because the mainstay in the industrial materials business was stagnant because of the deteriorated global market conditions triggered by the US-China trade friction and other factors. As market conditions deteriorate, price competition occurs in general-purpose products, which in turn results in selling price declines and other impacts. However, we received stable orders for special MDF for use as materials for flooring with their waterproof quality and dimensional stability highly



rated by customers. It has become clear that products with high added value and functionality are less vulnerable to deteriorated market conditions.

In addition to special MDF for flooring, our product lines include many other differentiating products from our company, such as tatami facings with high durability compared to conventional rushes by processing machine-made Japanese paper, sound absorption products that resolve residential sound problems, and the flooring material with its improved appearance design based on unique technology. We will establish structures and further develop more products and applications.

Q What is your direction toward the achievement of the medium-term management plan GP25 2nd Stage through to FY 2022?

First, we need to identify risks and opportunities amidst the uncertainties that we face. We are establishing structures to achieve robust immediate operations by suspending capital investment that assumes production increases, overall inspection and selection of expenses, further pursuit of asset efficiency, and an improved standard for short-term liquidity to manage the risks. While thus pursuing risk preparedness, we must be careful not to quit investments altogether by selectively reviewing expenses. We must also be careful not to miss opportunities. If we only prepare, business may shrink and diminish. To avoid cutting off the branch that has important buds for the future, we must identify the essential factors of medium-term and long-term competitiveness and corporate value enhancement. As a member of top management, I would like to make decisions by looking at both sides and take action to attack or to defend as necessary.

We need to prepare for risks, monitor changes amidst uncertainties, and implement the necessary measures at the appropriate times. In the financial

crisis of 2008, we were faced with tough market conditions where new housing starts for the fiscal year decreased by approx. 25% from 1.03 million to 0.77 million. We had been promoting business restructuring since early 2000, including withdrawal from the housing equipment (such as kitchens), roof materials, exterior materials, and plywood segments as one of the founding businesses. On the other hand, we took the opportunity of incorporating the MDF plants in New Zealand into our group to expand our industrial materials business. We leveraged the expanded capacity to divide production based on the advantages of plant lines with the New Zealand plants engaged in the mass production of general-purpose products and the Malaysia plants specializing in the production of special MDF for flooring with high added value, which supports our business as a product that is less vulnerable to the recent deteriorated market conditions. We also shifted toward productivity improvement in floor materials, which had faced difficulties though they were key products in the building materials business, by integrating the functions of the Nagoya plant, which had been a key plant since our foundation, into the present Mie plant with renovated equipment. Floor materials have been revitalized as the core of our building materials business.

Similarly, we will take this opportunity during the current COVID-19 crisis to accelerate the review of our business portfolio. We had assumed that we could proceed from the 2nd Stage to the 3rd Stage in steps under the risk scenario of a gradual decrease in new housing starts, but we will accelerate the decisions on the reduction or withdrawal from business segments that are no longer viable. In the meantime, as in the financial crisis, we will proactively invest capital resources into business segments that maintain competitiveness and business segments that represent the source of new growth. M&As under highly uncertain circumstances will require more difficult decisions but can be concluded under more advantageous conditions. We will carefully identify opportunities for M&As, while leveraging

a financial structure that has improved compared to those days.

Under these circumstances, attaining the goals set in the medium-term management plan GP25 2nd Stage will naturally be difficult toward FY 2022 in consideration of decreases in demand and existing businesses. However, there has been no change in the concept of reforming our business and the market portfolio and implementing steady measures to become an all-embracing company for building materials as reflected in our corporate image in the long-term vision, despite the decreases in new housing starts, as our basic attitude in the medium-term management plan. At present, we will not modify our management goals in consideration of the new possible steps based on opportunities amidst the uncertainties. We would like to find the seeds of the next-generation business as the potential fourth pillar after industrial materials, building materials, and engineering, which will lead to the resolution of social issues in a Daiken-like manner toward the start of the GP25 3rd Stage in FY 2023 as the final step in achieving our long-term vision.

I believe that it will entirely depend on the strength of human resources to create something new in response to changes in the external environment and to establish a relationship of trust with customers and other stakeholders. While work styles change from the influence of COVID-19, we will strengthen investments in human resources and establish a workplace environment where all employees can achieve optimal performance and exercise their skills.

Q What will be your medium-term and long-term management strategies in the post-COVID-19 era?

"Changes" and "return to our roots" will be key terms. The two perspectives for change are as follows: changes in work styles and changes in lifestyles. For the changes in work styles, work will

no longer involve commuting, and remote work will become common for people in different places, including homes and satellite offices. There will also be a shift from sales activities in person to more online-based activities, thereby reducing the time required for travel. The saved time can be used for market analysis, proposals that match customer needs, the formulation of enhanced sales plans, and otherwise increasing added value. Office tasks can be performed from home, which can increase concentration and productivity for certain jobs. This signifies that employees who are in the midst of life events (such as childrearing and long-term care) can find increased opportunities to reach their potential.

Lifestyles will become more online-based in a variety of different ways. Because it will no longer be necessary to live in urban areas close to offices, trends may emerge for people to move to remote areas or to live in spacious detached houses in suburban areas. In offices, space will be required to minimize physical contact while pursuing comfort and functionality, Web meetings will become more common, and new demand may emerge for personal booths for those purposes. At home, space will be required for remote deskwork and for soundproof functions in order to coexist with family activities. As antiviral measures, we have proposed products equipped with BIOTASK, an antiviral that was developed following the emergence of the pandemic influenza in 2012. We will contribute to society by promoting product development with an expanded scope of application with an antiviral function. We also released a series of building materials for medical facilities in the last fiscal year, but the existing lines are clearly not satisfactory. This means we have the need and the reason to develop new products that will help professionals working on the frontlines of saving lives.

A company cannot be continuously selected by simply conducting business as usual. Personnel within the company must always ask themselves

whether they are better than they were yesterday. A company must demonstrate adaptability and the agility to provide new value in response to changes in a post-COVID-19 society. This is exactly the practice of endeavoring to improve customer trust and satisfaction by grasping changes in the needs of society in advance, while providing products, technologies, and services that are safe, secure, healthy, comfortable, and appealing as mentioned in our group conduct guidelines. Our true value will be assessed.

In conclusion, I would like to mention "return to our roots." Amidst the increasing uncertainties of the COVID-19 crisis, we must return to our roots. Our company celebrates its 75th anniversary in September 2020. From the foundation of the company immediately following World War II to today, there have been difficult managerial crises. I believe that our company survived and grew because it knew its roots. To contribute to a sustainable society through the effective use of limited

resources originating from the wood processing business and to create a safe, secure, healthy, and comfortable space by expanding business into functional industrial materials and into building materials with higher added value—these are the roots and the fundamental concepts to which we must adhere. While the influence of COVID-19 remains the focus, this does not mean that other social issues (such as climate change, frequent earthquakes, and resource depletion) disappear. Amidst the increasing uncertainties, it will become more important to return to our roots in order to pursue more essential contributions to the resolution of social issues through our business activities. Based on the roots and the business concepts to which our company has adhered since its foundation, we will examine ways that we can contribute to society in the coming years, including the reconfirmation of Daiken's strengths. These efforts will contribute to a sustainable society and the SDGs.

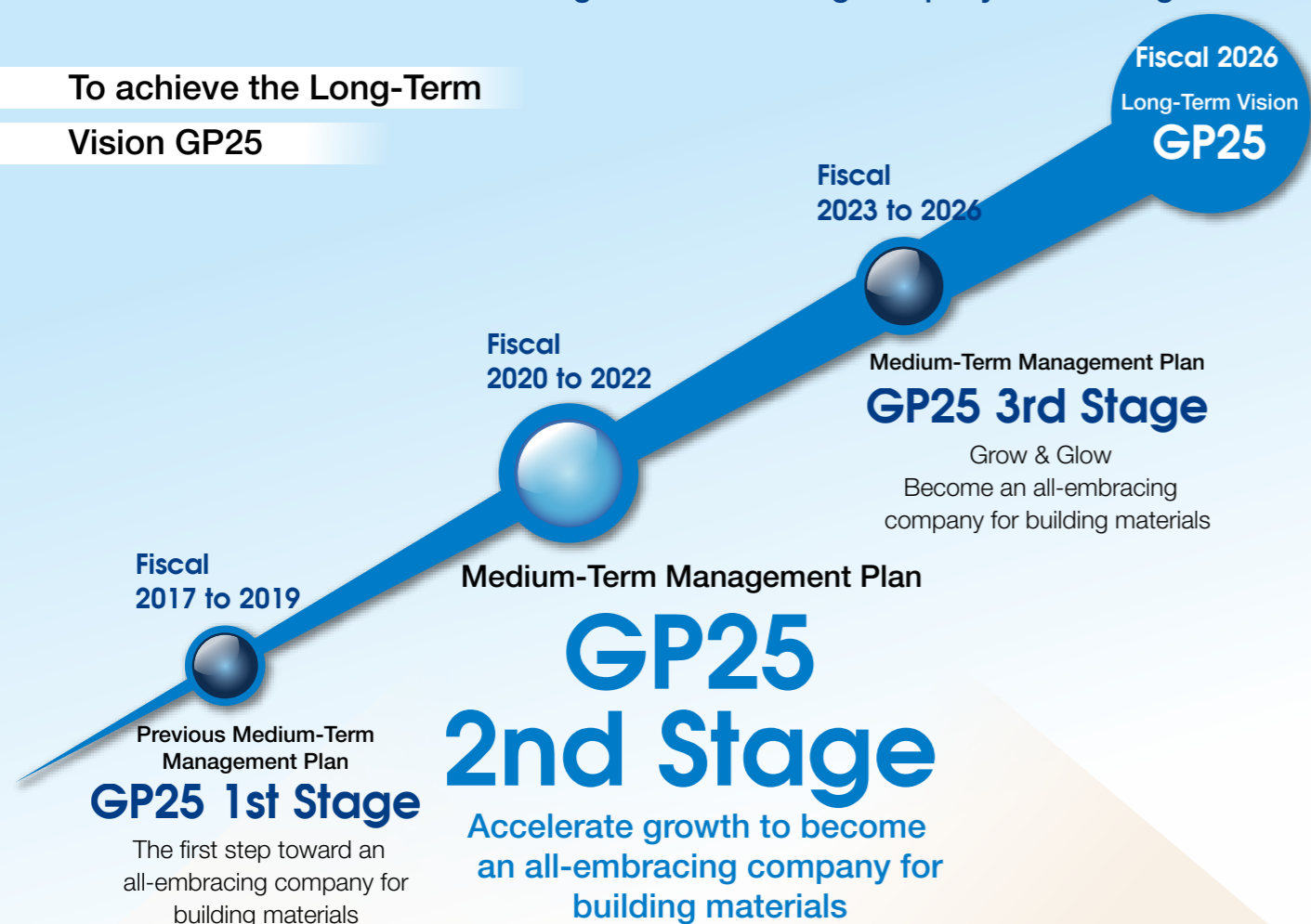


Development of the Medium-Term Management Plan GP25 2nd Stage

As the roadmap toward the realization of the long-term vision GP25 that drew how we should be in 2025, the medium-term management plan GP25 2nd Stage that started in fiscal 2020 has set management goals for both the financial and nonfinancial aspects and has been developing measures with the policies of I. "Accelerating growth strategies" and II. "Enhancement of the management foundation" as key axes. We will keep on challenging of becoming an all-embracing company for building materials as our corporate image in the long-term vision.

Toward becoming an all-embracing company for building materials

To achieve the Long-Term Vision GP25



Basic Policy of the Medium-Term Management Plan GP25 2nd Stage

Based on firm management foundation, pursue the resolution of social issues through our business, thereby accelerating our growth strategies toward becoming an all-embracing company for building materials.

I. Accelerating growth strategies

- Domestic:** Review of the Business (Market) Portfolio **▶P25**
- Global:** Business expansion through proactive investments and entry into new markets **▶P29**

II. Enhancement of the Management Foundation

- Optimize our financial foundation **▶P39**
- Restructure firm and flexible business infrastructure **▶P38**
- Practice of ESG Management **▶P41**

Management Goals and Progress

I. Accelerating growth strategies

(¥100 million)

	Results Fiscal 2019	Results Fiscal 2020	Increase/Decrease	Goals Fiscal 2022
Net sales	1,829	2,024	+195	2,250
Of which the domestic market	1,637	1,659	+22	1,730
Public and commercial buildings	211	262	+51	312
Home renovation market	284	317	+33	376
Of which the global market	192	365	+172	520
Operating profit	57	83	+26	120
Operating profit ratio	3.1%	4.1%	+1.0pt	5.3%
Profit	44	54	+10	70

II. Enhancement of the Management Foundation

Financial affairs

		Results Fiscal 2019	Results Fiscal 2020	Increase/Decrease	Goals Fiscal 2022
Efficiency	ROE	7.8%	9.5%	+1.7pt	10%
	ROA	4.5%	5.5%	+1.0pt	7%
Soundness	Shareholder equity ratio	36.8%	32.7%	(4.1pt)	40%
Shareholder return	Dividend payout ratio	42.4%	33.4%	(9.0pt)	30% or more

Nonfinancial Indicators

		Results Fiscal 2020	Goals Fiscal 2022
E	Total CO ₂ emissions in Japan ¹	(25%)	(26%)
S	Total diversity index ²	+19pt	+20pt
	Serious quality accidents and violations	1	0
G	Degree of penetration of the Group Corporate Philosophy ³	+4pt	+10pt

¹: Compared to fiscal 2014

²: Our own indices in which the eight diversity items, such as the female manager ratio, were indexed as compared to fiscal 2019

³: Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed as compared to fiscal 2018

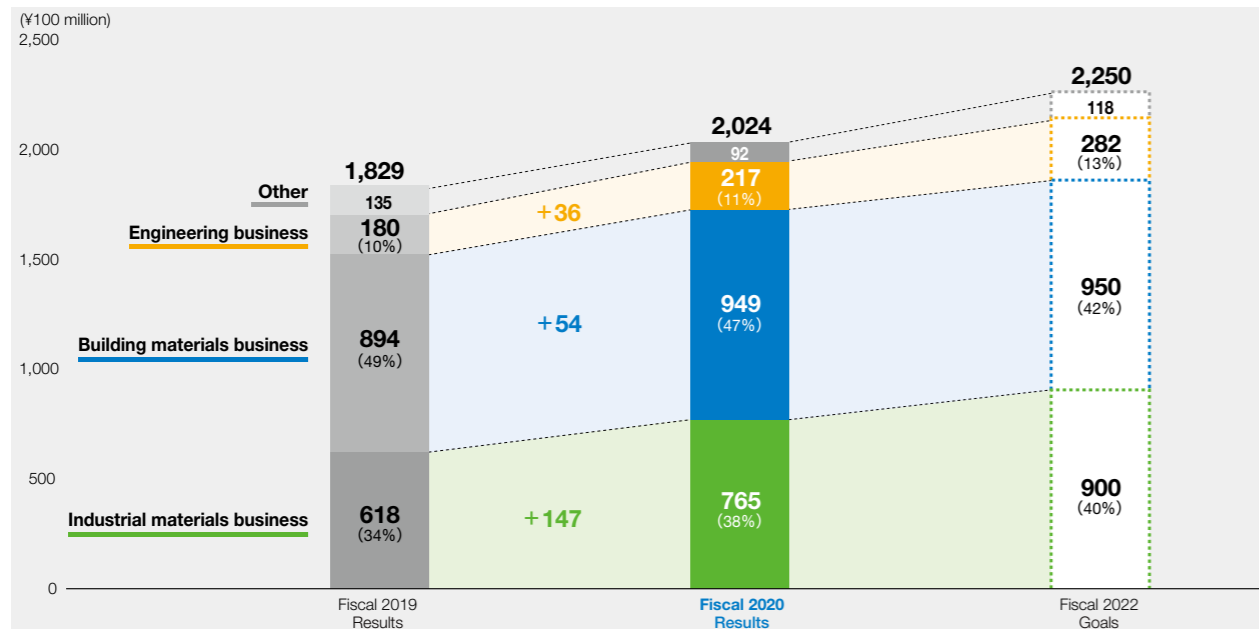
Fiscal 2020 Summary

- In fiscal 2020, which was the first year of the medium-term management plan, while a decreasing trend in new housing starts was expected after the consumption tax increase in October 2019, we proactively made investments toward the acceleration of our growth strategies, such as implementing M&A to expand our share in the global markets, public and commercial buildings, and the home renovation market, all of which are positioned as the focused markets.
- Because we could expand our building materials business in the both markets of the housing market and non-housing public and commercial buildings, in addition to the new consolidation effects by M&A, our net sales reached a record high since consolidation.
- Regarding our operating profit, profits increased because of the successful streamlining and cost reduction that we worked on for increases in the costs of the raw material prices and the logistics costs, in addition to the profit contribution from M&A. Thus, we raised the level as the first step toward the achievement of management goals of the medium-term management plan.
- For the nonfinancial goals, we reduced the total CO₂ emissions in Japan by 25% compared to fiscal 2014 by trying to stably operate the biomass boilers and increasing the degree of penetration of the group corporate philosophy by steadily developing the penetration program, and promoted the initiatives toward the *enhancement of the management foundation* with the medium-term ESG plan as the key axis.

I. Accelerating growth strategies

Strategies and Progress by Business Segment

Sales by Business



Strategies by Business Segment

Industrial materials business

Globally expand the markets and applications by taking advantage of sustainability and functionality and maximize the fixed asset efficiency

- Invest in the North American wood industrial materials business (LVL/veneer) and expand into the North American market
- Pursue optimization of the production system
- Accelerate application development centering on the resolution of social issues
 - Start the non-combustible business for wood materials
 - Consider commercialization of wood material use for the agricultural and gardening markets
 - Consider commercialization of new wood materials

Building materials business

By taking advantage of the industrial materials business, as well as functional and construction saving-type building materials, increase our share in the housing market and expand in the public and commercial building fields

- Further expand differentiated products that can keep getting chosen
- Expand the product/sales networks by actively utilizing M&A and external resources

Engineering business

Expand the construction domains, areas, and order sources by M&A and cooperating with other companies

- Expand the construction company's business targeting the priority markets (public and commercial building, remodeling, and renovation)

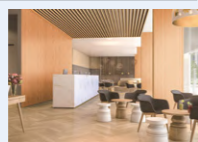
Progress in Fiscal 2020

- Purchase of the two North American companies that are engaged in the LVL and veneer businesses is complete, and we made the transition to the integration process
- Progress of the cooperation for optimization of production items in the two MDF plants in New Zealand
- Expansion of the production of tatami facings and enhancement of the proposal capabilities by introducing new products
- An increase in the sales of flooring and facility expansion and reinforcement toward productivity improvement
- Enhancement of the capability to propose high design flooring by our unique technology
- Purchased T.O FLOORING CO., LTD., to develop the solid wood flooring business
- Expanded the orders of construction work by cooperating with ITOCHU Corporation Group
- Enhanced renovation work in the Tokyo metropolitan area by purchasing ReformQ Co., Ltd.

Topics

Expanded Non-combustible Products

To improve design in public and commercial facilities, we launched a woodgrain pattern non-combustible louver for interior finishing in August 2019. We further enhanced our proposal capabilities by expanding the product lineup that has the performance required for public and commercial facilities, such as lightweight yet excellent non-combustibility and workability.



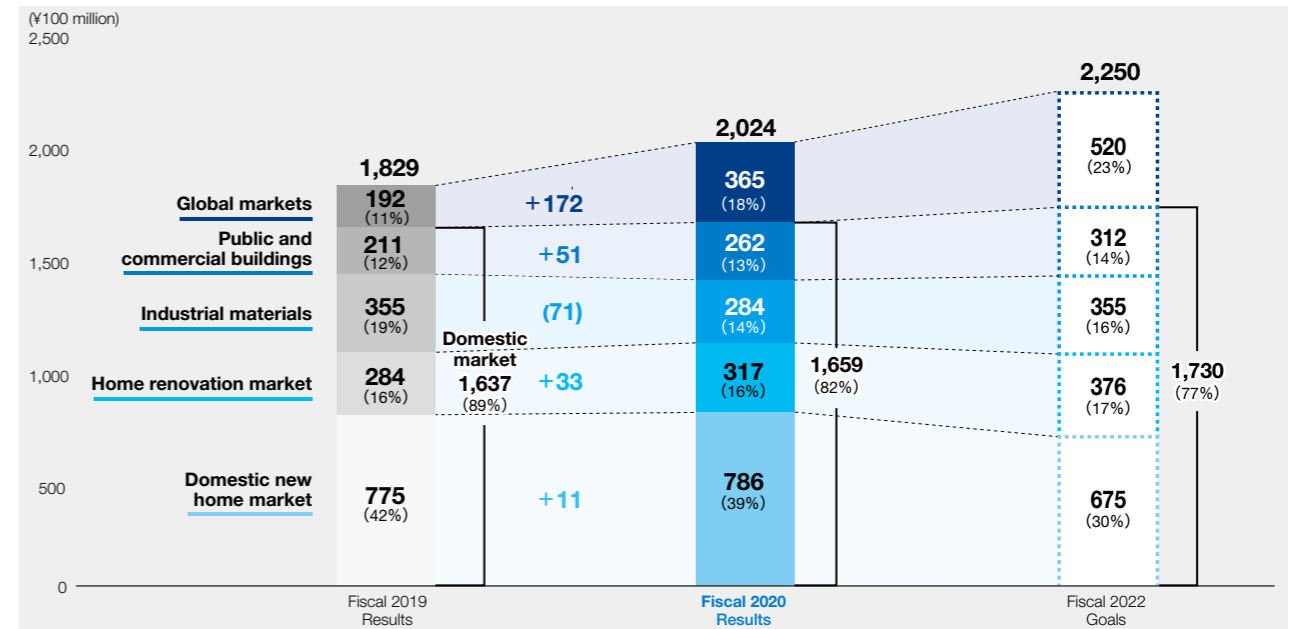
Equipment Expansion and Reinforcement in the Decorative Sheet Laminating Process at the Mie Plant

In December 2019, to improve productivity at the Mie plant that produces flooring that is the flagship product in building materials business, we implemented the equipment expansion and reinforcement for the decorative sheet lamination process. With this capital investment, the entire plant's laminating production capacity has doubled and further efficient production has become possible.



Strategies and Progress by Market

Sales by Market



Strategies by Market

Global markets

Accelerate global expansion with a focus on the industrial materials business through aggressive investments

- Invest in the North American wood industrial materials business (LVL/veneer) and expand into the North American market
- Continuously expand wood materials with a focus on MDF
- Put the Chinese and Indonesian building materials businesses on a path toward stable growth and shift to the growth strategy

Public and commercial buildings

Expand investments including M&A and accelerate growth

- Expand the product lineup (The medical field will be the new focused target)
- Improve infrastructure for the expansion of the markets, such as logistics, correspondence of drawing, and the sales structure
- Expand the product and sales networks, including cooperation with other companies and M&A

Industrial materials

Cover the decrease in these for housing with application development and expand industrial materials business

- Focus on application development for the new markets and fields
- Promote the development of and search the applications of new materials and R&D products

Home renovation market

Expand in the renovation market from a perspective of development of functional products and methods

- Expand the renovated properties and renovation work in the Tokyo metropolitan area
- Focus on the expansion of the products for renovation, such as construction savings and waste savings

Domestic new home market

Restructure the sales structure in response to changes in the market and customer needs, and increase our share

- Continuously enhance the products and proposals from the perspective of functionality, such as soundproofing and construction work saving
- Enhance the collaborative system with key distribution companies as well as a system to make proposal to key customers

Progress in Fiscal 2020

- Purchase of the two North American companies is complete, and we started development to expand into the North American market with LVL
- Enhancement of the sales structure for MDF to be sold in North America and China
- Door sales expansion in the plant in Indonesia due to the increase in exports to the UK
- Expanded the product series by facility and function, such as non-combustible and sound products for medical facilities and offices
- Enhancement of the responses to special orders for the *Ormoiari series*, such as the doors for elderly facilities, kindergartens, and childcare facilities
- Started activities to take orders for solid wood flooring at educational facilities centering on T.O FLOORING CO., LTD.
- Enhancement of the organizational structure for new material utilization development
- Promotion of the market development for the agricultural and gardening markets
- Expansion of the apartment renovation business in the Tokyo metropolitan area
- Expansion of the sale of interior building materials, such as flooring, by enhancing cooperation with specialized remodeling companies
- An increase in adopting soundproof building materials for houses for rent
- Expansion of orders for interior building materials among builders

P29

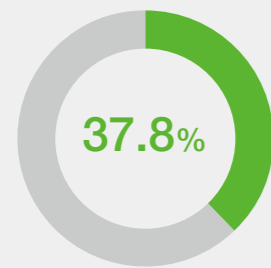
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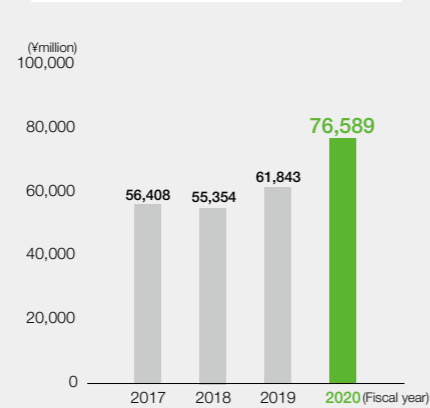
Summary by Business

Industrial materials business

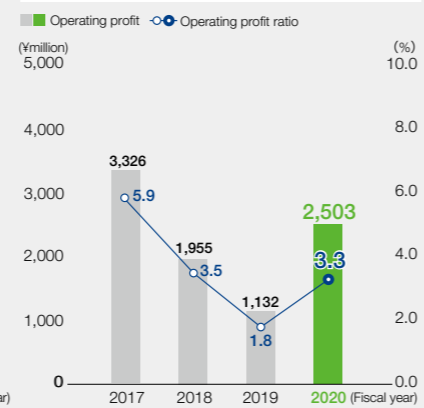
Sales Breakdown by Business Sector



Net sales



Operating Profit/Operating Profit Ratio



Results in Fiscal 2020

Net sales in the industrial materials business in fiscal 2020 amounted to ¥76.589 billion (up 23.8% year-on-year). Although we struggled to sell MDF because of sluggish demand in Asia, our revenues increased by ¥14.745 billion because sales of tatami facings were good and CIPA Lumber Co. Ltd., and PACIFIC WOODTECH CORPORATION in North America that work in the LVL and veneer businesses were included in the scope of consolidation.

Regarding operating profit, we were affected by the profit drop due to the intensified competition in the MDF market, but because of streamlining, cost reductions, passing on part of the rising costs to selling prices, and the above-mentioned new consolidation, profits increased by ¥1.371 billion.

Production Plants

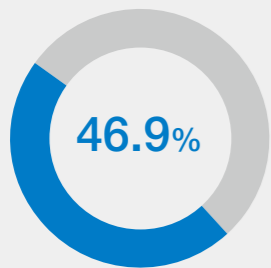
Okayama Plant
Takahagi Plant

Subsidiaries part of the Group

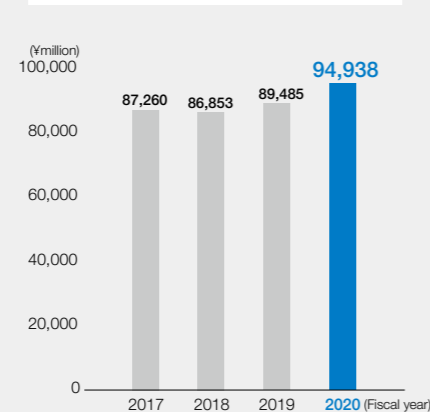
Dai-tac Corporation
Aizu Daiken Corporation
Nichinan Daiken Co., Ltd.
C&H Co., Ltd.
Eco Techno Co., Ltd.
DAIKEN NEW ZEALAND LIMITED (New Zealand)
DAIKEN SOUTHLAND LIMITED (New Zealand)
DAIKEN SARAWAK SDN. BHD. (Malaysia)
DAIKEN MIRI SDN. BHD. (Malaysia)
CIPA Lumber Co., Ltd. (Canada)
PACIFIC WOODTECH CORPORATION (USA)

Building materials business

Sales Breakdown by Business Sector



Net sales



Operating Profit/Operating Profit Ratio



Results in Fiscal 2020

Net sales in the building materials business in fiscal 2020 amounted to ¥94.938 billion (up 6.1% year-on-year). Our revenues increased by ¥5.453 billion for the following reasons: 1) We focused on the sales of products that could differentiate us from other companies in the domestic housing market. 2) We enhanced proposals for products with functions required by facilities, which led to an increase in sales of all interior building materials. 3) T.O FLOORING CO., LTD., was included in the scope of consolidation.

Regarding operating profit, as a result of striving to secure profits, such as streamlining, cost reductions, and passing on part of the rising logistics costs to selling prices, in addition to the increase in net sales, profits increased by ¥1.766 billion.

Production Plants

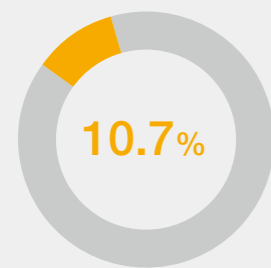
Inami Plant
Mie Plant

Subsidiaries part of the Group

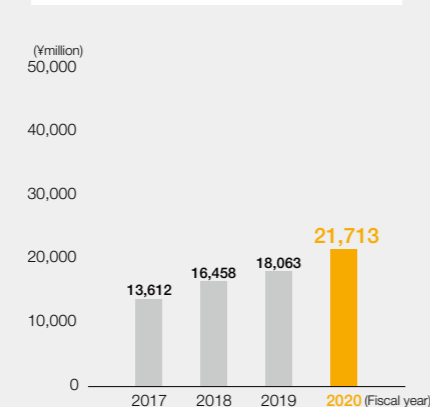
Daifit Co., Ltd.
Dai-wood Corporation
Setouchi Kakoh Co., Ltd.
Toyama Juki Co., Ltd.
T.O FLOORING CO., LTD.
DAIKEN Industries (Ningbo) Corporation (China)
DAIKEN (Shanghai) Corporation (China)
PT. DAIKEN DHARMA INDONESIA (Indonesia)

Engineering business

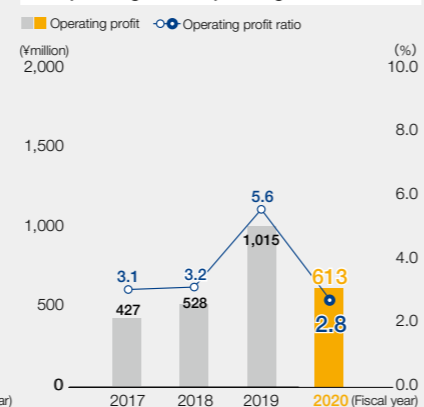
Sales Breakdown by Business Sector



Net sales



Operating Profit/Operating Profit Ratio



Results in Fiscal 2020

Net sales in the engineering business in fiscal 2020 amounted to ¥21.713 billion (up 20.2% year-on-year). While interior work demand for buildings and apartment buildings in the Tokyo metropolitan area was good, we proceeded with the expansion of the construction areas and ReformQ Co., Ltd., and T.O FLOORING CO., LTD., were included in the scope of consolidation, and revenues increased.

Regarding operating profit, although we achieved increased profit by the above-mentioned new consolidation, the profit ratio declined because of the surge in labor costs caused by the shortage of skilled craftsmen, and profits decreased by ¥402 million.

Subsidiaries part of the Group

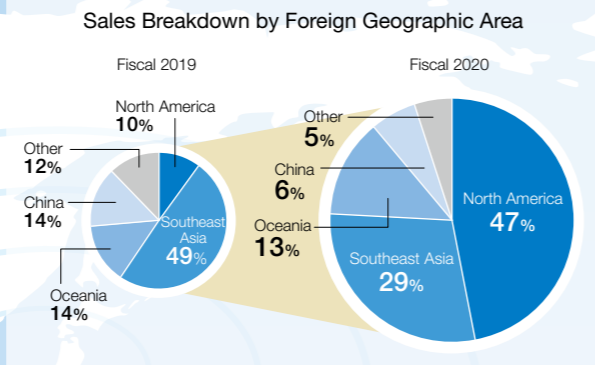
DAIKEN ENGINEERING CORPORATION
Koukou Sangyo Corporation
Sankei Corporation
DAIKEN HOME & SERVICE CORPORATION
Smileup Corporation
ReformQ Co., Ltd.
PAC SYSTEM Co., Ltd.
T.O FLOORING CO., LTD. (construction)

*Other Daiken businesses account for 4.6% in addition to the above.

Initiatives for Priority Markets

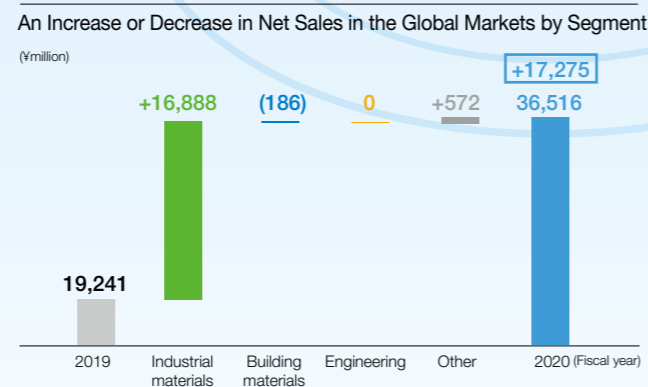
Global markets

The industrial materials business added LVL as a new product to the overseas sales of MDF for Southeast Asia, Oceania, and China as produced by the four-plant system in Malaysia and New Zealand, and started to roll out in the North American market, which is the world's largest wooden housing market. The building materials business has been expanding the sales of interior doors in China, which has a huge market size, and Indonesia, where housing demand expansion is expected to continue.



Results in Fiscal 2020

Net sales in the global markets in fiscal 2020 amounted to ¥36.516 billion (up 89.8% year-on-year). In the industrial materials business, the MDF market condition worsened because of the decrease in overseas demand in Asia, and we had a hard time in overseas sales, but the new consolidation of the two North American companies made a contribution, and revenues significantly increased by ¥16.888 billion. On the other hand, in the building materials business, orders for doors grew at a sluggish pace in China and Indonesia, and revenues decreased by ¥186 million. In other segments, because of the increase in inquiries about the stocking and selling of various industrial materials that we handle to expand sales in the future, revenues increased by ¥572 million.



Development into North American Wood Industrial Materials Business

In June 2019, we completed the purchase of a veneer plant CIPA in Canada, and an LVL plant PWT in the USA, both of which are consolidated subsidiaries of ITOCHU Corporation with which we have a capital and business alliance. We started developing the wood industrial materials business in North America and expanded into the North American market, which is the world's largest wooden housing market.

Veneer

CIPA Lumber Co., Ltd. (CIPA)

- Founding: April 30, 1968
- Location: Canada (Delta City, British Columbia)
- Capital Stock: 23 million Canadian stock dollars (1.955 billion yen) (at a rate of 85 yen per Canadian dollar)
- Business: Veneer manufacturing

LVL

PACIFIC WOODTECH CORPORATION (PWT)

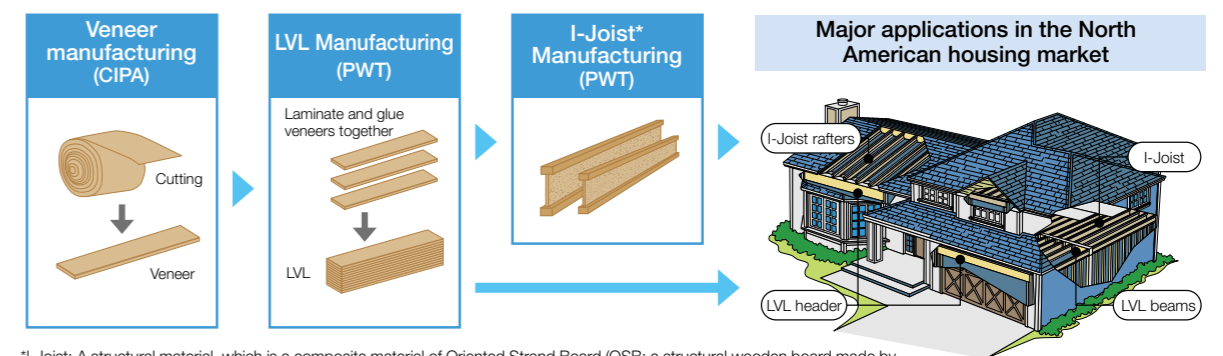
- Founding: January 7, 1998
- Location: USA (Burlington City, Washington)
- Capital Stock: 26 million U.S. dollars (2.86 billion yen) stock (at a rate of 110 yen per U.S. dollar)
- Business: Manufacturing and sales of structural LVL and Wood I-Joists



Significance of Acquisition

1 Expansion into global markets	While the new housing market in Japan is expected to shrink, we will expand into global markets that we positioned as focused markets in the long-term vision.
2 Entry into the world's largest wooden housing market	By purchasing two companies that manufacture and have sales networks for LVL, which is essential as a structural material for wooden houses in the USA, we will enter into the North American market, which is the world's largest wooden housing market that supplies approx. 1.5 times more houses compared to Japan and a growing market where the population is expected to increase by 2 million annually.
3 Pursuit of synergy that takes advantage of the capability to develop industrial materials	Our business model incorporates technology and added value industrial materials. Daiken will further expand into the North American market by deploying this business model. By capturing the market with industrial materials as an axis, we will aim for new application deployment.

Business Flow



*I-Joist: A structural material, which is a composite material of Oriented Strand Board (OSB: a structural wooden board made by laying thin rectangular wood pieces cut from raw wood upon one another in such a way that the surface layer and core layer cross at right angles in the fiber direction and are then compressed at high temperature), LVL, and timber.

Future Development

1 Enhancement of the supply system through cooperation between the two companies	We will enhance the BCP for procurement of wood that is the main raw material and newly establish a warehouse having the increased quality control level at a site adjoined to PWT's LVL manufacturing plant. We will build a system to supply veneers manufactured by CIPA in a more timely manner and enhance cooperation between the two companies.
2 Expansion of the sales of items with high added value	We will proceed with the proposals for items with high added value (antiseptic, insect-repelling LVL, and high-strength beam member) and expand sales.
3 Cooperation with R&D	We will accelerate cooperation with the Daiken R&D Center in Japan and proceed with the development of LVL with new functions.

Public and commercial buildings

We take advantage of our unique technologies and know-how, such as safety, durability, non-combustibility, and provision of a comfortable sound environment that we have cultivated as a housing material manufacturer and proceed with proposals for spaces by product series with the functions required by each facility in public and commercial buildings. In November 2019, we purchased T.O FLOORING CO., LTD., and added solid wood flooring that we have not traditionally handled in our lineup. Furthermore, we will take advantage of our strengths of handling not only the sales of flooring but also construction and further expand into public and commercial buildings.

Proposals for Spaces with the Product Series by Facility and Function

Ceiling materials

Non-combustibility, Aseismic performance, Lightweight, Sound absorbing, Moisture conditioning

Ceiling with aseismic performance and moisture conditioning that realizes a safe, secure, and comfortable space



An anti-seismic ceiling construction technique

Sound absorbing and moisture conditioning ceiling material

Sound Products

Sound absorbing, Sound insulation

Arrange sound vibrations and provide a comfortable sound environment according to the facility characteristics



Sound absorbing panel for ceiling



Sound absorbing panel



Non-combustible sound absorbing wall material



Enhancement of the Development of Non-combustible Products

We realize spaces having a unified design with non-combustible products, such as walls, ceilings, eaves, and louver materials.

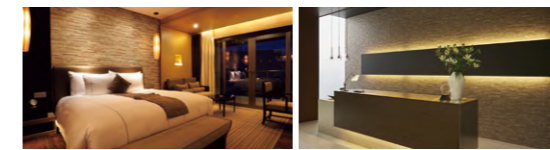
Wall materials

Non-combustibility, Workability, Design

Non-combustible and well-designed walls that decorate spaces



Non-combustible wall materials

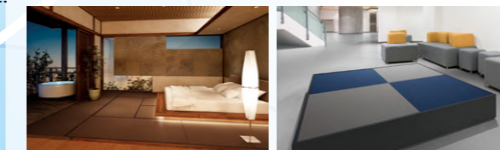


Designed wall materials

Tatami mats

Easy maintenance, Durability, Water repellent, Color variations

Tatami mats made from washi paper have a great range of design and are best suited for modern spaces



Accommodation facilities

Commercial facilities

Flooring

Damage resistance, Sound insulation, Safety

Floorings that produce wood spaces while utilizing local timber



Flooring that can be used in heavy duty areas

Flooring that reduces the impact when a person falls

Solid Wood Flooring

Floorings that provide a feeling of the tree's warmth and are best suited for nature-oriented facilities



Solid wood flooring that can be used in heavy duty areas



Solid wood flooring for gymnasiums and classrooms

Purchased T.O FLOORING CO., LTD.

Toward the start of the business deployment for solid wood flooring with high needs in educational facilities, such as schools, we purchased T.O FLOORING CO., LTD., in November 2019.

Significance of Acquisition

<p>1 Expansion into public and commercial buildings</p>	<p>While the new housing market in Japan is expected to shrink, we will expand into non-housing public and commercial buildings that we positioned as the focused market in the long-term vision, particularly for educational facilities, such as schools, that have strong needs for solid wood flooring.</p>
<p>2 Enhancement of proposal capabilities by expanding the product lineup</p>	<p>Our company has the leading share in flooring for houses and will add solid wood flooring that were the only materials we have not handled in our product lineup and will realize seamless proposal activities by utilizing the sales capabilities of our company to deploy businesses nationwide. By adding solid wood flooring, we will also lead to increased orders for the entire interior spaces, such as walls, ceilings, and doors, centering on solid wood flooring.</p>
<p>3 Synergy with engineering business</p>	<p>By engaging in not only the sales of flooring but also construction and by responding to not only new properties but also renewal construction for existing properties, we will expand into both aspects of materials and construction.</p>

Door

Safety, Durability, Easy maintenance

Doors that pursue safety and durability according to use scenes



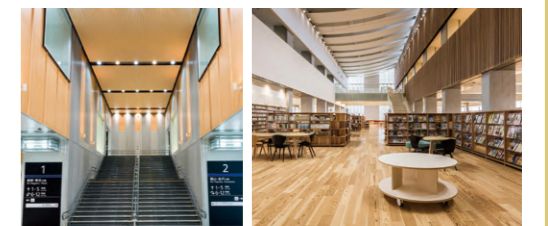
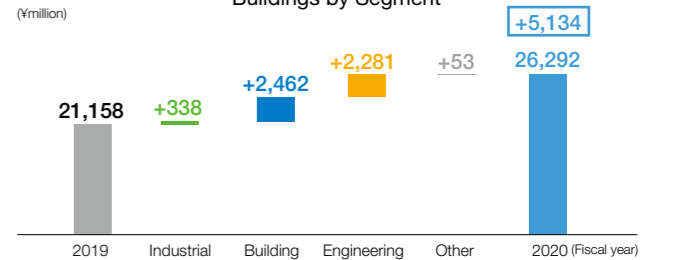
Doors for kindergartens and childcare facilities

Doors for elderly facilities

Doors for public and commercial facilities

Results in Fiscal 2020
 Net sales in public and commercial buildings in fiscal 2020 amounted to ¥26.292 billion (up 24.3% year-on-year) In the industrial materials business, tatami mats that used machine-made Japanese paper and are excellent in maintenance have been widely adopted in accommodation and commercial facilities, and revenues increased by ¥338 million. In the building materials business, orders for products with the functions required by facilities, such as doors and flooring for elderly facilities, kindergartens, and childcare facilities, increased, and revenues increased by ¥2.462 billion. In the engineering business, by purchasing T.O FLOORING CO., LTD., which is engaged in the solid wood flooring business, in addition to increased orders for interior finishing work, such as office buildings, revenues increased by ¥2.281 billion.

An Increase or Decrease in Net Sales in Public and Commercial Buildings by Segment



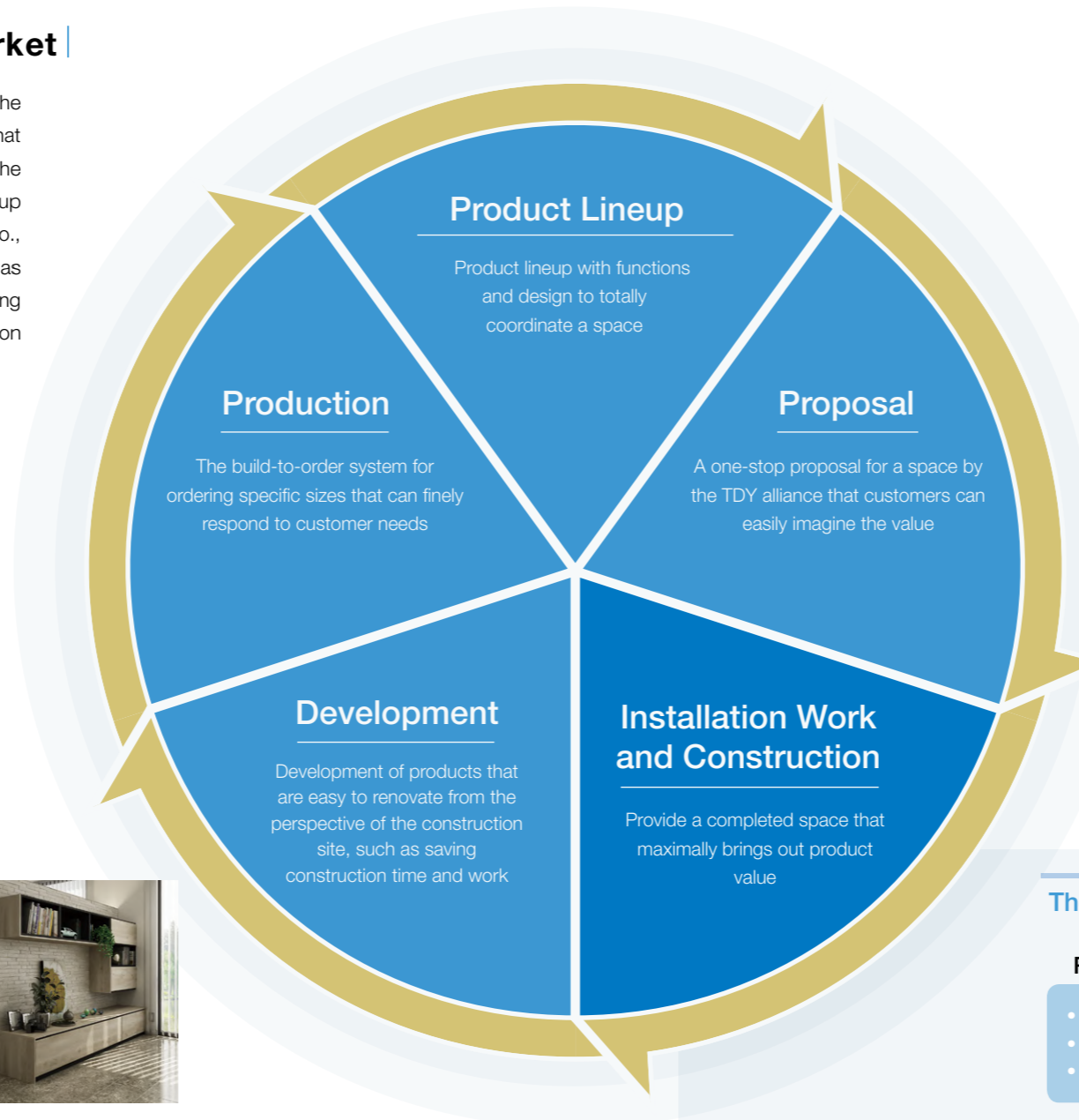
Promoting the use of domestic or local timber

We proactively use domestic timber, such as Japanese cedar and cypress, which were difficult to use in public and commercial buildings, in a wide range of parts, such as wall and ceiling materials, by using our unique technologies.

Home renovation market

Through a great range of product lineups for renovation, proposals for spaces in the TDY Collaboration Showroom, cooperation with the engineering business that handles construction, and product development and manufacturing from the perspective of the construction site, we have built a system where the entire group can meet a wide variety of needs for renovation. With the purchase of ReformQ Co., Ltd., in July 2019, we will further enhance cooperation within the group, such as expanding the renovation work system in the Tokyo metropolitan area and promoting the development of construction saving-type products by utilizing know-how on construction, and expand into the entire home renovation market.

Construction Saving-Type Products that Realize Renovation in a Short Time



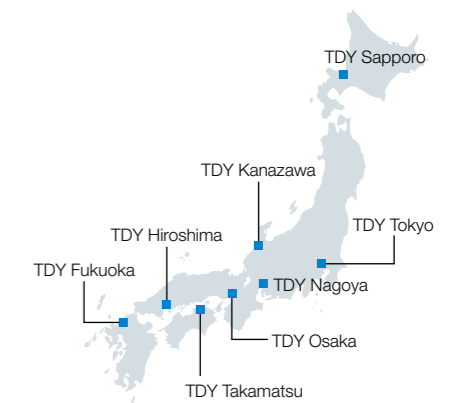
TDY Collaboration Showroom Deployment



Toward the enhancement of our capability to propose remodeling, three companies of TOTO Ltd., Daiken, and YKK AP Inc. that have been in an alliance relationship since 2002 operate collaboration showrooms at eight sites in Japan.



TDY Collaboration Showrooms



The Group's Construction System in the Home Renovation Market

Renovation

- DAIKEN HOME & SERVICE CORPORATION
- Smileup Corporation
- ReformQ Co., Ltd.

Apartment Renovation

- PAC SYSTEM Co., Ltd.

Purchased ReformQ Co., Ltd.

In July 2019, as a measure toward expansion into the home renovation market, we purchased ReformQ Co., Ltd., with its widespread renovation business in the Tokyo metropolitan area.

Significance of Acquisition

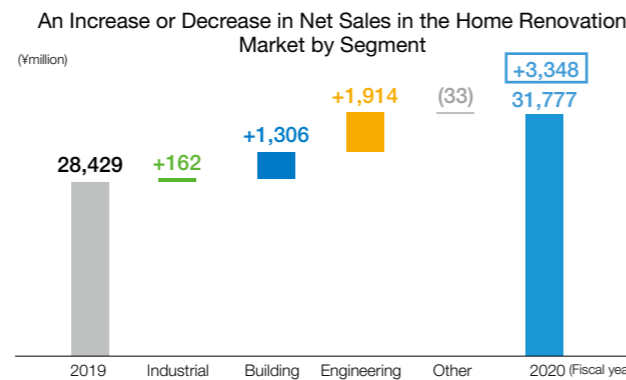
<p>1 Enhancement of the renovation work capability in the Tokyo metropolitan area</p>	<p>Toward expansion into the home renovation market that is positioned as the focused market in the long-term vision, we will enhance our renovation work capability in the Tokyo metropolitan area where the market size is particularly large.</p>
<p>2 Area development and expansion of orders received through intergroup cooperation</p>	<p>Through cooperation with DAIKEN HOME & SERVICE CORPORATION, a renovation company in the group that conducts business mainly in the Kansai and Chukyo areas, we will enhance our renovation work system to cover the three major metropolitan areas and expand the orders received by cooperating with PAC SYSTEM Co., Ltd., which conducts the apartment renovation business in the Tokyo metropolitan area.</p>
<p>3 Sharing of know-how with the development of construction saving-type products</p>	<p>By sharing know-how on the installation work and construction sites acquired through our group companies engaged in remodeling and apartment renovation with the product development department at DAIKEN CORPORATION, we will develop construction saving-type products for remodeling and renovation.</p>



Our project

Results in Fiscal 2020

Net sales in the home renovation market in fiscal 2020 amounted to ¥31.777 billion (up 11.8% year-on-year) Particularly in the building materials business, sales increased for all interior building materials, such as flooring and doors, because of the building materials sales expansion for specialized remodeling companies, and revenues increased by ¥1.306 billion. In the engineering business, because we purchased ReformQ Co., Ltd., in July 2019, which widely deploys the renovation business mainly in Tokyo, and enhanced our material and construction order-receiving system in the Tokyo metropolitan area, revenues increased by ¥1.914 billion.



Research and development

Core Mission

- Create new business that will become the fourth pillar after industrial materials, building materials, and engineering using new technology development focusing primarily on the resolution of social issues
- Develop the existing businesses and newly conduct advanced R&D to use as the driving force for business expansion
- Embody the product strategies fused together with each business' strengths

Focused Measures

- Utilize R&D center and promote co-creation with those outside the company (Open innovation)
- Expand investments in R&D
- With the company-wide medium- to long-term development direction, promote company-wide product development



R&D Theme

The R&D Center works on Ecology and *Improvements in the quality of space* in four sectors and promotes R&D that will contribute to a sustainable society

Industrial materials



Further improvement of the existing industrial materials and development of industrial materials that will become a key to capturing new markets

- High functionality of wooden boards and inorganic boards
- Wood building material utilization development in the new field
- Technology development to use unused resources
- R&D of industrial materials for new markets other than building materials

Spatial environment



Development of spaces and building materials that will realize a comfortable life

- Development of energy-saving and indoor environment improvement technologies
- Analysis by simulation of the thermal, humidity, and cross-ventilation environment

Building materials



Development of new secure and safe building materials that will be needed by society in the future

- Development of environment-conscious building materials
- Development of new construction technique for building materials
- Development of high functional paints and painting technology
- Adding a high value to wood building materials

Assay Evaluation



Various measurements and analyses of spaces and building materials using the expertise cultivated in R&D

- Measurement of air quality
- Building materials heat generation test
- Sound insulation performance evaluation
- Asbestos analysis

Co-Creation Activities Centered on Daiken R&D Center

The R&D Center was established in October 2018 and has been utilized not only for our unique technology development but also as a place for communication with various stakeholders, and more than 2,000 people have visited the center during the one and a half years after establishment. We would like to share with the visitors possibilities of innovation that our technologies generate and will deploy co-creation activities through partnerships that expand from the center.



Message

Development of building materials to which an antiviral function is given contributes to the resolution of social issues

R&D that Pursues the Creation of Optimal Spaces

Our group upholds the concept of "Creating more comfortable and secure spaces" as the significance of existence and ambitions in the long-term vision. Under this basic approach, the R&D Center has not only pursued the spaces where people could comfortably spend time from the various perspectives including temperature, humidity, and sound environment, but also continued R&D to respond to hazardous substances, such as asbestos and formaldehyde, for a long time. Our characteristic spatial environment improvement technology and assay evaluation technology have supported these research projects and developments. There are also Biosafety level 2 experiment facilities in the center that can handle the influenza virus and food poisoning bacteria, which is rare for a building materials manufacturer.



Microorganism measurement room in the R&D Center

Researchers who have high expertise are working in the facilities.

Development of Products with the Antiviral Function

Novel influenza that became a global pandemic in 2009 served as the catalyst for development. There was increasing momentum for the prevention of infectious diseases caused by viruses, and as a new theme, we started to work on the development of the antiviral function in 2011. Consideration started from the way of thinking about the prevention of viral infections by building materials. After a great deal of consideration of the method of verification of the effects, the method of giving the function without deteriorating the quality as building materials, and the method of production that could stably exhibit performance, we established the antiviral function BIOTASK* technology. In 2012, by looking at upcoming super-ageing society, we have added the new antimicrobial function called "BIOTASK" for doors or handles which are frequently touched by users' hands, to our "Omoyari Series (for elderly facilities)" - through which we try to create safe, healthy, and comfortable circumstances for elderly. With regard to the products to which BIOTASK was given, the scope of proposals has been growing from elderly facilities to public facilities that many people use, such as kindergartens, childcare facilities, and medical facilities.



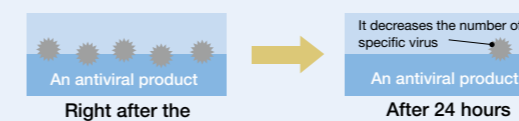
Building materials with BIOTASK (antiviral function)

*BIOTASK: Our unique name for the antiviral function

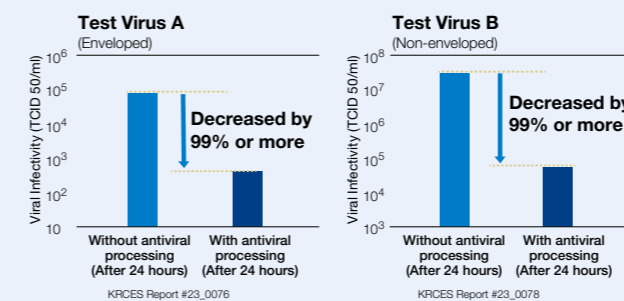
<What is the antiviral function?>

It decreases the number of specific virus attached onto the products from the air or hands.

<Illustration>



<Comparison of antiviral effects>



*[Test laboratory] (General incorporated foundation) Kitasato Research Center for Environmental Science

[Test method] A method with reference to JIS Z.2801

• It is the indicator for viral infectivity, and the effects may differ depending on the conditions.

• Antiviral processing is to decrease the number of specific viruses attached to the surface and is not intended as treatment or for the prevention of disease.

The Future Direction and Deployment of R&D

We consider this research and development direction as one of the successful cases, by nicely matching our management strategic flow—shifting from housing to the non-housing, commercial and public construction domain—which is stated in our long-term vision for 2025. Also, BIOTASK was developed through collaborative research with the local medical school, Okayama University, and was the open innovation that the R&D Center strives to achieve, and the result of R&D through industry-university cooperation. As to the current antiviral function BIOTASK, target viruses and products to which the function is given are limited, but in order to prepare for the threat of new infectious diseases in the future, we aim to expand the range of the antiviral function and reduce opportunities to come in contact with viruses in the living environment. While making the best of the facilities and features of the R&D Center and cooperating with outside universities and research institutions, we will proceed with R&D that will lead to the resolution of social issues, such as SDGs, and contribute to creating a safe, secure, healthy, and comfortable space through our proven technologies.



Kei Ito
Director of the R&D Center

II. Enhancement of the Management Foundation

As the basic policy that supports the growth strategies to achieve the medium-term management plan GP25 2nd Stage, we uphold the enhancement of the management foundation. To make the foundation robust to steadily push ahead with the growth strategies, we will enhance from the three perspectives of *optimize our financial foundation*, *restructure firm and flexible business infrastructure*, and the *practice of ESG management*.

I. Accelerating growth strategies

Strategies by Business

Strategies by Market

Establishment of the Foundation to Steadily Push Ahead with the Growth Strategies

II. Enhancement of the Management Foundation

Restructure Firm and Flexible Business Infrastructure

To be a company that will be continually chosen, establish IT, logistics, and supply systems that are strategic and optimal from medium- and long-term perspectives and restructure firm and flexible business infrastructure.

Optimize our financial foundation

To support investments toward the growth and enhancement of the foundation, place emphasis on efficiency and soundness and optimize our financial position.

Practice of ESG Management

Toward the enhancement of the management foundation that supports the growth strategy, practice sustainable ESG management centering on the medium-term ESG plan.

Progress in Fiscal 2020

- Re-examination of problems in the first half of the year, incorporating the perspectives of external experts and customers
- Drafting of the medium- to long-term IT and logistics concept by the company-wide project
- Re-examination of the raw material procurement BCP

- Issuance of green bonds that will be financing arrangements by ESG evaluation
- Reduction of cross-shareholdings
- Optimization of our cash position by utilizing the commitment line

- Improvement of the domestic timber ratio in base materials for flooring
- Progress of the initiatives for diversity (progress of the measures to promote the taking of childcare leave among male employees, and implementation of the next-generation sales recommendation project)
- Execution of the group corporate philosophy penetration program

Future Measures

- Transition to the execution phase of the IT and logistics medium- to long-term strategy
- Start the reform program through the three processes of orders received, logistics, and system infrastructure
- Promotion of logistics with good standing

- Continuous reduction of cross-shareholdings
- Enhancement of BS management by business
- Optimal financial arrangements

- Response to the scope 3 of greenhouse gas emissions
- Promotion of flexible workstyles
- Continuous execution of the group corporate philosophy penetration measures

Restructure Firm and Flexible Business Infrastructure

We caused customers so much trouble because of the problems with the system and raw material procurement that occurred in fiscal 2019. We make sure that we will avoid this kind of situation and proceed with the initiatives for expanding into new markets as upheld in the long-term vision and restructuring the firm and flexible business infrastructure that will support our management foundation in the medium to long term.

Initiatives toward the Realization of the IT and Logistics Medium- to Long-Term Strategy

For system problems, in fiscal 2020, we started from the thorough investigations of the incidents. Under the company-wide project of which the Representative Director is the leader, we conducted hearing surveys by soliciting cooperation from our customers for whom we actually caused trouble, in addition to external experts' knowledge. From the latter half of the fiscal year, we have organized the extracted issues into the following three perspectives: the ordering process, the logistic process, and IT system infrastructure, which sustain the entire process. Then, we proceeded to consider more detailed measures by each process at the on-site level. In fiscal 2021, we will transition to the execution phase in order to build countermeasures as the actual mechanism. We aim to build up the system that will lead to enhancing relationships with our customers from the medium to long-term perspectives, by reforming work styles of not only our employees but also our partner logistics providers, and relating the concept of manufacturing at plants that are connected in a series of events.

Key Initiatives in Fiscal 2020

Issue Investigation Phase

- Launch the company-wide project of which the Representative Director is the leader and extract issues through detailed case examinations
- Objective investigations by the external experts' knowledge
- Hearings on the effects from our customers
- Investigations of the bottlenecks in the entire business processes

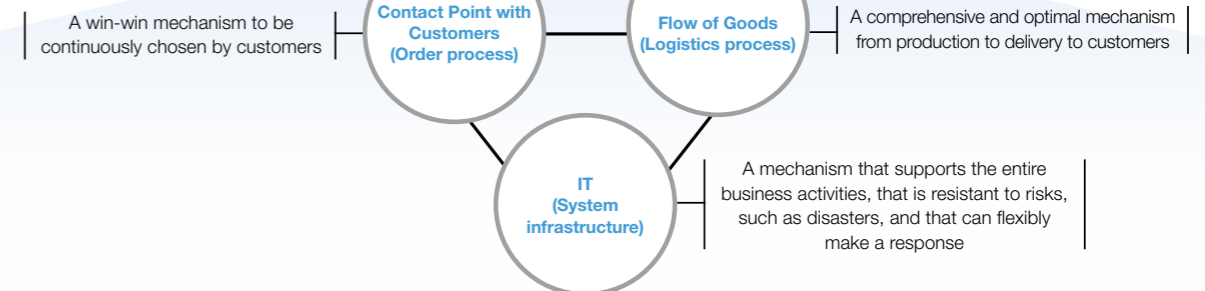
Steps to Embody Countermeasure Crystallizing Phase

- Restructure the company-wide project to apply to the on-site level, and examine the countermeasures for the extracted issues using three processes.
- Contact point with our customers (Order process)
 - The flow of goods (Logistics process)
 - IT (System infrastructure)

Development in Fiscal 2021

To the Drafted Countermeasure Execution Phase

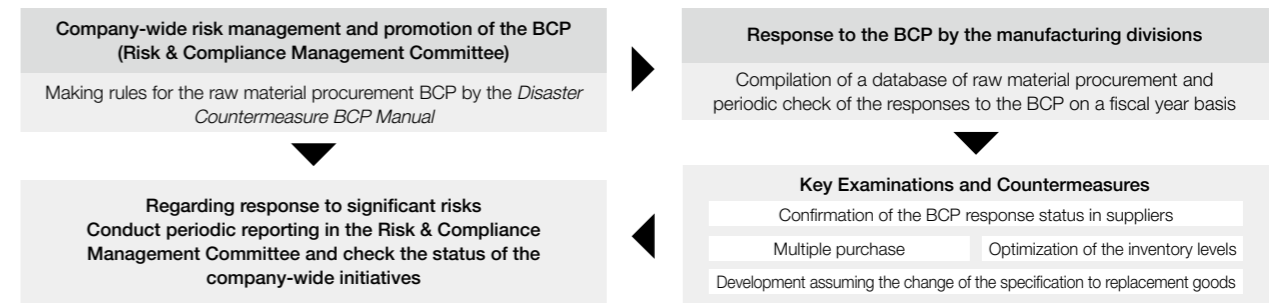
Three Processes of the Countermeasures for the Issues



Initiatives toward the Enhancement of the Raw Material Procurement BCP

Based on the experience in the Great East Japan Earthquake and in addition to the BCP responses in our group's production and business bases, we have continuously worked to make improvements for the procurement of raw materials, which are essential for the stable supply of products, such as multiple purchases and product development assuming the change of the specification to replacement goods, while eliciting cooperation from suppliers. Furthermore, in fiscal 2020, by applying a lesson learned from the trouble in procuring slag wool that occurred in the previous fiscal year, we implemented re-examinations of the BCP concerning procurement items, such as raw materials, and put effort into the enhancement of our responses in all manufacturing divisions. Regarding the items that are particularly difficult to procure from those other than specific suppliers, we re-examined the inventory levels assuming an emergency and increased inventory quantities while considering the balance with asset efficiency. As a result of these preparations, we appropriately responded to the delay in supplying procurement items from China due to the effects of the spread of the COVID-19 from February to March 2020 and continued the stable supply to our customers during the busy time toward the end of the period.

Raw Material Procurement BCP Enhancement Process

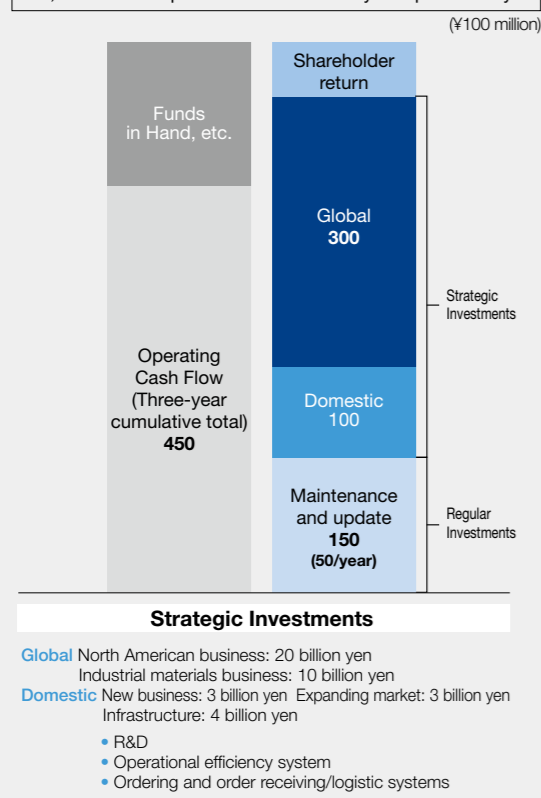


Optimize our financial foundation

Investments Toward the Enhancement of Growth and Foundation

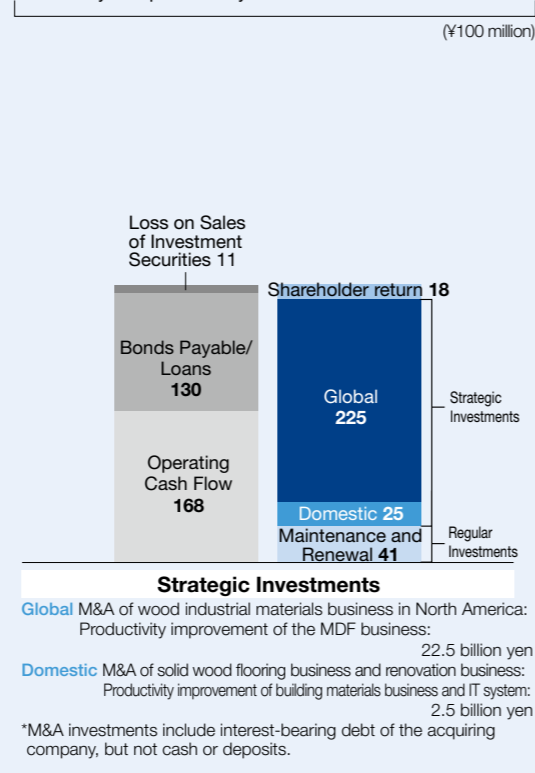
Medium-Term Management Plan (Three-Year) Goals

- Make it a top priority implement growth investments toward the realization of the long-term vision GP25
- Select investments by reflecting risk and return as well as the cost of capital
- Aggressively utilize advanced technologies such as AI and IoT, to lead for improvements in efficiency and productivity



Fiscal 2020 Results

- Aggressive investments in the three markets that are positioned as focused markets in the long-term vision
- Stringent selection by evaluating the investment effect based on the consistency and synergy with the growth strategies as well as the capital cost
- Expansion of IT investments toward the improvement of efficiency and productivity

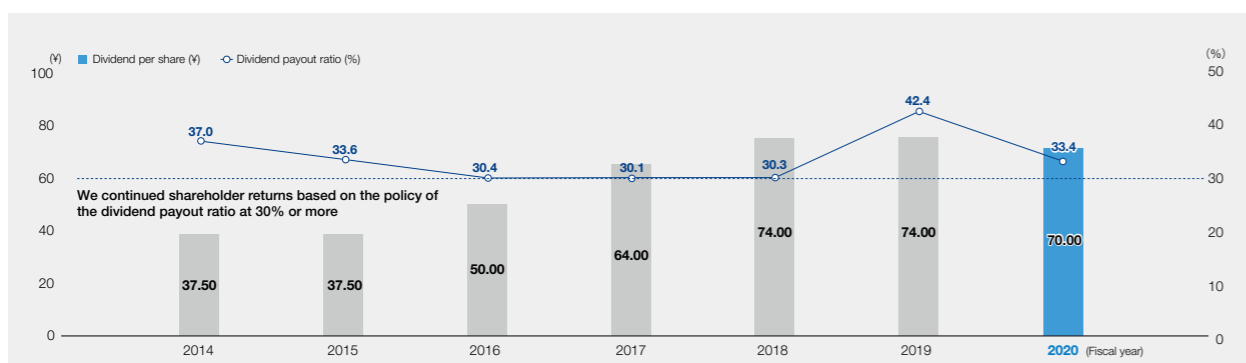


Capital Policy/Shareholder Return

Basic policies for capital and shareholder distributions

- By striving for efficient management that places emphasis on ROE, improving shareholder return, and optimizing the balance between financial soundness and strategic investment, improve corporate value.
- For shareholder distributions, the goal is a dividend payout ratio of at least 30% while maintaining a stable dividend and aiming for the distribution of earnings linked with results of operations.
- Decisions about the repurchase of stock will be made based on the current level of capital, the market environment and other applicable considerations.
- Shareholders' equity will be effectively used for the improvement of production, sales and construction systems as well as for new businesses, global operations and other activities in order to achieve medium- and long-term growth and build a solid foundation for business operations.

Trends in the Dividend and Dividend Payout Ratio



(Note) The company consolidated shares at a rate of one share per five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.

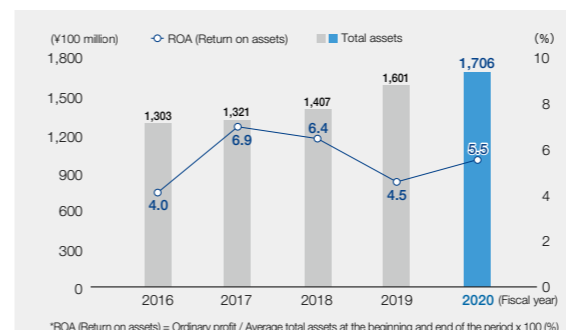
Target Financial Indices

Efficiency Goal

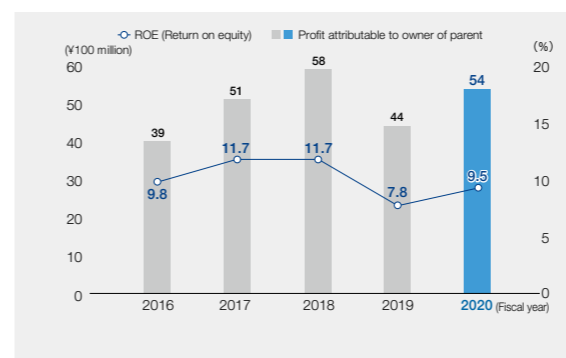
ROA: 7% ROE: 10%

- Improvement of the fixed asset turnover ratio (Reduction in inefficient assets and stringent selection of capital investment)
- Improvement of the working capital turnover ratio (Inventory optimization that gives consideration to BCP)

Trends in ROA* and Total Assets



Trends in ROE and Profit Attributable to Owners of Parent

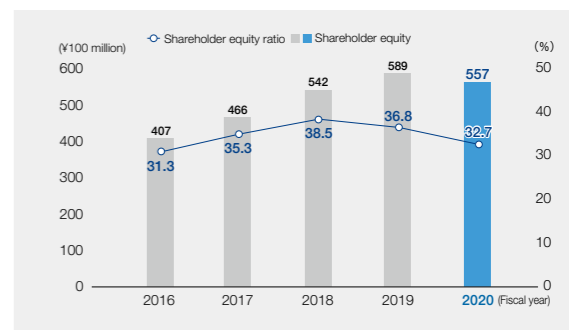


Soundness Goal

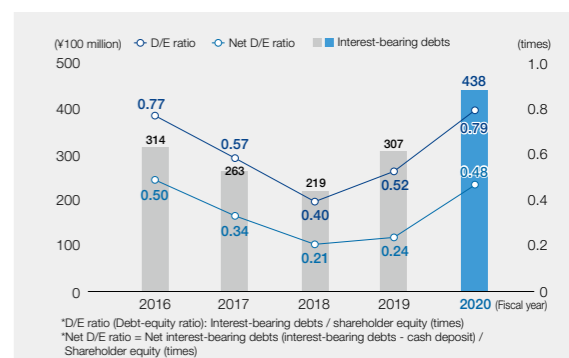
Shareholder equity ratio: 40% D/E ratio: 0.5 times

- Balance sheet management to maintain the optimum balance
- Procurement of funds for investment that will support growth

Trends in Shareholder Equity and Shareholder Equity Ratio

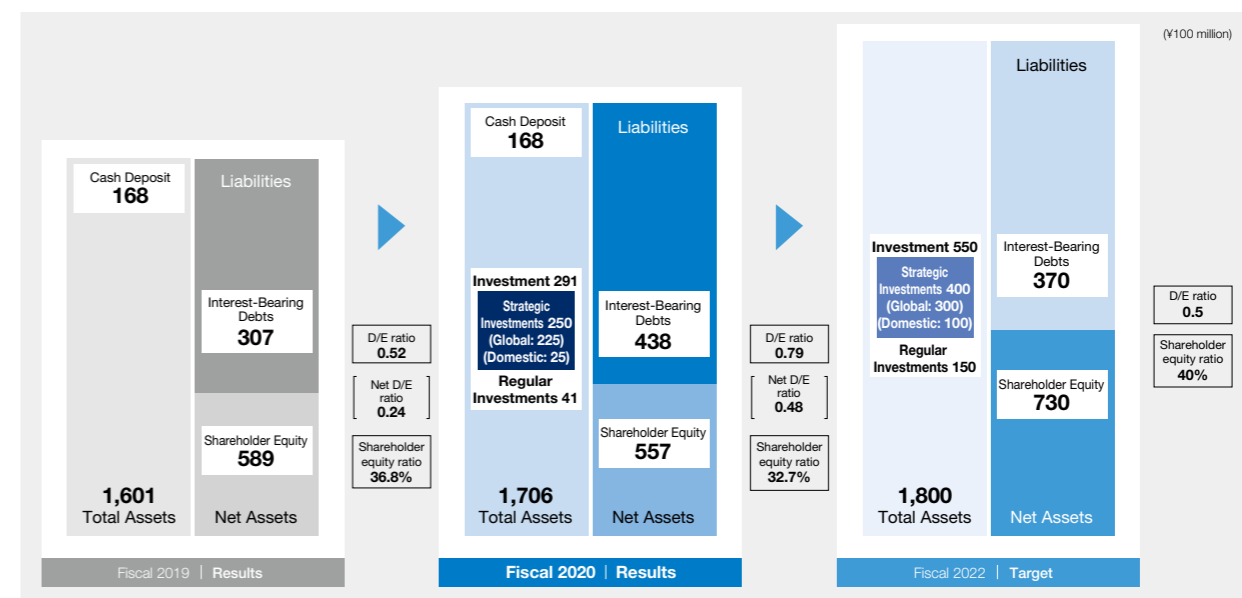


Trends in the D/E Ratio and Interest-Bearing Debts



Target Balance Sheet

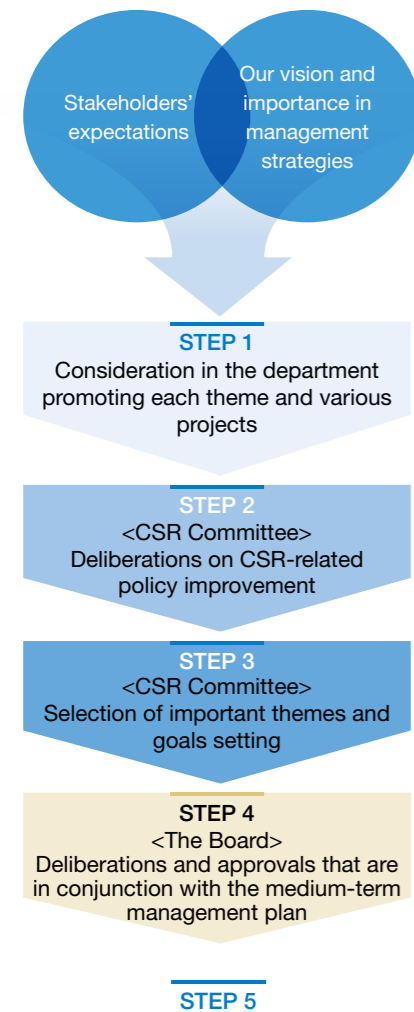
As we executed M&A toward expansion into the focused market, such as the wood industrial materials business in North America, the D/E ratio increased from 0.52-fold to 0.79-fold and the shareholder equity ratio decreased from 36.8% to 32.7%, and the indices indicating financial soundness decreased, but by the steady accumulation of the operating cash flow and pursuit of asset efficiency, we aim for the D/E ratio to be 0.5-fold and the shareholder equity ratio to be 40%, which are upheld as the financial indices in the medium-term management plan as we promote optimal BS management.



Practice of ESG Management

In formulating the medium-term management plan GP25 2nd Stage, we determined the important themes (materiality) concerning ESG in achieving management strategies through deliberations in various projects and the CSR committee as based on the expectations from stakeholders, our vision, and values that we consider important. For each theme, we set specific goals toward fiscal 2022, which is the final fiscal year of the medium-term management plan, will proceed with our efforts, and lead to the enhancement of the management foundation. To further improve the linkage, we set important items in each ESG theme as the nonfinancial management goals for the medium-term management plan GP25 2nd Stage.

Process to Identify Important Themes (Materiality)



Structure to Promote CSR (ESG)



CSR (ESG)-Related Policy Structure

Field	Policy	
CSR (ESG)	CSR Basic Policy	
E Environment	Daiken Group Environment Policy	
E Environment	Product Quality and Safety	Basic Policy on Product Safety
	Fair Transactions	Daiken Procurement Policy Group Conduct Guidelines (Item 2) Daiken Diversity Promotion Policy
S Social	Human Resources	Daiken Workstyle Reform Promotion Policy Daiken Human Resource Development Policy Daiken Safety Basic Policy
	Human Rights	Daiken Human Rights Policy
	Coexistence with Local Communities	Daiken Social Contribution Activity Policy
	G Governance	Basic Policy on Corporate Governance Basic Policy on the Building of the Internal Control System

Selected important themes (Materiality)

Field	Area and Theme	Focused Points in Management Strategies
E Environment	Realization of low-carbon society	Aggressive approach to greenhouse gas reductions
	Contribution for a recycling-oriented society	Pursuit of the material and thermal recycle of woody resources
	Reduction of environmental burden	Reduction of environmental burden in business processes
	Consideration of biodiversity	Promoting the use of domestic timber
	Environment management	Continuous improvement of the environmental management system
S Social	Product Quality and Safety	Quality and technological capabilities to keep responding to confidence
	Fair Transactions	Promotion of CSR procurement Ensuring fair competition and transactions
	Human Resources	Promotion of diversity Promotion of workstyle reform Enhancement of the human resources development Enhancement of the occupational safety and health
	Human Rights	Promotion of support for human rights that is significant from a global perspective
	Coexistence with Local Communities	Establishment of stable business foundation supported by local communities
G Governance	Enhancement of the governance system	All employees share the group corporate philosophy and realize the growth strategies
	Promotion of risk management	Reconstruction of the supply system that the market will keep choosing
	Strict compliance	A high sense of ethics that will be trusted by the markets

Medium-Term ESG Plan (Fiscal 2020–2022)

Field	Theme	Target	Progress in Fiscal 2020
E Environment	Greenhouse gas emissions reduction ¹	Total greenhouse gas emissions in Japan Fiscal 2022: 26% reduction (As compared to fiscal 2014)	25% reduction (compared to fiscal 2014) Executed reduction measures, such as production rationalization, etc. ▶ P44
	Promotion of the use of renewable energy	Renewable energy utilization ratio: 50% or more	50% Maintained the target level through the stable operation of biomass boilers ▶ P44
	Promotion of carbon fixation	Amount of carbon fixation by the wood industrial materials business 1,100,000 t-CO ₂ /year	1,031,000 t-CO ₂ /year +3% year-on-year through the increase in production of MDF ▶ P14
	Promotion of recycle and conversion of waste into valuables	Final disposal rate (ratio of volume disposed of in landfill outside the company): 5% or below	7.2% Improved by 0.4 pt year-on-year by promoting the material use of waste ▶ P65
	Promotion of effective use of water resources	Water resource input: 3% reduction (As compared to fiscal 2019)	4% reduction Reduced by the water-saving measures, such as recycling of wastewater from production processes ▶ P69
	Appropriate management and reduction of chemical substances	Release amount of substances subject to the PRTR law: 70% reduction (As compared to fiscal 2019)	0.4% increase A reduction toward the achievement of the target is planned in the next fiscal year by changing to the substitute materials ▶ P69
	Procure wood in a biodiversity friendly way	Utilization of domestic timber for base materials for flooring: 45%	41% +8 pt year-on-year by promoting the switch from tropical timber plywood ▶ P13
	Strengthen environmental risk management	Number of environmental accidents and violations: 0 (Those with administrative guidance or penal charge)	0 (continued) Maintained 0 cases by operating and continuously improving the environmental management system ▶ P65
S Social	Enhancement of the quality control structure ¹	Serious product accidents: 0 Product safety and quality improvement education execution rate: 100% Product audit implementation cover rate: 100%	1 100% 75% (postponed the plan due to the COVID-19) ▶ P61
	Fair Transactions	Rate of acquisition of the agreement on the CSR procurement standards at home and abroad: 100% Serious violations of the Anti-Monopoly Act and Subcontract Act: 0	Japan: Acquisition completed 100% Global: Collected information to start the development 0 (continued) ▶ P62
	Promotion of diversity ¹	Total diversity index ² : +20 pt	+19 pt because of the promotion of taking childcare leave among female employees ▶ P63
	Promotion of workstyle reform	Total work time reduction rate: 3% Rate of taking annual paid leave: 70% Employee satisfaction ³ : +5 pt	1.4% reduction 64.9% (+11 pt year-on-year) 55.4 pt (benchmark setting in the first survey) ▶ P64
	Enhancement of the human resources development	Job separation rate within three years: Within 15% Young employees' career plan training attendance rate: 100% Focused market enhancement program attendance rate: 50% Management staff training program attendance rate: 70%	18.9% Executed follow-up training for young employees 100% Started to hold medium- to long-term career training 18% Executed basic training by product 42% ▶ P64
	Enhancement of the occupational safety and health	Serious disaster: 0 Plant mutual safety diagnosis execution rate: 100%	0 (continued) Executed the employee capability surveys at two plants in Japan by the external experts ▶ P63
	Human rights promotion activities	Human rights enlightenment training attendance rate: 100% Supervisor harassment training execution rate: 100%	Information collection to set the training menus 100% ▶ P63
	Social contribution activities by cooperating with local communities	Holding of the event planned by cooperating with local communities: Once a year in each group production base	A total of 126 events held in 17 bases among 20 bases at home and abroad ▶ P62
G Governance	Enhancement of the governance system ¹	Group corporate philosophy penetration program execution rate: 100% Degree of penetration of the group corporate philosophy ⁴ : +10 pt	100% +4 pt (Benchmark: 52 pt) ▶ P43
	Promotion of risk management	System BCP 3-year proactive measure completion rate: 100% Procurement BCP 3-year proactive measure completion rate: 100%	40% Started to deploy the project toward the resolution of issues Executed re-evaluation, including the secondary suppliers ▶ P38
	Strict compliance	Serious compliance violations: 0 Compliance consciousness degree ⁵ : +5 pt	0 (continued) 61 pt (benchmark setting in the first survey) ▶ P56

¹: Set as the nonfinancial management goals in the medium-term management plan
²: Our own indices in which the eight diversity items, such as the female manager ratio, were indexed as compared to fiscal 2019
³: Our own indices in which employees' actual feeling for satisfaction and job satisfaction in the workplace were indexed as compared to fiscal 2020
⁴: Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed as compared to fiscal 2018
⁵: Our own indices to measure employees' compliance consciousness degree from the perspectives of legal compliance, a sense of ethics, structure, and corporate culture as compared to fiscal 2020

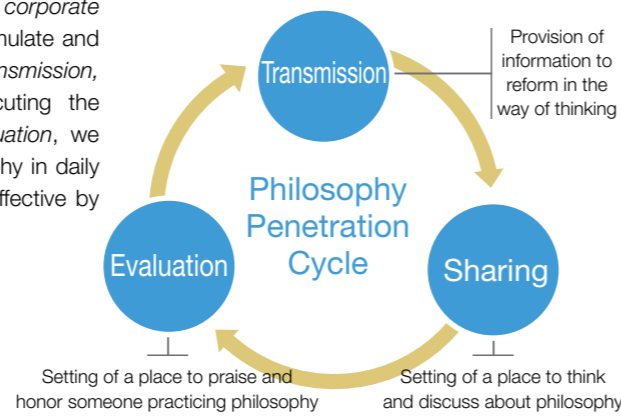
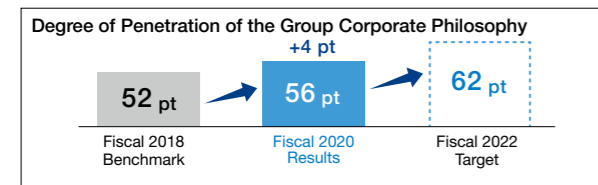
| G |

Initiatives toward the Penetration of the Group Corporate Philosophy





While globalization and diversification of human resources progress, in order to realize the further growth as a company, it is important that all employees share the *common mission, company vision, and values that we consider important* and align the direction to go. So, our group aimed for the enhancement of management based on the sustainable improvement of corporate value and philosophy, evolved the past management philosophy in April 2017, and established the group corporate philosophy. To realize the growth strategies particularly drawn in the long-term vision and medium-term management plan, it is imperative that all group employees practice the vision upheld in the group corporate philosophy, such as *technology, ideas, and passion, challenges of new ideas, and prompt responses to changes and opportunities*, and move into action. Under these viewpoints, we set the *degree of penetration of the group corporate philosophy* as a nonfinancial management goal in the medium-term management plan GP25 2nd Stage that started in fiscal 2020 and have been proceeding with the initiatives to improve the degrees of penetration and practice.

Deployment of the Measures to Penetrate the Group Corporate Philosophy

Based on the results of the *Survey on the Penetration of the group corporate philosophy* that is implemented to the group's employees, we formulate and execute the penetration measures from the three perspectives of *transmission, sharing, and evaluation*. By repeating and continuously executing the *philosophy penetration cycle of transmission, sharing, and evaluation*, we promote the penetration, such as the specific practice of philosophy in daily operations, and conduct a review to make the measures more effective by monitoring the degree of penetration on a regular basis.



Initiatives in Fiscal 2020

Transmission	Sharing	Evaluation
<p>Continuous Transmission by the Top Management</p> <p>In the distribution of videos of the company-wide department manager meeting and on the anniversary of foundation, the President himself transmits his thoughts on the corporate philosophy as a message. The top management always has <i>technology, ideas, and passion</i> upheld in philosophy and is committed to take the initiative in putting into practice toward the creation of corporate culture to take on a challenge.</p>  <p>Transmission by the top management</p> <p>Publication of <i>Rinen Jissen Otasuke Book (Book Helpful for Practicing Philosophy)</i></p> <p>As a result of the First Survey on the Degree of Penetration of the group corporate philosophy, while the degree of employees' sympathy for philosophy was high, there was an issue extracted that what the action based on philosophy is has not been sufficiently shared. Following the survey results, <i>Rinen Jissen Otasuke Book (Book Helpful For Practicing Philosophy)</i> that introduced the specific examples of practical actions that employee could easily recall the connection between daily operations and philosophy was published. By transmitting the specific methods that philosophy can be applied to daily operations through the practical episodes featured in the booklet, we will promote the penetration of philosophy.</p> 	<p>Philosophy Sharing Workshop</p> <p>With a view to being aware of the group corporate philosophy and creating an opportunity to review one's own behavior, we have held Philosophy Sharing Workshop in the training for each rank that is for young/middle level employees and new managers from fiscal 2019. They check the group corporate philosophy and group conduct guidelines with their behavior in their daily operations and discuss/share their behavior and situations where they practice philosophy. Outputs in the workshop are reflected on the episodes featured in <i>Rinen Jissen Otasuke Book (Book Helpful For Practicing Philosophy)</i> to be utilized as cases that encourage the understanding of the connection between more familiar behavior and philosophy.</p>  <p>Philosophy sharing workshop</p>	<p>Holding of the Daiken Award</p> <p>In December 2019, with a view to thinking about "What is the behavior that practices the group corporate philosophy?" creating an opportunity to have discussions, and encouraging the understanding of the group corporate philosophy, we held Daiken Award. This is intended for all group employees and is to collect the cases that practice the philosophy in daily operations, and when we collected the cases from the groups formed by various volunteers regardless of their affiliations, 70 teams or 389 employees participated. Through the participation in the Award, the place where they discuss philosophy expanded. By recognizing and internally sharing good cases, we will accelerate a virtuous cycle of the penetration of the group corporate philosophy.</p>  <p>The place of technical and historical tradition at the Okayama Plant that won the Daiken Award</p>

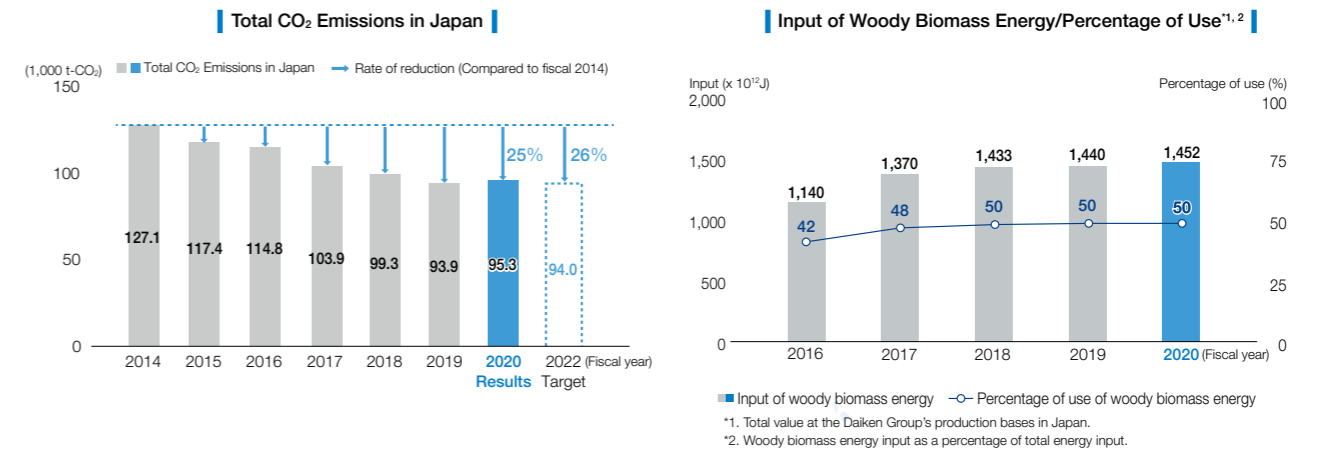
| E |

Initiatives toward the CO₂ Emissions Reduction

As a response to the worldwide climate change risks, the Japanese government upholds the target of reducing greenhouse gas emissions by 26% (compared to fiscal 2014) by fiscal 2031 based on the Paris Agreement. To positively contribute to this target, our company positioned the reduction of CO₂ emissions in our business activities as the highest priority issue, accelerated the target that we initially aimed to achieve in the final fiscal year (fiscal 2026) of the long-term vision GP25, and set the target to achieve it in fiscal 2022, which is the final fiscal year of the medium-term management plan GP25 2nd Stage.

Utilization of Renewable Energy that is Linked to the Business Activities

Regarding MDF and insulation boards that are the primary products in the industrial materials business, we use residual wood chips derived from wood offcuts and construction waste as primary raw materials based on the idea to pursue using timber as a material to the extent possible. Furthermore, we use wood chips, which cannot be used as product raw materials, as fuel for woody biomass boilers as the necessary heat source in the manufacturing process. Likewise in the building materials business that manufactures doors and flooring materials by processing wood materials, offcuts and wood powder generated in the manufacturing process are used as fuel. Our group puts effort into reducing CO₂ emissions by using renewable energy linked to these business activities. Woody biomass boilers (13 units) have been introduced to 9 bases out of 12 production bases in Japan, such as the Okayama plant and the Takahagi plant, which are the primary plants for the industrial materials business. By striving for stable operation, we increase the renewable energy ratio to 50%, which leads to the reduction of CO₂ emissions.



Domestic Production Bases where a Woody Biomass Boiler is Installed

- Industrial materials business (Green square)
- Building materials business (Blue square)

Number of Woody Biomass Boilers Installed: **13 units in 9 bases**

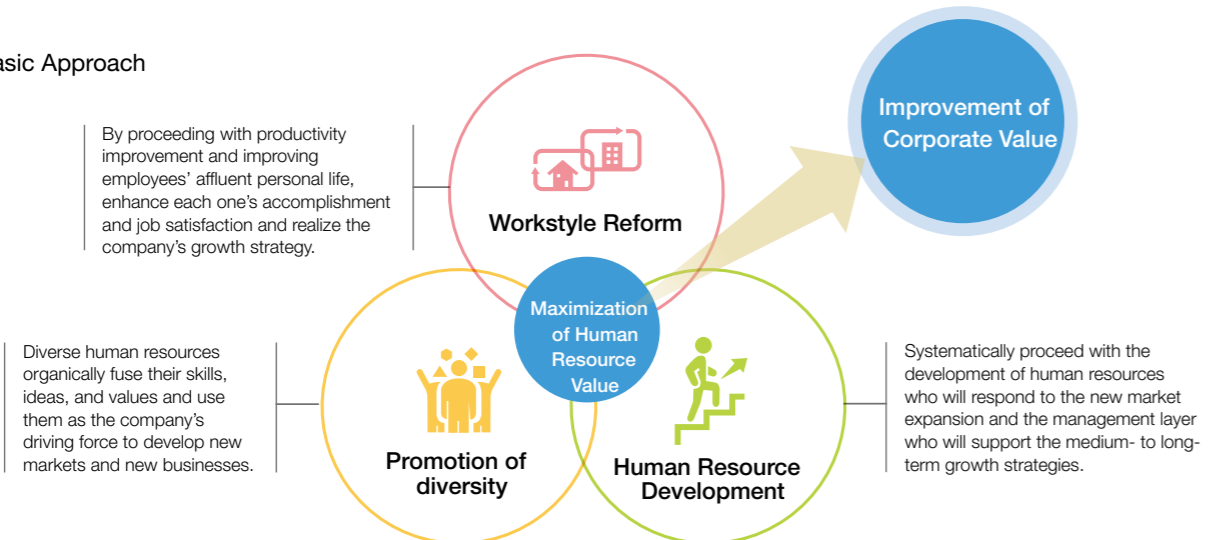
Locations: Inami Plant, Aizu Daiken Corporation, Dai-wood Corporation, Daifit Co., Ltd., Setouchi Kahok Co., Ltd., Okayama Plant, Takahagi Plant, Mie Plant, Yubari Plant, T.O FLOORING CO., LTD.

| S |

Maximization of Human Resource Value

To realize the growth strategies upheld in the medium-term management plan GP25 2nd Stage, promotion of diversity that fuses skills, ideas, and values of diverse human resources is imperative. Based on this perspective, we set the Total Diversity Index, which incorporated eight items, such as the female manager ratio and the rate of taking childcare leave among male employees, as the nonfinancial management goal. To steadily proceed with the promotion of diversity and increase human resource value, we need to link workstyle reform to create the highly productive working environment and human resource development where each and every employee continually increases their levels. Based on this idea, our group generates the virtuous cycle by integrally promoting the three elements of *promotion of diversity*, *workstyle reform*, and *human resource development* and proceed with the maximization of human resource value by improving individual performance and furthermore, the initiatives to improve our corporate value.

Basic Approach



With the next-generation sales recommendation project being the point of origin, promote the creation of a working environment where anyone can exercise their skills

Tetsuo Harima
Representative Director,
Senior Managing Executive Officer

1 The Purpose of Launching the Next-Generation Sales Recommendation Project

We set the practice of ESG management as one of the pillars of the basic policy in the medium-term management plan GP25 2nd Stage. A company is composed of people, and it is essential in realizing the growth strategies and achieving the goals that all group employees are active and take on a challenge, and nothing can be discussed without human resources. In that sense, human resources play a key role in the S of ESG, and we set KPIs to measure the level of achievement of the respective three elements of *promotion of diversity*, *workstyle reform*, and *human resource development* in the medium-term ESG plan that is linked to the medium-term management plan and proceed with the initiatives toward the achievement of the goals. In the first year of the medium-term management plan, we launched the Next-Generation Sales Recommendation Project as a new initiative to maximize human resource value.

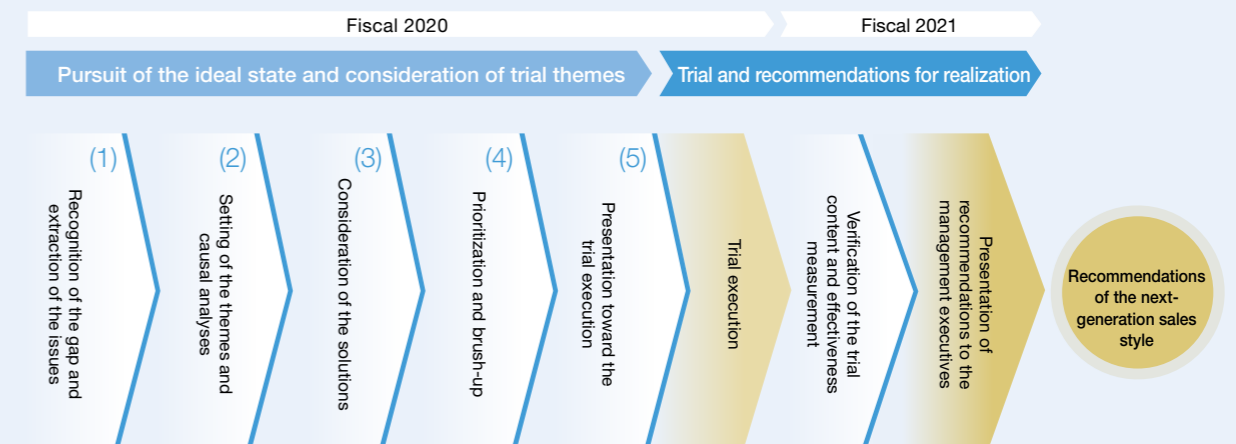
Characteristics of this project are that it makes a clear departure from the conventional projects in which executive officers and department heads are the members and that it takes the bottom-up form consisting of female sales employees. This is the one developed from the exchange meeting for female employees, which was just for opinion exchanges and sharing of problems, and is for them to clarify the issues to work on toward the realization of the ideal state while reflecting on their operations at their workplaces and lead to the recommendations to management executives toward the resolution of such issues. Therefore, the process of this project can be said to be the miniature version of the initiatives toward the maximization of human resource value to increase their levels while linking the three elements of *promotion of diversity*, *workstyle reform*, and *human resource development*.

2 Initiatives in the Project

In fiscal 2020, after launching the project, female sales employees formed three teams and executed a trial project after going through group works and discussions for a total of five times in six months. As the first step, they started drawing their next-generation sales styles, their ideal state that they aimed for. After that, they went through (1) recognition of the gap with the present status and extraction of issues, (2) setting of themes and causal analyses, (3) consideration of solutions, and (4) prioritization and brush-up and then, (5) they made presentations toward the implementation of the trial project, and after approval, they took it to their actual workplaces and started it. Particularly in extracting issues, we conducted hearings with their superiors and questionnaire surveys in the respective

workplaces to prevent the viewpoints from being biased. In the process to consider solutions, we incorporated ideas and methods to lead to more workable recommendations, such as using an issue-solving model learned in the external lecture to be able to plan effective measures. Members who participated in the project participated in it while performing their tasks, but the attitude of making efforts with their strong will and independence that "We will reform our company" was fostered and cooperation and relationship of trust among the members were created through discussions and group works, and I can say that the initiatives could also produce a profound effect at the different level from recommendations that are the project's deliverables.

Steps of Initiatives in the Next-Generation Sales Recommendation Project



3 Future Development

At present, these are the initiatives at the workplace level in the sales division, but I expect that the changes that started by taking the opportunity of this project will move responsible persons in each workplace and receive empathy from the members in the workplace and other members in the workplace who realized the change will further voluntarily propose the next move, and the flow of moving into action from something familiar will be created. Directing a spotlight on the issues that one has recognized as issues but has not

put effort into them and moving into specific action will lead to workplace reform. In the future, we would like to make presentations on recommendations to the final management executives based on the results of the verification of trial content and effectiveness measurement, broaden the project base from the sales division to other manufacturing divisions, as well as the staffing division, and make it the point of origin for the company-wide reforms.



Discussion with President and Outside Directors

Following the general meeting of shareholders on June 26, 2020, a new structure with three outside directors was formed. The three outside directors used a teleconferencing system to meet with Masanori Okuda, representative director and president, on the required governance for sustainable corporate value improvement.



Okuda Following the general meeting of shareholders on June 26, a new structure was formed with three outside directors, including one additional director. I would like to exchange opinions with you, the outside directors, and invite your frank opinions about the company under the theme of *Required Governance for Sustainable Corporate Value Improvement* in the Daiken Group in the coming years amidst the increased uncertainties in the business environment caused by the COVID-19 pandemic. Thank you for participating in this meeting.

1 Evaluation of the management and effectiveness of the Board

Okuda First, I would like to hear the opinions of Director Mizuno, who has been an outside director since 2015 and who has also served as the chair of the Corporate Governance Committee and the Nomination and Remuneration Committee.

Mizuno I remember that the Board had a more passive attitude when I was appointed director. Opinions are now being exchanged more actively under President Okuda. My impression is that the Board has been revitalized in response to the establishment of the Stewardship Code and the Corporate Governance Code in line with the momentum for better governance. The evaluation of the effectiveness of the Board started at the end of FY 2016. The evaluation was performed not merely through scoring but also with many opinions supplied in the free description

fields, thereby identifying the necessary requirements and improvements from a variety of perspectives every year. The characteristic of the governance of Daiken Corporation is that the Board has an open atmosphere where improvements are made every year based on vigorous opinions. On the other hand, risk management and the response to uncertainties from the COVID-19 crisis can be considered requirements. The Board must then be engaged more strongly in group-wide risk management considering the increase in the number of group companies as a result of M&A.

Furube I think it is necessary to strengthen risk management, particularly overseas, as we pursue globalization.

Ishizaki The vigorous opinions of the Board and the annual improvements based on the requirements identified through the evaluation of effectiveness are worth recognizing. After observation for more than a year as an Audit & Supervisory Board member, I think it is necessary to proceed one step deeper into discussions by the Board.

Okuda While the improvements based on the evaluation of the effectiveness of the Board have been rated by outside directors, there remain requirements considering the depth of discussions. The coming years will present opportunities for more in-depth discussions under the selected key themes that may alter our medium-term and long-term competitiveness and corporate value, such as the required group-wide risk management that includes overseas bases.

2 Business deployment for future growth

Okuda Next, I would like to hear the opinions on business deployment and R&D for future growth. First, Director Furube, what do you think based on your experience as a management executive of a housing equipment manufacturer?

Furube I was appointed outside director in 2017. In the history of Daiken Corporation, my tenure has been synchronized to the transition stage of the company covering the two last years of the former medium-term management plan and the first year of the present medium-term management plan. Appreciably, during this period, the company acquired the MDF plant in New Zealand to expand the industrial materials business overseas, and the wood materials business in North America to gain a firm foothold for globalization, while implementing proactive measures in Japan by increasing product lines to expand public and commercial buildings and by sharing a sense of urgency throughout the company against the risk of a decrease in new housing starts. I think it is also an achievement that market share has been effectively increased in the new home market as the existing basis of profitability through strengthened proposals for differentiating products to selected targets.

Okuda The review of our business portfolio is the basic policy of the medium-term management plan. It is now necessary to accelerate the review relative to the original schedule because of the COVID-19 pandemic. It will now be necessary to make decisions on the selection and concentration of business segments that have ended their roles and business segments that need to be further strengthened.

Furube For expansion into global markets as one of the growth strategies, it is essential that we reinforce human resource development. While there is no easy way to achieve this goal, it will be necessary to steadily upgrade human resources according to clarified milestones.

Okuda The global market share in terms of sales in FY 2020 increased to 18% from 11% compared to the previous fiscal year. The urgent requirement is to implement the necessary measures in human resources. We have enhanced training menus with a variety of different items as we promoted development through job rotation. We will further upgrade human resource development through a personnel exchange with C. Itoh & Co. as our capital and business ally.

Furube Toward future growth, it is necessary to pursue new business deployment and R&D that will match the goals of Daiken Corporation. Since the early 2000s before the financial crisis, the company promoted business restructuring





Koji Mizuno Outside Director

through selection and concentration. In that process, the company withdrew from several business segments. I suppose that the company made the decision to withdraw because it had business segments to become the next pillars. To continue boosting the metabolism of business, it will be necessary to cherish a culture of consistently creating something new. From this perspective, a favorable trend has been created through the reinforcement of research and development following the establishment of the R&D Center in 2018. The information network is also being expanded under the concept of open innovation. The future requirement will be to find ways to connect the seeds created in the R&D Center to the needs of society.

Okuda For new business deployment, an examination is in progress to find the next-generation business segment as the fourth pillar after industrial materials, building materials, and engineering. The examination has started in areas adjoining building materials as our present business segment because it is difficult to promote business in remote areas. In this process, technologies originating from the R&D Center have been steadily taking practical shape. While it will take time before commercialization, we will proactively input managerial resources into initiatives aimed at medium-term and long-term corporate value improvement.

Mizuno Open innovation is being proactively promoted by the R&D Center. I

hope that R&D initiatives through industry-academia cooperation will be enhanced. The introduction of ideas and expertise new to the company will become the driving force in the creation of something new. It will be necessary to establish a robust position as a technology-oriented company through effective human resource development from the medium-term and long-term perspectives.

Okuda In terms of industry-academia cooperation, we are promoting joint research with universities and the dispatch of young researchers to universities. We will continuously implement these initiatives because the possibility of new ideas increases through experience in different communities.

3 Desirable M&A for growth strategies

Okuda We utilize M&As as a means of new business deployment and future growth. Director Ishizaki has extensive experience in investment bank operations with particular expertise in M&As. From that viewpoint, do you have an opinion about desirable M&As in the coming years?

Ishizaki I think M&As are an indispensable means of increasing corporate value. In my experience, it is important that the Board have deeper discussions

concerning consistency with the company's management strategy and the practicality of the business plan in the implementation of M&As and then verify that the project will be appropriate for maximizing corporate value. I also believe that we should strengthen risk management and risk control following any acquisition of a subsidiary. I think in-depth discussions are required by the Board regarding this point. In this process, it is essential to establish a system that provides accurate and timely information in an emergency. Daiken Corporation has established rules for escalation and whistleblowing from the viewpoints of BCP and compliance. As group companies increase and are covered by these rules, it will be necessary to verify that the system functions effectively without delay or omission.

Furube With the penetration of the internet throughout society, it is extremely important that information from all group companies be provided to the head office in a timely manner. It will be necessary to establish a system that effectively utilizes IT and collects information efficiently.

Mizuno M&As continue to be an important means of growth for Daiken Corporation. As one of the key requirements for this fiscal year based on the evaluation of effectiveness of the Board, the strengthened monitoring of acquisition projects is now highlighted. I consider it necessary to establish a system for continuous monitoring, including the gap from the intended effect and synergy and the viewpoint of risk management, by proceeding one step further from the conventional practice of business reporting.

Okuda We have promoted M&As to bolster the three key markets identified in the long-term vision and the medium-term management plan. In FY 2020, three projects were handled regarding the wood material segment in North America to expand the global market,

the solid wood flooring segment to enhance product lines for proposal making in public and commercial buildings, and the renovation segment in the metropolitan area to strengthen building power in the home renovation market. We will have deeper discussions concerning consistency with the company's management strategy and the practicality of the business plan in order to establish a system for post-acquisition monitoring incorporating the viewpoints of risk management and verification of the effect and synergy, thereby clarifying how the Board should be engaged in important projects.

4 Enhanced dialog with shareholders and investors for corporate value improvement

Ishizaki Another point of governance is that governance has two aspects: inner governance representing internal control, and outer governance signifying checks from an external objective viewpoint. It is necessary for both of these aspects to function in a balanced manner. At Daiken Corporation, the former seems to be mostly functional, while the latter may need additional upgrading. In this sense, it is necessary to strengthen IR through dialogs with shareholders and investors to form the core of outside governance. The present activities are limited inside Japan. It will be necessary

to proactively approach global investors for enhanced dialogs.

Furube In my previous job, I had periodic meetings with global investors. Such meetings led to future corporate value improvements through discussions from perspectives that differ from Japanese investors and through expanded fields of dialog with investors who emphasize ESG evaluations, which are also a characteristic of Daiken Corporation.

Mizuno I also feel the need to strengthen IR. To achieve a better understanding of the company's mindset and direction amidst the increasing uncertainties, we must increase the occasions for direct dialog with the company's top management.

Okuda We hope to continue strengthening IR. From this viewpoint, we established a dedicated IR unit inside the



Kiyoshi Furube Outside Director

Management Planning Department under a new organizational structure in FY 2021. The Policy for Structures and Initiatives for Promoting Constructive Dialog with Shareholders has been revised by the Corporate Governance Committee and the Board in order to clarify my responsibility as the management executive and to ensure more consistent and continuous initiatives led by the executive officer for IR. I hope to effectively communicate our strengths and direction through these IR activities, while listening to inspirational input from shareholders and investors, thereby producing a virtuous circle of dialog for corporate value improvement.

Summary

Okuda Amidst the uncertainties caused by the COVID-19 pandemic, the Board will need to play its role in the emergency and assume heavier responsibility in navigating business management than during normal times. We will earnestly examine important requirements, have deeper discussions with specialized and objective input from outside directors, and set the direction for continuous corporate value improvement. Thank you very much.



Shingo Ishizaki Outside Director

G Governance

Corporate Governance

Basic Approach

In pursuit of optimal corporate governance that will result in sustainable improvements in our corporate value

Under the group corporate philosophy, the Daiken Group is committed to sustainable improvements in corporate value for all shareholders and stakeholders. In order to achieve efficient, sound, and transparent management, we enrich the management system, the organizational system, and the internal control system, and take the basic approach that always seeks to optimize corporate governance, and we constantly work to improve it. Based on the basic policy on corporate governance established in 2015, we are making constant improvements to respond to the ever-changing business environment surrounding the group in the ceaseless pursuit of the optimal corporate governance system.

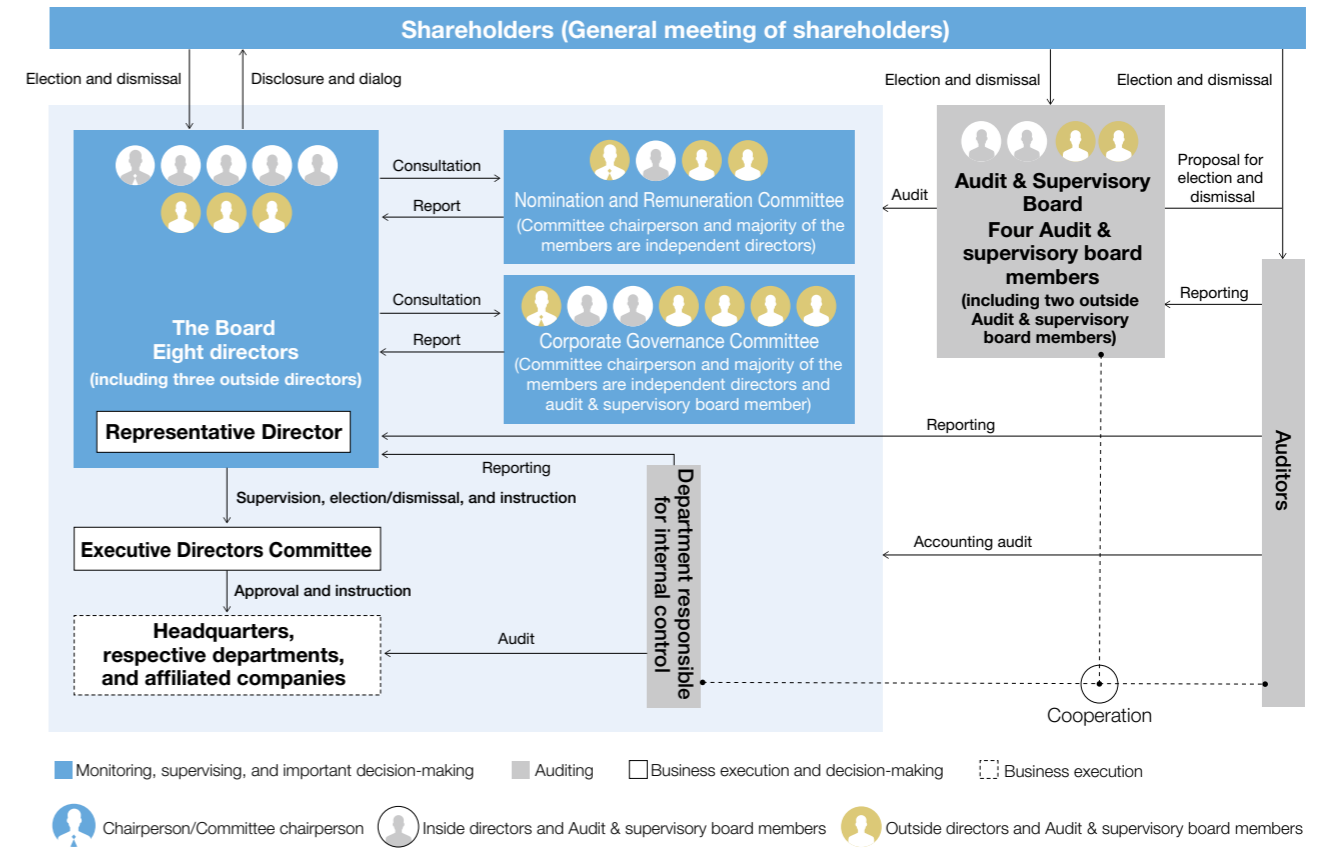
Key Initiatives for the Enhancement of Corporate Governance

2002	Made the shift to the chief executive officer system	2015	Outside directors increased from 1 to 2. The Basic Policy on Corporate Governance was established.
2003	The Compliance Committee was established.		
2008	Reorganized to the Risk & Compliance Management Committee for reinforcement.	2016	The effectiveness evaluation of the Board was started.
2010	Reduced the number of directors from 11 to 9.	2018	A female outside Audit & Supervisory Board member was selected. Introduced the transfer restricted stock-based compensation system.
2011	Outside directors are selected.	2019	Reduced the number of directors from 9 to 7.
2012	The term for directors was reduced from two years to one year.	2020	Outside directors increased from 2 to 3 (3/8)

Quick Reference of Corporate Governance Organization

Main Items	Details
Design of the organization	Company with Board of company Audit & supervisory board members
Number of directors (outside directors)	8 (3)
Number of Audit & supervisory board members (outside Audit & supervisory board members)	4 (2)
Number of board meetings convened (fiscal 2020) (Average attendance rate of outside directors) (Average attendance rate of outside Audit & supervisory board members)	13 times (100%) (97%)
Number of Audit & supervisory board meetings convened (fiscal 2020) (Average attendance rate of outside Audit & supervisory board members)	14 times (97%)
The term for directors	1 year
The executive officer system	Adopted
Voluntary committee of the Board	<ul style="list-style-type: none"> Nomination and Remuneration Committee: Deliberate on human affairs and the remuneration of directors and executive officers Number of committee meetings convened in fiscal 2020: 3 times Corporate Governance Committee: Evaluate the effectiveness of the Board and deliberate the matters related to establishment of the governance system Number of committee meetings convened in fiscal 2020: 2 times
Auditors	Gyosei & Co.

Corporate Governance Framework



Reasons for Selection of Outside Directors and Audit & Supervisory Board Members

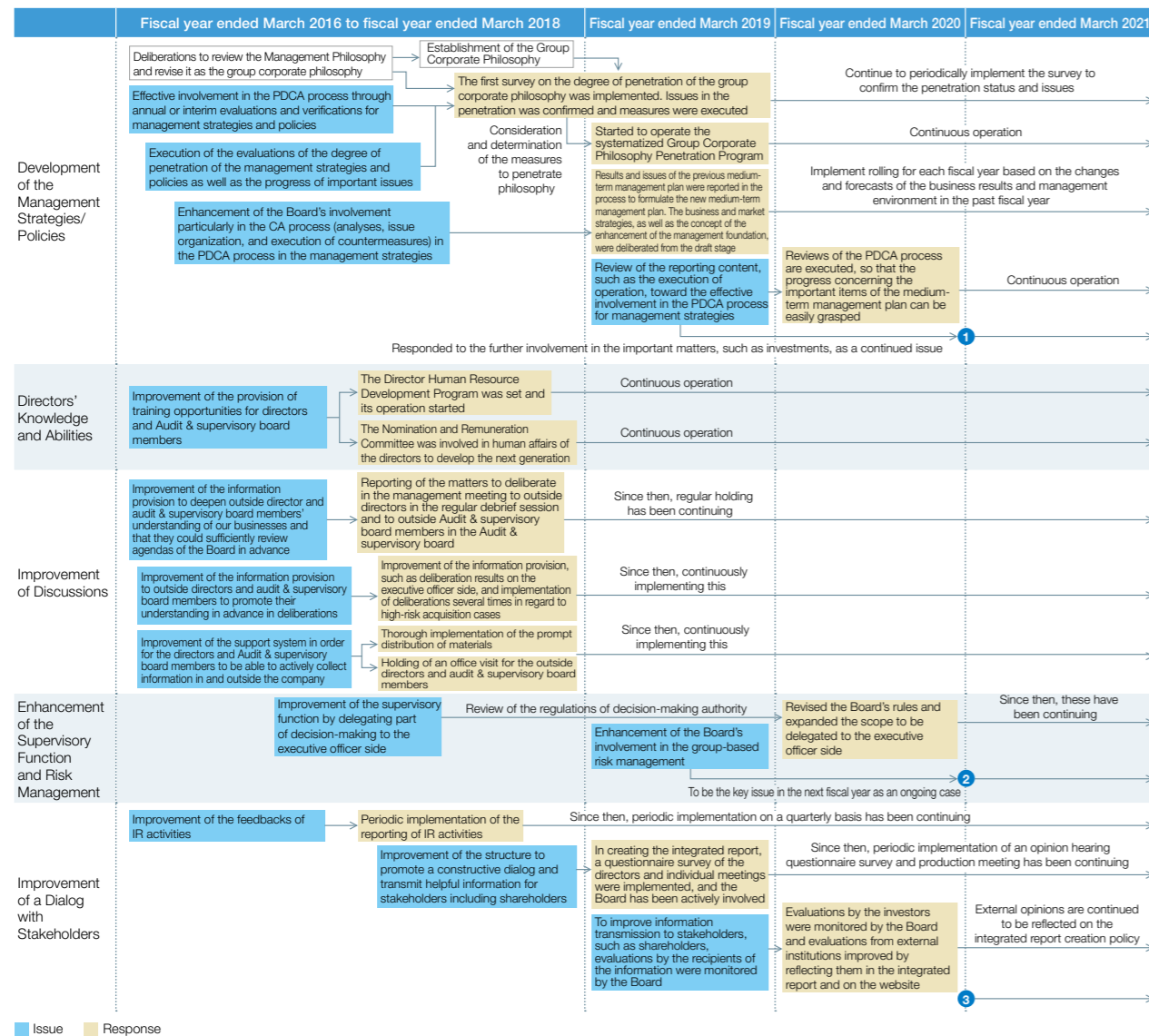
	Name	Reason for selection
Outside Director	Koji Mizuno	He actively provides advice and suggestions supported by the high expertise as a professor and contributes to securing appropriate decisions by the Board. Also, his affluent knowledge about corporate management is considered essential for the improvement of our corporate value.
	Kiyoshi Furube	He has been involved in the management of TOTO Ltd., as a director for a long period of time and actively provides advice and suggestions based on his rich experience. Also, his affluent experience and wide range of knowledge about corporate management is considered to contribute to improving our corporate value. He is from TOTO Ltd., which is our client company, but the percentages of transaction amounts with the said company in consolidated sales or purchase amount in the current fiscal year are less than 1% respectively.
	Shingo Ishizaki	He has been involved in the investment banking service at a securities company for a long period of time and as our outside Audit & supervisory board member since June 2019, he has taken advantage of his affluent knowledge cultivated through such experience into the audits of our company. Also, his affluent knowledge on finance and accounting is considered to contribute to improving our corporate value.
Outside Audit & Supervisory Board Member	Yuko Katsuo	In addition to her high expertise as a professor in the Department of Economics, she held several positions as a committee member in the Ministry of Finance, Financial Services Agency and is considered to reflect her affluent knowledge on finance and accounting cultivated through such experience into the audits of our company.
	Kiyoshi Mukohara	He has been engaged in the management of a financial institution for over many years. We believe that his abundant knowledge concerning finance and management, accumulated through his experience, will contribute further to Enhancement of the Governance System at our company. He is from Sumitomo Mitsui Trust Bank, Limited, which is our major lender, but five years have passed after he resigned from the director position at the said lender.

*All outside directors and Audit & supervisory board members have no conflicts of interest with our general shareholders with regard to personal relationships, capital relationships, business relationships, and other interests with us, and they meet the Judgment Criteria for Independence as stipulated by Daiken.

The Effectiveness Evaluation of the Board

To increase the effectiveness of the Board and to improve corporate value, the Daiken Group has implemented the effectiveness evaluation of the Board once a year since March 2016. Based on the self-assessment by all directors and Audit and Advisory Board members and deliberations at the Corporate Governance Committee in which the independent outside director is a chairperson and independent outside directors and audit & supervisory board members account for more than half of the members, the effectiveness of important decision-making in management and business execution properly has been confirmed to be sufficiently secured. The issues to work on for more effective Board operations have been extracted, and they have been continuously putting effort into the improvement responses.

Key Issues and Responses



Results of the Evaluation in the Fiscal Year Ended March 2020 and Response to the Future Issues

The Board's effectiveness evaluation implemented in the fiscal year ended March 2020 reported that opinions are being represented and deliberated actively by each director and Audit & supervisory board member while ensuring the fairness and transparency with diverse perspectives and four independent outside directors. The Board sufficiently maintains the effectiveness of important decision-making in management and supervision of proper business execution. In particular, we improved support for outside directors, such as provision of information on the management meeting, opportunities to have an interview with management executives, and opportunities to hold an office visit at home and abroad, which are evaluated to contribute to active discussions toward the medium- to long-term growth. Evaluations by the recipients of the information were monitored and discussed at the Board with regard to the information transmission to the stakeholders, such as stakeholders, which are evaluated to lead to the further improvement of information transmission and enhancement of the structure to promote a constructive dialog. On the other hand, we confirmed the future issues to further increase the Board's effectiveness, such as (1) enhancement of the after-the-fact monitoring of important issues, such as investments, that the Board made a decision, (2) continuous involvement in the group-wide internal control and risk management, and (3) deepening of the discussions on the opinions by the stakeholders that are grasped through a dialog. Regarding these issues, we will proceed with responses as follows.

- 1 Enhancement of the Monitoring of Important Issues**
Regarding the important matters, such as an investment case, enhance monitoring, such as grasping and discussing the change in the environment and progress of a plan, and enhance involvement in PDCA in the management strategies.
- 2 Enhancement of Group Risk Management**
We will re-evaluate risks based on a rapid change in the business environment, continuously discuss the risk countermeasures according to the degree of importance, and enhance risk management.
- 3 Deepening of the Discussions on the Responses to the Opinions by Shareholders and Investors**
The Board will grasp the content of opinions from stakeholders that are grasped in dialogs with shareholders and investors and deepen discussions on the responses to take.

Executive Remuneration

Policy of Executive Remuneration

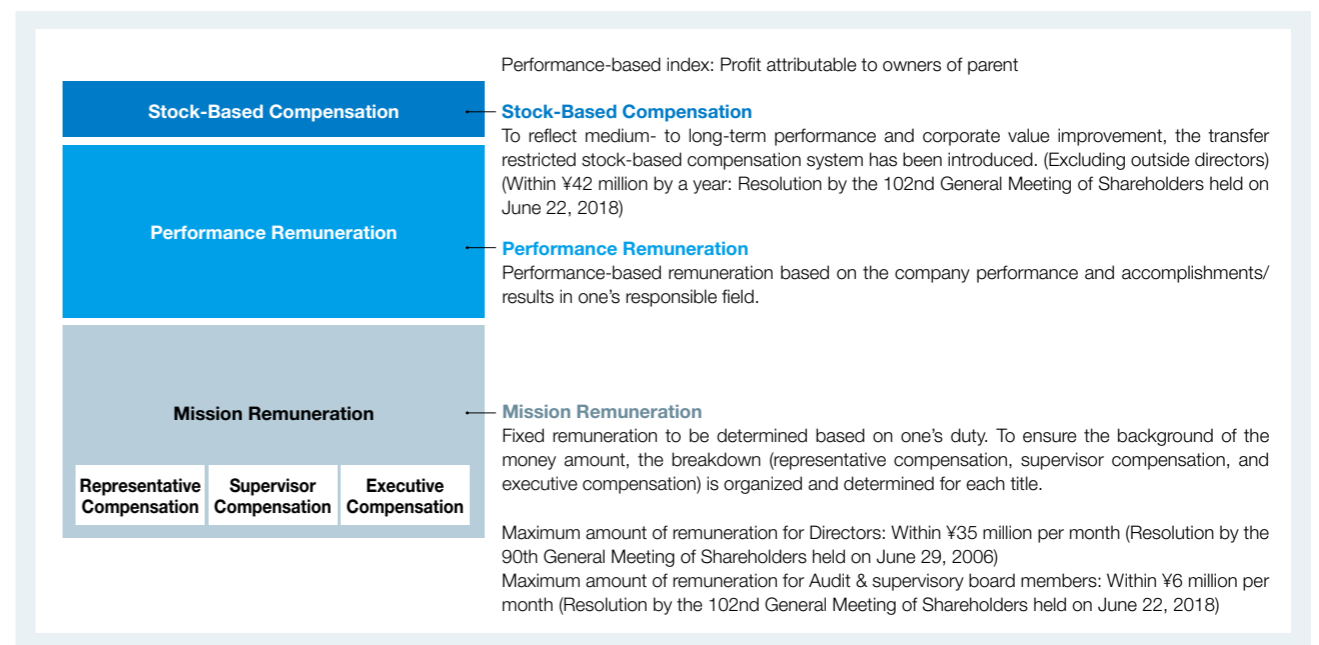
- 1 The remuneration system shall be based on the practice of the group corporate philosophy.
- 2 The remuneration system shall be designed reflecting the long-term vision GP25 and the medium-term management plan, prevent too great an emphasis on short-term inclinations, and motivate the improvement of medium- to long-term corporate value.
- 3 The standards and system of remuneration shall be effective enough to secure excellent human resources to whom we can entrust our future.
- 4 The procedure for determining remuneration shall be transparent, fair, and objective to achieve the responsibilities of explanations to all stakeholders including shareholders, investors, and employees.

Procedure

The Board has the authority to make decisions on the policy concerning the amounts and the method to calculate executive remuneration, and the authority is delegated to the representative director by a Board resolution. In determining remuneration, to secure transparency, fairness, and objectivity, remuneration is determined by the representative director after deliberations and recommendations by the nomination and remuneration committee in which the independent outside director is a chairperson and independent outside directors account for more than half of the members.

Composition

Executive remuneration is composed of mission remuneration as fixed remuneration, performance remuneration as the performance-based remuneration, and stock-based compensation. The proportion of the performance-based remuneration in the remuneration is around 40% and is designed to fluctuate according to performance.



Executive Remuneration for the Fiscal Year Ended March 2020

The total amount of remuneration to each executive classification, the total amount of remuneration by type, and number of target executives are as follows.

Executive Classification	Total Amount of Remunerations, etc. (¥million)	Total Amount of Remunerations, etc by Type (¥million)				Number of Target Executives
		Mission Remuneration	Performance Remuneration	Stock-Based Compensation	Retirement Benefits	
Directors ¹	225	109	106	9	-	7
Audit & supervisory board members ²	40	40	-	-	-	3
Outside Directors and Audit & supervisory board members	22	22	-	-	-	5

¹: Except for outside directors ²: Except for outside Audit & supervisory board members

Message

Message from the New Outside Audit & Supervisory Board Member

Contributing to Sustainable Corporate Value Enhancement by Pursuing Essential Corporate Governance



Kiyoshi Mukohara
Outside Audit & Supervisory Board Member

I am Kiyoshi Mukohara, the newly elected outside audit & supervisory board member as of June 26, 2020. I was also appointed a member of the Corporate Governance Committee on the same day in order to participate in the corporate governance system and deliberate on the requirements of Daiken Corporation. My relationship with corporate governance traces back to 2000, the dawn of the concept in Japan. In those days, I served as the deputy general manager for securities at a trust bank. I frequently exchanged information with institutional investors in the US and UK, as well as with consulting companies, on the exercise of voting rights. Through exposure to the latest information from overseas, I acquired extensive knowledge on corporate governance. Since then, I have tackled this important theme for nearly 20 years. Discussions regarding corporate governance became vibrant in Japan in the 2010s, which led to the establishment of the Corporate Governance Code in June 2015. Through my work involving corporate governance, I learned that corporate governance directs how the company responds to the expectations of shareholders and how it is inextricably linked to the exercise of voting rights as the declaration of the intentions of those shareholders. The essence of corporate governance is how a company adapts to changes over time through constructive dialogs with shareholders, while pursuing the sustainable enhancement of corporate value.

Corporate governance has taken root in the economy and society of Japan since the establishment of the Corporate Governance Code. In the past few years, a major shift has been made from shareholder capitalism to stakeholder capitalism. In the current COVID-19 situation,

some cases have uncovered the disadvantages of too intensely pursuing greater capital efficiency, such as ROE. In Japan, corporations have adopted a traditional management philosophy that emphasizes "good for everyone" and "the company is a public entity." A mindset similar to multi-stakeholder capitalism has been established for the sustainable enhancement of corporate value. I emphasized this attitude as a management executive of a bank as a public entity while contributing to the sustainable development of society through finance.

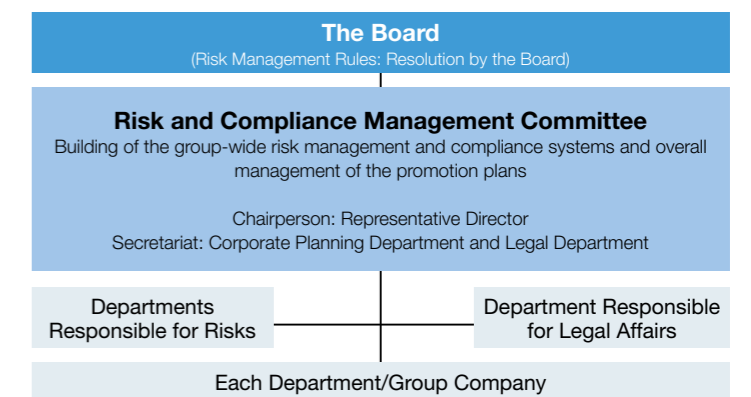
In the post-COVID-19 era, balancing the business activities of the company with contributions to a sustainable society will become more important than ever, as the management policy, by cherishing the relationships with diverse stakeholders through the concepts of multi-stakeholder, good for everyone, altruism, and ESG (Environment, Society, and Governance). It will be necessary to focus on these aspects and set the direction for future corporate governance.

In this rapidly changing era and environment, I believe that a company that sincerely pursues the best governance will always achieve sustainable growth. Based on my experience in examining many companies, I consider the corporate governance system of Daiken Corporation a successful standard. However, corporate governance must be improved and upgraded through persistent efforts. I am strongly determined to fulfill my responsibility as the outside audit & supervisory board member by leveraging the expertise and experience that I have accumulated and by dedicating myself to the spirit of corporate governance, while always recognizing its essence.

Risk Management/Compliance

At the Daiken Group, the Risk Management Rules have been stipulated by the Board to appropriately manage risks and ensure continuous and stable development of businesses. In addition, as an organization that discusses and approves the issues and countermeasures associated with the promotion of risk management of the entire company, the Risk and Compliance Management Committee with the Representative Director as the chairperson has been established. As for risk management, we establish responsible departments according to risk types to extract, analyze, and evaluate risks at the departments. In addition, we strive to increase effectiveness in preventing occurrence of risks by continuously following the PDCA including reviewing the status of implementation of countermeasures and the risk evaluations in each fiscal year. Regarding compliance, the department responsible for legal affairs regularly plans and executes education and training, as well as enlightenment activities, and establishes a culture to comply with law and regulations.

System to Promote Risk Management and Compliance



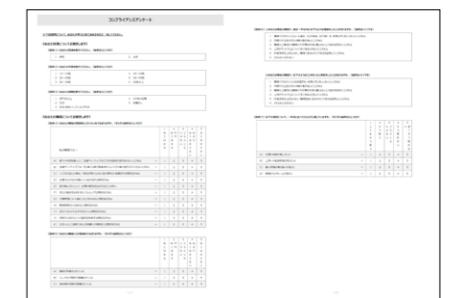
Number of Risk & Compliance Management Committee convened in fiscal 2020: 4

Key Deliberation Items	
Risk Management	Compliance
<ul style="list-style-type: none"> Consideration of the important risk measures and analysis/evaluation of the influence degree BCP responses based on the raw material procurement and system problems Disclosure of the risks associated with businesses Risk hedge status of nonlife insurance 	<ul style="list-style-type: none"> Results of the survey on the compliance consciousness degree and future responses Matters concerning the results of the execution of compliance training and the plans for the next term Personal information management status

Thorough Compliance

Implementation of the Survey on the Compliance Consciousness Degree

In August 2019, we implemented the Survey on the Compliance Consciousness Degree to the employees of the group. In this survey, which was the first survey, we made up questions based on the opinions by the third party, such as the level of understanding of the rules, laws, and regulations, and the awareness of the whistle-blowing system in order to acknowledge the status of employees' consciousness of compliance and clarify issues that need to be addressed. As a result of the survey, our group's consciousness degree was 61 pt (our own index). In the medium-term ESG plan that started in fiscal 2020, we will implement education and enlightenment activities, such as continuous training, toward the achievement of the goal of +5 pt using this result as a benchmark. We also implement the survey annually and by reflecting the issues in the measures, we will deploy more actual condition-based and effective measures.



Example of the slip of the Survey on the Compliance Consciousness Degree

Execution of Compliance Training

Across all the Daiken Group companies, we implement compliance training related to particularly relevant laws and regulations through group training by rank or e-learning training to be taken according to the year of joining the company. In fiscal 2020, we added and expanded a lecture for senior staff members to be manager candidates and implemented workshops by department for 19 departments 24 times in total where menus such as the dissemination of the whistle-blowing system and credit management are provided according to the features of each department. In the future, we will establish compliance by planning and implementing education and training menus to address our group's issues based on the results of the Survey on the Compliance Consciousness Degree in fiscal 2020.

Key Compliance Training System by Rank of Employees and Job Type

Training by Rank		Training by Job Type (By division/theme)
Executive Officers	Compliance management, etc.	Sales Division
Department Heads	Department management compliance, risk management, BCP, information management, etc.	Manufacturing Division
Managerial Position	Compliance, labor management, etc. Prevention of harassment	R&D Division
Senior Staff Member Class	Cases of breach of compliance	Back Office
Up to the fifth year since joining the company	Insider trading regulations	Group Companies
	Anti-Monopoly Act Subcontract Act Waste Disposal and Public Cleaning Act	
	Intellectual Property Rights (Copyright, trademark right, etc.)	
	Foreign Exchange and Foreign Trade Control Law/Export management Credit management	
New Employees	Act on the Protection of Personal Information Product safety	
	Basic knowledge of compliance Complaints handling	
Compliance, CSR, etc.		

■ External training and group training ■ e-learning training and self-learning course using textbooks

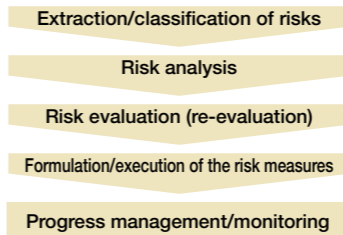
Risks Associated with Businesses, etc.

Risks associated with businesses that may have a serious impact on our group have been identified as follows. In identifying the risks, they were determined by the Board's resolution after deliberations in the Risk and Compliance Management Committee. We have determined the departments responsible for each risk, formulated countermeasures that could be assumed to the extent possible, and been serially executing them; however, not all the risks are covered. As for our group's businesses, the situation may have an impact on our group's financial condition and business performance if economic activities and markets do not function normally due to the following risks: a risk that is unknown at the present moment, other risks that are not deemed to be important at the present moment, or a risk that will have an immense impact throughout the entire world (large-scale war, terrorism, natural disaster, pandemic, etc.).

Classification	Risks	Risk Awareness
Disaster/Environment	(1) Spread of infectious disease	Impact on production, logistics, sales activities, business environment, and overall business operation due to the spread of an infectious disease, such as a novel virus.
	(2) Occurrence of natural disasters	Impact on production, logistics, and sales activities, as well as the destruction of infrastructure, disruption of supply chains etc. due to an earthquake, tsunami, typhoon, etc.
	(3) Environment related items	An increase in cost burden and compensation liability associated with the environmental laws and regulations
Business Environment	(4) Fluctuations in new housing starts and floor areas	Shrinking of the markets due to a decrease in population and a decrease in the number of households associated with the low birthrate and longevity
	(5) Fluctuations in the raw wood and plywood prices	Tightening regulations over illegal logging of tropical hardwood and fluctuations in the supply demand balance, ocean freight, and foreign exchange
	(6) Fluctuations in the crude oil and petrochemical product prices	Situations of the producing countries and the international supply demand balance Fluctuations in the petrochemical products, such as paints and adhesives, and the energy cost at the time of production
	(7) Foreign exchange fluctuations	Fluctuations in tropical timber plywood of which the major application is the materials for flooring, import transactions from the group MDF plants in Malaysia and New Zealand, and the foreign currency transaction adjustment in overseas investments
	(8) Stock price fluctuations	Booking of the appraisal loss and loss on sale due to a decline in the prices of holding shares
	(9) Interest-rate fluctuations	Impact on interest expenses due to interest-rate fluctuations
Business Operation	(10) Quality assurance	Generation of the compensation costs for the amount of damage, lowering of the brand image, and customer defection due to product defects
	(11) Acquisition and alliance related items	Shortfall of the investment effect by M&A, etc.
	(12) Fire and facility trouble in production plants	Disruption of product supply due to fire or a serious facility trouble in a production plant
	(13) Intellectual properties	Generation of the litigation cost concerning the intellectual property right
	(14) Information security	Occurrence of a compensation of damage and degradation of the brand image associated with the leakage of the privacy or credit information of customers
	(15) System trouble	Occurrence of the delivery delay, additional production cost, loss on disposal of products, etc. associated with the ordering and order receiving core system failure
	(16) Raw material procurement trouble	Occurrence of problems in the supply chain, such as supply disability due to fire, facility trouble, and disasters, in the supplier of the major raw materials
	(17) Accounting related items	Booking of impairment loss on non-current assets, introduction of new accounting standards or tax system, or a difference of opinion with the tax authority concerning tax declaration
	(18) Regal regulation related items	Stricter legal regulations or permission and approval system in the overseas production base

*Details of the risks associated with businesses are described in the securities report.

Risk Management Process Flow



- After extracting and classifying the risks that may have a serious impact on our group, set the responsible departments that will respond to the risks.
- Responsible departments for each risk comprehensively evaluate the risk from the both aspects of the possibility of the risk becoming apparent and the extent of damage when the risk becomes apparent and rank the risk according to the importance.
- For important risks, which were ranked high, formulate and execute the risk measures on an annual basis. Report the risk measure execution status to the Risk and Compliance Management Committee and conduct progress management.
- After reporting the risk response status in the Board, resolve the descriptions in the securities report.

Response to a Risk
<input type="checkbox"/> Setting of the measures for the infection prevention and the prevention of the spread and setting of the flexible work shifts <input type="checkbox"/> Organization of the response manuals and securing of stockpiles in preparation for a contingency <input type="checkbox"/> Selection of multiple suppliers of raw materials and securing of the BCP inventories
<input type="checkbox"/> Securing of human life safety, countermeasures for key facilities and important systems, organization of the response manuals, and securing of stockpiles based on the <i>Disaster Countermeasure BCP Manual</i> <input type="checkbox"/> Selection of multiple suppliers of raw materials and securing of the BCP inventories <input type="checkbox"/> Asset protection and risk hedge by nonlife insurance in preparation for the opportunity loss due to business interruption <input type="checkbox"/> Operation of the environment management system based on ISO 14001 <input type="checkbox"/> Compliance with legal requirements, such as waste management, and improvement of rules to reduce environmental risks <input type="checkbox"/> Compliance with the environmental rules and execution of internal auditing toward the continuous improvement
<input type="checkbox"/> Practice of the management strategies that are based on the long-term vision and do not rely on new housing starts in Japan <input type="checkbox"/> An increase in our share in the new home market by the differentiated products <input type="checkbox"/> Expansion in the non-housing public and commercial buildings and global markets
<input type="checkbox"/> Increase in use of domestic timber by using the special MDF developed with our unique technologie
<input type="checkbox"/> Suppression of a rapid impact on the profit and loss by setting about one year, instead of six months, for the condition determination for transaction prices <input type="checkbox"/> Reflection of the portion that cannot be absorbed by the self-help efforts on the selling prices <input type="checkbox"/> Promotion of both the reduction of greenhouse gas emissions and cost reductions by shifting energy from fossil fuels to woody biomass
<input type="checkbox"/> Switching to domestic timber plywood that is not affected by the foreign exchange rates <input type="checkbox"/> Market fluctuations that cannot be absorbed will be reflected on the selling prices while monitoring the movements of competitors <input type="checkbox"/> Hedging transactions by the foreign exchange reservation in accordance with the stipulations of the Financial Derivatives Management Regulations
<input type="checkbox"/> Review holding shares from both the qualitative and quantitative aspects once a year and report the result to the Board <input type="checkbox"/> Reduction of the shares that are judged where the significance of holding is unsatisfactory
<input type="checkbox"/> Utilization of financial derivatives for long-term financing that is one year or more in accordance with the stipulations of the Financial Derivatives Management Regulation
<input type="checkbox"/> Operation of the quality management system based on ISO 9001 <input type="checkbox"/> Setting of the rules concerning design development management, product safety inspections, etc. <input type="checkbox"/> Inspections by the exclusive members centering on the quality assurance division at the Head Office that is independent of the development/manufacturing division <input type="checkbox"/> Verifications and inspections in the Investment Committee that give consideration to the management strategies, synergy, the market environment, risk factors, the capital cost, etc. <input type="checkbox"/> Implementation of periodic reviews in the management meeting and the Board for verification of the effects after acquisition <input type="checkbox"/> <i>Disaster Countermeasure BCP Manual</i> , rules, a supervisory organization, in-advance countermeasures, response manuals, and securing of BCP spare articles <input type="checkbox"/> Implementation of the group-based Plant Mutual Safety Diagnosis that incorporates an objective perspective of other plants <input type="checkbox"/> Risk hedge by nonlife insurance in preparation for unforeseen risks
<input type="checkbox"/> Improve the rules concerning intellectual property rights in the rules that manage the design development processes <input type="checkbox"/> Establishment of the dedicated department that will manage intellectual property rights and improvement of the checking system for various R&D cases and products from the design development phase
<input type="checkbox"/> Improvement of the internal rules, such as the Information Management Rules, Personal Information Protection Management Rules, IT Security Rules, etc. <input type="checkbox"/> Introduction of various security measure systems, management of access authorizations, and implementation of security education for employees
<input type="checkbox"/> Improvement of the organizational structure that will integrally manage the series of mechanisms from order receipt to shipping, delivery, etc. <input type="checkbox"/> Enhancement of the ordering and order receiving core system's processing capacity and enhancement of the countermeasures for the backup function in case of failure
<input type="checkbox"/> Formulation of the <i>Disaster Countermeasure BCP Manual</i> <input type="checkbox"/> Selection of multiple suppliers of raw materials and promotion of the countermeasures, such as securing of BCP inventories
<input type="checkbox"/> Verifications and inspections of the consistency with the management strategies in the Investment Assessment Committee, the investment effect that gives consideration to the capital cost, and the safety, quality, environmental consideration, etc. <input type="checkbox"/> Sufficient consideration by the external experts, such as a tax accountant corporation, and advance referral to the tax authority as needed
<input type="checkbox"/> Improvement of the response systems for legal regulations, as well as permission and authorization through the cooperation between the planning division that integrally manages the global production bases and global business and the legal affairs division at the Head Office


Directors and Audit & Supervisory Board Members

(As of June 26, 2020)

■ A member of Nomination and Remuneration Committee
 ■ A member of Corporate Governance Committee

*Attendance in the Board as well as the Audit & supervisory board is the status in fiscal 2020.
 *The number of shares owned is the number as of the end of March 2020.

Director



Representative Director, President

Masanori Okuda

- Attendance at the Board: 13/13 (100%)
- Number of the Company's shares owned: 32,750 shares

Apr. 1974 Joined the Company
Apr. 2007 Executive Officer
General Manager of Tobu Juken Sales Control

Apr. 2008 Senior Executive Officer
General Manager of Juken Sales Control and General Manager of Tobu Sales Control

June 2008 Director, Senior Executive Officer
Apr. 2009 Director, Managing Executive Officer
Tokyo Representative and General Manager of Juken Sales Control

Apr. 2010 General Manager of Juken Sales
June 2011 General Manager of Sales, Manager of New Development Sales, and General Manager of the Tokyo Office

Apr. 2012 Director, Senior Managing Executive Officer
General Manager of the Tokyo Office

June 2013 Representative Director, Senior Managing Director, and Senior Managing Executive Officer

Oct. 2013 General Manager of Procurement Innovation and General Manager of the Tokyo Office

Apr. 2014 Representative Director, Representative President and Executive Officer
June 2018 Representative Director, President (present)



Representative Director, Senior Managing Executive Officer

Takashi Aihara

- Attendance at the Board: 13/13 (100%)
- Number of the Company's shares owned: 7,930 shares

Apr. 2001 Professor of School and Graduate School of Law and Politics, KWANSEI GAKUIN UNIVERSITY

Aug. 2003 Director and Manager of IR Planning of Takara Printing Co., Ltd.

Mar. 2006 Outside Audit & supervisory board member of Urban Life Co., Ltd.

Aug. 2006 Director and Executive Officer responsible for IR business development of Takara Printing Co., Ltd.

Feb. 2008 Registered lawyer (Tokyo Bar Association) (present)

June 2010 Outside Audit & Supervisory Board Member of the Company

Jan. 2011 Member of the Ninth Tender Monitoring Committee of Ministry of Finance

Apr. 2011 Member of the Committee of Monitoring Mint Contracts (Independent Administrative Institution)

June 2011 Outside Director of the Company

June 2017 Representative Director, Senior Managing Director, and Senior Managing Executive Officer

June 2018 Representative Director, Senior Managing Executive Officer (present)

Apr. 2020 Responsible for Head Office, IT and logistics reforms, ISO, crisis management, information management, compliance, IR, and R&D (present)



Representative Director, Senior Managing Executive Officer

Tomoaki Kato

- Attendance at the Board: 11/13 (85%)
- Number of the Company's shares owned: 27,730 shares

Apr. 1980 Joined ITOCHU Corporation
Apr. 2003 General Manager of Wood Products & Materials Department
June 2009 Director of the Company
Apr. 2011 General Manager of Planning & Administration Department, Chemicals, Forest Products & General Merchandise Company of ITOCHU Corporation
Retired from ITOCHU Corporation

Mar. 2012 Director, Managing Executive Officer of the Company
Apr. 2012 General Manager of MDF Business, General Manager of Overseas Business, and Manager of Overseas Sales
Oct. 2012 Outside Director of HOKUSHIN Co., Ltd.

June 2013 General Manager of MDF Business, General Manager of Overseas Business, and General Manager of the Tokyo Office of the Company
Apr. 2014 Director, Senior Managing Executive Officer
Apr. 2016 General Manager of Overseas Business, and General Manager of the Tokyo Office
June 2016 Representative Director, Senior Managing Director, and Senior Managing Executive Officer

Apr. 2017 Responsible for overseas business, General Manager of the Tokyo Office (present)
June 2018 Representative Director, Senior Managing Executive Officer (present)
Apr. 2020 General Manager of Overseas Business, General Manager of Asia Business and General Manager of North America Business (present)



Representative Director, Senior Managing Executive Officer

Tetsuo Harima


- Attendance at the Board: 13/13 (100%)
- Number of the Company's shares owned: 14,130 shares

Apr. 1981 Joined the Company
Apr. 2004 Manager of Kyushu Sales
Apr. 2006 Manager of Kinki Sales
Apr. 2009 Assistant General Manager of Seibu Sales Control
Apr. 2010 Assistant General Manager of Tobu Juken Sales Control
Apr. 2011 Executive Officer
General Manager of Juken Sales Control

Apr. 2012 Senior Executive Officer
Apr. 2013 Managing Executive Officer
Oct. 2013 General Manager of Eco Business
Apr. 2015 General Manager of Engineering business and General Manager of Special Demand Sales

June 2016 Director, Managing Executive Officer
Oct. 2017 General Manager of Engineering business and General Manager of Special Demand Sales
President of DAIKEN HOME & SERVICE CORPORATION

Apr. 2018 Director, Senior Managing Executive Officer of the Company
Mar. 2019 President of DAIKEN ENGINEERING CORPORATION
Apr. 2020 Responsible for business in Japan, General Manager of Domestic Business (present)
June 2020 Representative Director, Senior Managing Executive Officer (present)




Director

Hiroshi Sekino

- Attendance at the Board: 10/10 (100%)
- Number of the Company's shares owned: 0 shares

Apr. 1987 Joined ITOCHU Corporation
Apr. 1997 Industrial Materials Section, Lumber Department No. 2
Apr. 2004 Chief of Industrial Materials Section of Wood Products & Materials Department
Apr. 2007 Seconded to ITOCHU Kenzai Corporation
Apr. 2009 Wood Products & Materials Department of ITOCHU Corporation
Apr. 2010 Chief of Industrial Materials Section of Wood Products & Materials Department
Apr. 2015 Acting Manager of Wood Products & Materials Department, Chief of Industrial Materials Section of Wood Products & Materials Department, and Planning and Administration Department, ICT, General Products & Realty Company
June 2015 Acting Manager of Wood Products & Materials Department, and Planning and Administration Department, ICT, General Products & Realty Company

Apr. 2016 Seconded to ITOCHU Kenzai Corporation
Apr. 2019 General Manager, Construction & Building Material Department of ITOCHU Corporation (present)
June 2019 Director of ITOCHU Kenzai Corporation (present)
June 2019 Director of the Company (present)



Outside Director

Koji Mizuno

- Attendance at the Board: 13/13 (100%)
- Number of the Company's shares owned: 400 shares

Apr. 1991 Joined The Nanto Bank, Ltd.
Mar. 2006 Retired from The Nanto Bank, Ltd.
Apr. 2006 Full-time Instructor, Faculty of Management, Otomon Gakuin University
Apr. 2010 Assistant Professor, Faculty of Management
Apr. 2011 Advisor to the Organization for Small and Medium Enterprises and Regional Innovation, JAPAN (Independent Administrative Institution) (present)

June 2011 Outside Audit & Supervisory Board Member of the Company
Apr. 2014 Assistant Professor, Graduate School of Business Administration, Faculty of Management, Otomon Gakuin University

June 2015 Outside Director of the Company (present)
Apr. 2016 Professor, Graduate School of Business Administration, Faculty of Management, Otomon Gakuin University
General Manager of the Venture Business Study Center

Apr. 2018 Dean and Professor, Faculty of Management (present)
Professor, Graduate School in Business Administration and Economics (present)



Outside Director

Kiyoshi Furube

- Attendance at the Board: 13/13 (100%)
- Number of the Company's shares owned: 200 shares


Apr. 1977 Joined TOTO Kiki Ltd. (present TOTO LTD.)
Oct. 2003 Manager of Sales Promotion Group in Shikoku
Apr. 2008 General Manager of Sales Promotion Group
June 2008 Executive Officer and General Manager of Sales Promotion Group
June 2010 Director, Executive Officer, General Manager of Sales Promotion Group and Sales Control

Apr. 2011 Director, Managing Executive Officer, responsible for the Sales Promotion Group

Apr. 2012 Director, Senior Managing Executive Officer, responsible for the Sales Promotion Group

Apr. 2014 Representative Director, Executive Vice President, responsible for all sales related departments

Apr. 2017 Director
June 2017 Outside Director of the Company (present)
June 2017 Advisor of TOTO LTD.
June 2019 Retired from Advisor of TOTO LTD.



Outside Director

Shingo Ishizaki

- Attendance at the Board: 10/10 (100%)
- Attendance at the Audit & Supervisory Board: 10/10 (100%)
- Number of the Company's shares owned: 0 shares

Apr. 1979 Joined Yamaichi Securities Co., Ltd.
Apr. 1998 Joined Merrill Lynch Japan Securities Co., Ltd.
July 2001 Joined UFG Capital Markets Securities Co., Ltd. (present Mitsubishi UFG Morgan Stanley Securities Co., Ltd.)
Oct. 2004 Joined Mizuho Securities Co., Ltd.
Executive Manager of Investment Banking Group


Apr. 2009 Managing Executive Officer and Kansai Investment Banking Group Leader
Apr. 2010 Managing Executive Officer and Kansai and Western Japan Investment Banking Group Leader

June 2015 Special Adviser of Sekisui House, Ltd.
Special Adviser of Sekisui Plastics Co., Ltd.

Apr. 2018 President and Representative Director, CEO of SI Management Co., Ltd. (present)

June 2019 Outside Audit & Supervisory Board Member of the Company
June 2020 Outside Director of the Company (present)

Audit & Supervisory Board Member



Audit & Supervisory Board Member

Takashi Terubayashi

- Attendance at the Board: 13/13 (100%)
- Attendance at the Audit & Supervisory Board: 10/10 (100%)
- Number of the Company's shares owned: 13,410 shares


Apr. 1980 Joined the Company
Apr. 2005 Manager of Hokkaido Sales
Apr. 2008 Manager of Marketing Department
Apr. 2010 Manager of General Affairs and HR
Apr. 2011 Executive Officer
Apr. 2012 Senior Executive Officer
Manager of General Affairs and HR and Manager of the Secretarial Office

Apr. 2013 Managing Executive Officer
Manager of Management Planning Department and Manager of the Secretarial Office

June 2013 Director, Managing Executive Officer
Apr. 2014 Manager of Management Planning Department, Manager of the New Business Development Office, and Manager of the Secretarial Office

Apr. 2015 Manager of Finance and Accounting
Apr. 2017 Director, Senior Managing Executive Officer
June 2017 Representative Director, Senior Managing Director, and Senior Managing Executive Officer

June 2018 Representative Director, Senior Managing Executive Officer
Feb. 2019 Responsible for IT and logistics reforms
June 2019 Audit & Supervisory Board Member (present)



Audit & Supervisory Board Member

Toshio Fuyuki

- Attendance at the Board: 13/13 (100%)
- Attendance at the Audit & Supervisory Board: 14/14 (100%)
- Number of the Company's shares owned: 6,000 shares

Apr. 1980 Joined the Company
Apr. 2000 Manager of Dai-Lite product development, Dai-Lite Business Department
Apr. 2003 Manager of the R&D Center
Apr. 2010 Executive Officer
Manager of Seibu Eco Business, Eco Business Department, and President of Okayama Daiken

Apr. 2011 Senior Executive Officer
General Manager of Eco Business and Manager of Seibu Eco Business

Apr. 2013 Managing Executive Officer
Oct. 2013 Manager of Development Planning
Apr. 2014 Manager of General R&D Center
Apr. 2015 Manager of Quality Assurance
June 2017 Audit & Supervisory Board Member (present)



Outside Audit & Supervisory Board member

Yuko Katsuo

- Attendance at the Board: 12/13 (92%)
- Attendance at the Audit & Supervisory Board: 13/14 (93%)
- Number of the Company's shares owned: 0 shares


Apr. 2000 Full-time instructor, Faculty of Economics, Gakushuin University
Feb. 2002 Member of performance report project, Accounting Standards Board of Japan
Apr. 2003 Assistant Professor, Faculty of Economics, Gakushuin University
Apr. 2008 Professor, Faculty of Economics, Gakushuin University (present)

Feb. 2010 Member of the Evaluation Committee for the Incorporated Administrative Agency (Independent administrative institution), Ministry of Finance
Acting chairman of the working group of the Organization for Small and Medium Enterprises and Regional Innovation of the same committee

Feb. 2012 Temporary member of the Business Accounting Council, Financial Services Agency
Apr. 2012 Member of the advisory committee of economics, subcommittee of the establishment of the university, council of the establishment of the university and incorporated educational institution, Ministry of Education, Culture, Sports, Science and Technology

Apr. 2014 Vice president, Gakushuin University
June 2018 Outside Audit & Supervisory Board Member of the Company (present)
Apr. 2019 Chairperson and Professor, Graduate School of Management, Gakushuin University (present)
June 2019 Financial Services Agency, Member of the Certified Public Accountants and Auditing Oversight Board (present), Financial Accounting Standards Foundation
Member of the Standards Advisory Council (present)

Dec. 2019 Japan Society for the Promotion of Science, Member of the Committee on Grants-in-Aid for Scientific Research (present)
Jan. 2020 National Tax Agency, Certified Public Tax Accountant Examiner (present)



Outside Audit & Supervisory Board member

Kiyoshi Mukohara

- Attendance at the Board: -
- Attendance at the Audit & Supervisory Board: -
- Number of the Company's shares owned: 0 shares

Apr. 1975 Joined The Sumitomo Trust and Banking Company, Limited (present Sumitomo Mitsui Trust Bank, Limited)
June 2006 Director and Managing Executive Officer
June 2008 Representative Director and Senior Managing Executive Officer
Apr. 2011 Representative Director and Deputy President Executive Officer
Representative Director and Deputy President of SUMITOMO MITSUI TRUST HOLDINGS, INC.

Apr. 2012 Representative Director, Deputy Chairman of Sumitomo Mitsui Trust Bank, Limited
Representative Director of SUMITOMO MITSUI TRUST HOLDINGS, INC.

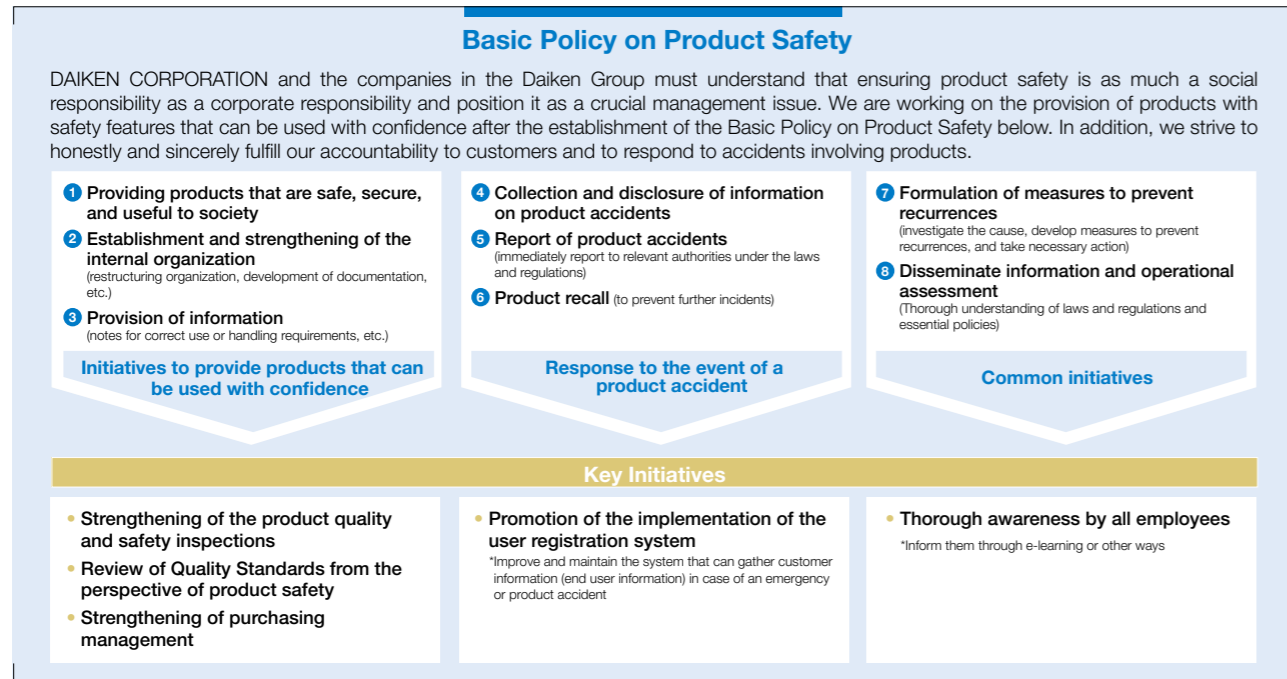
Apr. 2015 Corporate Advisor of Sumitomo Mitsui Trust Bank, Limited
June 2015 Retired from Director of SUMITOMO MITSUI TRUST HOLDINGS, INC.
June 2016 Outside Audit & Supervisory Board Member of Rengo Co., Ltd. (present)
Apr. 2018 Executive Advisor of Sumitomo Mitsui Trust Bank, Limited
Feb. 2019 Retired from Sumitomo Mitsui Trust Bank
Mar. 2019 Advisor of Sumitomo Mitsui Trust Research Institute Co., Ltd. (present)
June 2020 Outside Audit & Supervisory Board Member of the Company (present)

S Social

Enhancement of the Quality Control Structure

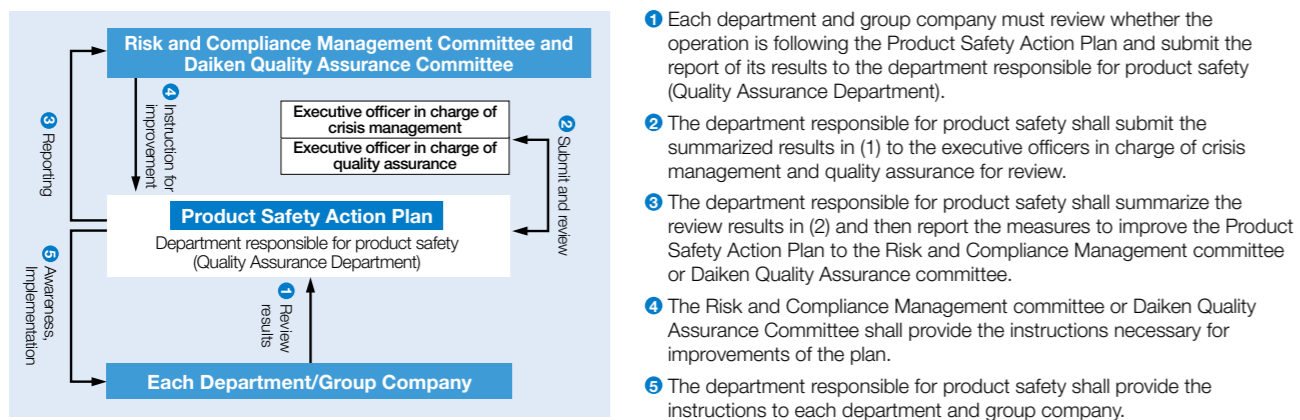
Initiatives for Product Safety

The Daiken Group has established the Basic Policy on Product Safety to ensure that the entire group companies are thoroughly committed to the initiatives to ensure product safety and are actively engaged in providing products to customers for safe use.



Structure to Promote Product Safety

The Daiken Group established the system to conduct annual reviews performed by the department responsible for product safety and monitor the status of each department's activities by following their Product Safety Action Plans in order to continue to provide safe and highly reliable products and services. Then the Risk and Compliance Management Committee and the Daiken Quality Assurance Committee instruct the departments to review and modify their Product Safety Action Plans.



Regarding the response to the product accident in the Interior Door RS Series Sliding Door that occurred in fiscal 2020

In April 2019, an accident occurred where a child caught a finger in the gap between glass and the frame of our product Daiken Interior Door RS Series Sliding Door 06 Design that was sold in the Kyushu region and got injured. As this accident fell under the category of a serious product accident based on the Consumer Products Safety Act, we reported it to the Consumer Affairs Agency, identified the 425 products produced from July 2014 to July 2015 that may cause a similar accident, and have been promoting awareness and exchanging products (exchange or repair of 417 products (98%) has been completed as of March 31, 2020). Verification results of the accident cause are shared with the entire group, and we thoroughly implement the recurrence prevention measures and strive to enhance our quality control structure.

Fair Transactions

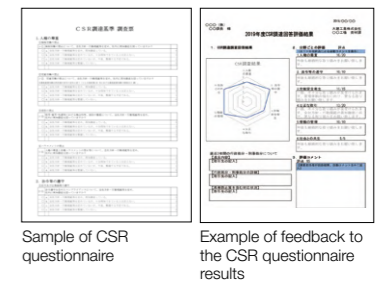
Promotion of CSR Procurement

The Daiken Group states that the Promotion of CSR Procurement is one of the important commitments under the procurement policy, which was established in 2015. We aim to provide products and services meeting the expectations of our customers and for a sustainable society in which people and the environment can coexist. Under these circumstances, we are putting effort into CSR procurement with the cooperation of our business partners.



Carry out the CSR questionnaire for the supplier of the plants and manufacturing subsidiaries in Japan

The Daiken Group has been carrying out the CSR questionnaire for suppliers following the Procurement Policy and CSR Procurement Standards since fiscal 2016. In fiscal 2020, we carried out the questionnaire for 383 suppliers (363 suppliers in the previous year) and received answers from all suppliers. Questionnaire results are fed back to suppliers and for the companies where the evaluation points have been continuously low, we encourage them to make corrections and improvements. We will expand the scope of the questionnaire to manufacturing subsidiaries in Japan that we newly purchased, work together, and promote CSR procurement.



Social Contribution Activities by Cooperating with Local Communities

Under the ideas of giving the highest priority to harmonizing society with the environment and aiming to become a company that is loved by the local communities, the Daiken Group has established the Daiken Social Contribution Activity Policy centering on the three initiatives of (1) Building of Relationships with Local Communities, (2) Wood Material-Related Business Development and Contribution to Environmental Conservation, and (3) Support for Employee Participation. To specifically deploy this policy, we uphold Social Contribution by Cooperating with Local Communities as the theme in the medium-term ESG plan, particularly set the scheduled execution of activities in the group's production bases that have a deep relationship with the local community as a target, and execute initiatives that are rooted in the community. In fiscal 2020, 17 production bases out of 20 bases at home and abroad planned and executed a total of 126 projects.

Exchanges through a Plant Tour and Work Experience

We execute plant tours and work experience for local students at home and abroad to help them to cultivate their understanding of manufacturing and view toward occupation or working. In fiscal 2020, we accepted a total of about 800 students and provided opportunities to learn about jobs in the plant and manufacturing.



Cooperation to the Blood Donation Activities

For the purpose of the contribution to stably securing of blood essential for medical activities, we have been continuing the activity to call on employees to cooperate in blood donations, and in fiscal 2020, a total of about 250 employees at home and abroad participated. In July 2019, Osaka Prefecture presented a letter of gratitude to us as we actively cooperated in the promotion of blood donation activities.



Eco Walk/Clean and Beautification Activities

For the purposes of enhancing communication with local residents, participants' health promotion, and environmental beautification, we hold eco walk events. In fiscal 2020, we held the event in three regions of Toyama, Ibaraki, and Okayama. Our employees and their families, as well as those from our business partners and the local municipality, participated in it and walked to the finish line according to their physical strength and condition while carrying out the cleaning activity along the course.



Initiatives for Forest Conservation

As the initiatives for coastal forest conservation activities, we participate in the Yumigahama/Hakusha Seishou (a beautiful stretch of sandy beach dotted with pine trees) Adoption Program in Tottori Prefecture. In fiscal 2020, we participated in nursery tree planting and cleaning activities. We also manufacture DW fiber, which is a soil improvement additive using cutoff materials from timber lumbered in the prefecture and have been putting effort into greening of soil, promotion of crop growth, and disaster recovery, such as regeneration of protective forest from tides and salty winds.



Enhancement of the Occupational Safety and Health

Mutual Safety Diagnosis at the Production Bases and Small Group Activity Case Presentation Contest were Implemented

With a view to improving safety awareness at the production bases, the Daiken Group annually implements The Daiken Group Mutual Safety Diagnosis intended for the production bases at home and abroad. The Daiken Group Small Group Activity Case Presentation Contest was also held in February 2020 and 15 teams selected from each production base in Japan, as well as two teams from the overseas production base of DAIKEN SOUTHLAND LIMITED (New Zealand), participated in the contest and made presentations about the cases of production maintenance activities and safety activities by the small groups. We will aim for the improvement of safety at the production bases through the continuation of mutual safety diagnosis and the initiatives by the small groups.



The scene of the safety diagnosis

Daiken Engineering Safety Convention was Held

In April 2019, Daiken Engineering, which is our group company working on interior projects, held the 43rd Daiken Engineering Safety Convention, and about 330 Safety and Health Cooperative members, our employees, and others participated in it. In addition to the explanations of the fiscal year goals and activity policy, it served as a place to become aware of the importance of safety through the lecture by the lecturer invited from outside the company. We will continue to improve the occupational safety and health.



Daiken Engineering Safety Convention

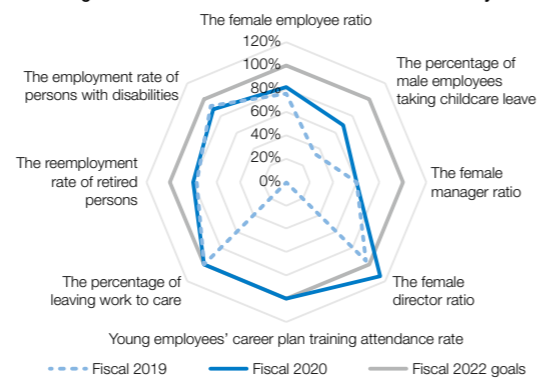
Promotion of diversity

Target Management by the Total Diversity Index

In the medium-term ESG plan, we set the Total Diversity Index* in which the eight diversity items were indexed as our own indices and manage the targets. The total index in fiscal 2020 was 71 pt, up 19 pt from fiscal 2019, which is a benchmark. In particular, the facts that the execution rate of the plan for career training intended for young employees, which started from fiscal 2020, was 100% and that the percentage of male employees taking childcare leave significantly increased contributed to this. Regarding the taking of childcare leave by male employees, the outcomes of the initiatives to strive to increase the percentage of those taking childcare leave, which have been executed, by issuing a guidebook for the promotion of childcare leave and e-mail newsletters to the target employees produced such a result. We will steadily proceed with the measures to achieve the goal and raise the overall level.

The percentage of male employees taking childcare leave in the Total Diversity Index is calculated based on the three-year total value to measure the progression rate over the years.

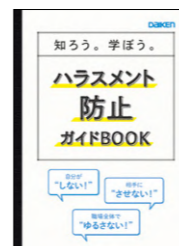
The Degree of Attainment of Each Item in the Total Diversity Index



Human Rights Promotion Activities

Prevention of Harassment

In October 2019, as part of the initiatives toward the eradication of harassment, we invited an external instructor and held Harassment Prevention Seminar intended for the directors and department heads and reconfirmed the causes of and countermeasures for harassment problems that the management layer should understand. We also distributed the *Harassment Prevention Guidebook* that summarized the basic knowledge of harassment and actions to take to all group employees in February 2020. We promoted the understanding of the importance of the eradication of harassment through the guidebook and disseminated correct definitions and what actions should be taken. We will promote the creation of vibrant workplaces without harassment.



Harassment Prevention Guidebook

Promotion of Workstyle Reform

Realization of Diverse Workstyles

The Daiken Group launched the Workstyle Reform Promotion Project in 2015 and has been putting effort into the promotion of workstyle reform. Under the declaration by top management, we have focused on the restriction of long working hours, such as introducing the automatic PC shutdown to change one's habits such as working overtime. After that, we developed into the promotion of diverse workstyles, such as lending of smartphones, use of satellite offices, and trial implementation of working at home. These accumulated initiatives also led to the response of preventing the spread of the COVID-19 and under the issuance of the state of emergency by the Japanese government, we flexibly responded to the social change as we could maintain the structure that 80% or more of our employees worked at home in the business bases, such as Tokyo and Osaka. We will aim for the workplace environment where diverse human resources can participate actively and further accelerate workstyle reform.

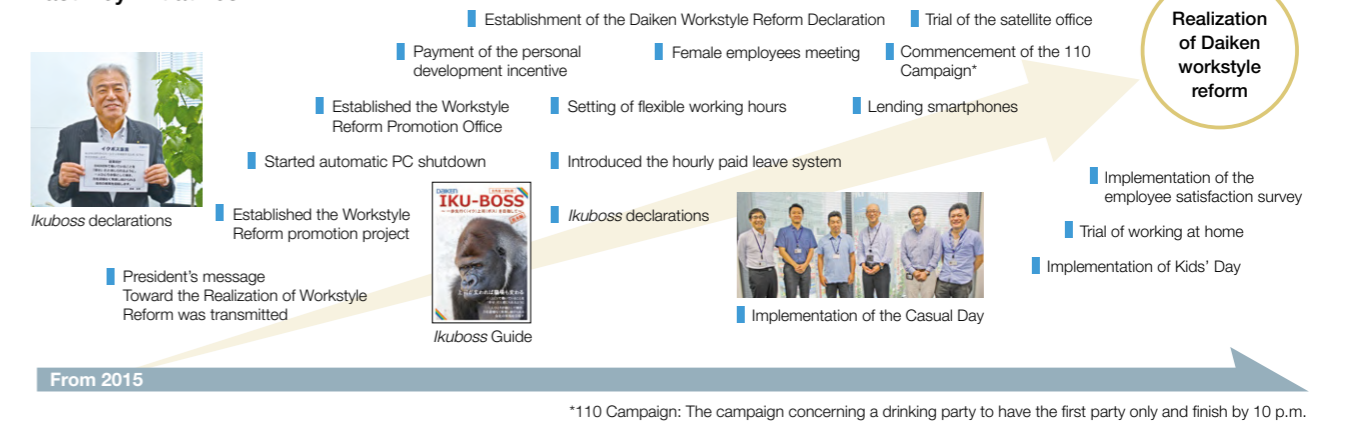
Holding of Kids' Day

In December 2019, we invited our employees' children to the Tokyo Office and held Kids' Day for them to understand our company while having fun by going on an office tour, exchanging a business card with the president, and handcrafting things using our products. This event was implemented for the purposes of having our employees' families supporting the employees on a daily basis deepen their understanding of our workplace, exchange with co-workers, and re-realize that the respective employees have families as important as the entire company. With this, we promote the creation of the workplace atmosphere where it is pleasant to work and that values the employees' families. We will plan and execute the initiatives toward the promotion of a work-life balance on a regular basis.



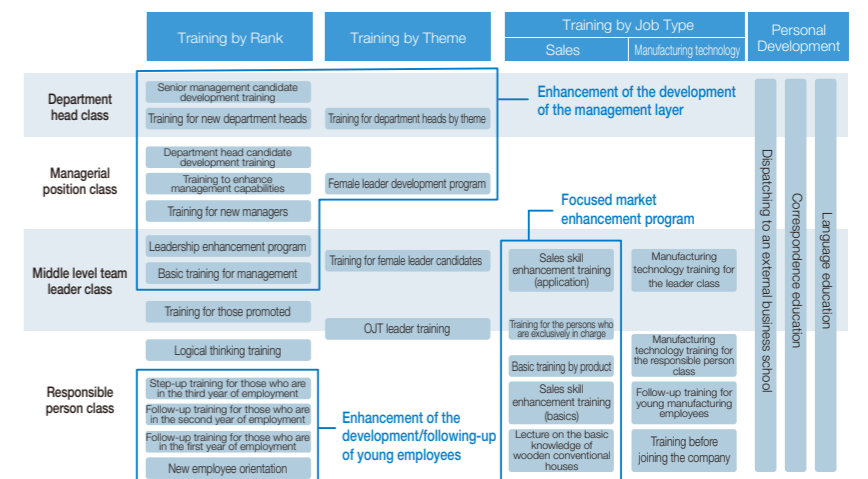
The scene of exchanging business cards with the president

Past Key Initiatives



Enhancement of the Human Resources Development

Under the principle that the development of autonomous human resources is essential in accelerating growth strategies and realizing sustainable corporate value improvement, we set training aimed at acquiring a wide variety of knowledge and skills in a systematic manner according to service years, ranks, and job types. In fiscal 2020, we newly implemented the Medium-to Long Term Career Plan Training intended for young employees who have passed a certain period since joining the company. Training sets an opportunity to think about one's career from a medium- to long-term perspective, in addition to the re-examination of how one approaches his/her work and re-recognition of one's issues. We will expand and improve the training programs, including fostering of young employees.



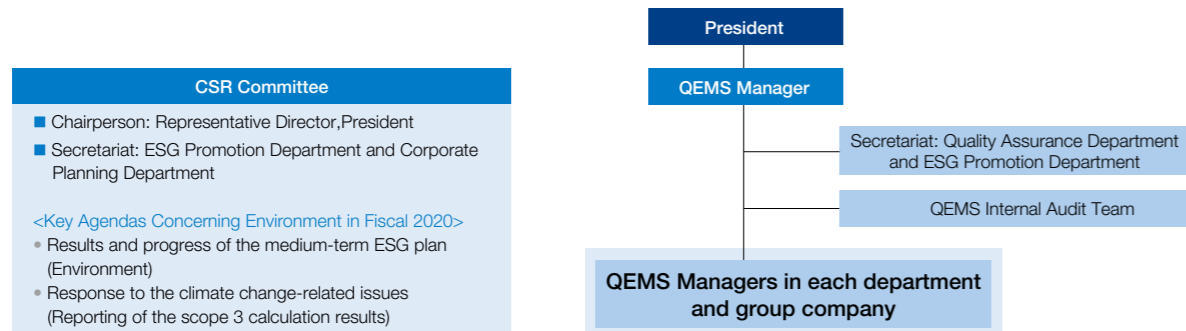
E Environment

Environment Management

Basic Approach

Toward the realization of the Daiken Group Environment Policy, the Daiken Group has formulated the medium-term ESG plan and raises the level of environmental activities in the entire group while improving the Environment Management System (EMS). To efficiently operate it integral with the Quality Management System (QMS), we promote and deploy activities as the Quality and Environment Management System (QEMS).

Structure of promote Environment Management



Strengthen Environmental Risk Management

Based on the basic approach on environment management, the Daiken Group operates the management system that integrated the ISO 9001-compliant quality management system and the ISO 14001-compliant environment management system and the overseas production bases individually acquired the ISO 14001 certificate, and the entire group is putting effort into the improvement of environmental performance. To be able to effectively operate the system of ISO, we implement internal audits annually, in addition to the periodic review by the external institution, and by continuously following PDCA, such as extracting issues and responding to the improvement, we raise the level of the company-wide environment management.



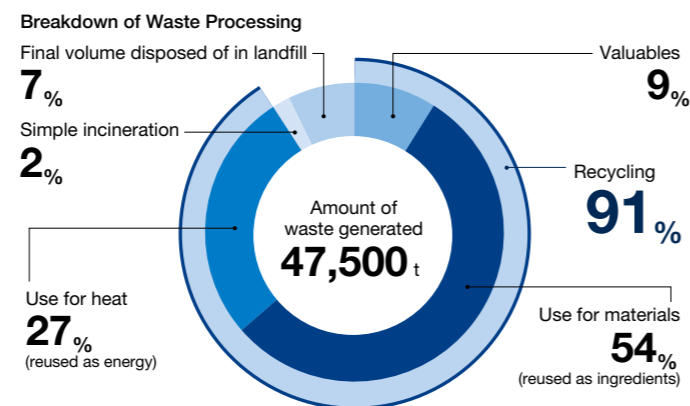
The scene of the external review

ISO 14001 Certificate Acquisition Status (As of the end of March 2020)

(1) The percentage of the offices that acquired the certificate in all offices in Japan: 90.6% (Based on the consolidated number of employees)	37 offices and plants at 9 companies
(2) The percentage of the offices that acquired the certificate in all overseas offices: 61.4% (Based on the consolidated number of employees)	5 offices and plants at 5 companies

Recycling of Waste Materials

The Daiken Group aims to realize a recycling-oriented society and puts effort into recycling the waste, such as reusing defectives generated in the manufacturing process as product materials to the extent possible, using those for heat even if those cannot be used for product materials. In fiscal 2020, by promoting the initiative to increase the use of waste for materials at the Takahagi plant, in addition to the promotion of use of heat by stably operating biomass boilers, the recycling rate of waste materials was 91%, which led to the reduction of the final volume disposed of in landfill. We continue to further improve the recycling rate.



Note) Recycling rate = Amount of recycled resources / Amount of waste generated x 100 (%)
Amount of recycled resources = Valuable + Use for materials + Use for heat

Topics

Pursue new possibilities of the industrial materials business by comprehensively using wood in cooperation with local communities

We upheld "Contribute to the building of a sustainable society by efficiently using limited resources" as one of the elements in the significance of existence and ambitions for the long-term vision GP25 in which our vision in 2025 was drawn, have been actively promoting the use of domestic timbers that are particularly requested by the state policy, and have been pursuing the possibilities of new use application development through the comprehensive use of wood toward the expansion of the industrial materials business. As one of these initiatives, we established the Nichinan Total Cascading Use of Wood commercialization study project in November 2016 with Nichinan, Tottori Prefecture, that has been actively putting effort into the forestry industry and the wood processing industry to use abundant forest resources, Nichinan Forestry Cooperative, and Orochi Co., Ltd., which is a local LVL manufacturer and started new development toward the effective use of wood resources by cooperating with the local community.

Developed a Soil Improvement Additive DW Fiver and Started Proposing It

A soil improvement additive DW fiber that we started proposing in May 2017 is a soil improvement additive made of timber offcuts (wood chips) that are generated in manufacturing LVL by Orochi Co. Ltd., using wood that the Nichinan Forestry Cooperative hewed out and that are fibrillated and to which fulvic acid with plant growth-promoting effects is added. It contributes to the greening of the soil and crop growth promotion, as well as post-disaster reconstruction, such as regeneration of protective forest from salty winds.



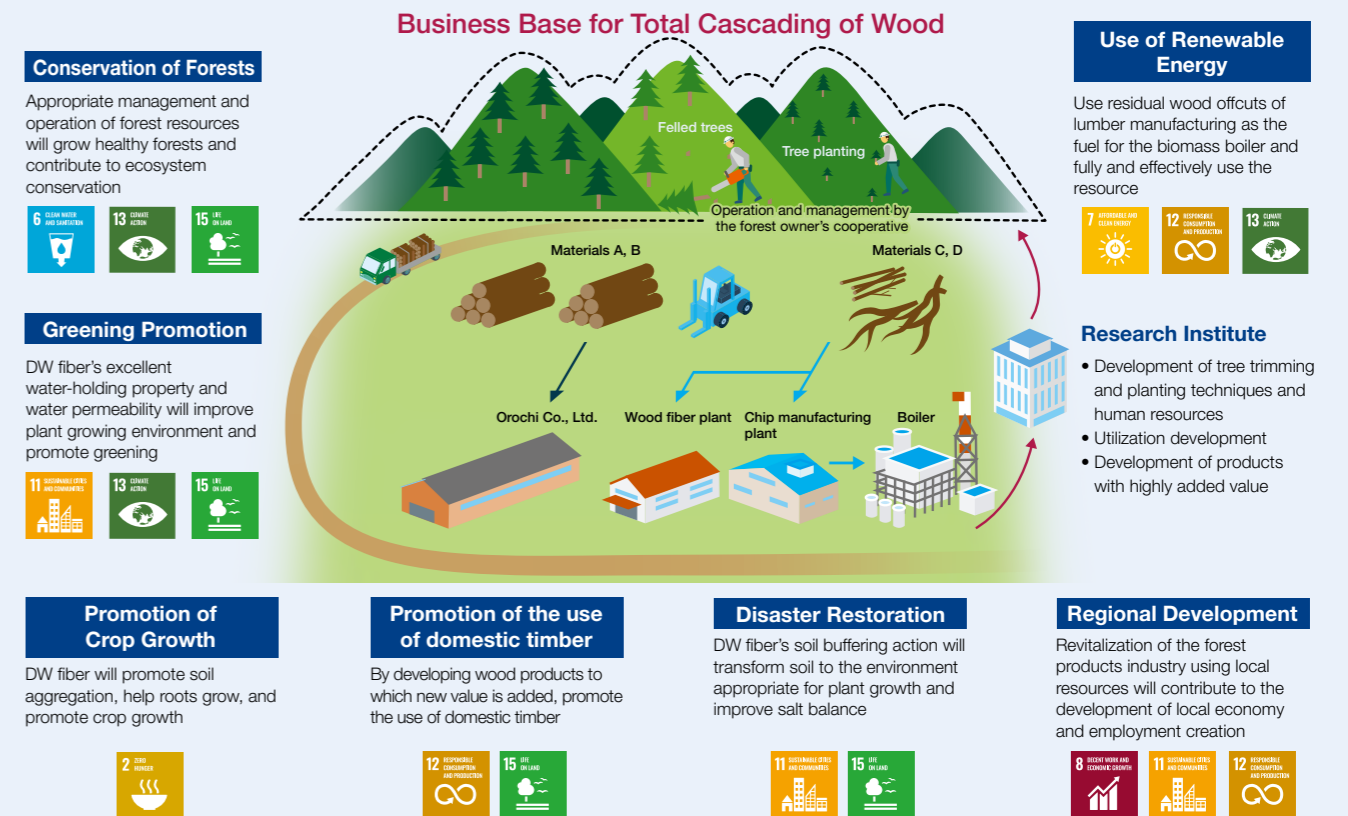
*DW fiber has been registered in the New Technology Information System (NETIS) by the Ministry of Land, Infrastructure, Transport and Tourism. Registration number: KT-170110-A

Established Nichinan Daiken Co., Ltd., a company that processes veneer for LVL

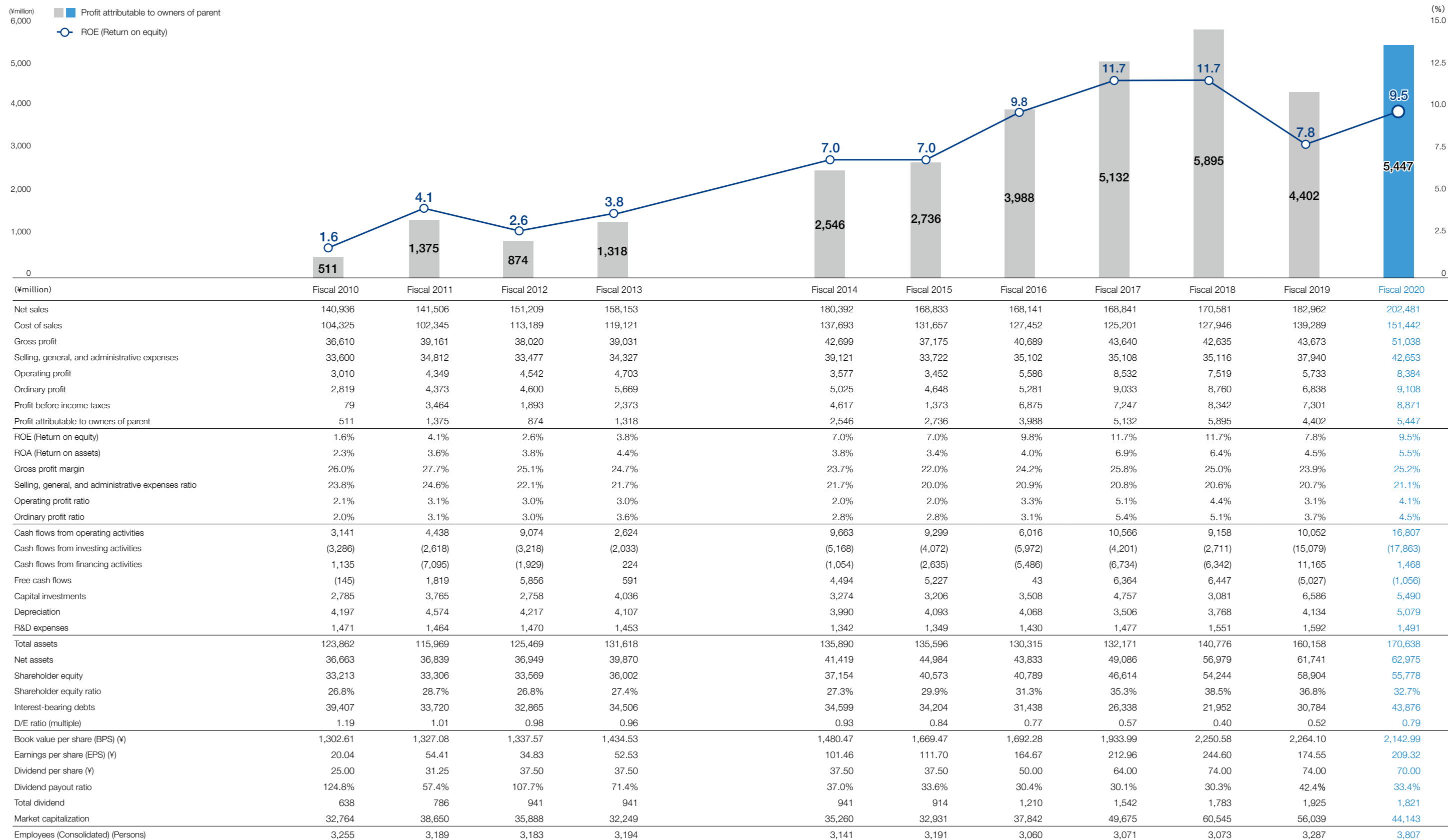
At Nichinan Daiken Co., Ltd., which was established in March 2019, business to give rot-proof and ant-proof treatment to veneers to be used for LVL as the previous process for LVL to be manufactured by Orochi Co., Ltd. is slated to start.

Development image of the total use of wood through regional cooperation

Regional precious wood resources will create value in various scenes by fresh ideas, technologies, and partnerships.



Eleven-Year Financial Summary



(Note) 1. The Company consolidated shares at a rate of one share per five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.
 2. For more information about our financial statements, please refer to our securities report posted on our website. <https://www.daiken.jp/company/ir/document/>
 3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
 4. Debt-equity ratio = Interest-bearing debts / shareholder equity (multiple)

ESG Data

E Environment

Scope		Unit	2016	2017	2018	2019	2020 (Fiscal year)
Total energy input		1,000 GJ (Heat quantity equivalent)	2,815	2,841	2,888	2,874	2,914
Percentage of renewable energy		%	42	48	50	50	50
Effective use of water resources	Quantity of water intake	1,000 m ³	2,032	2,124	2,041	1,943	1,865
	Discharge of drainage		1,543	1,664	1,572	1,455	1,381
Waste, etc.	Amount generated	1,000 t	47.5	49.6	48.8	48.6	47.5
	Percentage of final volume disposed of in landfill	%	5.7	7.2	7.5	7.6	7.2
PRTR	Emissions/Transfer volume	t	32	8	10	13	13
Greenhouse gas	Scope 1 (Direct emissions)	1,000 t-CO ₂	48.4	39.2	36.1	35.4	35.4
	Scope 2 (Indirect emissions)		66.5	64.7	63.2	58.6	59.9
	Scope 1 + 2		114.8	103.9	99.3	93.9	95.3

Greenhouse Gas (Scope 3) *Scope: Group consolidation in Japan		2019		2020 (Fiscal year)	
		Emissions (1,000 t-CO ₂)	Percentage (%)	Emissions (1,000 t-CO ₂)	Percentage (%)
Category 1. Purchased goods and services	Emissions associated with the activities up to the production of materials concerning the materials/parts one's company purchased and purchased products/sale	763.6	65.2	794.9	65.4
Category 2. Capital goods	Emissions associated with the construction/production of the capital goods one's company purchased	19.7	1.7	12.4	1.0
Category 3. Fuel and energy-related activities (not included in Scope 1 and 2)	Emissions associated with the extraction of resources, production, and transport of fuel and electricity that one's company purchased	8.6	0.7	16.8	1.4
Category 4. Upstream transportation and distribution	(1) Emissions associated with the logistics (transportation, cargo handling, and storage) of the products and services purchased in the reporting fiscal year from the supplier to one's company (2) Emissions (emissions associated with the logistics that one's company bears the cost) associated with the logistics services (transportation, cargo handling, and storage) other than (1) purchased in the reporting fiscal year	117.3	10.0	130.3	10.7
Category 5. Waste generated in operations	Emissions associated with the transportation and disposal of waste generated in one's company	3.1	0.3	3.2	0.3
Category 6. Business travels	Emissions associated with the employees' business travels	0.3	0.0	0.3	0.0
Category 7. Employee commuting	Emissions associated with the transfer when employees commute to the office	0.8	0.1	0.8	0.1
Category 8. Upstream leased asset	Emissions associated with the operation of the leased asset that one's company is leasing (Excluding the case of being calculated in the Scope 1 or 2)	-	-	-	-
Category 9. Downstream transportation and distribution	Emissions (limited to those for which one's company does not bear the cost) associated with the logistics (transportation, cargo handling, storage, and sale) of the products sold by one's company to the final consumer	13.6	1.2	13.0	1.1
Category 10. Processing of sold products	Emissions associated with the processing of the intermediate products by the business operator	19.9	1.7	21.9	1.8
Category 11. Use of sold products	Emissions associated with the use of the products by the user (consumer/business operator)	41.1	3.5	36.7	3.0
Category 12. End-of-life treatment of sold products	Emissions associated with the treatment in waste disposal by the user (consumer/business operator)	89.6	7.6	90.3	7.4
Category 13. Leased asset (Downstream)	Emissions associated with the operation of the leased asset that is being leased	-	-	-	-
Category 14. Franchises	Emissions in franchisees	-	-	-	-
Category 15. Investments	Emissions related to investment management	-	-	-	-
Scope 3 Total		1,077.7	92.0	1,120.6	92.2
Scope 1 (Direct emissions)		35.4	3.0	35.4	2.9
Scope 2 (Indirect emissions)		58.6	5.0	59.9	4.9
Total		1,171.7	100.0	1,215.9	100.0

S Social

Number of Employees

Scope		Unit	2016	2017	2018	2019	2020 (Fiscal year)
Number of employees (Consolidated)	Group consolidation	Persons	3,060	3,071	3,073	3,287	3,807
Japan			2,231	2,245	2,248	2,275	2,332
Global			829	826	825	1,012	1,475
Average age	Non-consolidated	Age	40.9	41.2	41.4	41.6	41.6
Female			37.4	37.5	37.7	38.6	38.8
Male			41.7	42.2	42.2	42.4	42.4
Average length of service	Non-consolidated	Year	17.3	17.6	17.7	17.7	17.5
Female			11.0	11.1	11.5	11.6	11.6
Male			18.8	19.3	19.3	19.3	19.2

Women's Active Participation

The female employee ratio	Non-consolidated	%	18.4	18.9	19.5	20.2	21.9
The ratio of female employees hired			35.9	37.5	34.0	20.3	34.6
The female manager ratio			0.92	0.64	0.62	1.04	1.23

Childcare Leave

Number of employees taking childcare leave	Non-consolidated	Persons	2	10	5	12	28
Male			0	8	0	7	20
Female			2	2	5	5	8
The rate of returning to work from childcare leave		%	100	100	100	100	100

Employment of the Persons with Disabilities

The employment rate of the persons with disabilities	Non-consolidated	%	2.08	2.10	1.80	2.03	1.95
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Annual Paid Leave

Acquisition of paid holidays	Non-consolidated	%	49.5	51.8	49.8	53.9	64.9
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CSR Procurement

The rate of acquisition of the agreement on the CSR procurement standards	Group production bases in Japan*	%	99	100	100	100	100
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*One production base in Japan in fiscal 2016, four production bases in Japan from fiscal 2017 to 2018, and the group production bases in Japan from fiscal 2019 to 2020

Occupational Safety

The Rate of lost-worktime injuries	Group production bases in Japan	-	0.78	0.42	0.82	1.22	0
The plant mutual safety diagnosis execution rate		%	100	100	100	100	100

G Governance

Director Composition

Scope		Unit	2016	2017	2018	2019	2020 (Fiscal year)
Number of Directors	Non-consolidated	Persons	9	9	9	9	7
Number of Outside Directors			2	2	2	2	2

*The number of persons are the figures as of the end of June in each fiscal year

Status of the Board Convened

Number of the Board convened	Non-consolidated	Times	13	12	12	15	13
Attendance rate of Outside Directors		%	96	100	95	100	100

Status of the Audit & Supervisory Board convened

Number of the Audit & Supervisory Board convened	Non-consolidated	Times	14	14	13	14	14
Attendance rate of Outside Audit & Supervisory Board Members		%	100	100	100	100	97

Compliance

Number of participants in compliance training	Non-consolidated	Total/persons	2,298	516	3,276	863	1,337
Number of whistle-blowing		Case	1	4	1	6	14

For more information, please visit our website.

<https://www.daiken.jp/company/csr/>

Financial Statements

Consolidated Balance Sheet

	(¥million)		(¥million)	
	Previous consolidated fiscal year (March 31, 2019)	Current consolidated fiscal year (March 31, 2020)	Previous consolidated fiscal year (March 31, 2019)	Current consolidated fiscal year (March 31, 2020)
Assets				
Current assets				
Cash and deposits	16,865	16,839		
Notes and accounts receivable-trade	43,012	35,825		
Electronically recorded monetary claims-operating	7,499	6,267		
Securities	15	—		
Merchandise and finished goods	12,009	15,812		
Work in process	3,687	4,064		
Raw materials and supplies	5,667	7,134		
Other	2,915	2,113		
Allowance for doubtful accounts	(120)	(123)		
Total current assets	91,553	87,934		
Non-current assets				
Property, plant, and equipment				
Buildings and structures, net	10,744	12,335		
Machinery, equipment, and vehicles, net	13,344	20,356		
Land	13,735	14,649		
Leased assets, net	70	37		
Construction in progress	1,416	1,103		
Other, net	2,009	2,943		
Total property, plant, and equipment	41,321	51,426		
Intangible assets				
Goodwill	4,473	12,631		
Software	1,619	1,574		
Other	281	627		
Total intangible assets	6,375	14,834		
Investments and other assets				
Investment securities	16,761	12,620		
Net defined benefit asset	1,795	879		
Deferred tax assets	513	1,421		
Other	1,795	1,498		
Allowance for doubtful accounts	(34)	(68)		
Total investments and other assets	20,831	16,351		
Total non-current assets	68,528	82,612		
Deferred assets				
Bond issuance cost	75	91		
Total deferred assets	75	91		
Total assets	160,158	170,638		
Liabilities				
Current liabilities				
Notes and accounts payable-trade	22,902	20,209		
Electronically recorded obligations-operating	7,671	6,637		
Short-term loans payable	5,929	8,885		
Current portion of bonds	400	7,000		
Current portion of long-term loans payable	3,414	3,260		
Lease obligations	37	140		
Accounts payable-other	22,526	19,486		
Income taxes payable	2,021	1,671		
Accrued consumption taxes	60	1,150		
Provision for bonuses	2,120	2,397		
Provision for product warranties	850	740		
Provision for loss on litigation	—	168		
Other	4,002	5,827		
Total current liabilities	71,938	77,575		
Non-current liabilities				
Bonds payable	10,000	13,000		
Long-term loans payable	10,939	11,394		
Lease obligations	62	195		
Deferred tax liabilities	1,342	1,479		
Provision for product warranties	465	266		
Net deferred benefit liability	3,508	3,554		
Negative goodwill	23	19		
Other	137	176		
Total non-current liabilities	26,478	30,087		
Total liabilities	98,416	107,662		
Net assets				
Shareholder's equity				
Capital Stock	15,300	15,300		
Capital surplus	14,071	14,080		
Retained earnings	25,507	29,081		
Treasury shares	(1,418)	(1,403)		
Total shareholder's equity	53,460	57,059		
Accumulated other comprehensive income				
Valuation difference on available for-sale securities	5,161	2,912		
Deferred gains or losses on hedges	132	(443)		
Foreign currency transaction adjustment	(176)	(3,493)		
Remeasurements of defined benefit plans	326	(256)		
Total accumulated other comprehensive income	5,444	(1,281)		
Non-controlling interests	2,837	7,197		
Total net assets	61,741	62,975		
Total liabilities and net assets	160,158	170,638		

Consolidated Statements of Income

	(¥million)	
	Previous consolidated fiscal year (April 1, 2018 to March 31, 2019)	Current consolidated fiscal year (April 1, 2019 to March 31, 2020)
Net sales	182,962	202,481
Cost of sales	139,289	151,442
Gross profit	43,673	51,038
Selling, general, and administrative expenses	37,940	42,653
Operating profit	5,733	8,384
Non-operating profit		
Interest profit	63	58
Dividend income	454	452
Rent income	178	171
Dividend income of life insurance	48	40
Amortization of negative goodwill	10	3
Share of profit of entities accounted for using equity method	52	49
Exchange gain	39	—
Reversal of allowance for doubtful accounts	1	—
Miscellaneous profit	659	606
Total non-operating profit	1,506	1,380
Non-operating expenses		
Interest expenses	161	291
Sales discounts	128	132
Loss on sales of accounts receivable	7	15
Foreign exchange losses	—	81
Miscellaneous expenses	103	136
Total non-operating expenses	401	656
Ordinary profit	6,838	9,108
Extraordinary profit		
Gain on sales of non-current assets	30	39
Gain on sales of investment securities	165	345
State subsidy	—	163
Compensation income	953	—
Total extraordinary profit	1,149	549
Extraordinary losses		
Loss on sale of non-current assets	13	13
Loss on retirement of non-current assets	220	157
Loss on reduction of non-current assets	—	156
Loss on sales of investment securities	—	148
Loss on valuation of investment securities	104	—
Compensation payments	347	—
Provision for loss on litigation	—	184
Other	0	126
Total extraordinary losses	686	786
Profit before income taxes	7,301	8,871
Income taxes - current	2,195	2,830
Income taxes in the past fiscal year	681	—
Income taxes - deferred	(172)	(470)
Total income taxes	2,703	2,359
Profit	4,597	6,512
Profit attributable to non-controlling interests	195	1,064
Profit attributable to owners of parent	4,402	5,447

Consolidated Statements of Comprehensive Income

	(¥million)	
	Previous consolidated fiscal year (April 1, 2018 to March 31, 2019)	Current consolidated fiscal year (April 1, 2019 to March 31, 2020)
Profit	4,597	6,512
Other comprehensive income		
Valuation difference on available for-sale securities	(1,738)	(2,251)
Deferred gains or losses on hedges	103	(608)
Foreign currency transaction adjustment	(453)	(3,691)
Re-measurements of defined benefit plans, net of tax	(82)	(583)
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)
Total other comprehensive income	(2,170)	(7,135)
Comprehensive income	2,427	(623)
(breakdown)		
Comprehensive income attributable to owners of parent	2,272	(1,277)
Comprehensive income attributable to non-controlling interests	154	654

Financial Statements

Consolidated Statements of Changes in Net Assets

	Previous consolidated fiscal year (April 1, 2018 to March 31, 2019)	Current consolidated fiscal year (April 1, 2019 to March 31, 2020)
(¥million)		
Shareholder's equity		
Capital Stock		
Balance at beginning of current period	13,150	15,300
Issuance of new shares	2,149	
Balance at end of current period	15,300	15,300
Capital surplus		
Balance at beginning of current period	11,943	14,071
Issuance of new shares	2,117	
Disposal of treasury shares	10	9
Balance at end of current period	14,071	14,080
Retained earnings		
Balance at beginning of current period	23,007	25,507
Dividends of surplus	(1,902)	(1,873)
Profit attributable to owners of parent	4,402	5,447
Balance at end of current period	25,507	29,081
Treasury shares		
Balance at beginning of current period	(1,430)	(1,418)
Purchase of treasury shares	(0)	(0)
Disposal of treasury shares	12	15
Balance at end of current period	(1,418)	(1,403)
Total shareholders' equity		
Balance at beginning of current period	46,670	53,460
Issuance of new shares	4,267	
Dividends of surplus	(1,902)	(1,873)
Profit attributable to owners of parent	4,402	5,447
Purchase of treasury shares	(0)	(0)
Disposal of treasury shares	22	25
Balance at end of current period	53,460	57,059
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at beginning of current period	6,897	5,161
Net changes of items other than shareholders' equity, net	(1,735)	(2,249)
Balance at end of current period	5,161	2,912
Deferred gains or losses on hedges		
Balance at beginning of current period	22	132
Net changes of items other than shareholders' equity, net	110	(575)
Balance at end of current period	132	(443)
Foreign currency transaction adjustment		
Balance at beginning of current period	245	(176)
Net changes of items other than shareholders' equity, net	(421)	(3,316)
Balance at end of current period	(176)	(3,493)
Remeasurements of defined benefit plans		
Balance at beginning of current period	409	326
Net changes of items other than shareholders' equity, net	(82)	(583)
Balance at end of current period	326	(256)
Total accumulated other comprehensive income		
Balance at beginning of current period	7,574	5,444
Net changes of items other than shareholders' equity, net	(2,129)	(6,725)
Balance at end of current period	5,444	(1,281)
Non-controlling interests		
Balance at beginning of current period	2,734	2,837
Net changes of items other than shareholders' equity, net	102	4,359
Balance at end of current period	2,837	7,197
Total net assets		
Balance at beginning of current period	56,979	61,741
Issuance of new shares	4,267	
Dividends of surplus	(1,902)	(1,873)
Profit attributable to owners of parent	4,402	5,447
Purchase of treasury shares	(0)	(0)
Disposal of treasury shares	22	25
Net changes of items other than shareholders' equity, net	(2,026)	(2,365)
Balance at end of current period	61,741	62,975

Consolidated Statements of Cash Flows

	Previous consolidated fiscal year (April 1, 2018 to March 31, 2019)	Current consolidated fiscal year (April 1, 2019 to March 31, 2020)
(¥million)		
Cash flows from operating activities		
Profit before income taxes	7,301	8,871
Depreciation	4,134	5,079
Amortization of bond issuance cost	29	35
Loss on retirement of non-current assets	220	157
Loss (gain) on sales of non-current assets	(17)	(26)
Loss (gain) on sales of investment securities	(165)	(196)
Loss (gain) on valuation of investment securities	104	-
Amortization of goodwill	475	1,315
Increase (decrease) in allowance for doubtful accounts	0	35
Increase (decrease) in provision for bonuses	(76)	171
Increase (decrease) in provision for product warranties	(562)	(318)
Increase (decrease) in net defined benefit liability	629	996
Increase (decrease) in provision for loss on litigation	-	169
Interest and dividend income	(517)	(510)
Interest expenses	161	291
Foreign exchange losses (gains)	64	(23)
Share of (profit) loss of entities accounted for using equity method	(52)	(49)
Decrease (increase) in notes and accounts receivable-trade	(2,438)	9,902
Decrease (increase) in inventories	(3,914)	(847)
Increase (decrease) in notes and accounts payable-trade	5,352	(6,986)
Decrease (increase) in consumption taxes refund receivable	(368)	364
Increase (decrease) in accrued consumption taxes	(336)	1,089
Other	1,117	252
Subtotal	11,143	19,773
Interest and dividend income received	517	510
Interest expenses paid	(161)	(290)
Income taxes paid	(1,446)	(3,185)
Cash flows from operating activities	10,052	16,807
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	-	131
Purchase of property, plant and equipment	(6,932)	(5,526)
Proceeds from sales of property, plant and equipment	40	143
Purchase of investment securities	(5)	(54)
Proceeds from sales and redemption of investment securities	466	1,183
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(8,237)	(13,419)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	140
Other	(412)	(461)
Cash flows from investing activities	(15,079)	(17,863)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	315	(3,037)
Proceeds from issuance of bonds	-	9,949
Redemption of bonds	-	(474)
Proceeds from long-term loans payable	12,200	800
Repayments of long-term loans payable	(3,623)	(3,715)
Repayments of finance lease obligations	(39)	(116)
Proceeds from share issuance	4,267	-
Proceeds from share issuance to non-controlling shareholders	9	-
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(1,902)	(1,873)
Dividends paid to non-controlling interest	(60)	(62)
Cash flows from financing activities	11,165	1,468
Effect of exchange rate change on cash and cash equivalents	(40)	(438)
Net increase (decrease) in cash and cash equivalents	6,097	(26)
Cash and cash equivalents at beginning of period	10,767	16,865
Cash and cash equivalents at end of period	16,865	16,839

Stock Information (As of March 31, 2020)

Stock Information

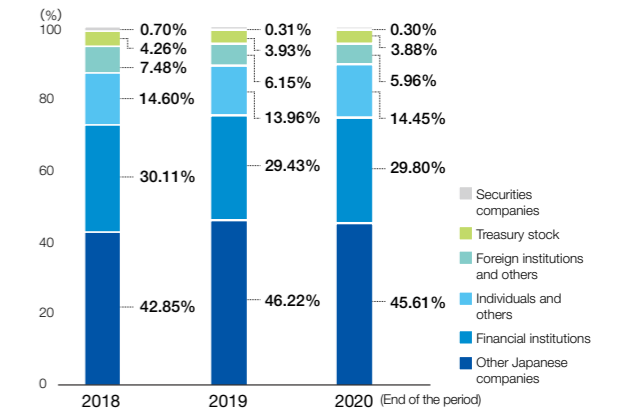
Total number of authorized shares	79,643,600
Total number of shares issued	27,080,043
Number of shareholders	4,055
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Limited

Major Shareholders

Name	Number of Shares	Ownership Ratio (%)
ITOCHU Corporation	9,103,100	35.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,031,000	4.0
Sumitomo Mitsui Banking Corporation	986,980	3.8
SUMITOMO LIFE INSURANCE COMPANY	931,200	3.6
Japan Trustee Service Bank Ltd. (Trust Account)	896,500	3.4
DAIKEN CORPORATION Trading-Partner Shareholding Association	790,100	3.0
Sumitomo Mitsui Trust Bank, Limited	688,000	2.6
Sumitomo Forestry Co., Ltd.	638,200	2.5
Marubeni Corporation	564,388	2.2
DAIKEN CORPORATION Employee Shareholding Association	551,864	2.1

(Note) 1. DAIKEN CORPORATION is in possession of 1,051,904 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

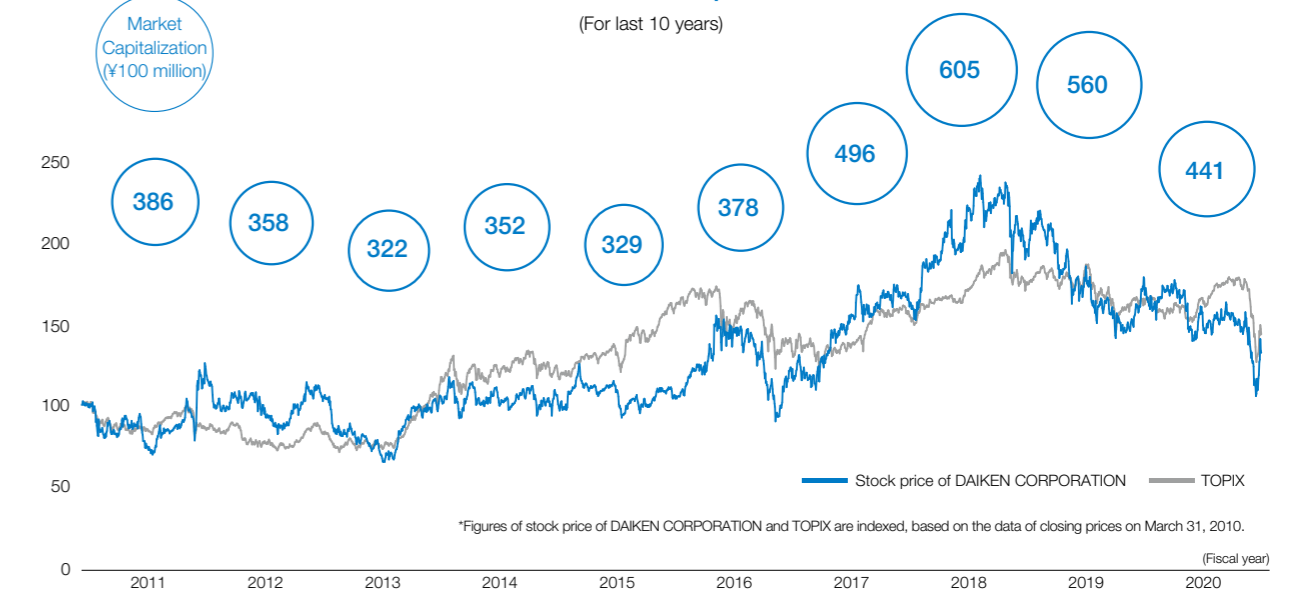


Total Shareholder Return

	2016	2017	2018	2019	2020 (Fiscal year)
DAIKEN CORPORATION (%)	119.6	160.5	199.3	178.3	149.7
TOPIX (%)	89.2	102.3	118.5	112.5	101.8

(Note) 1. Total shareholder return: This expresses the total investment return for a shareholder that combines the amount of the stock price increase and dividend.
2. This is calculated using the calculation formula specified by the Cabinet Office Ordinance.
3. Figures are as of the end of each fiscal year from 2016 to 2020.

Trend of Stock Price/Market Capitalization/PER/PBR



*Figures of stock price of DAIKEN CORPORATION and TOPIX are indexed, based on the data of closing prices on March 31, 2010.

High (¥)	1,615	1,635	1,450	1,530	1,635	2,050	2,349	3,150	2,844	2,291
Low (¥)	885	1,045	830	1,135	1,180	1,130	1,918	1,950	1,747	1,316
Stock price at the end of the period (¥)	1,540	1,430	1,285	1,405	1,355	1,570	2,061	2,512	2,154	1,696
PER (times)	28.30	41.06	24.46	13.85	12.13	9.53	9.68	10.27	12.34	8.10
PBR (times)	1.16	1.07	0.90	0.95	0.81	0.93	1.07	1.12	0.95	0.79

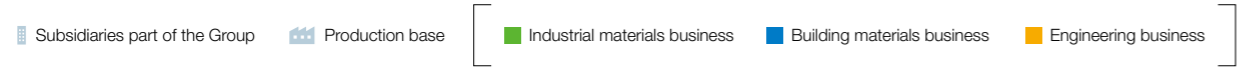
(Note) 1. Market capitalization = Stock price at the end of the period (Total number of shares issued - Number of treasury shares at the end of the period)

2. PER (price earnings ratio) = Stock price at the end of the period / Net income per share (times)

3. PBR (price book-value ratio) = Stock price at the end of the period / Net assets per share (times)

4. The company consolidated shares at a rate of one share per five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.

Company Information (As of March 31, 2020)

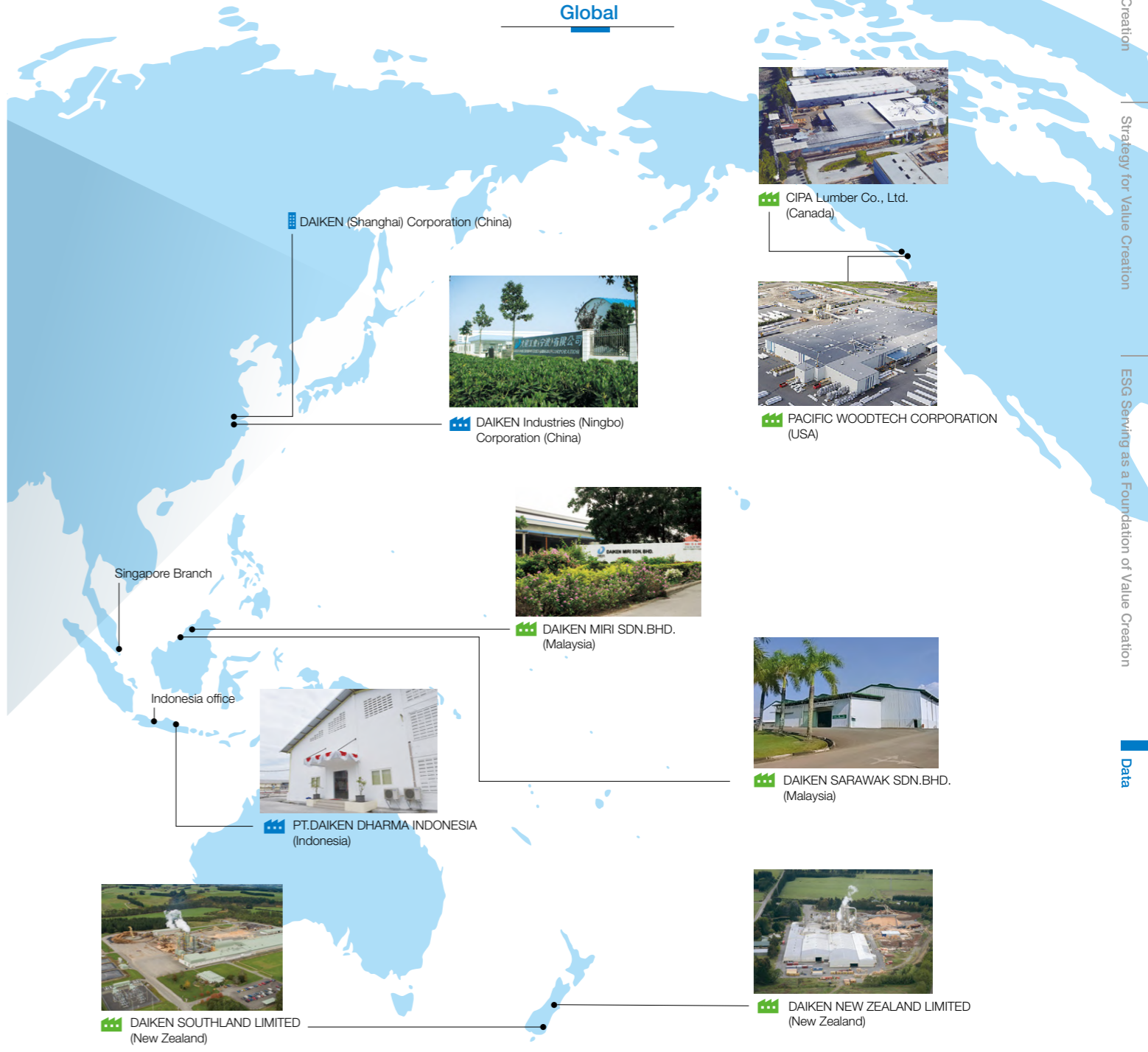


TDY Collaboration Showroom
 You can see products from three companies in the same place: Daiken's floorings, interior building materials such as doors, TOTO's kitchens and bathrooms, and YKK AP's windows and exteriors.

Domestic



Global



Company Name	DAIKEN CORPORATION	Registered Head Office	1-1, Inami, Nanto City, Toyama, Japan
Founding	September 26, 1945	Operational Headquarters	3-2-4 Nakanoshima, Kita-ku, Osaka, Japan
Capital Stock	15.3 billion yen	Tokyo Office	3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Stock Exchange Listings	First Section, Tokyo Stock Exchange	Major Sales Offices	Sapporo, Sendai, Tokyo, Saitama, Niigata, Nagoya, Kanazawa, Osaka, Hiroshima, Takamatsu, Fukuoka, and Singapore
Security Code	7905	Production Plants	Inami Plant (Nanto City, Toyama Prefecture) Okayama Plant (Minami-ku, Okayama City) Takahagi Plant (Takahagi City, Ibaraki Prefecture) Mie Plant (Tsu City, Mie Prefecture)
Setting Day	March 31		
General Meeting of Shareholders	June		

Daiken Group's Value Creation
 Strategy for Value Creation
 ESG Serving as a Foundation of Value Creation
 Data

DAIKEN

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