



# Annual Report 2011



For the year ended March 31, 2011



DAIKEN CORPORATION

# Company Profile

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

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



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# Financial Highlights

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

	<i>Millions of Yen and Thousands of U.S. Dollars</i>			
	<b>2011</b>	2010	2009	<b>2011</b>
Net sales .....	<b>¥ 141,506</b>	¥ 140,936	¥ 150,325	<b>\$ 1,701,815</b>
Operating income .....	<b>4,349</b>	3,010	1,830	<b>52,303</b>
Ordinary income .....	<b>4,373</b>	2,819	1,331	<b>52,591</b>
Net income .....	<b>1,375</b>	511	598	<b>16,536</b>
Net assets .....	<b>36,839</b>	36,663	34,562	<b>443,042</b>
Total assets .....	<b>115,969</b>	123,862	125,080	<b>1,394,696</b>

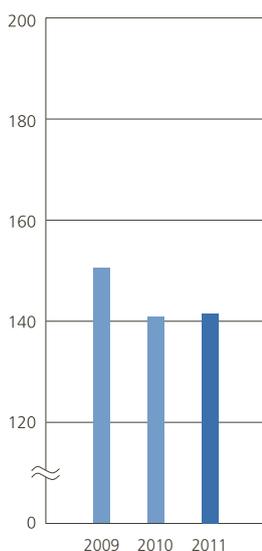
	<i>Yen and U.S. Dollars</i>			
	<b>¥ 10.88</b>	¥ 4.01	¥ 4.64	<b>\$ 0.13</b>
Net income per share .....				

Note: The translations into U.S. dollars are based on \$1= ¥83.15, the approximate exchange rate on March 31, 2011

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

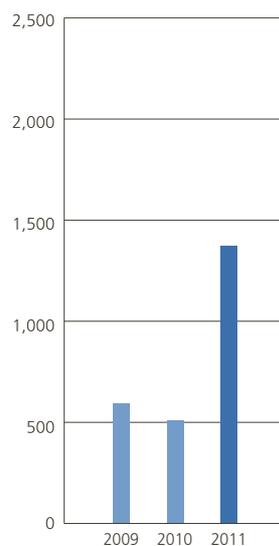
**Net sales**

(Billions of Yen)



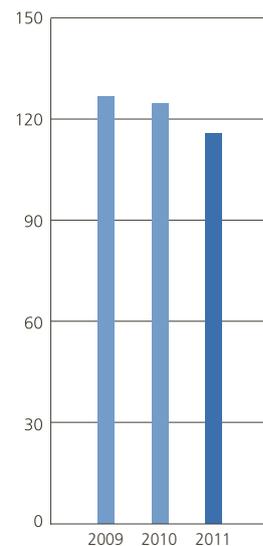
**Net income**

(Millions of Yen)



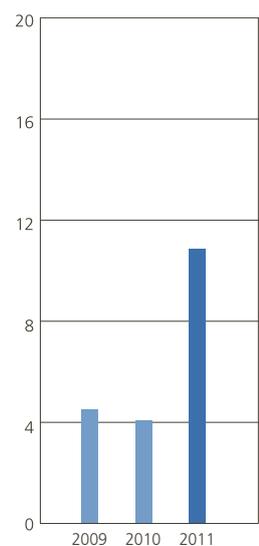
**Total assets**

(Billions of Yen)



**Net income per share**

(Yen)



# A Message from the President

We herein present our shareholders and persons concerned with a report on the consolidated business results for the Daiken Corporation in fiscal year 2010.

## Business Progress and Results

In regard to the consolidated business results for the year in review, we achieved net sales totaling ¥141,506 million (an increase of 0.4% compared with the previous year), operating income of ¥4,349 million (an increase of 44.5% compared with the previous year), ordinary income of ¥4,373 million (an increase of 55.2% compared with the previous year) and a net income of ¥1,375 million (an increase of 168.7% compared with the previous year).

With a financial crisis in Europe as background to this fiscal year, the outlook for the Japanese economy continued to be opaque in terms of capital investment as well as the employment situation. Despite this, there has been a gentle upturn in exports, a recovery in domestic demand, etc. that is reflected in improved business results, and it seems that the Japanese economy has started on the road to recovery after a long period of stagnation. However, the Great East Japan Earthquake, which struck on March 11th, caused unprecedented devastation to the Tohoku (north-eastern) region of Japan, completely changed the economic climate into one of looming tension.

With regard to the housing market, thanks to the success of various policies to stimulate house purchases, condominiums and owner-occupier homes maintained steady progress and showed some upward momentum compared with the significant decrease during the previous term, however in fiscal 2010 the number of new housing starts, with a total of 819,000 units (an increase of 5.6% on the previous year), is still transitioning at a low level.

Under these business conditions, the Daiken Group needs to construct a secondary pillar of income outside of the new housing market, and to this end we are moving forward with actively investing our management resources in developing areas where growth is predicted, such

as the remodeling market, markets overseas, the industrial materials market and the engineering market. Environmental concepts are the lynchpin of our eco-friendly materials (insulation boards, Dai-Lotone, MDF, Dailite, hardboard, *tatami* surfacing and eco-baseplates). These materials are our response to market needs for environmentally sensitive products. They combine environmental friendliness and functionality and we plan to expand sales by actively targeting these products at each market and sector.

Furthermore, due to the impact of the Great East Japan Earthquake, as the areas affected have no distribution capability our product shipments to the Tohoku and Kanto regions were temporarily disrupted, but we were able to maintain sales at the same level as the last consolidated fiscal year.

On the other hand, by strengthening our corporate constitution, we have been able to reduce our fixed costs, starting with our human resource expenses, as well as consolidating our Head Office administration locations and our business locations, in addition to establishing a Distribution Reform Head Office with the aim of reforming our distribution system in order reducing our distribution costs, etc. These efforts have served to bring down our break-even point as a business. Thanks to these reforms, we have made progress in strengthening our corporate constitution and our profitability has showed a large-scale improvement.

## Issues and Policies for the Future

Looking forward, we see continued low levels of new housing starts, and even with the gentle upswing trend that was predicted for new housing, the natural disaster in the first half of the fiscal year is expected to lead to delays in construction and as a result the future remains unclear. The prediction for the latter half of the fiscal year is that due to the recovery efforts following the natural disaster, there will be a rise in the demand for new housing, but with the cost of raw materials at very high levels and due to the natural disaster some raw materials and resources may be difficult to procure. There are many factors for concern on the production level, which has led companies to consider the use of

alternative materials that leads on to the development of new production techniques. Companies at a certain level in this industry are having to work hard, as this severe business climate looks set to continue.

In April the Daiken Group established a Recovery Support Office (location: Sendai) as a focus for our activities and our contribution to the recovery effort following the natural disaster was to try to ensure the stable provision of our building materials, especially our eco-materials, to the market. At the same time, the mid-term management plan is due to start in fiscal 2011 and based on this plan, we will actively invest management resources into expanding and growing markets, as well as planning for an expansion of our operations.

Accordingly, for the consolidated business results projected for the fiscal year ending at the end of March 2012, our goal is to achieve net sales totaling ¥146,000 million, an operating income of ¥4,500 million, an ordinary income of ¥4,300 million, and a net income of ¥1,700 million.

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

September 2011



*Ryoji Sawaki*

Ryoji Sawaki,  
Representative Director, President  
Chief Executive Officer

# Housing Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥76,477 million (an increase of 2.6% compared with the previous year) and an ordinary income of ¥3,134 million (an increase of 46.5% compared with the previous year).

In May last year we entered into a business collaboration with Panasonic Electric Works Co., Ltd., with a plan to reinforce our cost competitiveness in the housing business by reducing costs through the joint procurement of materials such as plywood, sheeting and adhesives, etc. as well as engaging in mutual OEM production to make the most of each other's strengths in each other's respective fields.

With regard to our interior materials business field, which is focused on flooring materials,

in addition to aforementioned collaboration with Panasonic Electric Works Co., Ltd., both companies are working together towards making our flooring base materials more eco-friendly, with a plan to firmly establishing these products on the market. Furthermore, with regard to the Daiken Group's shipping of eco-friendly base plates (flooring base materials made from combining plywood obtained from planted trees with our special MDF), we are approaching a 100% adoption rate for this product due to our steady activities, in addition to our plans to improve matters on the revenue side by ensuring stable production through rationalization of our business systems through consolidating our production locations.

With regard to our home furnishings and equipment

business, we have made progress by actively strengthening our constitution through a general cost reduction program including procurement from overseas, as well as a review of our production locations, in addition to reducing the amount of stock carried by creating a system for rapid completion and delivery of order-made and special order products.

On the sales side, our sales strategy is to meet the varied demands of our customers and to increase customer satisfaction and to this end we have launched 'My Door', a system that makes it easy to order the size and design of your door and allows customers to choose from 108 colors and designs.

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The easy-to-order 'My Door' series



Precious wood-pattern design flooring 'Graphy Art'

Eco base plates

## Eco-Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥44,535 million (an increase of 5.0% compared with the previous year) and an ordinary income of ¥1,318 million (an increase of 160.6% compared with the previous year).

With respect to our eco-business, one of the core businesses of the Daiken Group, due to the decrease in construction projects involving building and shop market, net sales of Dai-Lotone as used a ceiling material showed a decrease on the previous consolidated fiscal year. With regard to insulation board, despite the fact that one of our production locations, the Takahagi Plant run by the Tobu

Daiken Corporation, was forced to cease production due to the natural disaster, our net sales in this field showed an increase on the previous consolidated fiscal year. Furthermore, shipments of Dailite to the area affected by the natural disaster were temporarily delayed, but despite this our net sales in this field showed an increase on the previous consolidated fiscal year and due to continued progress in our production technology we were able to make significant improvements in terms of profitability. With regard to MDF, we have made large gains in our sales thanks to the progress we have made in developing new uses for our products, such as our eco-friendly base plates that have permeated the Japanese

domestic market.

Moreover, the Tobu Daiken Corporation's Takahagi Plant that was affected by the natural disaster restarted production on May 30<sup>th</sup> 2011.



Dailite, the durable surface material

## Engineering Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥11,618 million (a decrease of 29.3% compared with the previous year) and an ordinary loss of ¥110 million (compared with an ordinary loss for the previous fiscal year of ¥35 million).

With regard to the condominium, building and shop market, last December we acquired Sankei Co., Ltd., a company renowned for its work

in flooring construction. Originally this market had been order-based and mostly ceiling-focused, but we have been able to strengthen our order-based sales system to accommodate composite orders that include floor construction. Moreover, in the metropolitan area we have been working to strengthen our sales and develop new orders, but revenues have worsened due to the ongoing long-term slump in the building and condominium market. Interior construction

work projects have declined, along with the amount of work as well as a drop in the unit price of this work.

With regard to single-unit homes, we have made progress with developing our sales and marketing focus on latching on to the demand for remodeling, but this stops short of compensating for the decrease in order numbers and single-unit construction on sub-lots, and the money available for these construction projects has decreased.

## 1 TDY Green Remodel Fair

The TDY Green Remodel Fair was an event jointly hosted by TOTO, DAIKEN and YKK AP in Nagoya (October 2010), Osaka (November 2010) and Fukuoka (February 2011). The event attracted a strong turnout of 48,000 people in total across the three locations.

The fair showcased "Green Remodeling\*" the shared theme of the TDY cooperative as well as some actual proposals that were highlighted in the Green

Remodeling Evaluation area. This area featured an actual model of a home that had been reformed following an evaluation for the property prior to Green Remodeling. Image-wise, it made it easy to understand how the reforms had made the property more comfortable for continued living in the long run. Moreover, the Daiken corner was a well thought-out

exhibition space that featured humidity regulating building materials, scratch-resistant flooring and interior doors, etc. that visitors could touch and experience first hand. Visitors were able to gain a deeper understanding of Daiken products at the fair.

### \*Green Remodeling

By combining the technologies of TOTO, DAIKEN and YKK AP, Green Remodeling proposes products and housing concepts based on three themes: health considerations, durable residences and reduction of CO<sub>2</sub> emissions. Embracing the many lifestyle variations of families and the dreams of how they want to live, Green Remodeling looks to make our lives comfortable and also benefit the environment.



## 2 Our eco-materials displayed at Japan's largest environmental exhibition: Eco Products 2010

For three days from December 9<sup>th</sup> to 11<sup>th</sup> 2010, Daiken eco-materials showcased their possibilities at Eco Products 2010, Japan's largest environmental exhibition, held at the Tokyo Big Site. Products shown included *shirasu* balloon (made with volcanic ash foam) and wood fiber boards.

Eco Products 2010 featured exhibits from many organizations and businesses from across Japan looking to showcase their eco projects, and many people from a diverse range of industries and fields were in attendance. This year's exhibition, the twelfth and one of the largest environmental exhibitions in Japan, focused on the target of reducing greenhouse

gas emissions by 25 percent from the 1990 level by 2020, as well as looking at what we can do right now to make a sustainable society a reality.

The Daiken corner focused on our environmentally friendly materials and their unique uses,

such as our water-holding wood fiber boards for use in tree planting, *shirasu* balloons as a water purification agent, as well as *tatami* surfacing made from Japanese paper.



# Event held at the Showrooms in East and West Japan! Appealing proposals across a broad range of products

In September 2009 Daiken opened the Tokyo Showroom in Akihabara, followed by the TDY Osaka Collaboration Showroom in July 2010, in collaboration with TOTO and YKK AP.

The showroom acts as an information base where we can listen and respond to customer requirements and opinions first-hand, as well as the location for many different events, seminars and training sessions. Daiken is on hand to showcase its products and propose solutions here, for example at noise reduction advice

meetings, earthquake-proofing counseling sessions, and seminars devoted to storage space, etc.

In March 2011 the Osaka showroom played host to a counseling session on earthquake-proof remodeling, featuring Daiken's most appropriate earthquake-proof technology known as *Kabe-Taisho*.



At the showroom seminars and training sessions are held for regular visitors, as well as professionals involved in distribution and construction.



# Consolidated Balance Sheets

Daiken Corporation and Consolidated Subsidiaries  
March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits .....	¥ 5,733	¥ 10,987	\$ 68,947
Notes and accounts receivable—trade.....	28,734	28,025	345,568
Merchandise and finished goods.....	11,730	10,817	141,070
Work in process .....	1,962	1,652	23,595
Raw materials and supplies .....	3,515	3,323	42,273
Partly-finished work .....	836	850	10,054
Deferred tax assets.....	1,078	1,024	12,964
Other .....	1,802	3,556	21,671
Allowance for doubtful accounts .....	(160)	(148)	(1,924)
Total current assets .....	55,233	60,090	664,257
<b>Noncurrent assets:</b>			
Property, plant and equipment			
Buildings and structures, net.....	10,728	11,665	129,019
Machinery, equipment and vehicles, net.....	10,680	11,951	128,442
Land .....	15,997	15,505	192,387
Lease assets, net .....	347	388	4,173
Construction in progress.....	380	700	4,570
Other, net.....	1,515	1,336	18,220
Total property, plant and equipment .....	39,649	41,548	476,837
Intangible assets.....			
Goodwill .....	1,095	1,182	13,168
Software .....	733	466	8,815
Other .....	196	296	2,357
Total intangible assets.....	2,026	1,945	24,365
Investments and other assets .....			
Investment securities.....	9,733	9,698	117,053
Long-term loans receivable .....	2	2	24
Prepaid pension cost.....	2,988	3,229	35,935
Deferred tax assets.....	4,305	5,274	51,773
Other .....	2,770	2,897	33,313
Allowance for doubtful accounts .....	(837)	(865)	(10,066)
Total investments and other assets .....	18,963	20,236	228,057
Total noncurrent assets .....	60,639	63,730	729,272
Deferred assets.....	96	40	1,154
Bond issuance cost.....	96	40	1,154
Total assets.....	¥ 115,969	¥ 123,862	\$ 1,394,696

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Notes and accounts payable—trade .....	¥ 17,624	¥ 15,187	\$ 211,954
Short-term loans payable .....	9,027	14,266	108,562
Current portion of long-term loans payable .....	6,168	4,903	74,179
Lease obligations.....	34	32	408
Accounts payable—other .....	17,129	21,030	206,001
Income taxes payable .....	433	794	5,207
Accrued consumption taxes .....	105	413	1,262
Provision for bonuses .....	1,531	1,552	18,412
Provision for business structure improvement.....	84	111	1,010
Provision for loss on office transfer .....	—	75	—
Provision for loss on disaster .....	130	—	1,563
Deferred tax liabilities.....	23	—	276
Other .....	2,870	2,998	34,515
Total current liabilities .....	55,162	61,366	663,403
<b>Noncurrent liabilities:</b>			
Bonds payable.....	10,000	5,000	120,264
Long-term loans payable .....	8,163	14,842	98,171
Lease obligations.....	327	362	3,932
Deferred tax liabilities.....	1,666	1,510	20,036
Provision for product warranties.....	260	137	3,126
Provision for retirement benefits .....	2,904	3,163	34,924
Provision for environmental measures .....	161	161	1,936
Negative goodwill .....	117	128	1,407
Other .....	366	527	4,401
Total noncurrent liabilities .....	23,967	25,832	288,238
Total liabilities.....	79,130	87,199	951,653
<b>NET ASSETS</b>			
<b>Shareholders' equity:</b>			
Capital stock .....	13,150	13,150	158,147
Capital surplus .....	11,850	11,850	142,513
Retained earnings .....	9,758	9,018	117,354
Treasury stock .....	(1,179)	(730)	(14,179)
Total shareholders' equity .....	33,580	33,288	403,848
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities.....	(48)	125	(577)
Deferred gains or losses on hedges .....	26	(9)	312
Foreign currency translation adjustment .....	(251)	(191)	(3,018)
Total accumulated other comprehensive income .....	(273)	(75)	(3,283)
Minority interests .....	3,533	3,449	42,489
Total net assets .....	36,839	36,663	443,042
Total liabilities and net assets .....	¥ 115,969	¥ 123,862	\$ 1,394,696

# Consolidated Statements of Income

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Net sales.....	¥ 141,506	¥ 140,936	\$ 1,701,815
Cost of sales.....	102,345	104,325	1,230,847
Gross profit.....	39,161	36,610	470,968
Selling, general and administrative expenses.....	34,812	33,600	418,665
Operating income.....	4,349	3,010	52,303
Non-operating income.....	982	871	11,809
Non-operating expenses.....	957	1,062	11,509
Ordinary income.....	4,373	2,819	52,591
Extraordinary income.....	1,354	150	16,283
Extraordinary loss.....	2,263	2,890	27,215
Income before income taxes and minority interests.....	3,464	79	41,659
Total Income taxes.....	1,995	(461)	23,992
Minority interests in income.....	93	29	1,118
Net income.....	¥ 1,375	¥ 511	\$ 16,536

# Consolidated Statements of Changes in Net Assets

Daiken Corporation and Consolidated Subsidiaries  
Year ended March 31, 2011

	Millions of Yen										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
<b>Balance at the end of previous period</b> .....	¥ 13,150	¥ 11,850	¥ 9,018	¥ (730)	¥ 33,288	¥ 125	¥ (9)	¥ (191)	¥ (75)	¥ 3,449	¥ 36,663
Changes of items during the period											
Dividends from surplus.....			(634)		(634)						(634)
Net income.....			1,375		1,375						1,375
Purchase of treasury stock.....				(449)	(449)						(449)
Disposal of treasury stock.....		(0)		0	0						0
Change of scope of consolidation.....											
Net changes of items other than shareholders' equity.....						(174)	35	(59)	(198)	83	(115)
Total changes of items during the period.....	-	(0)	740	(449)	291	(174)	35	(59)	(198)	83	176
<b>Balance at the end of current period</b> .....	¥ 13,150	¥ 11,850	¥ 9,758	¥ (1,179)	¥ 33,580	¥ (48)	¥ 26	¥ (251)	¥ (273)	¥ 3,533	¥ 36,839

	Thousands of U.S. Dollars										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
<b>Balance at the end of previous period</b> .....	\$ 158,147	\$ 142,513	\$ 108,454	\$ (8,779)	\$ 400,336	\$ 1,503	\$ (108)	\$ (2,297)	\$ (901)	\$ 41,479	\$ 440,926
Changes of items during the period											
Dividends from surplus.....			(7,624)		(7,624)						(7,624)
Net income.....			16,536		16,536						16,536
Purchase of treasury stock.....				(5,399)	(5,399)						(5,399)
Disposal of treasury stock.....		(0)		0	0						0
Change of scope of consolidation.....											
Net changes of items other than shareholders' equity.....						(2,092)	420	(709)	(2,381)	998	(1,383)
Total changes of items during the period.....	-	(0)	8,899	(5,399)	3,499	(2,092)	420	(709)	(2,381)	998	2,116
<b>Balance at the end of current period</b> .....	\$ 158,147	\$ 142,513	\$ 117,354	\$ (14,179)	\$ 403,848	\$ (577)	\$ 312	\$ (3,018)	\$ (3,283)	\$ 42,489	\$ 443,042

# Consolidated Statements of Cash Flows

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests.....	¥ 3,464	¥ 79	\$ 41,659
Depreciation and amortization.....	4,574	4,197	55,009
Impairment loss.....	755	310	9,079
Amortization of bond issuance cost.....	16	14	192
Loss on retirement of noncurrent assets.....	229	255	2,754
Loss (gain) on sales of noncurrent assets.....	(1,237)	44	(14,876)
Loss (gain) on sales of investment securities.....	(2)	642	(24)
Loss (gain) on valuation of investment securities.....	200	349	2,405
Loss on valuation of golf club memberships.....	1	0	0
Amortization of goodwill.....	75	220	901
Gain on negative goodwill.....	(87)	–	(1,046)
Increase (decrease) in allowance for doubtful accounts.....	(41)	321	(493)
Increase (decrease) in provision for bonuses.....	(23)	226	(276)
Increase (decrease) in provision for business structure improvement.....	(27)	(738)	(324)
Increase (decrease) in provision for loss on office transfer.....	(75)	(148)	(901)
Increase (decrease) in provision for loss on disaster.....	130	–	1,563
Increase (decrease) in provision for product warranties.....	122	(49)	1,467
Increase (decrease) in provision for retirement benefits.....	(46)	234	(553)
Interest and dividends income.....	(190)	(187)	(2,285)
Interest expenses.....	607	682	7,300
Foreign exchange losses (gains).....	(16)	(35)	(192)
Equity in (earnings) losses of affiliates.....	(45)	(43)	(541)
Decrease (increase) in notes and accounts receivable-trade.....	917	(3,095)	11,028
Decrease (increase) in inventories.....	(941)	5,133	(11,316)
Increase (decrease) in notes and accounts payable-trade.....	(1,806)	(3,441)	(21,719)
Decrease (increase) in consumption taxes refund receivable.....	(67)	(33)	(805)
Increase (decrease) in accrued consumption taxes.....	(307)	44	(3,692)
Other, net.....	(179)	(93)	(2,152)
Subtotal.....	5,997	4,891	72,122
Interest and dividends income received.....	190	190	2,285
Interest expenses paid.....	(624)	(662)	(7,504)
Income taxes paid.....	(1,125)	(1,277)	(13,529)
Net cash provided by (used in) operating activities.....	4,438	3,141	53,373
Net cash provided by (used in) investing activities			
Decrease (increase) in time deposits.....	35	(12)	420
Purchase of property, plant and equipment.....	(3,549)	(3,000)	(42,681)
Proceeds from sales of property, plant and equipment.....	1,450	31	17,438
Purchase of investment securities.....	(513)	(220)	(6,169)
Proceeds from sales of investment securities.....	407	51	4,894
Purchase of investments in subsidiaries resulting in change in scope of consolidation.....	(128)	–	(1,539)
Other, net.....	(320)	(135)	(3,848)
Net cash provided by (used in) investing activities.....	(2,618)	(3,286)	(31,485)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable.....	(5,574)	463	(67,035)
Proceeds from issuance of bonds.....	4,927	–	59,254
Proceeds from long-term loans payable.....	600	5,600	7,215
Repayment of long-term loans payable.....	(5,930)	(4,136)	(71,316)
Repayments of finance lease obligations.....	(33)	(24)	(396)
Purchase of treasury stock.....	(449)	(77)	(5,399)
Cash dividends paid.....	(634)	(638)	(7,624)
Cash dividends paid to minority shareholders.....	–	(50)	–
Other, net.....	0	0	0
Net cash provided by (used in) financing activities.....	(7,095)	1,135	(85,327)
Effect of exchange rate change on cash and cash equivalents.....	(24)	209	(288)
Net increase (decrease) in cash and cash equivalents.....	(5,299)	1,199	(63,728)
Cash and cash equivalents at beginning of period.....	10,935	9,730	131,509
Increase in cash and cash equivalents from newly consolidated subsidiary.....	81	4	974
Cash and cash equivalents at end of period.....	¥ 5,716	¥ 10,935	\$ 68,743

## Summary of significant accounting policies

### 1. Securities

Held-to-maturity securities are carried and calculated by the amortized cost method (straight-line method).

Marketable securities classified as other securities are carried at fair value, based on market prices on settlement date of accounts, with any changes in unrealized holding gain or loss directly charged to net assets. Cost of securities sold is calculated principally by the moving average method.

Non-marketable securities classified as other securities are carried at cost determined principally by the moving average method.

### 2. Derivatives

Derivatives are carried at fair value.

### 3. Inventories

In principle, inventories of the Company and its consolidated subsidiaries are calculated as costs, as determined by the moving average method. (The value in the consolidated balance sheets is calculated by the method of reduction in book value based on decline in profitability.) Furthermore, for the real estate for sale, a separate method is applied, calculated as costs. (The value in the consolidated balance sheets is calculated by the method of reduction in book value based on decline in profitability.) For partly finished work, a separate method is applied, calculated as costs.

### 4. Method of calculating the depreciation of important assets to be amortized

#### 1) Property, plant and equipment (excluding leased assets)

At Daiken Corporation and its domestic consolidated subsidiaries, the depreciation is primarily computed by the declining-balance method, with the exception of buildings (excluding attached fittings and structures) acquired on or after April 1, 1998, the depreciation of which is computed by the straight-line method. The foreign consolidated subsidiaries use the straight-line method to calculate depreciation.

The principal estimated useful lives are as follows:

Buildings and structures	mainly 3 to 60 years
Machinery, equipment and vehicles	mainly 4 to 15 years

#### 2) Intangible assets (excluding leased assets)

The depreciation of intangible assets is computed by the straight-line method. Expenditures related to computer software for internal use are amortized by the straight-line method over their estimated useful lives in the company, a 5-year period.

#### 3) Leased assets

The depreciation of leased assets is computed by the straight-line method, with the lease period as the useful life period and the remaining value at the end of the lease period is taken as zero. Finance leases, other than those for which the ownership of the leased asset will be transferred to the lessee, commenced on or before March 31, 2008, are accounted for by a method similar to that applicable to ordinary operating leases.

#### 4) Deferred assets

The amortization of bond issuance cost is computed using the straight-line method for the 5-year period until redemption.

### 5. Provisions and allowances

#### 1) Allowance for doubtful accounts

In order to prepare irrecoverable accounts such as accounts and loans receivable, provisions for doubtful accounts are generally made on the basis of historical default rates. Claims whose possibility of collection is deemed doubtful are provided for in the expected uncollectible amounts, giving due consideration to the specific circumstances.

#### 2) Provision for bonuses

In order to prepare primarily for the payment of bonuses to employees, provisions are based on the expected amounts of payment.

#### 3) Provision for business structure improvements

In order to prepare for the payment of expenses expected to occur for business structure improvements, provisions are made for estimated improvement expenses at the end of the term under review.

#### 4) Provision for loss on disaster

In order to prepare for the payment of expenses expected to occur related to the restoration of facilities damaged by disaster, provisions have been made for the estimated amount of restoration costs.

#### 5) Provision for product warranties

In order to prepare primarily for the payment of expenses expected to occur after the delivery of products, provisions for estimated repairing costs during the term of warranty are made.

#### 6) Provision for retirement benefits

Provisions for employees' retirement benefits are made in the amount deemed necessary at the term end, based on estimated retirement obligations and plan assets. (Regarding the company pension plan, a prepaid pension expense has been appropriated, as the value of the pension plan assets exceeds the amount of the retirement benefit obligation as adjusted for unrecognized prior service cost and net unrecognized actuarial gain or loss.)

Net unrecognized actuarial gain or loss is amortized commencing the fiscal year following the consolidated fiscal year in which the gain or loss was recognized by the straight-line method over the estimated average remaining years of service of the eligible employees (mainly 10 years).

#### 7) Provision of environmental measures

In order to prepare primarily for the payment of expenses expected to occur for environmental measures, provisions are made for estimated expenses.

### 6. Criteria for appropriating important incomes and expenses

Criteria for appropriating the amounts and costs of completed work:

- 1) Work confirmed as certain to be progressed partly by the end of the current fiscal term: The criterion is the progress of said work. (The rate of progress is estimated using the cost proportion method.)
- 2) Other work: The criterion is the completion of said work.

### 7. Criteria of translations into Japanese yen amounts of important assets or liabilities denominated in foreign currencies

The monetary credits and debts denominated in foreign currencies are translated into Japanese yen at the current exchange rate on the consolidated settling date and translation difference is treated as gain or loss. The assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the current exchange rate on the settling date of subsidiaries, and gain or loss is also translated into Japanese yen at the current exchange rate on the subsidiaries' settling date. Any translation differences are included in the translation adjustment account and minority interests in the net assets section.

### 8. Important methods of hedge accounting

#### 1) Method of hedge accounting

The deferred method of hedge accounting is adopted. As for foreign exchange forward contracts and foreign currency option contracts, the allotment process is adopted if the required conditions are satisfied. As for interest rate swap contracts, the exception process is adopted if the required conditions for this process are satisfied.

#### 2) Hedging measures and objectives

Hedging measures are foreign exchange forward contracts and foreign currency option contracts. The objectives are accounts receivable and payable and anticipated transactions denominated in foreign currencies. Interest rate swap contracts are other measures, the objectives of which are loans and debts.

### 3) Hedging policy

In accordance with our internal "Risk Management Policy," we hedge against foreign exchange rate fluctuation risks.

### 4) Method of evaluating the efficiency of hedging

Accumulations of cash flow fluctuations of hedging objectives or exchange rate fluctuations are compared with accumulations of cash flow fluctuations of hedging measures or exchange rate fluctuations for every half term. The efficiency of hedging is evaluated on the basis of both these fluctuated values. However, for interest rate swap contracts using the exception process, we omit this evaluation of efficiency.

### 9. Method and term of calculating the depreciation of goodwill

The depreciation of goodwill is computed in accordance with the straight-line method for a period of 20 years.

### 10. Scope of funds in consolidated statements of cash flows

Funds consist of money in hand, deposits that can be withdrawn as required, and short-term investments with a redemption period of within three months from the date of acquisition, which are easy to realize and with minimal risk of value fluctuations.

### 11. Transaction of consumption tax

Consumption taxes and local consumption taxes withheld and/or paid are not included in the accompanying statements of operations.

## Notes Related to Consolidated Balance Sheets

### 1. Accumulated depreciation of property, plant and equipment

¥ 58,113 million

### 2. Items for non-consolidated subsidiaries and affiliates are as follows:

Investment securities (stocks) ¥ 871 million

### 3. Assets pledged as collateral

Buildings and structures	¥	1,109	million
Machinery, equipment and vehicles	¥	1,663	million
Land	¥	3,171	million
Other current assets	¥	997	million
Other noncurrent assets	¥	198	million

Total ¥ 7,140 million

Loans corresponding to the above			
Short-term loans payable	¥	773	million
Current portion of long-term loans payable	¥	441	million
Long-term loans payable	¥	1,009	million

Besides the above, investment securities amounting to ¥49 million are held as a deposit relating to our housing land and building agency registration.

### 4. Guarantee obligations

Guarantees are provided for bank loans assumed by the companies mentioned below, as follows:

For purchasers of houses from our consolidated subsidiaries (Bridge loans for housing loans) ¥ 22 million

### 5. Contingent liabilities

Liability for redemption following liquidation of credit ¥ 1,333 million

6. Endorsed bill transfer amount ¥ 20 million

7. In order to efficiently raise working capital, the Company concluded overdraft contracts and loan commitment contracts with five of our financial institutions. The unexecuted loan balances related to such overdraft

contracts and loan commitment contracts at the term end are as follows:

Maximum overdraft amount and the total amount of loan commitment	¥	13,200	million
Executed loan amounts		–	
Total	¥	13,200	million

## Notes Related to Consolidated Statements of Income

### 1. Primary selling, general and administrative expenses

Transportation and storage expenses	¥	11,674	million
Transfer to allowance for doubtful accounts	¥	7	million
Salaries and allowances	¥	7,698	million
Transfer to provision for bonuses	¥	975	million
Expenses for retirement benefits	¥	1,462	million

### 2. Research and development costs

Research and development costs are included in the cost of general and administrative expenses and the cost of production for the year ended March 31, 2011, totaling ¥1,464 million.

### 3. Contents of gain on sales of noncurrent assets

Machinery, equipment and vehicles	¥	7	million
Land	¥	1,230	million
Other	¥	0	million
Total	¥	1,237	million

### 4. Contents of loss on retirement of noncurrent assets

Buildings and structures	¥	7	million
Machinery, equipment and vehicles	¥	169	million
Other	¥	52	million
Total	¥	229	million

### 5. Impairment loss

Our group has reckoned up impairment losses in the following assets groups for the consolidated fiscal year under review:

Location	Category	Sort
Aizu Plant, Tobu Daiken Corporation (located in Aizu-Wakamatsu City, Fukushima Pref.)	Fiberboard manufacturing plant	Buildings and structures, Machinery, equipment and vehicles

Our group made grouping business assets, primarily for each plant, on the basis of managerial accounting classification, and grouping idle assets individually.

In the consolidated fiscal year under review, regarding the Tobu Daiken Corporation's Aizu Plant (Aizu-Wakamatsu City, Fukushima Pref.) as a business asset, deteriorated profitability caused by a worsening business environment has resulted in a special loss of ¥755 million and this will be reckoned as an impairment loss, where the amount of decrease caused by the reduction in book value, to the extent of the amount collectible. The breakdown is as follows:

Buildings and structures	¥	251	million
Machinery, equipment and vehicles	¥	503	million

The abovementioned collectible limit amount was measured by the net sold amount, and the net sold amount was calculated on the basis of official estimation for fixed property by a third party.

## DAIKEN CORPORATION

**Registered Head Office:**

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

**Operational Headquarters:**

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