

Daiso Co., Ltd.
CONSOLIDATED FINANCIAL RESULTS
For the quarterly period ended September 30, 2014
(Prepared under Japan GAAP, unaudited)

Company name: Daiso Co.,Ltd. Stock Exchange Listing: Tokyo
 Securities code: 4046 URL: <http://www.daiso.co.jp>
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Scheduled date of filing of quarterly report: November 10, 2014
 Scheduled date of commencement of dividend payment: December 5, 2014
 Supplementary materials prepared for the quarterly financial results: Yes
 Quarterly financial results briefings: Yes (for institutional investors and investment analysts)

1. Consolidated Financial Results

(Amounts are rounded down to the nearest million yen)

(1) Results of Operations

	Six Months Ended			
	September 30, 2014		September 30, 2013	
	Millions of yen	Change *	Millions of yen	Change *
Net sales	48,914	9.2%	44,812	10.3%
Operating income	2,361	10.9%	2,129	0.1%
Ordinary income	2,644	12.2%	2,357	9.3%
Net income	1,574	19.7%	1,315	23.0%
Comprehensive income	2,721	45.1%	1,875	417.4%

Note: Percent changes for six months are year-on-year comparisons.

Net income per share (Yen)	14.95	12.49
Diluted net income per share (Yen)	13.56	—

(2) Financial Condition

	September 30, 2014		March 31, 2014	
	Millions of yen	Ratio	Millions of yen	Ratio
Total assets	97,555	—	84,326	—
Net assets	43,993	—	41,615	—
Equity *	43,993	—	41,601	—
Equity ratio	—	45.1%	—	49.3%

Note: Equity = "Total net assets" minus "Subscription rights to shares"

2. Dividends

	Year ending Mar. 31, 2015 (Forecast)	Year ending Mar. 31, 2015	Year ended Mar. 31, 2014
End of first quarter		—	—
End of second quarter		4.00	3.50
End of third quarter	—		—
End of fourth quarter	4.00		3.50
Full year	8.00		7.00

3. Earnings Forecast for the fiscal year ending March 31, 2015

	Full-year	
	Millions of yen	Change*
Net sales	100,000	9.1%
Operating income	5,500	15.8%
Ordinary income	5,700	8.8%
Net income	3,400	12.2%

Note: Percent changes for three months are year-on-year comparisons.

Earnings per share (Yen)	32.28
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* Notes

- (1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of accounting methods used specifically for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, accounting estimates and restatements of revisions
 - 1) Changes in accounting policies due to revisions of accounting standards, etc.: Yes
 - 2) Changes in accounting policies other than 1: None
 - 3) Changes in accounting estimates: None
 - 4) Restatement of revisions: None
- (4) Number of outstanding shares (common stock)
 - 1) Number of shares outstanding at the end of the period (including treasury shares)

As of September 30, 2014:	111,771,671	shares
As of March 31, 2014:	111,771,671	shares
 - 2) Number of treasury shares at the end of period

As of September 30, 2014:	6,408,619	shares
As of March 31, 2014:	6,448,680	shares
 - 3) Average number of shares outstanding in each period

Six months ended September 30, 2014:	105,346,097	shares
Six months ended September 30, 2013:	105,332,484	shares

* Status of quarterly review procedure:

This quarterly financial results are not subject to the quarterly review procedure in accordance with the Financial Instruments and Exchange Act. The quarterly review procedure of consolidated financial statements has not been completed at the time of disclosure.

*Appropriate use of financial forecasts, other special notes

This material contains forward-looking statements such as earnings forecast about Daiso Co., Ltd. and its group companies (“Daiso Group”). These forward-looking statements are based on the current assumptions and beliefs of Daiso Group in light of the information currently available to it, and contain known and unknown risks, uncertainties and other factors. Daiso Group therefore wishes to caution readers that actual results could be materially different from any future results.

DISCLAIMER:

This is an English translation of the original Japanese document and is prepared for reference. Should there be any inconsistency between the translation and the Japanese original, the latter shall prevail.

4. QUALITATIVE INFORMATION

(1) Results of Operations

During the six months ended September 30, 2014, while Japan's economy has continued to recover moderately as a trend, movements of picking up appeared to be pausing in some areas due mainly to the effects including those of the subsequent decline in demand following the front-based increase prior to the consumption tax hike. The outlook remains uncertain in the midst of an unpredictable environment.

Under the circumstance, Daiso Group developed to increase domestic share of Chlor-Alkali and to expand sales of Epichlorhydrin and Functional Chemical Products to global market, and started to reinforce the production capacity of Diallyl Phthalate Resin whose demand is increasing on the production side. Also, Daiso Group took a series of strategic steps in fiscal 2014 which is the first year of the 5th mid-term management plan "NEXT FRONTIER-100". In this plan, in order to drive business expansion and strength, we focused on "Creation of new products and new businesses" and "Expansion of global businesses" and formed teams namely "Facilitating Innovation-Driven Businesses" and "Advancing Growth of Global Businesses" to perform the project work. In response to changes in industrial structure, we also formed project team "Reforming Cost Structure" to take initiatives in reducing cost, thereby enhancing cost competitiveness.

Basic Chemical Products

In *Chlor-Alkali*, net sales increased due to expansion of sales by utilizing market penetration strategies into targeted local areas of Japan as well as favorable market conditions.

In *Epichlorhydrin*, net sales increased due to steady export sales despite sluggish domestic demand of Epoxy Resins.

Functional Chemical Products

In *Allyl Ethers*, net sales increased due to volume growth of export sales to Europe which is used as a raw material for silane coupling agent.

In *Epichlorhydrin Rubber*, net sales increased due to continued favorable export sales backed by the increase of overseas motor vehicle production.

In *Diallyl Phthalate Resin*, net sales increased due to expansion of export sales to Europe despite continued unfavorable export sales to China in UV printing inks.

In *Silica Gel for Liquid Chromatography*, net sales decreased due to temporarily optimizing levels of inventory exported to Europe despite continued favorable export sales to Asia and United States for drug purification.

In *Active Pharmaceutical Ingredients and their Intermediates*, net sales were at the same level as the previous period due to sales increase of "Intermediate for the Anti-Diabetic Agent", "Medium Component for the Production of the Anti-body Drug", and "Active Pharmaceutical Ingredient for the Bloodstream Improvement Agent" despite continued unfavorable sales in "Intermediate for the Anti-Virus Agent" and "Intermediate for the Vasodilator Drug".

Color Resists Liquid Crystal Display achieved increase in net sales led by resilient demand for small and medium sized-display panel related to smartphone and tablet products.

Glass-Fiber achieved net sales growth due to volume increase in electronic parts and devices as well as industrial materials.

Housing Facilities and Others

Household Materials and Components and *Plant Engineering Services* achieved sales growth due to sales increase of new household materials and completion of replacing electrolysis plants construction respectively, despite the effects of the subsequent decline in demand following the front-based increase prior to the consumption tax hike has been observed.

As a result, net sales were ¥48,914 million, an increase of 9.2% compared to the same period of fiscal 2013. Operating income was ¥2,361 million, reflecting volume growth in sales despite soaring prices of fuels and raw materials, an increase of 10.9% compared to the same period of fiscal 2013. Ordinary income was ¥2,644 million, an increase of 12.2% compared to the same period of fiscal 2013. Net income was ¥1,574 million, an increase of 19.7% compared to the same period of fiscal 2013.

(2) Financial Condition

Assets

Current assets were ¥58,107 million, an increase of 29.3% since March 31, 2014. The increase was due primarily to an increase of ¥7,099 million in *short term investment securities*, an increase of ¥2,647 million in *cash and deposits* and an increase of ¥2,437million in *notes and accounts receivable-trade*.

Noncurrent assets were ¥39,447 million, an increase of 0.1% since March 31, 2014. The increase was due primarily to an increase of ¥1,755 million in *investment securities* and a decrease of ¥1,034 million in *property, plant, and equipment*.

As a result, **Total assets** were ¥97,555 million as of September 30, 2014, an increase of 15.7% since March 31, 2014.

Liabilities

Current liabilities were ¥31,855 million, an increase of 4.8% since March 31, 2014. The increase was due primarily to an increase of ¥1,931 million in *notes and accounts payable-trade*, and a decrease of ¥471 million in *income taxes payable*.

Noncurrent liabilities were ¥21,706million, an increase of 76.4% since March 31, 2014. The increase was due primarily to an increase of ¥10,000 million in *bonds with subscription rights to shares*.

As a result, **Total liabilities** were ¥53,562 million as of September 30, 2014, an increase of 25.4% since March 31, 2014.

Net assets

Net assets were ¥43,993 million as of September 30, 2014, an increase of 5.7% since March 31, 2014.

(3) Cash Flows

As of September 30, 2014, cash and cash equivalents were ¥17,944 million, an increase of ¥9,746 million compared with those as of March 31, 2014.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥1,612 million. This increase resulted from ¥2,493 million in *income before income taxes*, ¥1,386 million in *depreciation*, and an increase of ¥1,864 million in *notes and accounts payable-trade*. The decrease was due mainly to an increase of ¥2,422 million in *notes and accounts receivable-trade* and ¥1,090 million in *inventories*.

Cash flows from investing activities

Net cash used in investing activities totaled ¥399 million. This was primarily attributed to payments of ¥633 million for purchase of *property, plant, and equipment*.

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥8,318 million. This was primarily attributed to proceeds of ¥9,963 million from issuance of bonds with subscription rights to shares.

(4) Earnings Forecast

There are no revisions to the earnings forecast from the previous forecast announced in the "Consolidated financial results for the year ended March 31, 2015, unaudited" dated May 9, 2014.

5. OTHER INFORMATION

Changes in accounting policies

Effective from three months ended June 30, 2014, the Accounting Standard for Retirement Benefits (ASBJ Statement No.26, issued on May 17, 2012; hereafter "Accounting Standard for Retirement Benefits") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, issued on May 17, 2012; hereafter "Guidance on Retirement Benefits") have been applied, in accordance with the provisions stipulated in Clause 35 of "Accounting Standard for Retirement Benefits" and in Clause 67 of "Guidance on Retirement Benefits". Accordingly, the method of calculation for retirement benefit liabilities and service costs have been reviewed, and the basis for determining the discount rate has been changed from the use of the period approximate to the expected average remaining working lives of employees to the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

As a result, this change has had no effect on net defined benefit liability and retained earnings at the beginning of this first quarter of fiscal 2014. In addition, no effect on operating income, ordinary income, and income before income taxes for the quarterly period ended September 30, 2014.

6. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2014	September 30, 2014
	<u>2014</u>	<u>2014</u>
Assets		
Current assets		
Cash and deposits	3,797	6,445
Notes and accounts receivable-trade	26,187	28,625
Short term investment securities	4,399	11,499
Merchandise and finished goods	6,014	7,000
Work in process	901	1,147
Raw materials and supplies	2,216	2,115
Other current assets	1,417	1,279
Less: Allowance for doubtful accounts	(3)	(4)
Total current assets	<u>44,932</u>	<u>58,107</u>
Noncurrent assets		
Property, plant, and equipment		
Property, plant, and equipment - Net	10,875	10,029
Other - Net	12,013	11,826
Total property, plant and equipment	<u>22,889</u>	<u>21,855</u>
Intangible assets		
Goodwill	1,035	969
Other	242	235
Total intangible assets	<u>1,278</u>	<u>1,204</u>
Investments and other assets		
Investment securities	13,533	15,289
Other	1,698	1,103
Less: Allowance for doubtful accounts	(6)	(6)
Total investment and other assets	<u>15,226</u>	<u>16,387</u>
Total noncurrent assets	<u>39,394</u>	<u>39,447</u>
Total assets	<u>84,326</u>	<u>97,555</u>

CONSOLIDATED BALANCE SHEETS *(Continued)*
(Millions of yen)

	March 31, 2014	September 30, 2014
Liabilities		
<i>Current liabilities</i>		
Notes and accounts payable- trade	13,600	15,531
Short term loans payable	9,530	9,530
Current portion of long term loans payable	2,580	2,530
Income taxes payable	1,192	721
Provision for bonuses	715	691
Other current liabilities	2,788	2,851
Total current liabilities	<u>30,406</u>	<u>31,855</u>
<i>Noncurrent liabilities</i>		
Bonds with subscription rights to shares	—	10,000
Long term loans payable	7,880	6,640
Provision for directors retirement benefits	612	569
Net defined benefit liability	2,764	2,786
Other noncurrent liabilities	1,047	1,710
Total noncurrent liabilities	<u>12,304</u>	<u>21,706</u>
Total liabilities	<u>42,710</u>	<u>53,562</u>
Net assets		
<i>Shareholders' equity</i>		
Capital stock	10,882	10,882
Capital surplus	9,394	9,399
Retained earnings	19,367	20,586
Treasury stock	(1,672)	(1,661)
Total shareholders' equity	<u>37,971</u>	<u>39,206</u>
<i>Accumulated other comprehensive income</i>		
Unrealized gain on available-for-sale securities	3,782	4,883
Deferred gains or losses on hedges	(0)	33
Foreign currency translation adjustments	—	4
Re-measurements of defined benefit plans	(152)	(133)
Total accumulated other comprehensive income	<u>3,629</u>	<u>4,786</u>
<i>Subscription rights to shares</i>	14	—
Total net assets	<u>41,615</u>	<u>43,993</u>
Total net assets and liabilities	<u>84,326</u>	<u>97,555</u>

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Six Months Ended	
	September 30, 2013	September 30, 2014
Net sales	44,812	48,914
Cost of sales	37,801	41,427
Gross profit	7,010	7,486
Selling, general, and administrative expenses	4,881	5,125
Operating income	2,129	2,361
<i>Non-operating income</i>		
Interest income	4	7
Dividend income	154	166
Foreign exchange gain	105	212
Other	53	40
Total non-operating income	319	426
<i>Non-operating expenses</i>		
Interest expenses	48	63
Bond issuance costs	—	36
Other	42	43
Total non-operating expenses	91	143
Ordinary income	2,357	2,644
<i>Extraordinary income</i>		
Gain on sales of noncurrent assets	505	30
Gain on reversal of subscription rights to shares	22	11
Total extraordinary income	528	42
<i>Extraordinary loss</i>		
Loss on retirement of noncurrent assets	200	192
Gain on sales of non-current assets	459	—
Total extraordinary loss	659	192
Income before income taxes	2,225	2,493
Income taxes - current	1,098	706
Income taxes - deferred	(187)	212
Total income taxes	910	919
Net income	1,315	1,574

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of yen)

	<u>Six Months Ended</u>	
	September 30, 2013	September 30, 2014
Net income	1,315	1,574
Other comprehensive income		
Unrealized gain on available-for-sale securities	542	1,100
Deferred gains or losses on hedges	18	33
Foreign currency translation adjustments	—	(5)
Re-measurements of defined benefit plans	—	18
Total	560	1,147
Comprehensive income	1,875	2,721
Comprehensive income attributable to:		
Shareholders of the parent	1,875	2,721
Minority interests	—	—

CONSOLIDATED STATEMENTS OF CHASH FLOWS

(Millions of yen)

	<u>Six Months Ended</u>	
	September 30, 2013	September 30, 2014
Cash flows from operating activities		
Income (loss) before income taxes	2,225	2,493
Depreciation	1,155	1,386
Impairment loss	459	—
Amortization of goodwill	64	66
Increase (decrease) in allowance for doubtful accounts	—	1
Increase (decrease) in provision for bonuses	(9)	(23)
Increase (decrease) in provision for retirement benefits	77	—
Increase (decrease) in provision for directors' retirement benefits	(0)	(43)
Increase (decrease) in allowance for retirement benefits for employees	—	22
Interest and dividend income	(159)	(173)
Interest expenses	48	63
Foreign exchange losses (gains)	(43)	(146)
Loss on retirement of non-current assets	200	192
Loss (gain) on sales of non-current assets	(505)	(30)
Bond issuance cost	—	36
Decrease (increase) in notes and accounts receivable-trade	(59)	(2,422)
Decrease (increase) in inventories	(1,146)	(1,090)
Increase (decrease) in notes and accounts payable-trade	660	1,864
Other, net	(575)	464
Subtotal	2,392	2,661
Interest and dividend income received	159	173
Interest expenses paid	(48)	(64)
Income taxes paid	(727)	(1,158)
Net cash provided by (used in) operating activities	1,776	1,612

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*

(Millions of yen)

	<u>Six Months Ended</u>	
	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2014</u>
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	—	400
Purchase of property, plant and equipment	(2,846)	(633)
Proceeds from sales of property, plant and equipment	527	157
Purchase of intangible assets	(26)	(96)
Purchase of investment securities	(8)	(48)
Other, net	(21)	(178)
Net cash provided by (used in) investing activities	<u>(2,375)</u>	<u>(399)</u>
Cash flows from financing activities		
Proceeds from long-term loans payable	8,000	—
Repayments of long-term loans payable	(535)	(1,290)
Proceeds from issuance of bonds with subscription rights to shares	—	9,963
Cash dividends paid	(368)	(368)
Other, net	(1)	12
Net cash provided by (used in) financing activities	<u>7,095</u>	<u>8,318</u>
Effect of exchange rate change on cash and cash equivalents	43	140
Net increase (decrease) in cash and cash equivalents	<u>6,540</u>	<u>9,671</u>
Cash and cash equivalents	5,934	8,197
Increase in cash and cash equivalents from newly consolidated subsidiary	—	75
Cash and cash equivalents	<u>12,475</u>	<u>17,944</u>

7. Notes to the Consolidated Financial Statements

(1) Notes regarding the going concern assumption

None

(2) Notes regarding significant changes in the amount of shareholders' equity

None

(3) Segment information

Six months ended September 30, 2013

(Millions of yen)

	Net sales			Segment income
	External sales	Intersegment sales or reclassifications	Total	
Basic Chemical Products	20,059	9	20,068	533
Functional Chemical Products	15,374	1	15,375	2,007
Housing Facilities and Others	9,378	457	9,836	188
Total	44,812	467	45,280	2,729
Adjustments *1	—	(467)	(467)	(600)
Consolidated operating income *2	44,812	—	44,812	2,129

Notes 1: Adjustments of segment income of ¥(600) million are corporate expenses not allocated to reportable segments. Corporate expenses are mainly expenses not attributable to a reporting segment and related to fundamental research and development as well as administrative departments.

Notes 2: Segment Income is reconciled with consolidated operating income.

Six months ended September 30, 2014

(Millions of yen)

	Net sales			Segment income
	External sales	Intersegment sales or reclassifications	Total	
Basic Chemical Products	21,532	5	21,538	601
Functional Chemical Products	16,870	0	16,870	2,076
Housing Facilities and Others	10,511	221	10,733	189
Total	48,914	227	49,142	2,866
Adjustments *1	—	(227)	(227)	(505)
Consolidated operating income *2	48,914	—	48,914	2,361

Notes 1: Adjustments of segment income of ¥(505) million are corporate expenses not allocated to reportable segments. Corporate expenses are mainly expenses not attributable to a reporting segment and related to fundamental research and development as well as administrative departments.

Notes 2: Segment Income is reconciled with consolidated operating income.

