

Daiso Co., Ltd.
CONSOLIDATED FINANCIAL RESULTS
For the quarterly period ended June 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>
Representative: Tamotsu Sato, Representative Director, Chief Executive Officer
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Scheduled date of filing of quarterly report: August 11, 2014
Scheduled date of commencement of dividend payment: —
Supplementary materials prepared for the quarterly financial results: None
Quarterly financial results briefings: None

1. Consolidated Financial Results

(Amounts are rounded down to the nearest million yen)

(1) Results of Operations

	Three Months Ended			
	June 30, 2014		June 30, 2013	
	Millions of yen	Change *	Millions of yen	Change *
Net sales	24,046	7.2%	22,431	7.5%
Operating income	1,205	(2.0)%	1,230	13.1%
Ordinary income	1,269	(13.8)%	1,472	29.7%
Net income	761	(13.2)%	877	29.6%
Comprehensive income	1,386	41.7%	978	402.4%

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

Net income per share (Yen)	7.23	8.33
Diluted net income per share (Yen)	7.23	—

(2) Financial Condition

	June 30, 2014		March 31, 2013	
	Millions of yen	Ratio	Millions of yen	Ratio
Total assets	85,656	—	84,326	—
Net assets	42,658	—	41,615	—
Equity *	42,658	—	41,601	—
Equity ratio	—	49.8%	—	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	3.50		3.50
End of third quarter	—		—
End of fourth quarter	3.50		3.50
Full year	7.00		7.00

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

	First half		Full-year	
	Millions of yen	Change*	Millions of yen	Change*
Net sales	46,000	2.6%	100,000	9.1%
Operating income	2,400	12.7%	5,500	15.8%
Ordinary income	2,500	6.1%	5,700	8.8%
Net income	1,500	14.0%	3,400	12.2%

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

Earnings per share (Yen)	14.24	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 June 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 June 30, 2014: 6,406,989 shares

As of March 31, 2014: 6,448,680 shares

3) Average number of shares outstanding in each period

Three months ended June 30, 2014: 105,333,133 shares

Three months ended June 30, 2013: 105,333,254 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 three months ended June 30, 2014, while Japan's economy has generally continued to recover moderately as a trend, the outlook remains uncertain in the midst of an unpredictable environment due mainly to the effects of the subsequent decline in demand following the front-based increase prior to the consumption tax hike has been observed.

Under the circumstance, Daiso Group took a series of strategic steps in fiscal 2014 which is the first year of the new mid-term management plan "*NEXT FRONTIER-100*" in order to drive business expansion and strength. In this plan, we focused on "*Creation of new products and new businesses*" and "*Expansion of Global Businesses*" as the engines of growth and thereby formed teams "*Facilitating Innovation-Driven Businesses*" and "*Advancing Growth of Global Businesses*" to perform the project work.

Also, in response to changes in industrial structure, Daiso Group 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 sales volume growth by utilizing market penetration strategies into targeted local areas of Japan as well as favorable market conditions.

In *Epichlorhydrin*, net sales increased due to the increase in export sales despite continued unfavorable domestic sales in line with a fall in demand of Epoxy Resins.

Functional Chemical Products

In *Allyl Ethers*, net sales increased due to sales volume growth driven by expansion of export sales in Europe and Americas.

In *Epichlorohydrin Rubber*, net sales increased due to continued favorable export sales in line with the increase of overseas motor vehicle production as well as the recovery in office automation equipment sales as a trend.

In *Diallyl Phthalate Resin*, net sales increased due to the increase in sales volume for domestic market despite continued unfavorable export to China in UV printing inks.

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

In *Active Pharmaceutical Ingredients and their Intermediates*, net sales increased due to continued favorable sales in "Active Pharmaceutical Ingredient for a Cardiotonic Drug" and "Medium Component for the Production of Antibody Drugs".

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 in electronic parts and devices as well as industrial materials.

Housing Facilities and Others

In Diallyl Phthalate Resin *Decorative Laminate Boards* as well as *Household Materials and Components*, net sales decreased due to 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 ¥24,046 million, an increase of 7.2% compared to the same period of fiscal 2013. Operating income was ¥1,250 million, affected by higher costs of fuels and raw materials, a decrease of 2.0% compared to the same period of fiscal 2013. Ordinary income was ¥ 1,269 million, reflecting exchange-rate losses, a decrease of 13.8% compared to the same period of fiscal 2013. Net income was ¥761 million, a decrease of 13.2% compared to the same period of fiscal 2013.

(2) Financial Condition

Assets

Current assets were ¥46,064 million, an increase of 2.5% since March 31, 2014. The increase was due primarily to an increase of ¥2,151 million in *notes and accounts receivable-trade* and an increase of ¥862million in *merchandise and finished goods*, and a decrease of ¥2,099 million in *short term investment securities*.

Noncurrent assets were ¥39,591 million, an increase of 0.5% since March 31, 2014. The increase was due primarily to an increase of ¥996 million in *investment securities*.

As a result, **Total assets** were ¥85,656 million as of June 30, 2014, an increase of 1.6% since March 31, 2014.

Liabilities

Current liabilities were ¥30,885 million, an increase of 1.6% since March 31, 2014. The increase was due primarily to an increase of ¥963 million in *notes and accounts payable-trade*, an increase of ¥600 million in *short term loans payable*, and a decrease of ¥1,119 million in *income taxes payable*.

Noncurrent liabilities were ¥12,112million, a decrease of 1.6% since March 31, 2014. The decrease was due primarily to a decrease of ¥620 million in *long term loans payable*.

As a result, **Total liabilities** were ¥42,997 million as of June 30, 2014, an increase of 0.7% since March 31, 2014.

Net assets

Net assets were ¥42,658 million as of June 30, 2014, an increase of 2.5% since March 31, 2014.

(3) 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, 2014, 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 in the first quarter of fiscal 2014.

6. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2014	June 30, 2014
Assets		
<i>Current assets</i>		
Cash and deposits	3,797	4,318
Notes and accounts receivable-trade	26,187	28,338
Short term investment securities	4,399	2,300
Merchandise and finished goods	6,014	6,876
Work in process	901	1,050
Raw materials and supplies	2,216	2,245
Other current assets	1,417	937
Less: Allowance for doubtful accounts	(3)	(3)
Total current assets	44,932	46,064
<i>Noncurrent assets</i>		
Property, plant, and equipment		
Property, plant, and equipment - Net	10,875	10,553
Other - Net	12,013	11,661
Total property, plant and equipment	22,889	22,215
Intangible assets		
Goodwill	1,035	1,002
Other	242	239
Total intangible assets	1,278	1,242
Investments and other assets		
Investment securities	13,533	14,529
Other	1,698	1,610
Less: Allowance for doubtful accounts	(6)	(6)
Total investment and other assets	15,226	16,133
Total noncurrent assets	39,394	39,591
Total assets	84,326	85,656

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

	March 31, 2014	June 30, 2014
Liabilities		
<i>Current liabilities</i>		
Notes and accounts payable- trade	13,600	14,564
Short term loans payable	9,530	10,130
Current portion of long term loans payable	2,580	2,580
Income taxes payable	1,192	72
Provision for bonuses	715	344
Other current liabilities	2,788	3,194
Total current liabilities	30,406	30,885
<i>Noncurrent liabilities</i>		
Long term loans payable	7,880	7,260
Provision for directors retirement benefits	612	545
Net defined benefit liability	2,764	2,769
Other noncurrent liabilities	1,047	1,537
Total noncurrent liabilities	12,304	12,112
Total liabilities	42,710	42,997
Net assets		
<i>Shareholders' equity</i>		
Capital stock	10,882	10,882
Capital surplus	9,394	9,399
Retained earnings	19,367	19,773
Treasury stock	(1,672)	(1,661)
Total shareholders' equity	37,971	38,393
<i>Accumulated other comprehensive income</i>		
Unrealized gain on available-for-sale securities	3,782	4,403
Deferred gains or losses on hedges	(0)	(1)
Foreign currency translation adjustments	—	6
Re-measurements of defined benefit plans	(152)	(143)
Total accumulated other comprehensive income	3,629	4,264
<i>Subscriptions rights to shares</i>	14	—
Total net assets	41,615	42,658
Total net assets and liabilities	84,326	85,656

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	<u>Three Months Ended</u>	
	June 30, 2013	June 30, 2014
Net sales	22,431	24,046
Cost of sales	18,812	20,312
Gross profit	3,619	3,734
Selling, general, and administrative expenses	2,389	2,528
Operating income	1,230	1,205
<i>Non-operating income</i>		
Interest income	1	1
Dividend income	143	152
Foreign exchange gain	96	—
Other	26	23
Total non-operating income	268	177
<i>Non-operating expenses</i>		
Interest expenses	24	31
Foreign exchange losses	—	75
Other	1	6
Total non-operating expenses	26	113
Ordinary income	1,472	1,269
<i>Extraordinary income</i>		
Gain on sales of noncurrent assets	—	30
Gain on reversal of subscription rights to shares	22	11
Total extraordinary income	22	42
<i>Extraordinary loss</i>		
Loss on retirement of noncurrent assets	99	113
Total extraordinary loss	99	113
Income before income taxes	1,396	1,198
Income taxes - current	360	70
Income taxes - deferred	157	365
Total income taxes	518	436
Net income	877	761

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of yen)

	<u>Three Months Ended</u>	
	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Net income	877	761
Other comprehensive income		
Unrealized gain on available-for-sale securities	63	620
Deferred gains or losses on hedges	36	(1)
Foreign currency translation adjustments	—	(3)
Re-measurements of defined benefit plans	—	9
Total	<u>100</u>	<u>624</u>
Comprehensive income	<u>978</u>	<u>1,386</u>
Comprehensive income attributable to:		
Shareholders of the parent	978	1,386
Minority interests	—	—

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

Three months ended June 30, 2013

(Millions of yen)

	Net sales			Segment income
	External sales	Intersegment sales or reclassifications	Total	
Basic Chemical Products	9,910	3	9,914	430
Functional Chemical Products	7,224	1	7,225	1,035
Housing Facilities and Others	5,295	262	5,558	60
Total	22,431	267	22,698	1,526
Adjustments *1	—	(267)	(267)	(296)
Consolidated operating income *2	22,431	—	22,431	1,230

Notes 1: Adjustments of segment income of ¥(296) 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.

Three months ended June 30, 2014

(Millions of yen)

	Net sales			Segment income
	External sales	Intersegment sales or reclassifications	Total	
Basic Chemical Products	10,778	4	10,782	433
Functional Chemical Products	8,111	0	8,111	986
Housing Facilities and Others	5,156	90	5,246	38
Total	24,046	94	24,141	1,458
Adjustments *1	—	(94)	(94)	(253)
Consolidated operating income *2	24,046	—	24,046	1,205

Notes 1: Adjustments of segment income of ¥(253) 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.