



DAITO TRUST
CONSTRUCTION CO., LTD.

2017

DAITO KENTAKU GROUP

Strategy Report

“Life is Built on Trust.”

Since its founding, the Daito Group has been proposing to landowners how to make the most effective use of their land or engage in leasing, and has been providing support for tenants’ activities ranging from looking for places to live to enabling comfortable lifestyles, which has brought the Group closer to people’s lives. Looking ahead, the Group will strive for further growth to continue to be a company people can trust with their lives.



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Philosophy

“Contributing to society by realizing extensive
and effective use of limited land.”



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About Strategy Report 2017

■ Editorial Policy

This report is for everyone interested in the Daito Group's value-creating activities. It is an integrated report that covers a range of important information, including our business overview, market environment and growth strategies, and financial and non-financial value-creating activities in the fiscal year ended March 31, 2017.

■ Target Readers

Our target readers are shareholders and investors,

along with financial institutions, Daito Group employees and their families, and all other stakeholders with whom we have a close connection.

■ Indicators

Unless otherwise indicated, the figures in this report are for the fiscal year ended March 31, 2017, or are true as of March 31, 2017

■ Report Period

The fiscal year ended March 31, 2017

■ Published

July 2017

For convenience, corporate names are abbreviated as follows in this document.

• Daito Trust Construction Group → Daito Group • Daito Trust Construction Co., Ltd. → Daito Trust

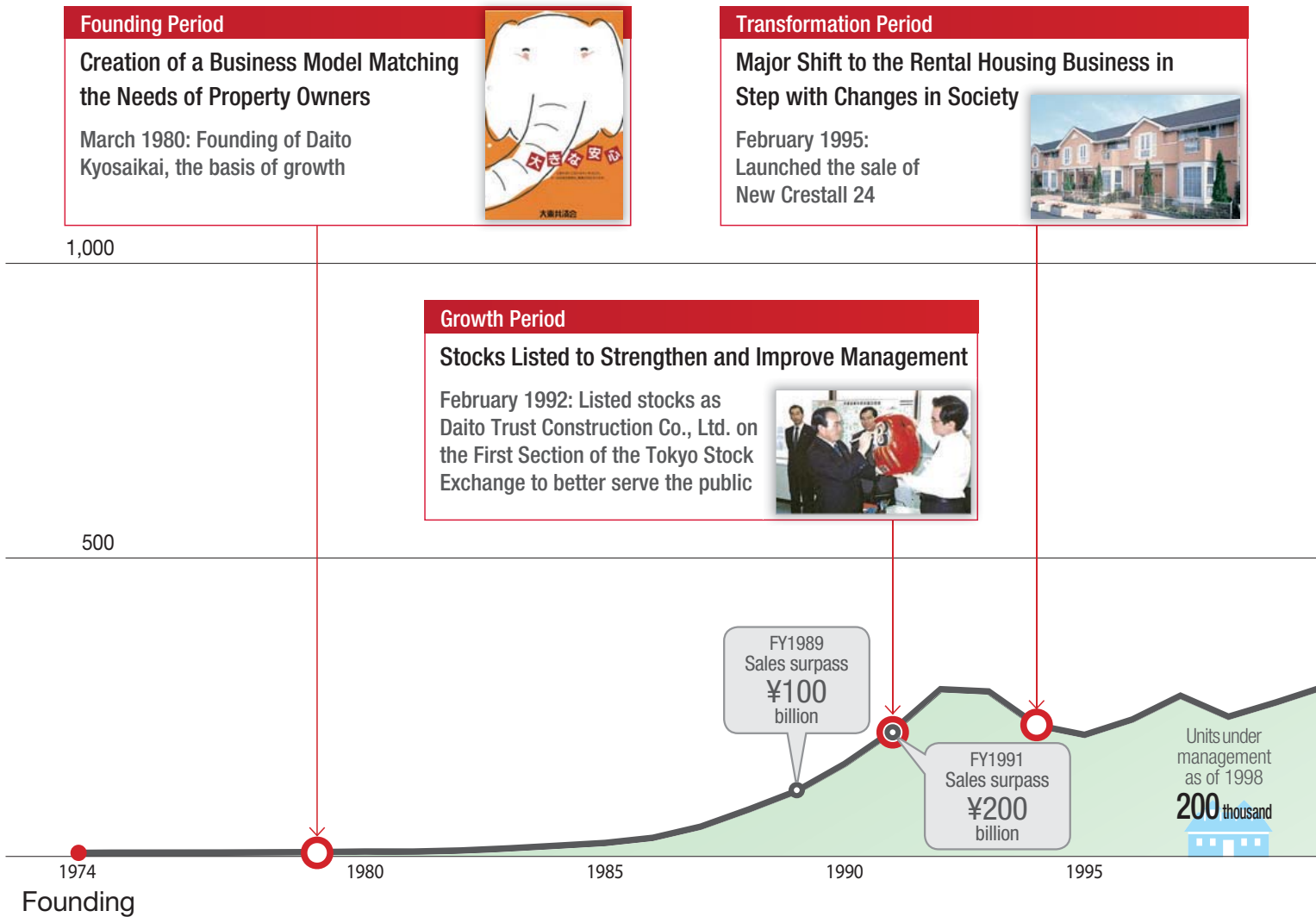
Note: According to a definition by the Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT), "apartment" refers to buildings of two or three stories constructed with iron, concrete, and wood, while "condominium" refers to buildings of three or more stories constructed with iron and concrete or steel-reinforced concrete.

History

Since its foundation in June 1974, the Daito Group has responded to the changing needs of society and customers by taking on numerous challenges over the years. We have pursued business expansion by shifting emphasis from commercial properties to residential properties, and transformed our business model from one based on a mutual aid association to a unique, whole-building lease method.

Net sales (Billions of yen)

1,500



FY2016 Topics

2016 4

- Industry's first Net Store opened
- Cosponsored the fukushima Sakura Project
- Joined the Ikuboss Corporate Alliance operated by the NPO Fathering Japan

5

- Started E-heya Electricity



- Donated funds through the Daito Group Mirai Fund to support recovery from the Kumamoto Earthquakes

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- Started sales of DIYELLA rental housing for working couples



7

- Started sales of LUTAN
- Started a chat service using Comru-kun, Housecom Co., Ltd.'s artificial intelligence
- Held the Daito Kentaku E-heya Net Ladies Tournament, a professional golf tournament
- Exhibited at the HOUSE VISION 2016 TOKYO EXHIBITION

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- Care Partner Co., Ltd. awarded a merit award at the 2016 Sendai Independent Living Training Awards

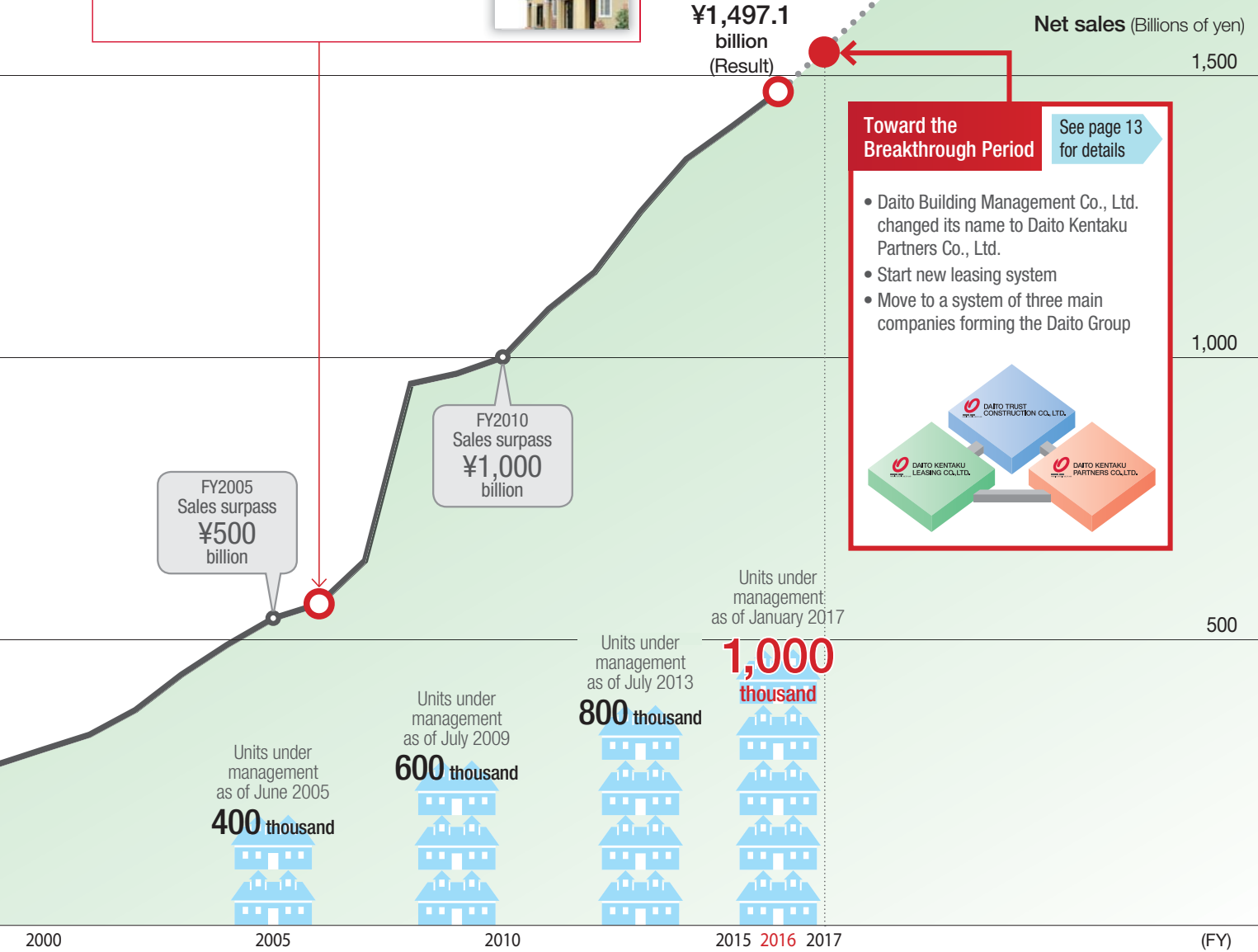
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- Started nationwide operation for tenants, offering support in five languages
- Daito Mirai Trust Co., Ltd. started sales of its trust product Mirai no Magokoro
- Housecom Co., Ltd. started its GLOBAL SUPPORT PLAN service

Accelerated Growth Period

Development of New Services in Relentless Pursuit of Uniqueness

July 2006:
Lease Management Trust System launched



Toward the Breakthrough Period

See page 13 for details

- Daito Building Management Co., Ltd. changed its name to Daito Kentaku Partners Co., Ltd.
- Start new leasing system
- Move to a system of three main companies forming the Daito Group

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Selected for CDP's A List, the highest rating, for the first time



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Established Daito Kentaku Leasing Co., Ltd.
Concluded a supporting company contract with the Japan Football Association



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Started exhibiting architectural models at the ARCHI-DEPOT



2017 1

Reached 1 million units under management
Started sales of LUTAN PALT

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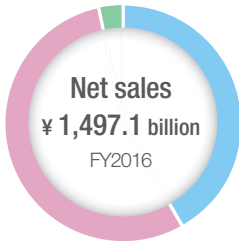
Recognized in the Certified Health & Productivity Management Organization Recognition Program (White 500)
Started sales of CONTE III
Acquired recognition as an outstanding crime prevention leader

3

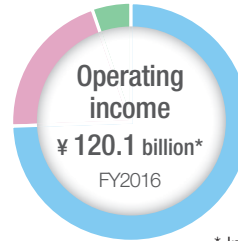
Formulated a new brand message, "Life is Built on Trust."
Daito Steel Co., Ltd. awarded the Encouragement Award at the 2016 Environment Leader Development Awards

Business Model

Positioning our own unique Lease Management Trust System in the center of our businesses, the Daito Group engages in construction, real estate, and other businesses together with Group companies, and provides owners with the stable operation of our building rental business and tenants with secure and safe dwellings and comfortable lifestyles.



Construction Business	¥ 623.9 billion
Real Estate Business	¥ 824.6 billion
Other Businesses	¥ 48.5 billion



Construction Business	¥ 109.1 billion
Real Estate Business	¥ 29.6 billion
Other Businesses	¥ 7.4 billion

* Includes expenses that cut across all businesses.

Construction Business

We plan and propose building rental businesses to landowners who are thinking of ways to utilize their inherited assets, and then design and construct the contracted rental buildings.

Lease Management Trust System

The Lease Management Trust System is the Daito Group's unique total system that covers the various risks associated with lease management with a sense of security.

Plans and proposals

Number of owners

80 thousand

As of April 2017



Design and construction

Cumulative number of units constructed

173 thousand buildings

As of March 31, 2017



Other Businesses

Our Group companies possess a variety of specialized customer capabilities, including providing a wide range of responses to land utilization needs, and lifestyle support that delivers security and comfort.



Energy Business

Main external environments supported by our business model

Political

- Revision to the Inheritance Tax Law

Economical

- Low interest rates due to fiscal easing policy
- Liberalization of the energy retail market

Social

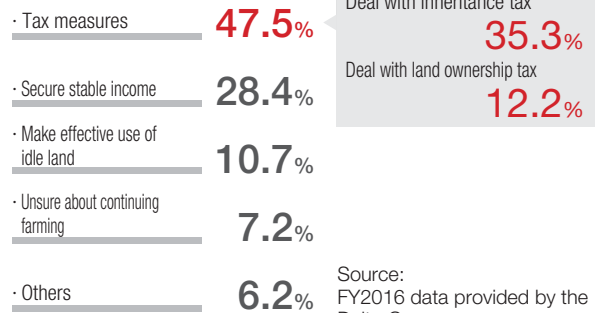
- Aging of the Japanese population
- Rapid cost increase in materials and labor in the construction market
- Increase in people certified as requiring nursing care

Land Inheritance and the Social Role of Rental Building in Japan

In Japan, a majority of people believe that land is an important hereditary asset that should be passed on to succeeding generations. At the same time, our customers face the issue of finding measures for dealing with inheritance and landholding taxes.

The building rental business is recognized as one of the most effective means to solve these issues. By constructing a building on vacant land, our customers can reduce both the inheritance tax and the fixed asset tax. The Daito Group's business model is designed to meet these needs of landowners.

The main reason our customers want to utilize land



Real Estate Business

We recruit tenants for constructed rental buildings then provide property management and operation services for the buildings.

35-year whole-building leases

Tenant recruitment

Number of tenants

Approx. **1.78 million***

As of March 31, 2017 *Estimated



Management and operation

Number of rental properties under management

1,015 thousand units

As of March 31, 2017



Technological

- Rise of advanced technology

Customers

- Activate needs regarding succession
- Increasing demand for rental housing in overseas markets

Competitors

- Expanded entry of new players in the market and market share

Market Position

The Daito Group continues to supply added value to meet the needs of the times through the Lease Management Trust System, the Group's unique business model, and is building a strong position in the rental housing market.

▷ Housing Supplier Ranking (Excluding condominiums)

Rank	Company	Units
1	Daito Trust Construction Co., Ltd.	62,777
2	Daiwa House Industry Co., Ltd.	48,235
3	Sekisui House, Ltd.	46,243
4	Asahi Kasei Homes Corporation	18,341
5	Sekisui Chemical Co., Ltd.	13,380

For 8
Consecutive
Years

No.1

Source: Real Estate Economic Institute Co., Ltd., Market Economy Research Institute Ltd. July 2016 (Actual result: FY2015)

▷ Rental Brokerage Ranking

Rank	Company	Units
1	Daito Group	197,969
2	Able Inc.	158,517
3	MiniMini Corporation	149,657
4	Token Corporation	68,334
5	House Mate Partners Co., Ltd.	67,152

For 7
Consecutive
Years

No.1

Source: Zenkoku Chintai Jutaku Shimbun, January 2017 (Actual result: Oct. 2015 - Sep. 2016)

▷ Rental Housing Management Ranking

Rank	Company	Units
1	Daito Group	923,624
2	Sekisui House Group	565,471
3	Leopalace21 Corporation	561,961
4	Daiwa Living Co., Ltd.	462,997
5	Starts Group	437,153

For 20
Consecutive
Years

No.1

Source: Zenkoku Chintai Jutaku Shimbun, July 2016 (Actual result: As of the end of FY2015)

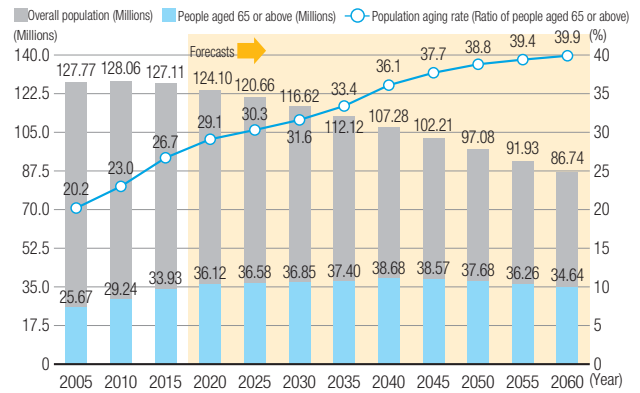
* Company names are as published in the referenced source.

Aging of the Japanese population

(Construction and Real estate)

- While the overall population is decreasing, the population aging rate is increasing.
- The elderly population (aged 65 and over) stood at 33.93 million in 2015 and has continued to increase. It is projected to peak at 38.78 million in 2042, before declining; however, the population aging rate will increase.
- By 2060, the population aging rate is projected to reach 39.9%, with 2.5 people aged under 65 supporting each person aged 65 or above.
- Mortality is expected to increase through to 2040, with an associated increase in incidences of inheritance and landholding tax.

Aging trends and future projections



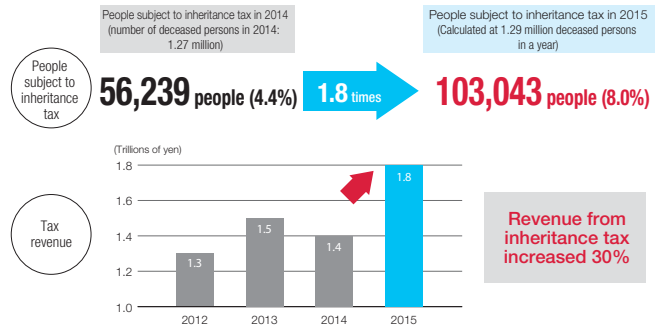
Source: Cabinet Office "2016 Annual Report on the Aging Society"

Revision to the Inheritance Tax Act

(Construction and Real estate)

- In 2015, the revised Inheritance Tax Act was put into effect. The basic exemption was reduced and the maximum tax rate was increased, thereby changing the structure of the tax rates.
- As a result, the number of people subject to the tax is projected to increase by 1.8 times, with a 30% increase in inheritance tax revenues.
- If rental housing is built on vacant land, a certain portion of the land valuation and building valuation will be exempt. This is expected to prompt increased demand for rental housing construction as a tax-reduction strategy.

	Previous taxation (until December 31, 2014)	Current taxation (from January 1, 2015)
Tax rate structure	<p>Tax rate</p> <p>6 steps</p>	<p>Tax rate</p> <p>8 steps</p>
Basic tax exemption	<p>Standard tax deduction: 50 million yen</p> <p>Proportional tax deduction based on the number of legal heirs: 10 million yen × number of legal heirs</p>	<p>Standard tax deduction: 30 million yen</p> <p>Proportional tax deduction based on the number of legal heirs: 6 million yen × number of legal heirs</p>



Source: National Tax Agency "Taxation Reform" and "Status of Inheritance Tax Declarations"

Low interest rates due to the fiscal easing policy

(Construction)

- Long-term interest rates (10-year government bond yields) in Japan have steadily declined since 1990 in response to the fiscal easing policy of the Bank of Japan.
- The bank's adoption of a negative interest rate policy in January 2016 has driven interest rates even lower.
- Since fixed-type home loan interest rates move in line with long-term interest rates, they have now reached an extremely low level, which is providing a tailwind for apartment loans.

Long-term interest rates (10-year government bond yields)

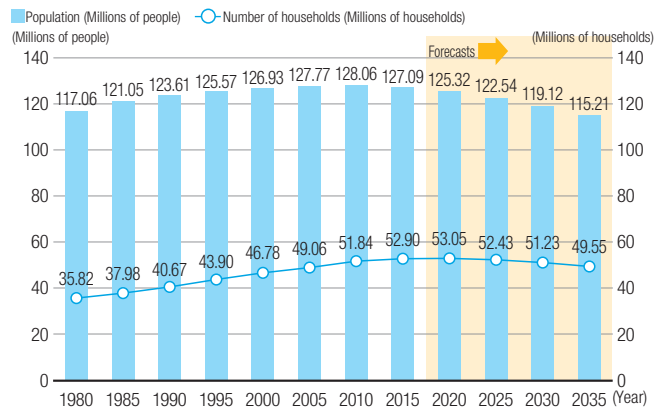


Source: Ministry of Finance "Statistics and Interest Rate Information"

Declining trend in national population and number of households over the medium to long term (Construction and Real estate)

- Having peaked at 128.06 million in 2010, Japan's population is projected to decline 10% by 2035 to 115.21 million.
- However, the number of households is projected to increase until 2019, and then begin a gradual decline.
- The number of single-person households is projected to continue increasing beyond 2020 before finally starting to decline in the 2030s.

Population and number of households

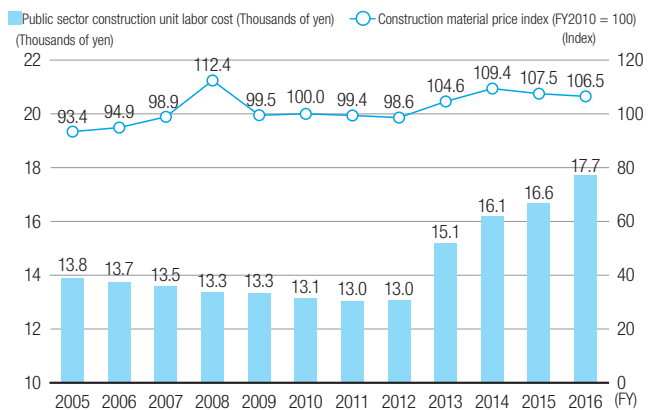


Source: National Institute of Population and Social Security Research
"Population Projection for Japan" and "Household Projection for Japan"

Unit labor cost and construction material prices in the Japanese construction market (Construction)

- The unit labor cost remained at a low level for a long period, but has been rising constantly over the past four years.
- Construction material prices have remained level overall.

Public sector construction unit labor cost and construction material price index

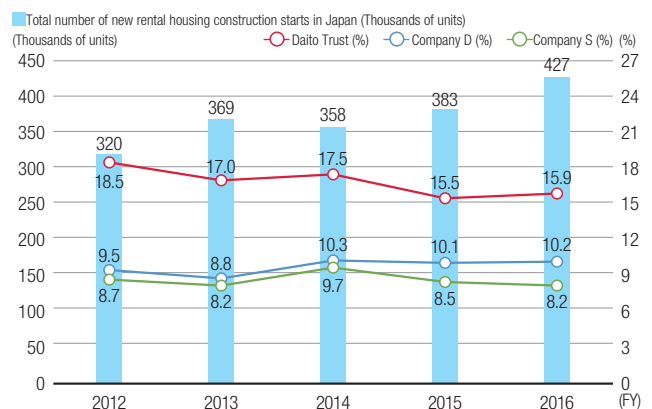


Source: Cost Information for Building (CIB), Research Institute on Building Cost Unit Price and Cost Data for Building Construction (Construction and Civil Engineering), Economic Research Association

Number of new rental housing construction starts and market shares of industry players (Construction)

- The number of new rental housing construction starts in Japan has tended to increase since FY2011. FY2016 followed on from FY2014 with an increase to mark two consecutive years of growth.
- Market shares of construction industry players have been generally constant.
- Daito Trust retains the top share in the industry.

Number of new rental housing construction starts and shares of industry players



Source: Ministry of Land, Infrastructure, Transport and Tourism's "Housing Starts Statistics" and respective company data

Liberalization of the energy retail markets

(Other)

- The full liberalization of the gas retail market will newly open up Japan's approximately ¥2.2 trillion gas retail market.
- Approximately 26 million households and small businesses will become potential customers.



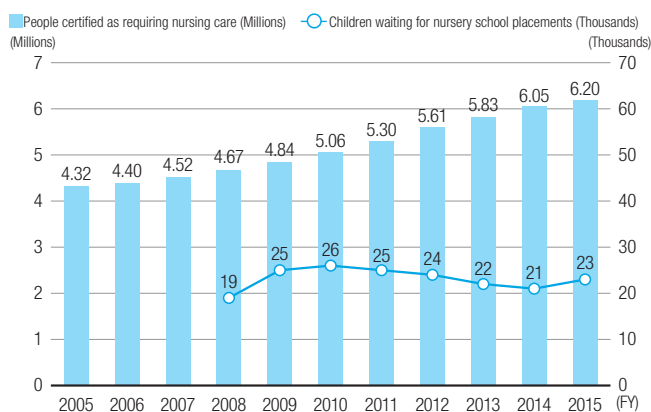
Source: Ministry of Economy, Trade and Industry
"Preparations for Full Liberalization of the Gas Retail Market"

Increase in people certified as requiring nursing care and increase in children waiting for nursery school placements

(Other)

- The number of people certified as requiring nursing care under the long-term care insurance system has increased steadily over the past 10 years, along with emerging needs for nursing care support. Japan's nursing care support market is expanding rapidly.
- The number of children waiting for nursery school placements has been constant every year. Expectations are rising for private-sector expertise to resolve the distorted demand-supply gap in the nursery school industry.

Number of people certified as requiring nursing care or support and number of children waiting for nursery school placements



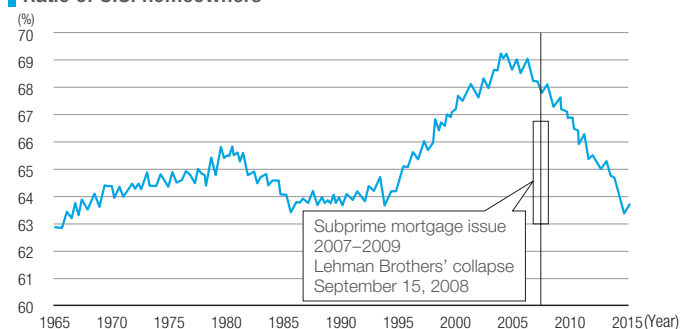
Source: Ministry of Health, Labour and Welfare "Report on Nursing-Care Insurance Business" and "Summary Report on Situation concerning Nursery Schools"

Increasing demand for rental housing in overseas markets

(Other)

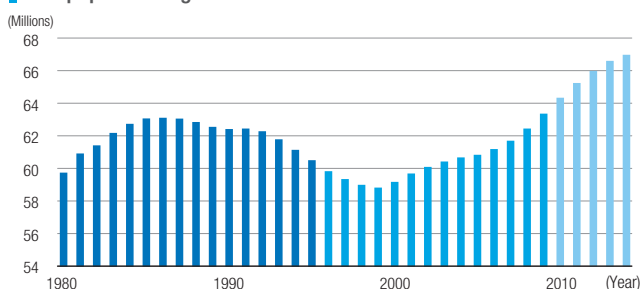
- In the U.S. real-estate market, the ratio of homeowners has been declining since the financial crisis stemming from the subprime mortgage issue and the Lehman Brothers' collapse.
- The U.S. population aged 20–34 is increasing, and lifestyle changes are seeing people marry and have children later in life. These changes are driving an increase in people who choose to move into new rental housing.

Ratio of U.S. homeowners



Source: Census, Urban Institute

U.S. population aged 20–34



Source: Census, Zelman and Associates, Greystar

Performance Highlights

		'06/3	'07/3	'08/3	'09/3	'10/3	'11/3
Operating results	Unit						
Net sales	Billions of yen	538.6	564.3	641.0	954.8	972.6	1,001.1
Construction Business	Billions of yen	419.8	441.2	439.9	469.6	465.5	430.2
Real Estate Business	Billions of yen	89.8	93.8	171.3	464.7	483.5	545.2
Other Businesses	Billions of yen	28.9	29.1	29.7	20.4	23.4	25.6
Gross profit	Billions of yen	172.9	181.0	187.1	181.8	188.7	195.3
Construction Business	Billions of yen	130.1	135.4	141.8	150.3	166.4	167.0
Real Estate Business	Billions of yen	23.3	25.0	28.0	25.3	14.4	19.2
Other Businesses	Billions of yen	19.5	20.5	17.1	6.2	7.8	9.0
Operating income	Billions of yen	63.7	72.6	66.2	70.3	71.1	73.7
Operating income margin	%	11.8	12.9	10.3	7.4	7.3	7.4
Net income attributable to owners of the parent	Billions of yen	36.8	41.8	44.4	42.1	45.3	43.1

Financial position

Owner's equity	Billions of yen	242.0	274.6	300.8	295.7	311.5	131.1
Equity ratio	%	55.0	58.0	56.5	54.7	55.8	24.6
ROE	%	15.6	16.2	15.5	14.1	14.9	19.5

Shareholder return

EPS	Yen	299	345	367	349	386	384
Cash dividends per share	Yen	87	94	232	104	193	229
Payout ratio	%	29.1	27.2	63.2	29.8	49.9	59.6
Total return ratio (including treasury stock acquisition)	%	76.7	74.0	81.7	57.2	79.8	526.0

Indicators related to the construction business

Value of orders received	Billions of yen	414.2	408.6	498.5	437.2	435.2	503.4
Number of construction sales staff	People	2,579	2,985	3,087	3,020	2,830	2,981
Net sales from completed construction*	Billions of yen	419.8	441.2	439.9	469.6	465.5	430.2
Gross profit margin for completed projects	%	31.0	30.7	32.3	32.0	35.8	38.8

* In accordance with the revision of the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," from FY2010, the sales from building and repairs of Daito Building (now Daito Kentaku Partners) that had previously been included under other in net sales-construction contracts were recorded under net sales-real estate.

Indicators related to the real estate business

Number of tenant recruitment	Thousands	133	146	159	171	180	204
Rental housing units under management	Thousands	404	454	502	552	598	645
Rent-based occupancy rate on a revenue-from-rent basis (March)	%	97.0	96.6	96.4	95.6	94.6	96.0

Cash flows

Cash flows provided by operating activities	Billions of yen	66.1	60.3	25.4	30.2	46.0	60.7
Cash flows (used in) provided by investing activities	Billions of yen	(20.0)	(13.1)	12.4	(13.4)	(26.8)	49.9
Cash flows used in financing activities	Billions of yen	(29.7)	(12.1)	(10.7)	(39.6)	(29.8)	(94.9)
Cash and cash equivalents at end of period	Billions of yen	146.1	181.2	208.2	181.5	170.7	184.8

Mid-Term Management Plan

'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'20/3	'21/3	Year-on-year change (^{'17/3} / _{'16/3})
1,087.1	1,152.4	1,259.6	1,353.1	1,411.6	1,497.1	1,585.0	1,658.0	1,725.0	1,802.0	106.1%
468.6	489.5	545.3	589.1	595.3	623.9	652.0	672.0	684.0	704.0	104.8%
589.9	630.4	677.6	723.8	774.8	824.6	869.7	917.9	969.9	1,023.6	106.4%
28.5	32.4	36.6	40.1	41.4	48.5	63.3	68.1	71.1	74.4	117.1%
214.1	218.4	233.0	238.9	254.4	285.5	296.3	304.8	313.8	325.5	112.2%
175.1	172.1	175.2	172.5	176.2	197.6	199.3	201.3	204.9	210.9	112.1%
29.2	35.3	45.3	52.2	62.6	72.7	76.3	80.5	85.0	89.8	116.1%
9.7	10.9	12.4	14.1	15.5	15.2	20.7	23.0	23.9	24.8	98.0%
81.9	82.4	89.7	91.5	101.0	120.1	124.0	129.0	133.0	138.0	119.0%
7.5	7.2	7.1	6.8	7.2	8.0	7.8	7.8	7.7	7.7	+0.8P
47.1	51.6	55.2	56.1	67.2	82.1	86.0	89.0	92.0	95.0	122.1%
158.3	191.2	224.8	240.5	250.1	276.0	312.8	330.8	349.3	371.4	110.3%
27.8	31.0	32.9	34.3	34.3	35.3	38.7	39.2	39.2	39.3	+1.0P
32.5	29.6	26.6	24.1	27.4	31.2	30.0	30.0	30.0	30.0	+3.8P
594	648	693	710	863	1,072	1,118	1,184	1,253	1,324	124.2%
297	324	347	375	432	536	559	592	627	662	124.0%
50.0	50.0	50.0	52.8	50.1	50.0	50.0	50.0	50.0	50.0	-0.1P
50.0	50.0	80.0	82.8	80.1	80.0	80.0	80.0	80.0	80.0	-0.1P
611.7	655.1	625.8	660.4	693.0	655.2	683.0	705.0	729.0	752.0	94.6%
3,222	3,204	3,325	3,247	3,420	3,383	3,500	3,620	3,740	3,860	98.9%
468.6	489.5	545.3	589.1	595.3	623.9	652.0	672.0	684.0	704.0	104.8%
37.4	35.2	32.1	29.3	29.6	31.7	30.6	30.0	30.0	30.0	+2.1P
214	220	241	253	267	281	298	314	327	344	105.4%
694	747	805	864	923	978	1,038	1,100	1,163	1,228	106.0%
96.8	96.7	96.9	96.7	96.8	96.9	96.9	96.9	96.9	96.9	+0.1P
77.8	87.8	83.8	59.4	78.8	124.0	CAGR (10 year period from '07/3 to '17/3) Net sales 10.2% Number of construction sales staff 1.2% Operating income 5.1% Number of tenant recruitment 6.7% EPS 12.0% Rental housing units under management 7.9%				
(11.3)	(10.3)	(59.4)	0.9	(93.5)	(33.4)					
(29.4)	(36.2)	(39.1)	(60.8)	(57.9)	(72.2)					
221.0	264.1	253.2	255.5	182.6	200.1					

FACT

STRATEGY

ACTIVITIES

FINANCE



The Daito Group will ascertain its unique strengths and use these as a source of competitive strength while aiming to be a company people can trust with their lives going forward.

“Entrusted with land that was built on or land to build on” The Daito Group Reaches 1 Million Units Under Management

Since its founding in June 1974, the Daito Group has offered ways for landowners to make effective use of their land through leasing, and has provided tenants with secure, safe housing and convenient lifestyles. With a business centered on our proprietary Lease Management Trust System, we have expanded by offering added value tailored to the needs of the times while striving for synergies between our Group companies. As a result, in January 2017, we reached 1 million units under management. This achievement would not have been possible without the ongoing support of our shareholders and other stakeholders, support for which we are deeply grateful.

In the year ended March 2017, the Daito Group refined the slogan central to its mid-term management plan—“Strongly Pursuing the Potential of Rental Housing”—to establish a new brand message that says, “生きることは、託すこと。(Life is Built on Trust.)” This message incorporates our desire to go beyond rental housing development, contributing to society through our energy business, regional revitalization and other activities, and ultimately growing as a company in which people are willing to entrust a part of their lives.

“Entrusted with land that was built on or land to build on”

At this important juncture, we are more aware than ever of the significance of the word “trust” as it is incorporated in our Group name. At the same time, our new branding takes us beyond the boundaries of rental housing, and as we mature into a company in which people can entrust their lives, we will enhance corporate value with the goal of becoming a group our shareholders can truly depend on.

熊切直美

Naomi Kumakiri

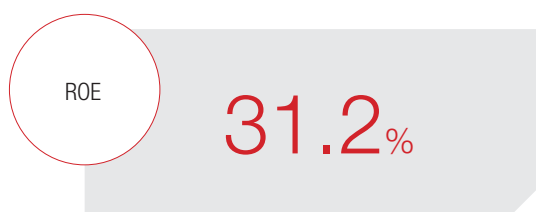
President and Representative Director (CEO), Daito Trust

Management Strategy

The Group delivered record-high profit by achieving increases in sales and earnings for the ninth straight year.

In the fiscal year ended March 31, 2017 (FY2016), the Daito Group achieved new records in net sales and all levels of earnings for a ninth straight year of sales and profit growth. Net sales increased 6.1% year on year to ¥1,497,104 million, operating income increased 19.0% to ¥120,162 million, ordinary income increased

18.0% to ¥124,509 million and net income attributable to owners of the parent increased 22.1% to ¥82,168 million. Performance significantly exceeded targets for both ROE, at 31.2% (target: 20.0% or higher), and the operating income margin, at 8.0% (target: 7.0% or higher).

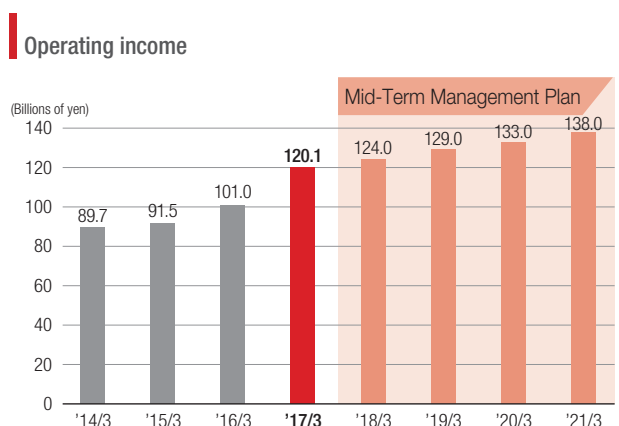
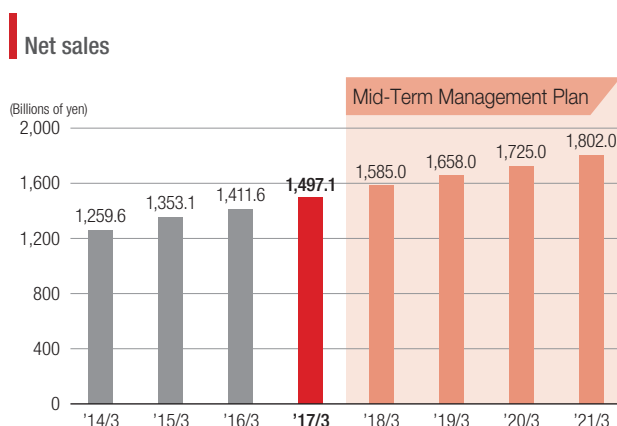


Looking at results by segment, in the construction business segment, by clearing a large orders in hand, net sales from completed construction rose 4.8% year on year to ¥623.9 billion, reaching an all-time high. The gross profit margin for completed construction contracts increased by 2.1 percentage points year on year to 31.7% with improved profitability on completed construction contracts due to a sales price revision and partial relief from the increase in labor costs. On the other hand, the Group's housing construction starts increased by 14.3% year on year to 67,913 units and market share increased by 0.4 of a percentage point to 15.9%.

In the other businesses segment, sales increased 17.1% year on year to ¥48.5 billion and the gross profit margin dropped 6.1 percentage points to 31.4%. The main factors driving growth were increases in units serviced by the LP gas supply business, users of a day-care service for elderly people, and subscribers to a small-amount and short-term insurance business, as well as expansion of the number of houses supplied in the electricity business.

In the real estate business segment, sales increased 6.4% year on year to ¥824.6 billion, mainly due to an increase in rental revenue from an increase in whole-building lease properties and increased use of services that do not require a guarantor. The gross profit margin also increased 0.7 of a percentage point to 8.8%.

FY2016 was also a busy year for Daito Group topics. It was a year in which the Group transformed with the establishment of Daito Kentaku Leasing Co., Ltd., formulation of the new brand message, "Life is Built on Trust." and achievement of 1 million units under management. Within the Group, we built a workplace environment enabling efficient, healthy work practices by reducing overtime hours, enhancing the paid leave usage rate and focusing on work style reforms with a goal of promoting diversity.



Management Strategy

We will maintain a total return ratio of 80% to return profits to shareholders.

The Daito Group maintains stable dividend payments. In specific terms, our dividend payments consist of a base dividend and an additional profit return component that reflects our business performance.

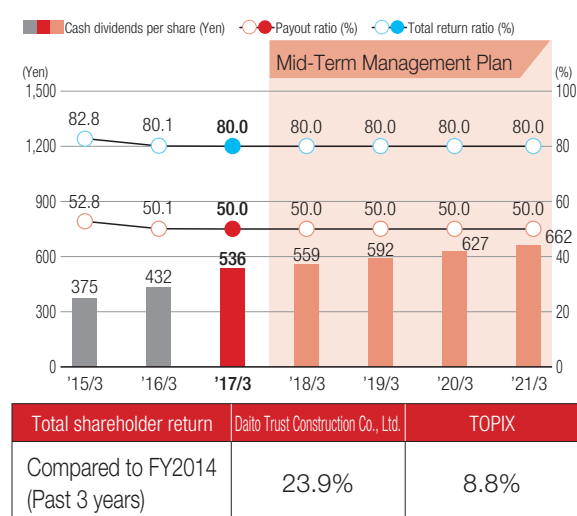
We have issued an annual cash dividend payment of ¥536 per share for FY2016, a ¥104 increase compared to the previous fiscal year. In addition, we plan to spend ¥24.7 billion, or 30% of net income attributable to owners of the parent for the fiscal year under review, for the acquisition of 1.58 million shares of treasury stock and to extinguish these shares in March 2018. As a result, the payout ratio will be 50%. Combined with the acquisition and extinguishment of treasury stock worth 30% of annual net income, the total return ratio will be 80%.

For FY2017, we plan to issue an annual cash dividend of ¥559 per share, an increase of ¥23 year on year. We also plan to continue to acquire and extinguish treasury stock.

The total shareholder return over the three-year period from FY2014 to FY2016 was 23.9%. This has even outperformed TOPIX (8.8%) over the same period.



Cash dividends (per share)/Payout ratio/Total return ratio



Identify new opportunities in social change and leverage unique strengths to move ahead with business.

In addition to the revisions to the Inheritance Tax Law in January 2015, the Bank of Japan implemented fiscal easing measures, resulting in continued low interest rates on apartment loans and asset utilization demand among landowners. There has also been an increase in single-person households and this trend is expected to continue, together with growing demand for single-person households. Accompanying these changes, the total number of households will increase going forward and we forecast continued brisk tenant demand for rental housing.

In such an environment, the Daito Group will work toward further expanding its business on a double axel of the Core Businesses of construction and real estate and New Core Businesses of energy, nursing care and child-care and overseas business, taking into account social changes such as the impact of declining population on regional cities and liberalization of energy retailing.

The Group's unique strengths in the construction business include construction capabilities boasting the highest number of housing units supplied supported by product development and technological capabilities. We will move ahead with reform of our direct sales capabilities, a traditional strength, to build up our framework to a higher level.

In the real estate business, as the borrower's market trend continues to strengthen, we will expand our channels leveraging SNS and artificial intelligence (AI) and enhance provision of our services for tenants' comfortable and secure living, promoting original initiatives to respond to diversifying needs. Furthermore, restructuring the organization toward forming a new leasing framework in May 2017 enabled provision of a higher level of expertise in services as a matter of course, and we will also focus on enhancing the quality of the Lease Management Trust System.

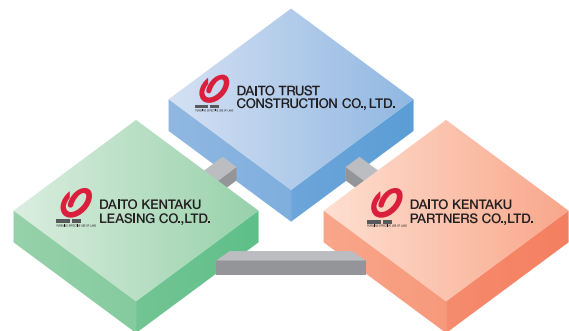
In our other businesses, we will leverage our rental housing stock to capture opportunities afforded by the synergies of our Core Businesses by engaging in activities without being bound by industries to meet the wide range of needs of our customers.

To continue to grow as a leading company in the building rental business in an ever-changing business environment, we must continue to be a company entrusted with part of people's lives, including total asset services to landowners. The Daito Group will ascertain its unique strengths and use these as a source of competitive strength while aiming to be a company people can trust with their lives.

We will grow by harnessing our uniqueness and keeping pace with ever-evolving needs and market climates.

- **Enhancing operational efficiency and specialization through a three main company structure**

In May 2017, the Daito Group began full-scale operations under a new structure that positions three companies as its main subsidiaries: Daito Trust Construction Co., Ltd. (rental building proposals, design and construction), Daito Kentaku Leasing Co., Ltd. (dedicated real estate brokerage for Daito Group properties), and Daito Kentaku Partners Co., Ltd. (rental property management and marketing to real estate firms; name changed from Daito Building Management Co., Ltd.). By having these three main companies undertake the operations previously handled by just two—Daito Trust Construction and the former Daito Building Management—we will pursue further segmentation and streamlining of those operations, while enhancing specialization.



- **Making medium- to long-term business proposals in tune with changing lending standards**

In the fiscal year ended March 2017, there were some reports in the media about the market for apartment loans overheating and the tightening of lending standards. The Daito Group believes that tougher lending criteria to create a sound rental housing market should be welcomed.

The Group has expanded business around the Lease Management Trust System by flexibly responding to market conditions and customer needs. Moving ahead, we will keep offering building rental business proposals that are just right for each occasion by anticipating market trends and customer needs and adapting business plans to them.

- **Winning orders through direct sales driven by cold calling**

Demand for building rental properties is rising on the back of better employment and income conditions, lower mortgage rates, and Inheritance Tax Law revisions. Home builders are focusing on rental housing and aggressively marketing to manifest customers using feedback and referrals.

In contrast, the Daito Group excels at direct sales. Sales staff will continue increasing orders by directly visiting land-owners several times to uncover untapped demand for land utilization.

- **Expanding into overseas rental markets**

Demand for rental housing in overseas markets continues to grow as lifestyles change. The Daito Group has positioned overseas business as one of its New Core Businesses. We have already started with Daito Trust Construction Co., Ltd. engaging in U.S. real estate investment and Housecom Co., Ltd. offering the GLOBAL SUPPORT PLAN, as well as other rental housing services targeting foreigners. The Group is also looking to deploy overseas the expertise of its Lease Management Trust System, which is one of our strengths, and will pursue business opportunities within and beyond Japan's borders.

- **Setting ourselves apart with total asset services**

The population and number of households in Japan are on a downtrend for the medium to long term. To survive in a rental housing market headed for tougher competition, differentiating ourselves from other companies is essential.

Daito Mirai Trust Co., Ltd. provides real estate management trust services and asset succession consulting, develops specialized services for owners, and offers consulting accompanying construction sales. By continuing to be a company that offers total asset services not limited to the building rental business, we aim to set ourselves apart from rivals.

- **Proactively venturing beyond the Daito Group**

The Daito Group has positioned the energy business, nursing care and childcare business and overseas business as New Core Businesses. We will expand operations through those domains as well as the Core Businesses of construction and real estate. Currently, we are concentrating on delivering added value to tenants and owners while striving to generate synergies with Core Businesses. Going forward, we aim to proactively put the products and services on which a huge market on the scale of 1 million units was built into use outside of the Group as well, and grow New Core Businesses.

- **Publicizing New Core Businesses to gain status as a comprehensive living solutions company**

The Daito Group is involved in diverse businesses. It covers extensive ground including from land utilization, rental housing proposals, nursing care and childcare facility establishment and operations and energy supply including gas and electricity. Such operations are adding economic vigor to major regional cities and helping regional revitalization.

Much still needs to be done to promote our New Core Businesses. By actively publicizing them as we expand business, we will take great strides towards our goal of being recognized by society as a comprehensive living solutions company.

Management Strategy

Aiming for a 10th Consecutive Year of Increased Sales and Profits in FY2017

We aim to expand business further by taking fast, appropriate actions in our various domains of operation with an eye to FY2020 targets set out in the mid-term management plan.

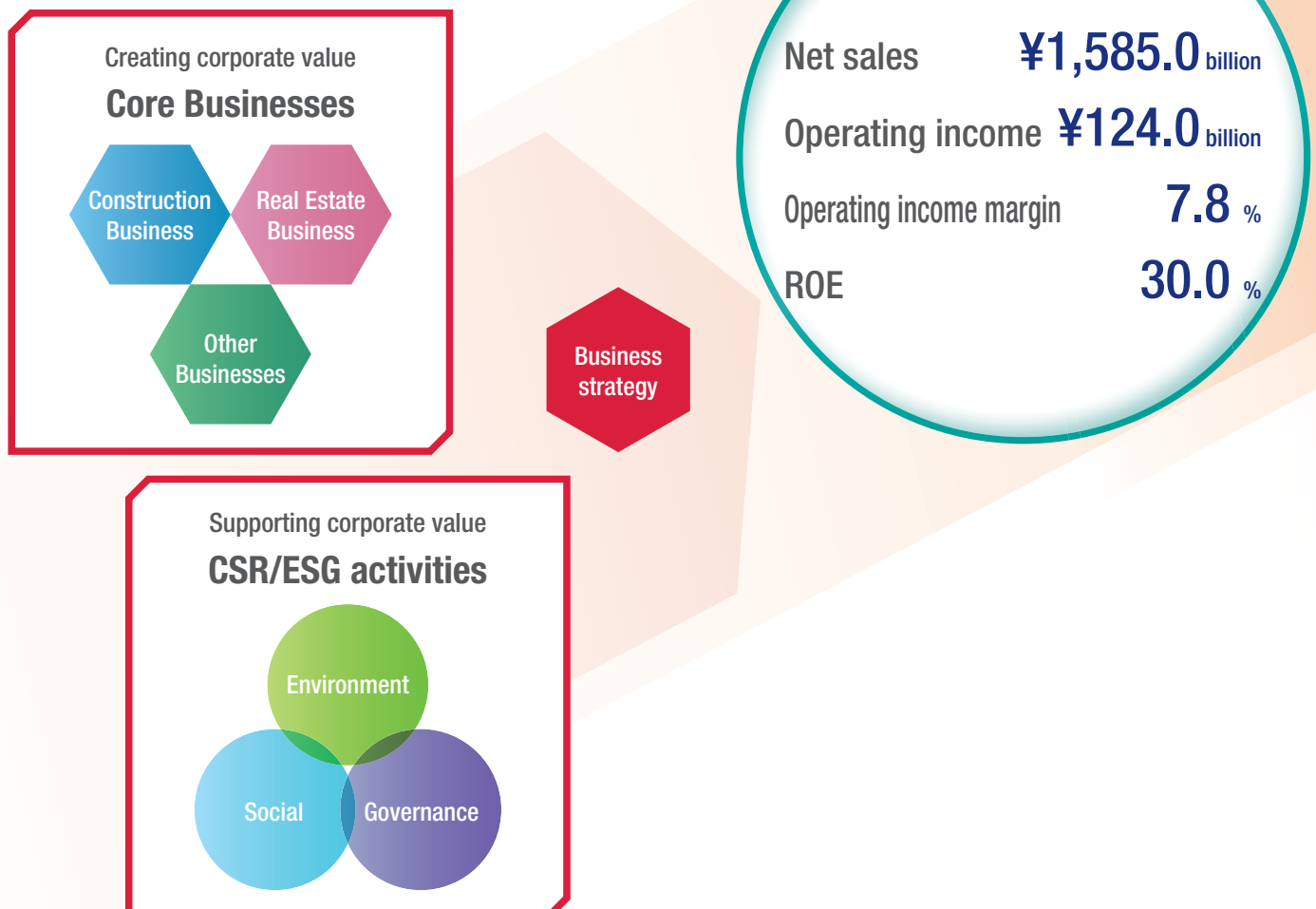
In the construction business, we will channel our energies into bolstering the construction sales system—our top priority. To reinforce our sales framework, we will return to our roots in direct sales, one of our strengths. By paying careful attention to each customer, we aim to increase our ratio of new customers and reach our target market share of 17% or more of construction starts. We will also continue to strengthen our construction sales capabilities. Our target is a sales force of 3,500 people, an increase of 117 staff from the end of the previous fiscal year. In addition to bolstering sales staff numbers, we will work to enhance the sales structure for the construction business overall. For instance, we will strengthen ties with financial institutions, tax accounts, and the like to

keep the contracts flowing through repeat business and referrals. We will also reinforce our “tenant set” (business matching up landowners and companies searching for a site for a new location) and feedback marketing systems, as well as scrap-and-build branches in line with tenant demand.

As for design and construction work, we will strengthen ties with local partners and continually strive to keep costs down and otherwise enhance our cost competitiveness. At the same time, we will actively undertake new technology R&D to meet the needs of the times including examining steel frame construction techniques suited to needs in the metropolitan area and developing eco-friendly housing.

In the real estate business, FY2017 marks the start of the new leasing structure wherein Daito Kentaku Leasing Co., Ltd. handles direct brokerage business, while Daito Kentaku Partners Co., Ltd. manages properties and

Roadmap to Achieving the Goals of the Mid-Term Management Plan



**Contributing to society
by realizing
extensive and effective
use of limited land.**

FY2020 Targets

Net sales	¥1,802.0 billion
Operating income	¥138.0 billion
Operating income margin	7.7 %
ROE	30.0 %

handles indirect brokerage business for real estate companies. While promoting a smooth transition to the new structure, we will strive to enhance quality and services from the standpoints of owners and tenants.

To keep tenant recruitment at a high level, driving ahead with corporate branding as well as E-heya Net brand augmentation will be important. The Group sponsors the Daito Kentaku E-heya Net Ladies tournament, one of the competitions on the Japan LPGA (Ladies Professional Golfers' Association of Japan) Tour and holds various campaigns and events to build brand recognition. Furthermore, we will keep working to respond to increasing demand for housing in Japan from foreigners by offering them more and better ways to look for places to live.

In the other businesses segment, we will aggressively develop energy, nursing care and childcare, and overseas operations as New Core Businesses befitting our goal of being a company people can trust with their lives and seize new business opportunities. We will remain

bullish about expanding business in domains where there are strong synergies with Core Businesses. That includes supplying LP gas and electricity to more units, expanding the nursing care and childcare business, and strengthening the insurance service business. In the overseas business, we will persist in developing and discovering real estate business in places like the United States and Asia.

Here at the Daito Group, we believe we have great potential as one corporate entity to contribute through our operations to regional revitalization espoused by the government, as well as addressing social issues of concern such as the 2040 problem. Moving ahead, we will continue to shore up our corporate foundation and bolster our business development capabilities while staying ahead of social change. In doing this, we aim to be a company that customers are comfortable entrusting a part of their lives to and a company where employees thrive, and thereby keep living up to stakeholders' expectations.

Construction Business

Review of Operations

Net sales from completed construction hit a new record high in FY2016 of ¥623.9 billion

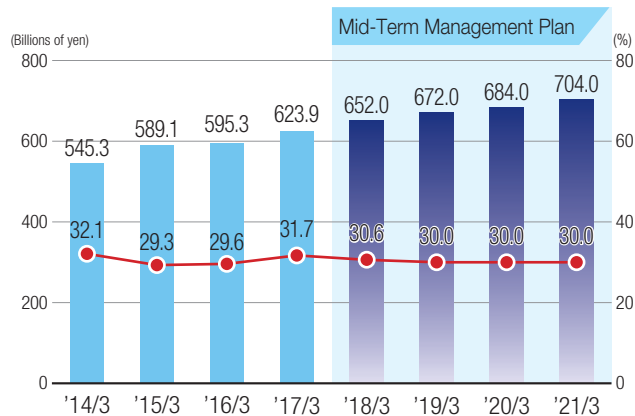
In the construction business, sales reached an all-time high of ¥623.9 billion, growing 4.8% year on year on the back of a robust orders in hand and steady work to complete projects. The gross profit margin for completed construction contracts rose 2.1 percentage points year on year to 31.7%, buoyed by better construction profitability from price revisions, in addition to some easing of the rise in labor costs. Also, gross profit from completed construction grew 12.1% year on year to ¥197.6 billion. However, orders received declined 5.4% year on year to ¥655.2 billion. Nationwide, new rental housing construction starts grew 11.4% year on year to 427,275 units, and Daito Trust's market share increased 0.4 of a percentage point year on year to 15.9%.

For FY2017, we have designated strengthening construction sales as a top priority. Along with enhancing the sales force, we will develop branches based on market scale and long-term tenant demand, reflecting a marketing survey covering about 4,580 areas nationwide, and otherwise

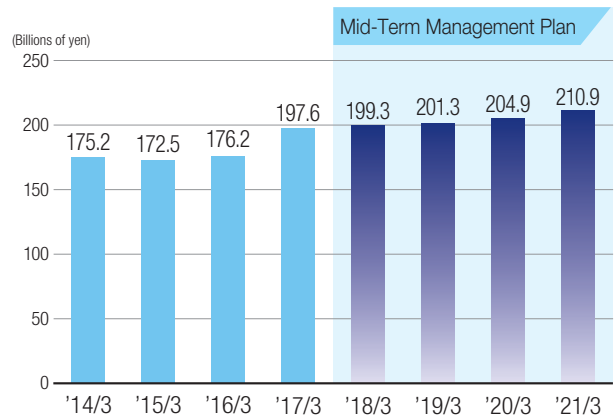
deploy our abilities with market growth potential in mind. Moreover, we will persist with consulting sales focusing on asset utilization and asset succession. In FY2017, we expect orders to increase 4.2% year on year to ¥683.0 billion, net sales from completed construction contracts to grow 4.5% year on year to ¥652.0 billion, and operating income from construction business to rise 3.4% to ¥112.8 billion.



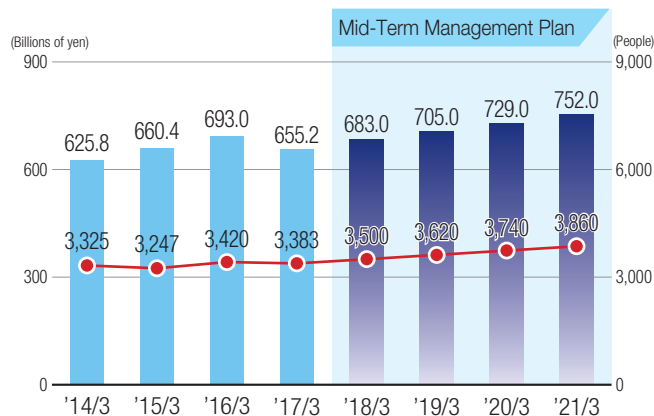
Net sales from completed construction (Billions of yen)/ Operating income margin for completed construction contracts (%)



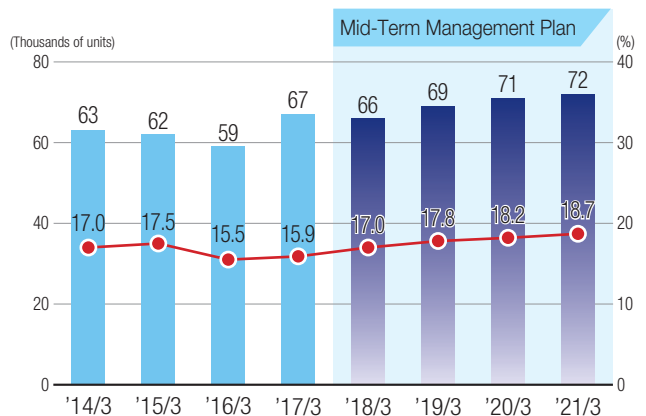
Gross profit from completed projects (Billions of yen)



Value of orders received (Billions of yen)/ Number of construction sales staff (People)

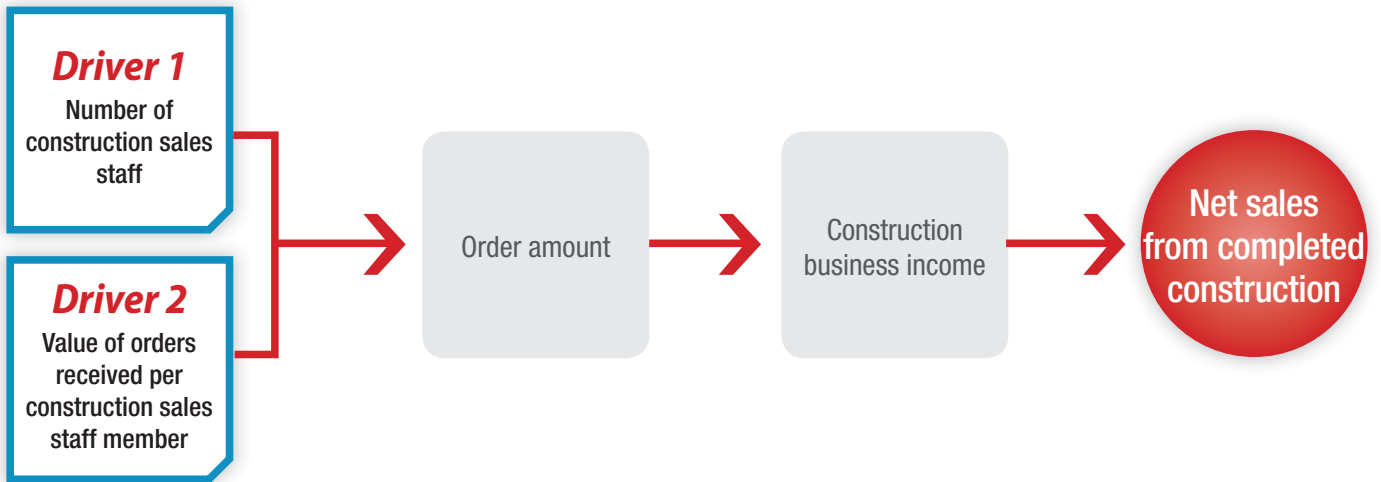


Number of new rental housing construction starts of the Company (Thousands of units)/ Share of new rental housing construction starts of the Company (%)



Source: Daito Construction Trust data

Growth Drivers in the Construction Business



Driver 1 Number of construction sales staff

▶ Building strong construction sales through hiring and training

We will cultivate new customers to boost the value of orders received.

In terms of specific steps, we will firstly recognize anew our unique style of direct construction sales and put it into full play. We will work to ensure that sales staff spend their mornings focusing on developing new customers and engage in activities like customer follow-ups and visits to further gauge prospective clients in the afternoons. In addition, we aim to bring the new customer contract ratio to 50% or higher by enhancing support for sales staff including by rebuilding repeat visits and other follow-up tools, systems and assessments, and so forth.

On the personnel development front, we will strive to

create professionals capable of attaining a new contract acquisition rate of 50% within three years of joining the Company. Naturally, we will utilize training for new recruits but we will also introduce training tailored to experience at the Company so far, job positions, and so on. Furthermore, we will establish a sales force of 3,500 people by adding 117 sales staff compared with the end of FY2016.

Number of construction sales staff



Driver 2 Value of orders received per construction sales staff member

▶ Securing an edge via multiple sales channels ready for changing markets

To simultaneously expand the value of orders received and enhance operating efficiency, we will work to boost our capabilities and contract volumes across a wide range of markets—not just rental housing. We will take steps to augment sales channels to meet a broad array of market needs such as making more “tenant set” proposals bringing together logistics facilities and convenience or other stores, as well as build up asset succession services.

Additionally, we will shore up the organization with an eye to market scale and changes in tenant demand. We

will establish new branches and streamline existing ones, charging ahead with sales framework reinforcement in ordinance-designated cities and Tokyo’s 23 wards. We will also put even more energy into new product development, one of our strengths.

Value of orders received per construction sales staff member



Initiatives

Development of a new brand message: “Life is Built on Trust.”

In March 2017, we began laying the foundation to realize a powerful corporate brand by establishing the new brand message “Life is Built on Trust.” to further elevate our medium-term management slogan. It embodies our aim to be a company that customers are comfortable entrusting a part of their lives by contributing to society through the energy business, regional revitalization, and more.

In FY2017, we will utilize TV commercials, newspaper ads, and other media to get our brand image established, while expanding business linked to our brand message and proposing new value. By showing Daito Group’s strengths and what kind of company we want to be, we aim to build up the Daito Group’s corporate brand affinity.

生きることは、託すこと。

New brand message “Life is Built on Trust.”

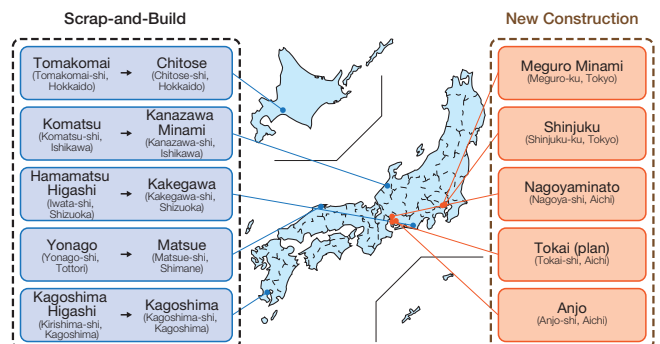


Posters with our new brand as the theme

Reworking our branch network to meet tenant demand

Presently at the end of March 2017, Daito Trust is working to develop 221 branches nationwide. In FY2017, the Company will open five newly constructed branches to reinforce sales capacities in ordinance-designated cities and the metropolitan area and merge five branches into neighboring branches to develop a branch network in tune with tenant demand.

Since the number of untapped landowners is high in the Nagoya area and tenant demand is also strong, we will open three new branches. Going forward, we will continue to develop branches taking into account the supply-and-demand balance.



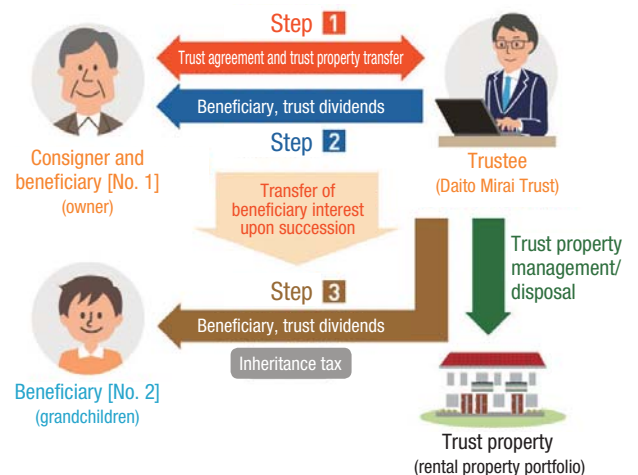
Asset succession assistance for owners

The Daito Group aims to provide unique added value not only by making proposals to landowners in the building rental business and conducting management and operation following construction, but also by incorporating a view of continuation (succession) beyond that.

Daito Mirai Trust Co., Ltd. was established in 2014 to facilitate full, smooth asset succession for owners’ families, and in September 2016, it launched the new trust product Mirai no Magokoro as one aspect of its consultation services regarding passing on apartments and rental properties to the next generation.

The product enables owners to ensure their grandchildren will attain ownership of their apartments and rental properties by going through a trust, even if there is no will. Mirai no Magokoro is set up as a will-type trust that supports the futures of owners’ grandchildren as well as ensures the owner’s wishes are carried out in the form of bequeathing real estate.

Daito Mirai Trust will continue to propose trust ideas to meet owners’ various succession needs and support their asset succession.

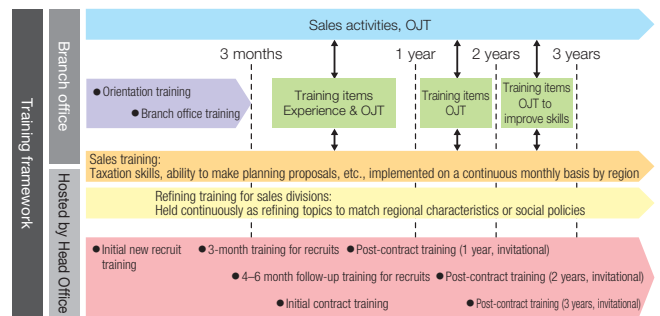


System of will-type trust arrangement

Strengthen construction sales by training human resources

In FY2017, we will concentrate on human resource development as reinforcing construction sales is a top priority. In the six-month intensive, comprehensive training course designed to turn out sales professionals, new employees will come to comprehend the effectiveness and practicality of direct sales, one of our strengths, and the advantages of our unique Lease Management Trust System through knowledge-based training, role playing and on-the-job sales training with senior colleagues. Additionally, competitive strategy training will help ensure that all staff can explain our strengths and advantages, and acquire the occupational skills to conduct sales in a way that increases confidence and satisfaction for a variety of customers. By introducing

such training tailored to experience at the Company so far, job positions, and so on, we will strengthen our sales capabilities.



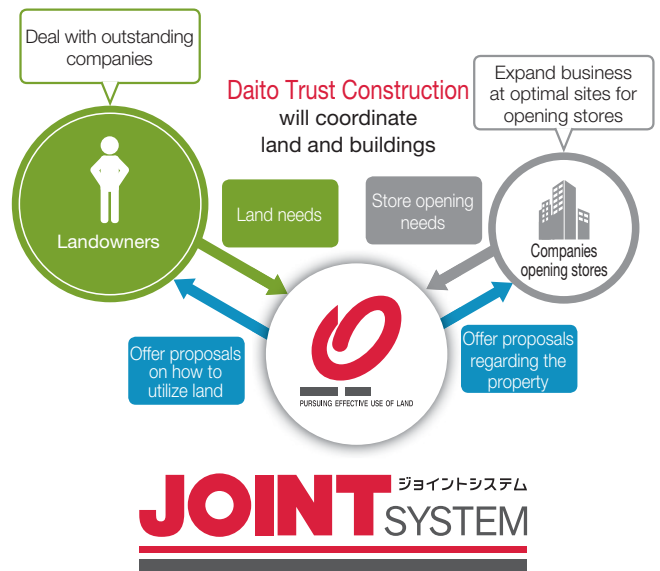
Creating further sales opportunities by expanding contact with corporate clients

We are expanding our sales channels to increase contract amounts in the market for solutions offering something extra.

We are using the Joint System, which matches up landowners looking to utilize land and companies searching for a site to open a new convenience store or the like, as fuel for expanding contracts by increasing owners' business plan options.

We also continue to leverage renovation and other plans to tie referrals from financial institutions and real estate companies to contracts.

Armed with our unique solutions, we will keep taking a variety of initiatives.



Developing products selected for their significant added-value

We are researching rental housing tenants' latest trends and developing high-added-value products that customers will choose.

Multifamily rental housing tenants are becoming increasingly conscious of crime prevention. We will therefore develop products to meet heightened crime prevention needs. In February 2017, the Company rolled out CONTE III. This new rental housing product is standardly equipped with items offering enhanced security to provide tenants with a safe and secure home.

Looking ahead, we aim to deliver a platform for stable leasing business to owners by developing high-added-value products matching dual-income households, couples, and other tenants' lifestyles.



External view of CONTE III

Real Estate Business

Review of Operations

Net sales and operating income increased sharply in FY2016

Strong results from the Lease Management Trust System provided a surge in income from whole-building leases. Revenues from services that do not require a guarantor increased as well, boosting net sales by 6.4% year on year to ¥824.6 billion. Gross profit rose sharply by 16.1% year on year to ¥72.7 billion.

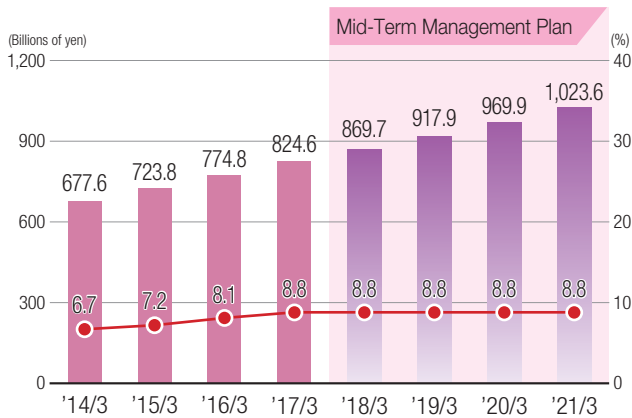
Number of tenant recruitment grew 5.4% year on year to 281,476, buoyed by promotions throughout the year and new TV commercials advertising the E-heya Net rental leasing brand. The rent-based occupancy rate on a revenue-from-rent basis also held strong at 96.9%, up 0.1 of a percentage point from last year.

In FY2017, Daito Kentaku Partners Co., Ltd. (corporate name was changed from Daito Building Management Co., Ltd.) and Daito Kentaku Leasing Co., Ltd. (spun off from the real estate brokerage unit of Daito Trust Construction Co., Ltd.) endeavored to make tenant recruitment activities even more efficient. Furthermore, we remain focused on

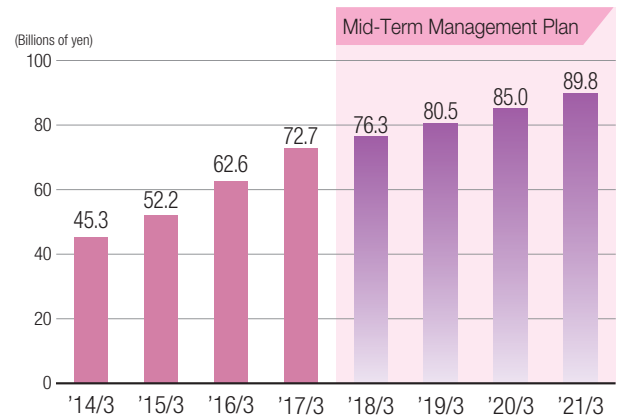
bolstering the E-heya Net brand's reach by sponsoring the Daito Kentaku E-heya Net Ladies Tournament, one of the competitions on the Japan LPGA (Ladies Professional Golfers' Association of Japan) Tour, running promotional campaigns, and taking other steps to expand the fan base and name recognition.

FY2016 Results		FY2017 Plan	
Net sales	¥824.6 billion	Net sales	¥869.7 billion
Operating income	¥29.6 billion	Operating income	¥32.4 billion

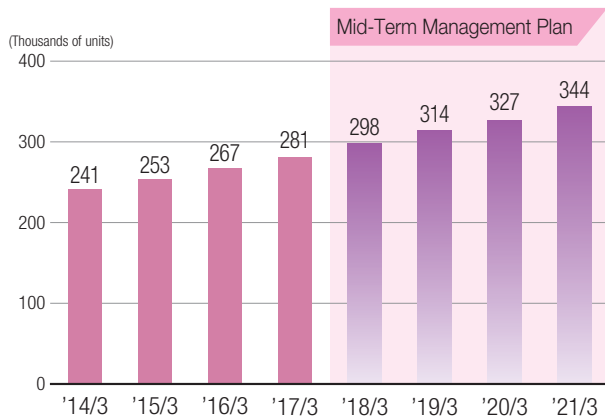
Net sales (Billions of yen)/Gross profit margin (%)



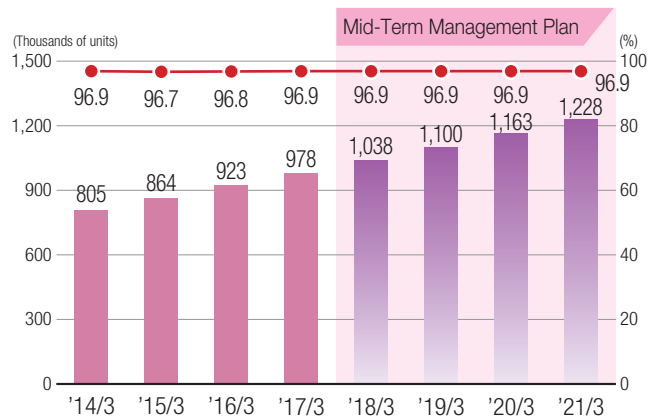
Gross profit (Billions of yen)



Number of tenant recruitment (Thousands of units)

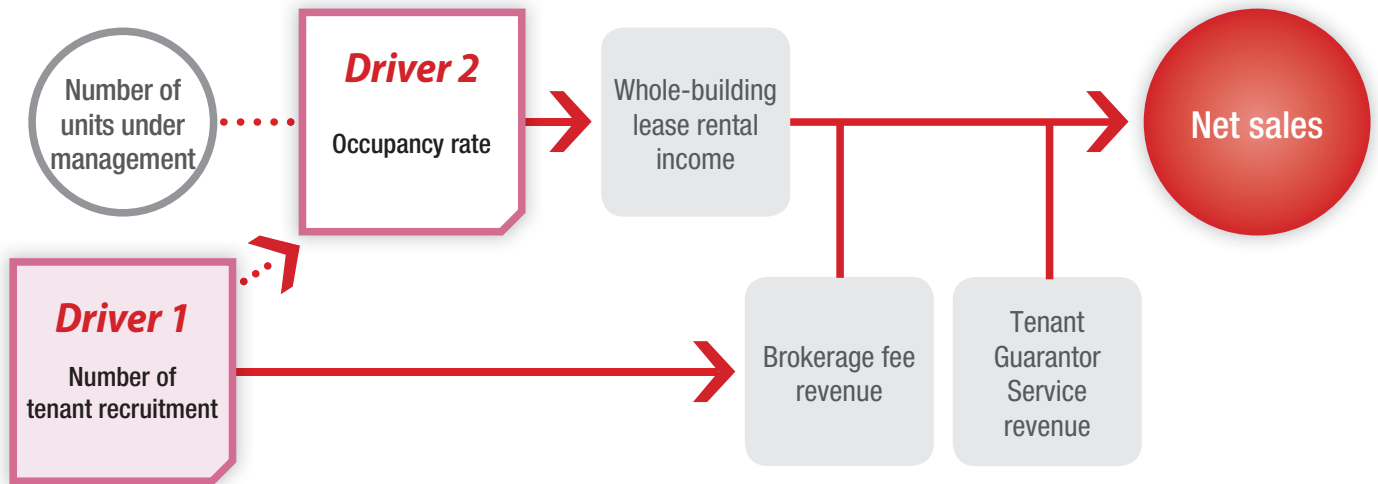


Rental housing units under management (Thousands of units)/ Rent-based occupancy rate on a revenue-from-rent basis (%)



Source: Daito Construction Trust data

Growth Drivers in the Real Estate Business



Note: The Company has control only over the items marked with this border:

Driver 1 Number of tenant recruitment

▶ Expanding tenant recruitment methods and scope under the new system

Under the new leasing system with Daito Kentaku Partners Co., Ltd. and Daito Kentaku Leasing Co., Ltd., we are working to efficiently recruit tenants.

To tap into the recent rise in demand for rental housing in Japan from foreigners, we began providing support in five languages via the Internet and at real estate offices throughout Japan. By going beyond that language assistance and offering attentive support spanning from the introduction of properties before prospective customers arrive in Japan to assistance with everyday matters, we will focus on increasing foreign tenant recruitment numbers.

Also, we will continue to bolster the E-heya Net brand including through promotional campaigns to give it greater traction. Moreover, we will keep expanding tenant recruitment methods including by enhancing customer service systems utilizing the LINE social network and artificial intelligence (AI).

Number of tenant recruitment



Driver 2 Occupancy rate

▶ Making tenant services even better to keep occupancy rates high

To maintain high occupancy rates, we will strive for even better tenant services. By strengthening and improving the functions of the DK SELECT Evolving Living app just for tenants, we will construct a platform where tenants can readily seek advice and also aim to increase tenant satisfaction by stepping up 24-hour E-heya Support Center capabilities.

Furthermore, we will expand initiatives leveraging Group synergies, including enhancement of credit card settlement services for initial fees, rent and the like as well as guarantor products for lending and rentals, to deliver services with high added value for both owners and tenants.

We will also conduct surveys and research on ever-evolving tenant demand, with dual-income households on the rise and everyday life services utilizing cutting-edge technology becoming mainstream, as part of efforts to develop products designed for today's lifestyles.

Rent-based occupancy rate on a revenue-from-rent basis



Initiatives

New leasing structure for the real estate brokerage business

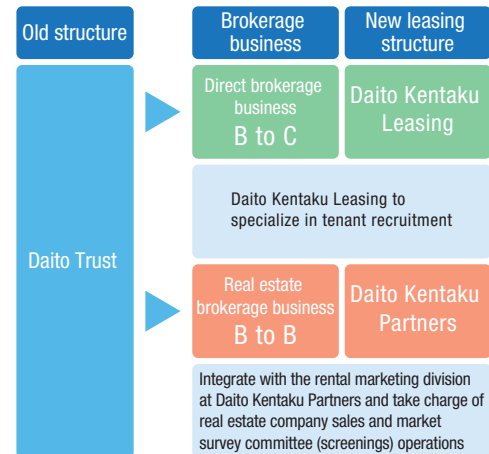
In November 2016, the Company established Daito Kentaku Leasing mainly for real estate brokerage operations. In conjunction with this, in May 2017, Daito Trust's direct brokerage business was transferred to Daito Kentaku Leasing, with its indirect brokerage business transferred to Daito Kentaku Partners, creating a new leasing structure.

The new leasing structure offers greater operational soundness and maneuverability by having Daito Kentaku Leasing specialize in direct brokerage business. It also aims to boost organizational efficiency through the indirect brokerage business within the real estate brokerage business and by integrating with the management and screening operations at Daito Kentaku Partners.

Daito Trust, Daito Kentaku Leasing and Daito Kentaku Partners will thus carry out activities as the three main companies forming the foundation for our Lease Management Trust System.

In FY2017, we will work to maintain, improve, and strengthen the Lease Management Trust System by focusing on a smooth transition to the new leasing system and

building capabilities and a collaborative framework for the three main companies.



Daito Kentaku Partners and Daito Kentaku Leasing will take charge of operations (following the transfer)

Enhancing services for foreigners seeking housing

We are strengthening services to capture demand from foreigners seeking rental housing in Japan, which is expected to grow.

In March 2016, we started a housing search support service with assistance offered in the five languages of English, Chinese, Korean, Portuguese, and Spanish and from September 2016 this was operating nationwide.

Moreover, in September 2016, Housecom also rolled out the GLOBAL SUPPORT PLAN, a service package to support housing searches and rental life for foreigners.

We will enhance services and utilize PR to tap into certain demand from foreigners, which is likely to gain further steam.



Structure for supporting foreigners



GLOBAL SUPPORT PLAN English website

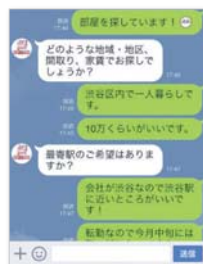
Utilizing smartphones and IT technology to meet diverse needs

We are actively adding housing search options to meet customers' varied needs.

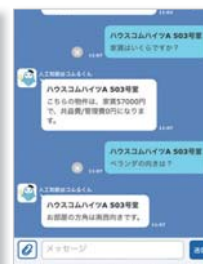
We have made looking for housing efficient and easier through the Daito Trust Rental Housing Search Support Service on the LINE social network, where prospective tenants can discuss directly with specialist operators in the region where they want to live, and the Housecom chat service that uses artificial intelligence (AI) to enable a response around the clock to inquiries from customers.

We also support rental life with the DK SELECT Evolving Living app for smartphones. It provides greater convenience to tenants by facilitating interactive communication. For example, tenants can use the app to e-mail inquire to

management companies and access notices from management companies.



Daito Trust Rental Housing Search Support Service using LINE



Artificial intelligence (AI) chat service



DK SELECT Evolving Living app's top screen

Increasing E-heya Net and DK SELECT brand familiarity through commercials

As part of efforts to expand and deepen recognition of the rental leasing brand E-heya Net, the Aurora version of the *Shinkigeki* E-heya TV commercial series was aired from December 2015 to March 2016. It was selected as a commercial that moved consumers by Tokyo Kikaku Co., Ltd. in its 25th edition of awards in December 2016. The award is given to outstanding commercials that contributed to companies' performance based on consumer surveys.

With the comprehensive rental housing brand DK SELECT, we are striving to convey that rental housing provided by the Daito Group delivers high performance and outstanding specs matching an array of lifestyles as only we can.

We will keep working to boost brand recognition.



Aurora version of the *Shinkigeki* E-heya TV commercial series



DK SELECT TV commercial

Responding to the rise in online shopping

In addition to developing new products, we are focusing on making existing rental properties more competitive.

In response to the growing use of online shopping, we are deploying new tools enabling deliveries even when no one is home such as the "e-BOX" for the largest permissible size of package for deliveries and compact delivery boxes placed at housing entrances where smaller packages can be picked up using an IC memory key. Such tools offer tenants greater convenience and help curb redeliveries, which have become a social problem.

We will tie ongoing steps to add value to existing and new properties to sustained occupancy rates.



e-BOX



Delivery box for small packages

Other Businesses

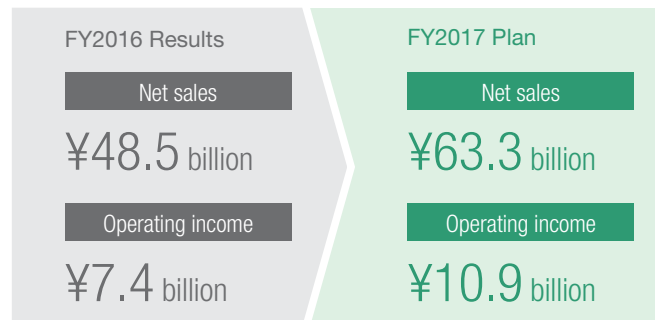
Review of Operations

Developing business leveraging synergies with Core Businesses and growing sales

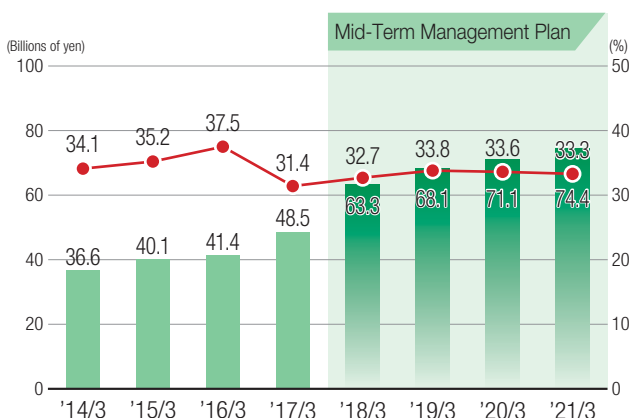
Net sales in the other businesses segment grew 17.1% year on year to ¥48.5 billion. This reflects growth in the number of houses supplied with LP gas from the Gaspal Group, an increase in the number of users at the elderly day-care centers operated by Care Partner, growth in subscriber numbers for insurance services at HOUSE GUARD S.S. Insurance, and expansion in the number of houses supplied with electricity by Daito Energy. The segment's gross profit inched down 2.0% to ¥15.2 billion, owing to the posting of asset retirement obligations of ¥2.2 billion for the future pertaining to LP gas facilities at the Gaspal Group.

In FY2017, we will naturally stay focused on the New Core Businesses—energy, nursing care and childcare, and overseas business—and expanding businesses that

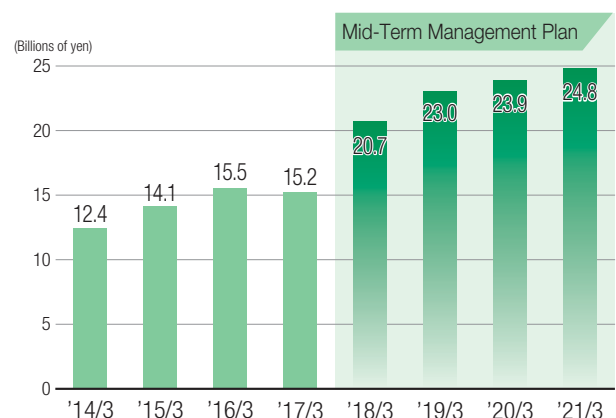
leverage strong synergies with the Core Businesses. We will work to provide services beyond the Daito Group and move into all sorts of markets beyond rental housing.



Net sales (Billions of yen)/Gross profit margin (%)



Gross profit (Billions of yen)



Source: Daito Construction Trust data

Businesses operated by Group companies

	Energy Business	Care and Nursery School Business	Overseas Business	Other Businesses
Gaspal Group	●			
Daito Energy Co., Ltd.	●			
Care Partner Co., Ltd.		●		
Daito Asia Development (Malaysia) Sdn. Bhd.			●	
Daito Asia Investment Pte. Ltd.			●	
Daito Asia Development Pte. Ltd.			●	
Daito Kentaku USA, LLC			●	
Daito Finance Co., Ltd.				●
Daito Mirai Trust Co., Ltd.				●
HOUSE GUARD S.S. Insurance Co., Ltd.				●
House Payment Co., Ltd.				●
D.T.C. REINSURANCE LIMITED				●
Daito Corporate Service Co., Ltd.				●

Energy Business

Review of Operations

Providing high-value services to respond to liberalization of the energy retail market

The Daito Group engages in the supply of energy to tenants living in buildings managed by the Group.

The Gaspal Group handles contracted gas equipment work for rental buildings constructed by the Daito Group and supplies LP gas to those buildings. It supplies gas to about 279,135 homes nationwide. In May 2016, Daito Energy began supplying electricity to tenants of rental buildings managed by the Group under the E-heya Electricity brand. As of March 31, 2017, Daito Energy supplied 154,131 units with electricity.

In response to changing markets including from full energy liberalization in Japan, we will continue supplying energy to managed buildings as a matter of course, as well as services that add value to homes in general.



The Gaspal Group won its fourth consecutive METI Commerce and Distribution Award

Number of units with LP gas supply: **279,135**
(As of March 31, 2017)

Number of places with E-heya Electricity supply: **154,131**
(As of March 31, 2017)

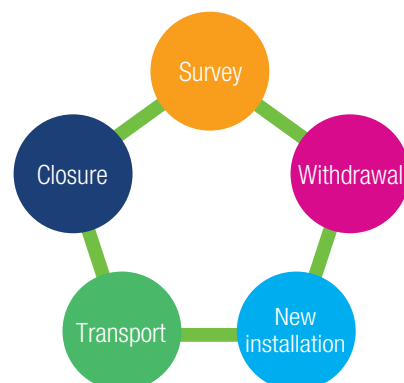
Initiatives

Starting services responding to prescribed 20-year bulk storage inspections

Gaspal Co., Ltd and Katsura Company, Ltd. established the joint venture Bulk Safety Co., Ltd. to provide 20-year bulk storage tank* inspections prescribed by the Ministry of Economy, Trade and Industry (METI), and began operating in April 2017.

Bulk Safety's basic policy is to handle 20-year bulk storage inspections prescribed by METI, which will come into full play from 2018 in the LP gas industry, in a secure and safe manner. Combining Katsura's technological skills with Gaspal's long track record in secure LP gas bulk supply, Bulk Safety is a one-stop provider of solutions from on-site inspections to replacements and disposals of equipment for LP gas business operators nationwide. We will continue to provide a broad array of services by ascertaining various needs and further developing technology and installation methods.

*Secured in place and with several times the capacity of a gas container.



Realized one-stop solutions from on-site inspections of bulk storage tanks through to exchange and final disposal

Other Businesses

Care and Nursery School Business

Review of Operations

Strengthening the nursing care and childcare business in conjunction with rapid aging and the low birthrate

Care Partner operates 77 elderly day-care centers nationwide and annual users have surpassed one million. Care Partner's highly skilled caregivers offer physical care and living assistance. The caregivers act as a link between clients and the company to support independent living in familiar surroundings. For example, they help to tailor in-house care to various needs brought to their attention and provide care services covering a lot of ground. In addition, the Group operates 14 Kids Partner nursery schools as of June 2017. Going forward, we will continue to strengthen business related to nursing care and childcare in line with Japan's aging society.

Number of day-care centers: **77**

In-home care facilities: **2**

Welfare equipment rental office: **1**

(As of May 31, 2017)

Total annual users of day-care centers: **1,111,964**

(FY2016)

Number of nursery schools: **14**

(As of June 1, 2017)

Initiatives

Contributing to the development of the nursing care and childcare industries

In a "super-aged" society where the number of people certified as requiring long-term care rises each year, supporting people who aim to work in the nursing care industry and getting people interested in the field is vital.

In April 2018, Care Partner will introduce a program to help new graduates and new employees repay their student loans during their first five years working at the company. Amid a rise in the value of student loans in arrears becoming a social issue, we decided to roll out a program to help discover people who aspire to work in nursing care and develop the industry.

As a part of initiatives to commemorate its 20th anniversary, Care Partner teamed up with Tokyo MODE GAKUEN, a school corporation and specialized training college, on the Genki Sozo Project in the year ended March 31, 2017 (FY2016). The project was a competition to design Care Partner staff uniforms. Of the 77 entries, the company plans to sequentially adopt the design that won the top award for Care Partner uniforms from the year ending March 31, 2019 (FY2018). The project provided an opportunity to create a more comfortable environment for facility users and staff as well as for students to gain a better understanding of the not-very-familiar nursing care and childcare scene.

Through ongoing steps to inform the public about nursing care and childcare conditions and interact with the

general public, we will expand business as a company that contributes to society.



Tokyo MODE GAKUEN top design winner Erika Araki (left) and a sample uniform



Nursing care center users and guardians of childcare facility users also voted

Overseas Business

Review of Operations

Developing business in Malaysia and US

The Daito Group is developing overseas business leveraging expertise built up through its Core Businesses.

In Asia, we developed and own the Le Meridien Kuala Lumpur Hotel in Malaysia. The five-star luxury hotel has 35 floors above ground with 420 rooms. In the United States, we own apartment building codeveloped with a local developer through Daito Kentaku USA.

In the future, we will continue to consider income property development, ownership, and management operations overseas while ascertaining market conditions and legal frameworks in relevant countries.



Le Meridien Kuala Lumpur—
a hotel in Malaysia developed by the Daito Group

Initiatives

Promoting real estate development and investment in overseas areas with potential

While focusing on the robust domestic rental housing market, we are also considering putting the know-how gained through Core Businesses like construction, tenant recruitment, and management to use in promising overseas markets.

In the United States, we developed a 21 story, 448 - unit apartment building in the Washington D.C. suburbs in collaboration with the leading local real estate company, Comstock Partners, LC. The building was completed in April 2016 and tenant recruitment and management operations are currently underway. We believe the real estate market is highly transparent and stable long-term economic growth is likely in the United States in particular. Moving ahead, we will continuously develop and invest in real estate and consider real estate development and investment business in the robust Asia market too.



BLVD | RESTON STATION, which Daito jointly developed

Other Businesses (Finance, etc.)

Review of Operations

Providing services in the building rental business

The Daito Group's operations related to the rental housing business are extensive. House Leave Co., Ltd serves as a bridge between owners and tenants by providing guarantor services for lending and renting. HOUSE GUARD S.S. Insurance Co., Ltd. develops and sells short-term and small-amount insurance products meeting the needs of tenants and building owners including coverage for household goods at the time of a disaster and rent loss insurance. House Payment Co., Ltd. offers a credit card settlement service for rental housing-related payments with the lowest fees in the rental real estate industry where making payments with credit cards has yet to become common practice due to high fees. Moving ahead, we will continue to go beyond the building rental business to provide a variety of services that infuse life with richness.

Initiatives

Providing expertise outside of Group businesses

Daito Corporate Service Co., Ltd. is a special subsidiary to employ people with disabilities. It primarily handles three types of work for Daito Group companies—printing, clerical services, and manufacturing. In addition to promoting employment of people with disabilities, this subsidiary is working to streamline and make operations within the Group more efficient.

In September 2016, Daito Corporate Service launched the online original signboard shopping website Smile Board. Daito Corporate Service has leveraged the skills and experience gained through creating signage for buildings managed by the Group to provide reasonably priced signboards critical to multifamily housing management such as parking lot warning signs and no entry signs.

Looking ahead, we aim to be an organization capable of growing earnings as individual units by deploying know-how amassed through Group businesses outside of the Group.

Non-Financial Activities

Personnel

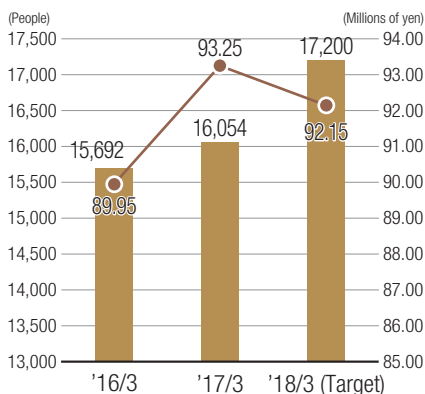
A Rewarding Company to Work For

For the Daito Group, which has expanded through the practice of “have-not” management, people represent not a cost but capital, and we spare no expense in allocating resources to and investing in our personnel, who are our only resource.

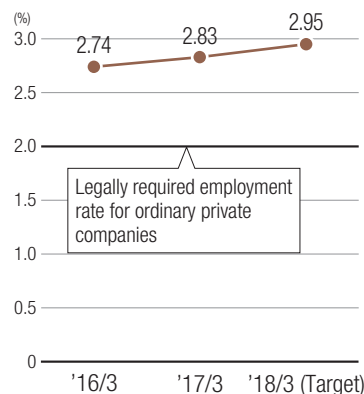
In the fiscal year ended March 31, 2017 (FY2016), Daito Trust saw a reduction in total work hours to 2,221 hours (down 49 hours year on year), and in average overtime to 45.8 hours (down 2.8 hours year on year), due largely to efforts to improve long working hours by ensuring adherence to four “no overtime” days per month, spreading awareness of annual leave and encouraging employees to take it, as well as other initiatives. We also focused on building

an environment in which everyone can continue working, introducing a break-in period for those returning from leave and expanding eligibility for reduced work schedules. Moreover, we held voluntary study sessions and pre-exam training camps for those working to acquire certification as first-class architects and first-class building operation and management engineers. As a result, exam pass rates grew to 19.1% for first-class architects (up 6.7 points year on year) and a record high pass rate of 90.2% for first-class building operation and management engineers (up 14.8 points year on year). In the fiscal year ending March 31, 2018 (FY2017), we aim to create a work environment where employees can grow with efficiency and vitality.

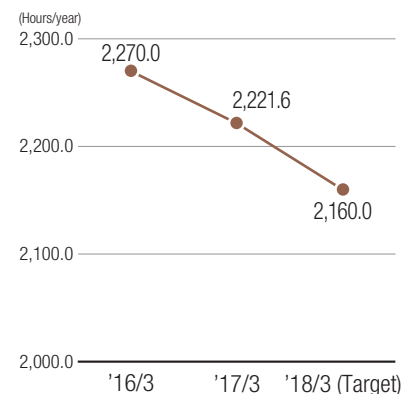
**Total consolidated personnel (People)/
Net sales per employee (Millions of yen)**



**Employment rate of people
with disabilities (%)**



Hours worked annually (Hours/year)



Initiatives

Providing opportunities to learn, think about and implement work styles

Daito Trust is actively working to create opportunities for employees themselves to learn, think about and put into practice new ways of working. In October 2016, individual departments held diversity training sessions, led by department management. Those lessons are being implemented by each department, as they set goals for improving the workplace environment and establish concrete action items. Beginning in November 2016, six departments across four branch offices also began efforts to identify and implement measures to review operational issues through a work style review consulting program. Together, our employees will continue working together to build an appealing company.



A work style review consulting session

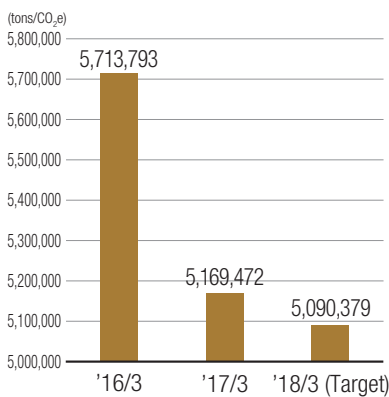
Environment

Contributing to development of a sustainable society

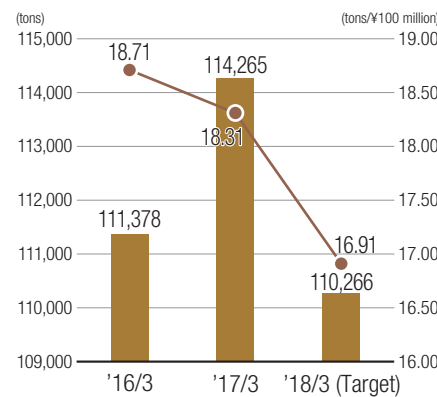
The Daito Group is engaged in the construction and real estate businesses, which consume large volumes of energy and resources and generate large volumes of waste. As a company engaged in such activities, the Daito Group realizes it has a social responsibility to reduce in many ways the environmental load placed on the global environment and engages in actions to reduce greenhouse gas emissions and energy consumption. In FY2016, the Daito Group set a new target matching the national government's policy of reducing greenhouse gases by 26% of FY2013 levels by FY2030, and is taking a multifaceted

approach to achieve this. By reducing electricity volume used by replacing lights in all outlets with LED lighting, cutting the volume of gasoline used by promoting economical driving practices and other means, the Group cut greenhouse gas emissions by 544,321 tons/CO₂e year on year to 5,169,472 tons/CO₂e. In FY2017, the Group will continue to strive toward the development of a sustainable society while reaffirming the need to consider the environment from the aspects of social impact and management efficiency and engaging in business activities.

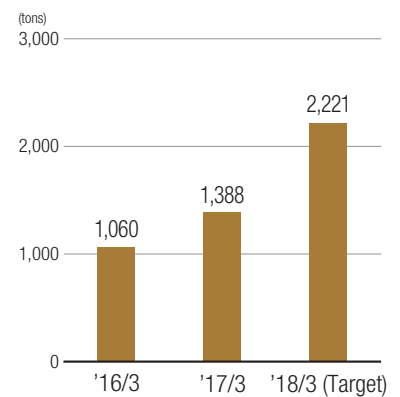
Greenhouse gas emissions Scope 1+2+3
(tons/CO₂e)



Final disposal amount of industrial waste generated at construction sites (tons)
Completed construction unit cost (tons/¥100 million)



Japanese lumber used (tons)



Initiatives

Selected as an A-List company with the highest possible ranking

In October 2016, Daito Group's efforts to address climate change in the year ended March 31, 2016 (FY2015) were recognized by CDP, an international non-profit organization working to achieve a sustainable society, with inclusion among companies in the Climate A List, CDP's highest ranking. CDP assesses more than 5,000 companies worldwide (including 500 Japanese companies) based on their efforts to address climate change and disclose information about those initiatives. In FY2016, 193 companies (including 22 Japanese companies) were selected for the list. Going forward, the Daito Group will continue to address climate change problems and resource issues while contributing to the formation of a sustainable society in the course of its business activities.



Corporate Governance

▶ Corporate Governance Basic Policy

We will strengthen corporate governance, aiming to grow as a company together with our stakeholders

To maximize the corporate value of the Daito Group and for our shareholders and all other stakeholders, our basic policy on corporate governance is making our management more efficient and transparent.

To do so, we have separated management's decision-making and supervisory framework from the work execution framework, and established a framework that enables rapid and efficient management and execution. We also work to achieve highly transparent management through the participation of outside directors and Audit and Supervisory Board members.

▶ Features of the Daito Group's Corporate Governance

Highly effective and transparent management

The Board of Directors has three independent outside directors who express their opinions from the viewpoints of shareholders and other stakeholders. This ensures a highly effective framework for the supervision of management. Moreover, all four of our Audit and Supervisory Board members are outside Audit and Supervisory Board members, and they audit the legality of the directors' work execution from an independent viewpoint.

Appointment and assessment of directors through fair and highly transparent procedures

Once each year, directors perform a mutual quantitative assessment of their business execution and management supervision function. Based on the results, the final assessment and proposal for the director candidates for the next fiscal year is made by the Governance Committee, which comprises the representative directors, seven outside directors and Audit and Supervisory Board members (three outside directors and four outside Audit and Supervisory Board members) and is chaired by an outside director (Lead Independent Outside Director).

Improving results and raising corporate value over the medium- to long-term

The basic compensation of the directors, Audit and Supervisory Board members, and other executives of the Daito Group takes into consideration company performance, the compensation of executives in other companies in the industry, employee pay raises, and years worked, as well as the executives' management skills, successes, and level of contribution to the Company. To boost executives' desire to contribute to medium- and long-term performance and corporate value and to promote a sense of shared value with shareholders we introduced stock options for executives in FY2011. A lump sum for the bonuses of all executives is calculated based on a fixed rate—which is decided at the Board of Directors meeting—and paid out of the Company's consolidated net income for the current fiscal year. How much each executive receives in bonuses takes into consideration factors like an executive's level of contribution to the Company. (Note: Does not apply to outside directors.)

System that directors should retire at the age of 60

Directors retire from the execution of business at the end of March of the fiscal year in which they become 60 years old. At the end of the General Shareholders' Meeting held in the following June, they retire. After retirement, they may not remain connected with the Daito Group as a consultant, advisor or assume similar or any other roles, through a framework designed to encourage the rejuvenation of management.

Select independent outside directors and Audit and Supervisory Board members of good caliber

We have formulated the appointment guidelines to clarify the qualities specified for outside directors and Audit and Supervisory Board members, and the independence criteria to clarify the criteria for selecting independent directors and Audit and Supervisory Board members. The appointment criteria identify individuals who have the ability to directly supervise the deliberations and decision-making of Board of Directors meetings, for example, as regards issues related to management, corporate law, and governance. Selection of outside directors and Audit and Supervisory Board members also reflects their ability to offer knowledge, expertise, and experience in making proposals regarding strategy, in creating measures related to medium-term plans, and in handling other issues related to company management.

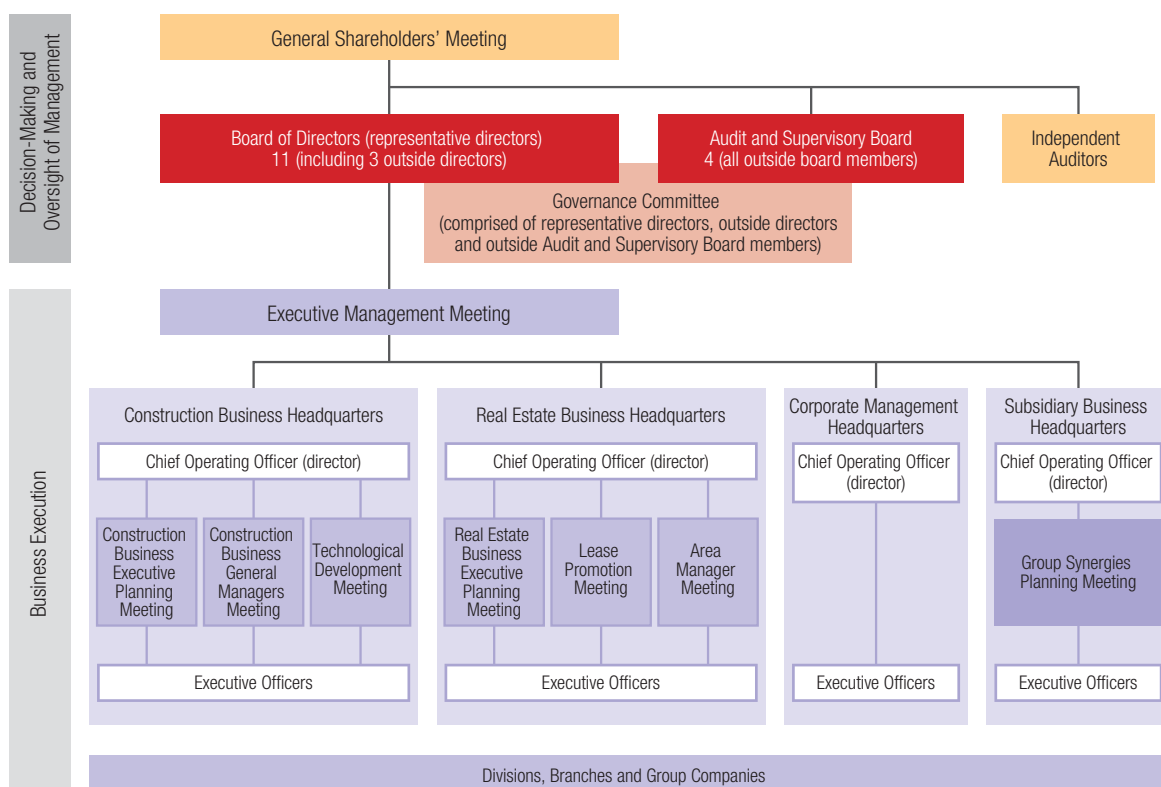
▶ History of Daito Trust's Corporate Governance Structure

- | | |
|--|--|
| <p>1974 · Foundation of the Company</p> <p>1989 · Listed on the Second Section of the Nagoya Stock Exchange, introduced mandatory retirement age of 60 for directors</p> <p>1999 · Changed to a system with all four Audit and Supervisory Board members as outside members</p> <p>2000 · Introduced the executive officer system to separate decision-making from business execution</p> <p>2005 · Appointed an outside director to add a multifaceted perspective to management and to strengthen oversight of management</p> | <p>2011 · Acquired and cancelled the shares held by the founder in a TOB</p> <p>· Appointed two outside directors</p> <p>· Introduced stock options for directors</p> <p>2012 · Introduced the Evaluation Committee System by outside directors and outside Audit and Supervisory Board members</p> <p>2013 · Appointed three outside directors</p> <p>2015 · Appointed a female outside director</p> <p>2016 · Reorganized from Evaluation Committee to Governance Committee</p> |
|--|--|

Management Structure

The Company has introduced an executive officer system for the purpose of separating the Board of Directors as the management's decision-making and supervisory framework from the work execution framework.

In addition, the Company has enabled rapid decision-making by dividing its business areas into the Construction Business Headquarters, the Real Estate Business Headquarters, the Corporate Management Headquarters, and the Subsidiary Business Headquarters and assigning the Chief Operating Officer with the highest level of authority in each business area from among the Board of Directors, by entrusting the Executive Management Meeting with decision-making authority over business execution as necessary, and by having the Board of Directors decide on important management issues.



As of July 2017

Board of Directors

The Board of Directors is comprised of directors with expertise in the individual business fields of the Company and the Daito Group, as well as outside directors, including lawyers and experienced business owners, with expertise in their respective areas of specialization. They are responsible for deciding on matters set forth by law and by the Articles of Incorporation, as well as other matters important to the Company and Group companies, and for receiving reports from individual directors on the status of business execution.

Audit and Supervisory Board

Comprised of certified public accountants, lawyers, those with experience in supervisory agencies and others with expertise in specialized fields, the Audit and Supervisory Board is responsible for monitoring the execution of business by the directors in accordance with the audit policy, and for reporting, discussing, and deciding on important audit-related matters. A standing Audit and Supervisory Board member is also selected, and attends meetings of the Board of Directors as well as the Executive Management Meeting and other meetings of importance to business execution.

Evaluation of the Board of Directors

In the third quarter of each year, the Company conducts interviews with and mutual assessments of its representative directors, outside directors and outside Audit and Supervisory Board members, mainly through the Governance Committee. Verifying the results of those mutual assessments by the Governance Committee enables the Company to analyze and evaluate the effectiveness of its Board of Directors.

See the following page for details regarding the Governance Committee.

Corporate Governance

▷ Governance Committee

A “voluntary” committee that assesses director performance, and deliberates proposals for board organization for the next term, candidates for director positions and other matters.

Composition of the Governance Committee

Comprised of representative directors, outside directors and outside Audit and Supervisory Board members

Functions of the Governance Committee

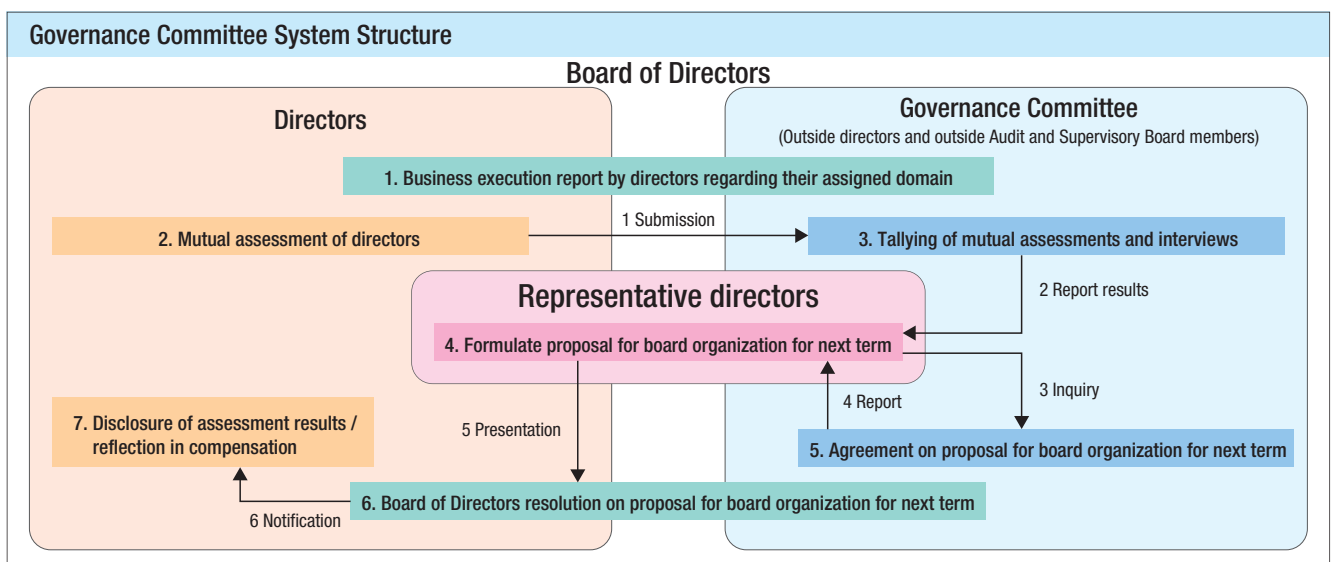
- (1) Collate and report on the results of mutual assessments of directors.
- (2) Deliberate and submit findings regarding proposals for board organization for the next term (directors and executive officers) as formulated by the representative directors and director candidates proposal (both reappointments and new appointments).

Note: The representative director cannot present proposals for board organization for the next term and director candidates proposal without the prior deliberation of the Governance Committee.

- (3) Deliberate and submit findings regarding proposals for performance-linked incentive compensation.
- (4) Review and make recommendations for the role of corporate governance.

▷ Corporate Governance Committee Director Assessment System

Evaluation of directors and nomination of candidates for directors is carried out mainly by the Governance Committee chaired by the Lead Independent Outside Director, based on the results of mutual evaluation by directors.

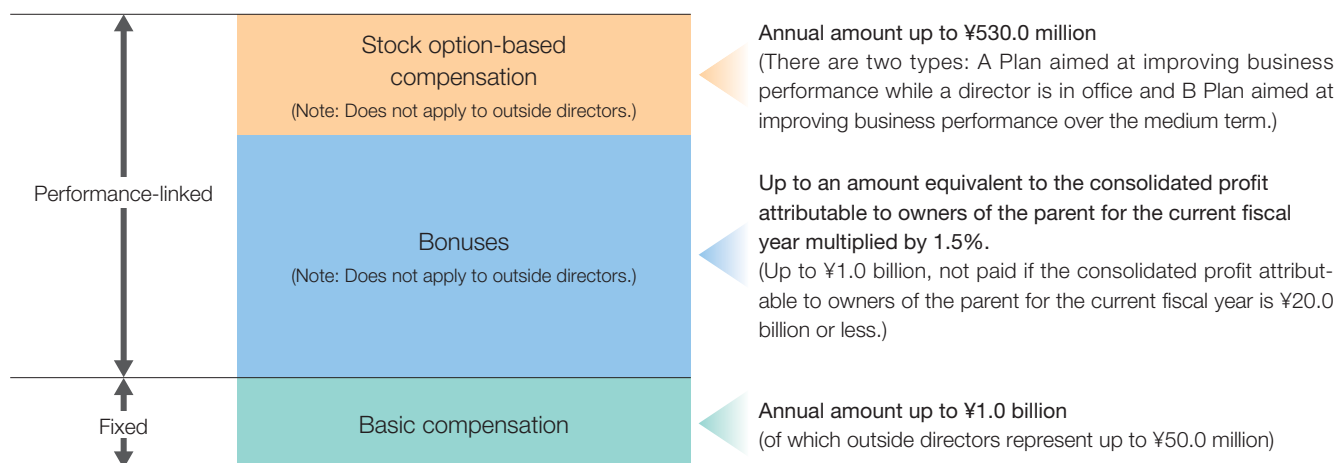


- 1. Business execution report** | Directors report on the status of business execution in their assigned areas to the Board of Directors.
- 2. Mutual assessment** | Directors assess one another's business execution and management supervision function.
- 3. Tallying and interviews** | The Governance Committee chairperson reports on the proposal for board organization for next term after deliberating whether there are inconsistencies with the mutual assessment results.
- 4. Formulate proposal for board organization for next term** | Based on the results of the mutual assessments, the representative directors create a proposal for board organization for next term and conduct an inquiry with the Governance Committee.
- 5. Deliberation on board organization for next term** | The Governance Committee agrees on the proposal for board organization for next term after confirming there are no inconsistencies with the mutual assessment results.
- 6. Resolution on board organization for next term** | The Board of Directors passes a resolution on the board organization for next term.
- 7. Disclosure of assessment results / reflection in compensation** | The assessment results are disclosed to the executive directors and reflected in their compensation.

▷ Director Compensation System

The basic compensation of the directors, Audit and Supervisory Board members, and other executives of the Daito Group takes into consideration such matters as company performance, the compensation of executives in other companies in the industry, employee pay raises, and years worked, as well as the executives' management skills, successes, and level of contribution to the Company. A lump-sum payment for the bonuses of all executives is calculated based on a fixed rate—which is decided at the Board of Directors meeting—and paid out of the Company's consolidated profit attributable to owners of the parent for the current fiscal year. How much each executive receives in bonuses takes into consideration factors like an executive's level of contribution to the Company. (Note: Does not apply to outside directors.)

With the elimination of retirement benefit plans, the Company introduced a stock option plan in 2011. (Note: Does not apply to outside directors.)



Breakdown of Executive Compensation

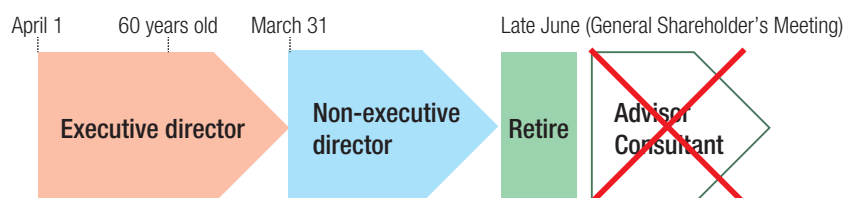
(For FY2016, the fiscal year from April 1, 2016 to March 31, 2017)

Category	Number of persons	Total amount of compensation by type (Millions of yen)			Total amount of compensation (Millions of yen)
		Basic compensation	Stock options	Bonuses	
Directors (not including outside directors)	10	409	127	654	1,191
Outside directors and Audit and Supervisory Board members	7	90	–	46	136
Total	17	499	127	700	1,327

▷ Management Replacement Cycle

Mandatory Retirement at 60 for Directors

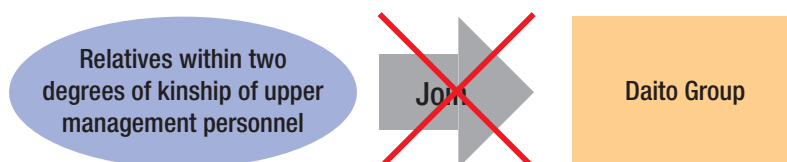
- Directors retire from business execution on the last day of the fiscal year (March 31) in which they become 60 years old, becoming non-executive directors (part-time) from April 1.
- At the end of the General Shareholder's Meeting held in the following June, they retire or resign.
- After retirement, they may not serve as an advisor, consultant or any other role.



* The minimum appointment for representative directors is four years (two terms).

Elimination of Hereditary Appointments

- Persons within two degrees of kinship of upper management personnel (assistant manager and above) are not admitted to join the Daito Group, in order to eliminate hereditary appointments.



See the website below for more detailed information regarding corporate governance.
<http://www.kentaku.co.jp/e/products/governance.html>

▶ Appointment Guidelines for Outside Directors and Audit and Supervisory Board Members

The Daito Group's outside directors and Audit and Supervisory Board members, and candidates for those positions, shall satisfy the following criteria:

1. Be able to directly supervise the deliberations and decision-making of the Board of Directors on key issues—for example, issues related to management, corporate law, and governance.
2. Be able to reflect their own knowledge and expertise to formulate growth strategies, determine management strategies, and achieve medium-term management plans.
3. Be able to offer advice and leadership based on their own knowledge, expertise and experience as regards other issues related to corporate management.

▶ Standards for the Independence of Outside Directors and Audit and Supervisory Board Members

To ensure the independence of outside directors and Audit and Supervisory Board members (or candidates for those positions), those persons must not fall under any of the following categories. The periods for which these criteria apply are: 1) from the unlimited past to the present for Category 1 and 2) from the past 10 years to the present for Categories 2 to 5.

1 Daito Group affiliate

The individual is not a director (unless an outside director), a member of the Audit and Supervisory Board (unless an outside board member), an accounting advisor, an executive officer, or an employee of Daito Trust, one of its subsidiaries, or an affiliated company.

2 Holder of voting shares

- 1) The individual is not a major shareholder (holding a 10% or greater share) of Daito Trust or an executive or employee of any of its major shareholders.
- 2) The individual is not an executive or employee of a company for which the Daito Group is a major shareholder (holding a 10% or greater share).

3 Business partner affiliate

- 1) The individual is not an executive or employee of a business partner whose transactions with the Daito Group account for 2% or more of consolidated net sales.
- 2) The individual is not an executive or employee of a financial institution from which the Daito Group borrows capital amounting to 2% or more of Daito Trust's consolidated gross assets.
- 3) The individual is not an executive or employee of the Daito Group's main securities company.

4 Provider of specialized services (lawyer, certified public accountant, consultant, etc.)

- 1) The individual is not an employee or a partner of the Daito Group's certified public accountant's firm or of an auditing firm that acts as the independent auditor.
- 2) The individual does not receive ¥10 million or more a year from the Daito Group (apart from director or board member compensation) for his/her services as a lawyer, certified public accountant, tax accountant, or consultant.

5 Others

- 1) The individual is not a relative within two degrees of kinship of persons falling under the Categories 1 to 4 above.
- 2) The individual is not an executive or employee of a company that has one or more directors holding a post in the Daito Group.
- 3) The individual is not an executive or employee of a company that holds shares in the Daito Group.

Outside Directors

Name	Expected role	Activities (fiscal year ended March 2016)
Toshiaki Yamaguchi	Mr. Yamaguchi is expected to offer opinions and supervise from the standpoint of a lawyer with expertise in corporate legal affairs, compliance, and internal control.	Board of Directors meetings: 92.3% (Attended 12 times/13 meetings)
Mami Sasaki	Ms. Sasaki is expected to supervise management from the standpoint of a globally experienced woman, and offer opinions and supervise the promotion of diversity management.	Board of Directors meetings: 100% (Attended 13 times/13 meetings)
Takashi Shoda	Mr. Shoda is expected to offer opinions and supervise to resolve issues related to overall global corporate management and sustainability.	Appointed in June 2017

Outside Audit and Supervisory Board Members

Name	Expected role	Activities (fiscal year ended March 2016)
Masayasu Uno	Mr. Uno is expected to audit Daito's management from the standpoint as an expert in finance and accounting through his work as a certified public accountant, together with his experience in running his own business.	Board of Directors meetings: 100% (Attended 13 times/13 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)
Hideo Hachiya	Mr. Hachiya is expected to audit Daito's management from the standpoint as an expert who has a wealth of experience as a lawyer together with being an expert in corporate legal affairs.	Board of Directors meetings: 100% (Attended 13 times/13 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)
Kazumitsu Futami	Mr. Futami is expected to audit Daito's management from the standpoint of having a wealth of knowledge and experience in rental housing management and in the loan guarantee business.	Board of Directors meetings: 100% (Attended 13 times/13 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)
Kazuo Fujimaki	Mr. Fujimaki is expected to audit Daito's management from the standpoint as an expert in specialized knowledge of international accounting through his work as a U.S. CPA together with his experience in management.	Board of Directors meetings: 100% (Attended 14 times/14 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)

Interview with an Outside Director

The Daito Group is working to reform governance as a step toward enhancing corporate value.

We look forward to offering a balance between existing and new business.

Toshiaki Yamaguchi

Lead Independent Outside Director
Chairman of the Governance Committee



An Outside Viewpoint Not Dependent on Internal Logic

I was first appointed an outside director of the Company four years ago, in 2013. At the time, despite the Company's strong performance, President and CEO Kumakiri sensed a risk in management moving forward solely based on its own internal logic. I recall that this was why I was asked to offer my opinions not only as an attorney, but to speak up on a broad range of matters from the viewpoint of an outsider.

After having served a four-year term, I sense that for the Company to grow further, it is even more essential that I be proactive in voicing that outside viewpoint, based on an understanding of trends in the macro market environment beyond the rental housing market. As an outside director, I hope that in addition to my supervisory role, I can offer opinions that will encourage discussion of future corporate strategy.

Enhancing Corporate Value through Governance Reforms

One major characteristic of the Company's governance is its system of retiring directors at age 60. Through management turnover and the elimination of residual influence, the system contributes to the establishment of a freewheeling Board of Directors that is also free of factionalism. In addition, the Governance Committee, comprised of outside directors and the representative directors, not only assesses the internal directors, but also conducts serious discussions regarding the Company's future management structure.

Another significant feature is the fact that outside directors find it easy to express their opinions. At other companies, it is common for directors to be informed in advance of the agenda for board meetings. For better or worse, the Company's Board of Directors engages in no such behind-the-scenes consensus-building. While this means that considerable time is devoted to discussion of

individual agenda items, it also ensures an approach to decision-making based on exhaustive discussions in which all views are heard, whether they come from inside or outside directors or Audit and Supervisory Board members.

While many boards follow a policy of unanimous voting, outside directors on the Company's Board of Directors will at times express dissenting opinions, and those opinions are reflected in the minutes of the Board of Directors. We are sure this is decision-making based not on some internal reasoning, but through a process that is convincing to third parties. At the same time, while internal directors are conscientious about speaking up regarding matters within their individual areas of expertise, I get the impression that they still remain somewhat reluctant to enter discussions regarding areas outside their specialties or concerning management in general. There may be room for improvement there.

I myself am frequently involved in assessing the effectiveness of boards of directors at other companies. Although many companies engage in reforming governance with the goal of improving those outside assessments, the Company is focused exclusively on enhancing its own corporate value, and I get a very strong sense that it is serious in its approach to governance reforms.

Striving for Balance between Existing and New Business

Fortunately, the Company continues to deliver strong results. Nevertheless, I believe that within the current business model there remains potential for growth.

That said, based on my own experience, I also believe that the best time to reexamine a business model is when a company is performing well. What is important is balance between extending the existing business and creating new ones. As a director of the Company, I hope to focus on the solid pursuit of this balance, while also ensuring accountability. I would like our stakeholders to look forward to the Daito Group's sense of balance, and regard it favorably.

List of Officers

Directors

**Naomi Kumakiri**

President and Representative Director (CEO)

Apr. 1984 Joined the Company
 Apr. 2001 Executive Officer, General Manager of Housing Sales Department
 Jun. 2004 Director, General Manager of Tenant Recruiting Management Headquarters
 Apr. 2006 Managing Director, General Manager of Administration Headquarters, General Manager of Legal Affairs Headquarters
 Apr. 2011 Senior Managing Director, Executive Officer, General Manager of East Japan Construction Sales Headquarters
 Apr. 2013 Representative Director and Chief Executive Officer, in charge of Construction Business Headquarters and Corporate Management Headquarters
 Apr. 2016 President and Representative Director (CEO) in charge of Construction Business Headquarters and Corporate Management Headquarters
 Apr. 2017 President and Representative Director (CEO) (current position)

**Katsuma Kobayashi**

Managing Director

In charge of Construction Business Headquarters

Feb. 1986 Joined the Company
 Apr. 2011 Executive Officer, General Manager of Sales Management Department
 Apr. 2012 Managing Executive Officer, General Manager of Sales Management Department
 Jun. 2012 Director, Managing Executive Officer, General Manager of Sales Management Department
 Apr. 2016 Managing Director, General Manager of Sales Management Department
 Apr. 2017 Managing Director, General Manager of Construction Business Headquarters (current position)

**Shuji Kawai**

Managing Director

In charge of Corporate Management Headquarters
In charge of Subsidiary Business Headquarters

Apr. 1989 Joined the Company
 Apr. 2012 Executive Officer, General Manager of Corporate Planning Division
 Jun. 2012 Director, Executive Officer, General Manager of Corporate Planning Division
 Apr. 2013 Director, Executive Officer, General Manager of Subsidiaries Business Headquarters, General Manager of Corporate Planning Division
 Apr. 2014 Director, Managing Executive Officer, General Manager of Corporate Management Headquarters
 Apr. 2016 Managing Director, General Manager of Corporate Management Headquarters
 Apr. 2017 Managing Director, General Manager of Corporate Management Headquarters, General Manager of Subsidiary Business Headquarters (current position)

**Kanitsu Uchida**

Director

General Manager of Subsidiary Business Headquarters

Aug. 1987 Joined the Company
 Apr. 2012 Executive Officer, General Manager of Cost Management Department
 Apr. 2013 Executive Officer, General Manager of Design Management Department
 Jun. 2014 Director, Executive Officer, General Manager of Design Management Department
 Apr. 2016 Director, General Manager of Design Management Department
 Apr. 2017 Director, General Manager of Subsidiary Business Headquarters (current position)

**Kei Takeuchi**

Director

General Manager of Real Estate Business Headquarters

Apr. 1989 Joined the Company
 Apr. 2012 Executive Officer, General Manager of Tenant Recruiting Management Department
 Jun. 2014 Director, Executive Officer, General Manager of Tenant Recruiting Management Department
 Apr. 2015 Director, Executive Officer, General Manager of Central Japan Construction Business Headquarters
 Apr. 2016 Director, General Manager of Central Japan Construction Business Headquarters
 Apr. 2017 Director, General Manager of Real Estate Business Headquarters (current position)

**Kazuhiko Saito**

Director

In charge of East Japan Construction Business Headquarters Officer
Responsible for Post-Quake Restoration Company

Mar. 1992 Joined the Company
 Apr. 2009 Executive Officer, General Manager of Chu-Shikoku Construction Sales Department
 Apr. 2011 General Manager of Tohoku Construction Sales Department
 Apr. 2013 Executive Officer, General Manager of Tohoku Construction Business Department, Officer Responsible for Local Post-Quake Restoration
 Apr. 2015 Executive Officer, General Manager of East Japan Construction Sales Headquarters, Officer Responsible for Post-Quake Restoration Company (current position)
 Jun. 2015 Director, Executive Officer, General Manager of East Japan Construction Business Headquarters
 Apr. 2016 Director, General Manager of East Japan Construction Business Headquarters (current position)

**Takeshi Nakagawa**

Director

General Manager of Subsidiary Business Headquarters
Representative Director and President of Gaspal Co., Ltd.

Nov. 1989 Joined the Company
 Nov. 2002 Director of Daito Building Management Co., Ltd. (currently Daito Kentaku Partners Co., Ltd.)
 Apr. 2006 Senior Managing Director of Gaspal Co., Ltd.
 Apr. 2009 Representative Director and President of Gaspal Co., Ltd. (current position)
 Apr. 2010 Executive Officer
 Apr. 2013 Managing Executive Officer
 Apr. 2014 Managing Executive Officer, General Manager of Subsidiary Business Headquarters
 Apr. 2016 Senior Executive Officer, General Manager of Subsidiary Business Headquarters
 Jun. 2016 Director, General Manager of Subsidiary Business Headquarters (current position)

**Koji Sato**

Director

President and Representative Director of Daito Kentaku Partners Co., Ltd.

Mar. 1991 Joined the Company
 Apr. 2013 Director, General Manager of Rental Property Management Department of Daito Building Management Co., Ltd. (currently Daito Kentaku Partners Co., Ltd.)
 Apr. 2015 Managing Director, General Manager of Corporate Planning Division of the company
 Apr. 2016 Senior Managing Director of the company
 Apr. 2017 President and Representative Director of Daito Kentaku Partners Co., Ltd. (current position)
 Jun. 2017 Director of the Company (current position)



Toshiaki Yamaguchi

Outside Director
Chairman of the Company's Governance Committee

- Mar. 1990 Registered with the Osaka Bar Association, joined Takeuchi and Inoue Law Office
- Apr. 1995 Established Yamaguchi Law Office, Representative Attorney at Yamaguchi Law Office (current position)
- Oct. 2008 Director of Japan Internal Control Association (current position)
- Jul. 2010 Director of Association of Certified Fraud Examiners (current position)
- Jul. 2012 Leader of Outside Director Guidelines Study Team of the Judicial System Research Board, Japan Federation of Bar Associations (current position)
- Mar. 2013 Outside Director of Nissen Holdings Co., Ltd.
- Jun. 2013 Outside Director of the Company (current position)
- Aug. 2014 Director of Japan Corporate Governance Network (current position)
- Dec. 2014 Outside Audit & Supervisory Board Member of Osaka University Venture Capital Co., Ltd. (current position)
- Feb. 2015 Audit & Supervisory Board Member of Osaka Municipal Transportation Bureau (current position)
- Jun. 2015 Elected Member of the Committee on Whistleblower Protection System, Consumer Affairs Agency



Mami Sasaki

Outside Director
Member of the Company's Governance Committee

- Apr. 1983 Joined The Fuji Bank, Limited (currently Mizuho Bank, Ltd.)
- Mar. 1985 Joined Morgan Stanley Securities Co., Ltd. (currently Mitsubishi UFG Morgan Stanley Securities Co., Ltd.)
- Jan. 1991 Vice President of the company
- Feb. 1994 Executive Director of the company
- Dec. 2000 Managing Director of the company
- Apr. 2004 Managing Director and Head of Sales of Fixed Income Division of Credit Suisse First Boston Securities (Japan) Ltd. (currently Credit Suisse Securities (Japan) Limited)
- Jun. 2015 Outside Director of the Company (current position)



Takashi Shoda

Outside Director
Member of the Company's Governance Committee

- Apr. 1972 Joined SANKYO CO., LTD. (currently DAIICHI SANKYO COMPANY, LIMITED)
- Jan. 1999 General Manager of Europe Department of the company
- Jun. 1999 General Manager of Overseas Medical Sales Division of the company
- Jun. 2001 Director of the company
- Jun. 2002 Managing Director of the company
- Jun. 2003 Representative Director and President of the company
- Sep. 2005 Representative Director, President and CEO of DAIICHI SANKYO COMPANY, LIMITED
- Jun. 2010 Representative Director and Chairman of the company
- Jun. 2014 Consultant of the company (current position)
- Jun. 2015 Outside Director of Ube Industries, Ltd. (current position)
- Jun. 2017 Outside Director of the Company (current position)

Audit and Supervisory Board Members



Masayasu Uno

Standing Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

- Aug. 1981 Joined Chuo Accounting Office
- Sep. 1984 Joined Integran, Inc.
- Oct. 1996 Representative Director and President of US Robotics Co., Ltd.
- Nov. 1997 Representative Director and Vice President of 3COM Japan
- Oct. 1998 Director and General Manager of Sales Division of Lucent Technologies, Japan
- Oct. 2000 Representative Director and President of Avaya Japan, Ltd.
- Mar. 2005 Representative Director and President of NetIndex Inc. (currently NCXX Group Inc.)
- Nov. 2007 Director of Index Holdings
- Jun. 2009 Audit & Supervisory Board Member of the Company (current position)



Hideo Hachiya

Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

- Apr. 1968 Joined Honda Motor Co., Ltd.
- Apr. 1981 Registered as an attorney with the Daini Tokyo Bar Association, established Hachiya Law Office, Representative Attorney of Hachiya Law Office (current position)
- Jun. 1991 Audit & Supervisory Board Member of the Company
- Jun. 1995 Resigned as Audit & Supervisory Board Member
- Jun. 1999 Audit & Supervisory Board Member of the Company (current position)



Kazumitsu Futami

Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

- Apr. 1964 Joined the Ministry of Construction (currently the Ministry of Land, Infrastructure, Transport and Tourism)
- May 1998 General Manager of Land Department, Chugoku Region Construction Bureau, Ministry of Construction
- Jun. 1999 General Manager of Loan Guarantee Department 1, Incorporated Foundation of Housing Improvement Development Public Corporation (currently General Incorporated Foundation of Housing Improvement Development Public Corporation)
- Dec. 2003 Director of Incorporated Foundation of Housing Improvement Development Public Corporation
- Jul. 2009 Representative Director and President of Jei Kei Kikaku Co., Ltd. (current position)
- Jun. 2012 Audit & Supervisory Board Member of the Company (current position)



Kazuo Fujimaki

Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

- Apr. 1976 Joined Hazama Corporation (currently Hazama Ando Corporation)
- Apr. 1979 Joined Mitsubishi Motors Corporation
- Nov. 1989 Joined Nikko Securities Inc. (currently SMBC Nikko Securities Inc.)
- Apr. 1999 Joined Ohta Showa Audit Corporation (currently Ernst & Young ShinNihon LLC)
- Apr. 2002 Established Fujimaki Sogo Consulting, Representative of Fujimaki Sogo Consulting (current position)
- Dec. 2006 Outside Audit & Supervisory Board Member of Yumeshin Holdings Co., Ltd.
- Jun. 2013 Audit & Supervisory Board Member of the Company (current position)

Executive Officers

Shuichi Ogawa

Senior Executive Officer, In charge of West Japan Construction Business Headquarters

Shoji Yamada

Senior Executive Officer, General Manager of North Metropolitan Area Construction Business Department

Hikomichi Ono

Executive Officer, General Manager of Asset Succession Consulting Department

Eiji Okamoto

Executive Officer, General Manager of Minami Kansai Construction Business Department

Fumiaki Nakagami

Executive Officer, General Manager of Construction Management Department

Eiji Kawahara

Executive Officer, Senior Managing Director of Daito Kentaku Partners Co., Ltd.

Masayuki Koishikawa

Executive Officer, General Manager of Sales Management Department

Takuya Ishii

Senior Executive Officer, General Manager of Keihanshin Area Construction Business Department

Masayoshi Tanaka

Executive Officer, General Manager of Loan Promotion Department

Takashi Suzuki

Executive Officer, General Manager of Central Metropolitan Area Construction Business Department

Kazunori Fukuda

Executive Officer, General Manager of Corporate Planning Division

Yoshihiro Mori

Executive Officer, Representative Director and President of Daito Kentaku Leasing Co., Ltd.

Masafumi Tate

Executive Officer, General Manager of Design Management Department

Kouichi Nakamura

Executive Officer, General Manager of Technological Development Department, in charge of East Japan Region

Consolidated Financial Statements

Consolidated Balance Sheet

(Millions of yen)

	Year Ended March 31, 2016	Year Ended March 31, 2017
Assets		
Current assets		
Cash and deposits	233,631	248,180
Money held in trust	26,505	22,000
Notes and accounts receivable from completed construction contracts and other	38,627	38,297
Short-term investment securities	9,617	18,509
Costs on uncompleted construction contracts	13,328	14,841
Other inventories	4,768	5,803
Prepaid expenses	59,688	63,020
Deferred tax assets	19,955	19,696
Operating loans	60,489	62,736
Other	13,262	16,932
Allowance for doubtful accounts	(253)	(241)
Total current assets	479,621	509,778
Non-current assets		
Property, plant and equipment		
Buildings and structures	34,302	37,236
Machinery and equipment	32,520	37,315
Tools, furniture and fixtures	1,772	2,127
Land	43,169	47,596
Lease assets	1,308	1,621
Other	883	117
Total buildings and structures	113,957	126,014
Intangible assets	10,664	17,635
Investments and other assets		
Investment securities	45,509	38,367
Subordinated bonds and subordinated trust beneficiary rights	12,857	12,857
Deferred tax assets	26,030	34,296
Other	42,922	45,851
Allowance for doubtful accounts	(3,014)	(3,369)
Total investments and other assets	124,304	128,003
Total non-current assets	248,927	271,653
Total assets	728,548	781,431
Liabilities		
Current liabilities		
Accounts payable for construction contracts	37,509	43,677
Current portion of long-term loans payable	16,690	44,074
Lease obligations	241	201
Income taxes payable	25,671	30,751
Advances received on uncompleted construction contracts	47,274	57,019
Advances received	68,922	75,543
Provision for bonuses	21,586	21,523
Provision for warranties for completed construction	1,136	1,091
Deposits received	7,631	7,595
Other	55,216	56,511
Total current liabilities	281,883	337,990
Non-current liabilities		
Long-term loans payable	54,942	10,368
Lease liabilities	907	786
Deferred tax liabilities	84	94
Provision for repairs on whole-building leases	80,704	97,405
Net defined benefit liability	10,698	10,203
Long-term guarantee deposits	45,183	39,868
Other	5,620	9,228
Total non-current liabilities	198,143	167,955
Total liabilities	480,026	505,945
Net assets		
Shareholders' equity		
Capital stock	29,060	29,060
Capital surplus	34,540	34,540
Retained earnings	206,509	232,978
Treasury stock	(16,857)	(15,337)
Total shareholders' equity	253,254	281,243
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,202	2,526
Deferred gains or losses on hedges	(943)	(286)
Revaluation reserve for land	(7,584)	(7,584)
Foreign currency translation adjustment	(229)	(1,705)
Remeasurements of defined benefit plans	(1,596)	(1,429)
Total accumulated other comprehensive income	(7,151)	(8,479)
Subscription rights to shares	353	398
Non-controlling interests	2,065	2,322
Total net assets	248,522	275,485
Total liabilities and net assets	728,548	781,431

Consolidated Statement of Income

	(Millions of yen)	
	Year Ended March 31, 2016	Year Ended March 31, 2017
Net sales		
Net sales of completed construction contracts	595,364	623,910
Sales on real estate business	774,807	824,642
Sales on other business revenue	41,471	48,551
Total net sales	1,411,643	1,497,104
Cost of sales		
Cost of sales of completed construction contracts	419,094	426,264
Cost of sales on real estate business	712,196	751,940
Cost of sales on other business	25,925	33,311
Total cost of sales	1,157,216	1,211,516
Gross profit		
Gross profit on completed construction contracts	176,269	197,645
Gross profit—real estate business	62,611	72,701
Gross profit—other business	15,545	15,240
Total gross profit	254,427	285,588
Selling, general and administrative expenses	153,426	165,426
Operating income	101,001	120,162
Non-operating income		
Interest income	589	527
Dividends income	192	212
Commission fee	3,656	3,654
Miscellaneous income	1,241	1,406
Total non-operating income	5,680	5,800
Non-operating expenses		
Interest expenses	573	401
Provision of allowance for doubtful accounts	48	89
Share of loss of entities accounted for using equity method	—	336
Miscellaneous expenses	500	627
Total non-operating expenses	1,122	1,453
Ordinary income	105,558	124,509
Extraordinary income		
Gain on sales of non-current assets	3	3
Gain on sales of investment securities	151	28
Total extraordinary income	154	31
Extraordinary loss		
Loss on sales and retirement of non-current assets	354	422
Impairment loss	92	122
Total extraordinary loss	447	545
Income before income taxes and non-controlling interests	105,266	123,995
Income taxes—current	41,335	49,511
Income taxes—deferred	(3,654)	(8,054)
Total income taxes	37,680	41,457
Net income	67,585	82,538
Profit attributable to non-controlling interests	305	369
Profit attributable to owners of the parent	67,279	82,168

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Year Ended March 31, 2016	Year Ended March 31, 2017
Net income	67,585	82,538
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,953)	(676)
Deferred gains or losses on hedges	(1,546)	657
Foreign currency translation adjustment	(1,507)	(1,475)
Remeasurements of defined benefit plans	(998)	161
Total other comprehensive income	(7,007)	(1,333)
Comprehensive Income	60,578	81,204
(Breakdown)		
Profit attributable to owners of the parent	60,273	80,840
Profit attributable to non-controlling interests	304	364

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

(Millions of yen)

Year ended March 31, 2016	Shareholders' equity					Accumulated other comprehensive income						Subscription rights to shares	Non- controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available- for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income			
BALANCE, APRIL 1, 2015	29,060	34,540	184,661	(13,485)	234,777	6,156	603	(7,584)	1,278	(599)	(145)	312	1,850	236,794
Change in the year														
Cash dividends			(30,439)		(30,439)									(30,439)
Profit attributable to owners of the parent			67,279		67,279									67,279
Purchase of treasury stock				(25,758)	(25,758)									(25,758)
Disposal of treasury stock		480		6,917	7,397									7,397
Retirement of treasury stock		(480)	(14,990)	15,470	—									—
Change in treasury shares of the parent arising from transactions with non-controlling shareholders			(1)		(1)									(1)
Net changes of items other than shareholders' equity						(2,953)	(1,546)	—	(1,507)	(997)	(7,005)	41	215	(6,749)
Net change in the year	—	—	21,848	(3,371)	18,476	(2,953)	(1,546)	—	(1,507)	(997)	(7,005)	41	215	11,727
BALANCE, MARCH 31, 2016	29,060	34,540	206,509	(16,857)	253,254	3,202	(943)	(7,584)	(229)	(1,596)	(7,151)	353	2,065	248,522

(Millions of yen)

Year ended March 31, 2017	Shareholders' equity					Accumulated other comprehensive income						Subscription rights to shares	Non- controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available- for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income			
BALANCE, APRIL 1, 2016	29,060	34,540	206,509	(16,857)	253,254	3,202	(943)	(7,584)	(229)	(1,596)	(7,151)	353	2,065	248,522
Change in the year														
Cash dividends			(36,472)		(36,472)									(36,472)
Profit attributable to owners of the parent			82,168		82,168									82,168
Purchase of treasury stock				(20,242)	(20,242)									(20,242)
Disposal of treasury stock			(91)	2,627	2,536									2,536
Retirement of treasury stock			(19,134)	19,134	—									—
Change in treasury shares of the parent arising from transactions with non-controlling shareholders			(1)		(1)									(1)
Net changes of items other than shareholders' equity						(676)	657	—	(1,475)	166	(1,328)	44	257	(1,025)
Net change in the year	—	—	26,468	1,520	27,988	(676)	657	—	(1,475)	166	(1,328)	44	257	26,963
BALANCE, MARCH 31, 2017	29,060	34,540	232,978	(15,337)	281,243	2,526	(286)	(7,584)	(1,705)	(1,429)	(8,479)	398	2,322	275,485

Consolidated Statement of Cash Flows

(Millions of yen)

	Year Ended March 31, 2016	Year Ended March 31, 2017
Cash flows from operating activities		
Income before income taxes and minority interests	105,266	123,995
Depreciation and amortization	6,026	8,042
Impairment loss	92	122
Increase (decrease) in allowance for doubtful accounts	100	343
Increase (decrease) in provision for bonuses	1,054	(58)
Increase (decrease) in provision for repairs on whole-building leases	15,550	16,700
Increase (decrease) in net defined benefit liability	(237)	(262)
Interest and dividends income	(782)	(739)
Interest expenses	573	401
Share of (profit) loss of entities accounted for using equity method	(14)	336
Decrease (increase) in notes and accounts receivable—trade	(2,005)	324
Decrease (increase) in costs on uncompleted construction contracts	91	(1,512)
Decrease (increase) in other inventories	117	(1,037)
Decrease (increase) in prepaid expenses	(695)	(1,190)
Decrease (increase) in operating loans	(5,818)	(2,246)
Increase (decrease) in notes and accounts payable—trade	(4,709)	6,175
Increase (decrease) in accounts payable—other	2,413	6,237
Increase (decrease) in advances received on uncompleted construction contracts	(2,136)	9,744
Increase (decrease) in advances received	4,440	6,620
Increase (decrease) in long-term guarantee deposits	(6,125)	(5,315)
Other	7,114	1,563
Subtotal	120,314	168,243
Interest and dividend income received	636	1,184
Interest expenses paid	(573)	(401)
Income taxes paid	(41,554)	(44,927)
Net cash provided by (used in) operating activities	78,822	124,097
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	—	52,000
Payments into time deposits	(51,000)	(52,000)
Proceeds from decrease in money held in trust	6,000	4,500
Purchase of securities	(4,500)	(8,902)
Proceeds from sales and redemption of securities	8,000	12,510
Purchase of property, plant and equipment	(18,346)	(17,955)
Purchase of intangible assets	(6,241)	(12,137)
Purchase of investment securities	(25,474)	(6,960)
Other	(1,993)	(4,461)
Net cash provided by (used in) investing activities	(93,555)	(33,407)
Cash flows from financing activities		
Proceeds from long-term loans payable	9,000	—
Repayments of long-term loans payable	(17,335)	(17,190)
Repayments of lease liabilities	(325)	(271)
Cash dividends paid	(30,439)	(36,472)
Purchase of treasury stock	(25,758)	(20,242)
Disposal of treasury stock	7,026	1,996
Dividends paid to non-controlling interests	(80)	(99)
Other	(10)	(7)
Net cash provided by (used in) financing activities	(57,923)	(72,286)
Effect of exchange rate change on cash and cash equivalents	(263)	(853)
Net increase (decrease) in cash and cash equivalents	(72,920)	17,549
Cash and cash equivalents at beginning of period	255,551	182,631
Cash and cash equivalents at end of period	182,631	200,180

FACT

STRATEGY

ACTIVITIES

FINANCE

Stock Information/Group Companies

Stock Data

Number of shares

Number of shares authorized	329,541,100 shares
Number of shares outstanding	76,869,579 shares

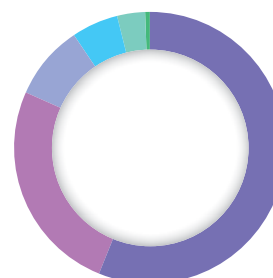
Information for shareholders

Share unit	100 shares
Fiscal year	April 1 to March 31
Record dates	Voting at general shareholders' meeting March 31
Year-end dividend	March 31
Interim dividend	September 30
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo, Japan
Transfer agent contact information	Stock Transfer Agency Division, Mitsubishi UFJ Trust and Banking Corporation 7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081, Japan Tel: 0120-232-711 (toll-free number in Japan only)
Method of public notice	Public notices shall be posted on the Company's website. http://www.kentaku.co.jp/e/ir/index.html However, in the event that an electronic public notice is impracticable as a result of an accident or for other unavoidable reasons, the Company shall post its public notices in the Nihon Keizai Shimbun newspaper.
Stock exchange listing	Tokyo Stock Exchange (First Section) Nagoya Stock Exchange (First Section) Code: 1878

Shareholder Composition

Number of shareholders 17,354

Breakdown of shareholders



Foreign corporations	43,215,947 shares (56.22%)
Financial institutions	19,709,649 shares (25.64%)
Individuals and others	6,856,020 shares (8.92%)
Domestic corporations	4,200,180 shares (5.46%)
Financial instruments firms	2,542,162 shares (3.31%)
Treasury stock	345,621 shares (0.45%)

(As of March 31, 2017)

Group Companies [FY2016: Net sales and operating income (Billions of yen)]

Construction Business

- **Daito Construction Co., Ltd.** [6.66 / 0.11]
Constructs mid- to high-rise rental condominiums in urban centers
- **Daito Steel Co., Ltd.** [4.75 / 0.16]
Produces and constructs steel frames and sale of exterior products

Real Estate Business

- **Daito Building Management Co., Ltd.*** [792.54 / 38.27]
Total management of rental buildings and provision of customer services
- **Daito Kentaku Leasing Co., Ltd.** [— / (0.06)]
Rental building brokerage and tenant recruitment
- **House Leave Co., Ltd.** [9.70 / 7.68]
Provides agency guarantee services mainly for tenants' rent liabilities
- **Housecom Co., Ltd.** [10.10 / 0.94]
Rental building real estate agent in Kanto and Tokai regions
- **Ju-See Publishing Co., Ltd.** [3.85 / 0.04]
Produces and publishes rental building information magazines and operation of their websites

*Daito Building Management Co., Ltd. changes name to Daito Kentaku Partners Co., Ltd. on April 1, 2017

Other Businesses

● Energy Business ● Care and Nursery School Business ● Overseas Business ● Other Businesses (Finance, etc.)

- **Gaspal Group** [23.59 / 3.80]
Constructs LP gas facilities and supplies LP gas to rental buildings
- **Daito Energy Co., Ltd.** [3.99 / (0.73)]
Supplies and sells energy such as electric power to rental buildings
- **Care Partner Co., Ltd.** [11.41 / 0.33]
Operates elderly day-care centers (visiting care) and nurseries
- **Daito Asia Development (Malaysia) Sdn. Bhd.** [2.60 / 0.26]
Conducts overseas hotel business (Malaysia)
- **Daito Asia Investment Pte. Ltd.** [0.14 / 0.13]
Finances overseas hotel operating companies
- **Daito Asia Development Pte. Ltd.** [— / (0.002)]
Invests in overseas hotel operating companies
- **Daito Kentaku USA, LLC** [— / (0.002)]
Invests in real estate in the United States
- **Daito Finance Co., Ltd.** [1.39 / 0.94]
Handles financing such as construction funds (for a contract fee)
- **Daito Mirai Trust Co., Ltd.** [0.17 / 0.06]
Provides services related to real estate management trusts and to asset succession consulting
- **HOUSE GUARD S.S. Insurance Co., Ltd.** [1.96 / (0.003)]
Sells comprehensive insurance to rental housing tenants
- **House Payment Co., Ltd.** [0.19 / 0.04]
Credit card settlement agency business for rental housing tenants
- **D.T.C. REINSURANCE LIMITED** [3.33 / 1.33]
A reinsurance company for tenants' fire insurance
- **Daito Corporate Service Co., Ltd.** [1.79 / 0.10]
A special subsidiary to employ people with disabilities: document printing, sending, and related services

The Daito Group's Website

Information that could not be included in this Integrated Report will be posted on the website. Latest information and online reports will also be posted online.



Corporate Website

<http://www.kentaku.co.jp/e/index.html>

Find the latest information from the Daito Group, including news releases.



About Us

<http://www.kentaku.co.jp/e/products/index.html>

Introduces our corporate information: Top message, Strategy, Business Model, Market Environment, Our Position in the market, Products Lineup, History, and Corporate Governance.



Investor Relations

<http://www.kentaku.co.jp/e/ir/index.html>

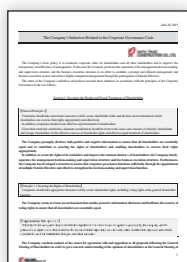
The latest investor relations information: Mid-Term Business Plan, Financial Summary, Consolidated B/S, Consolidated P/L, Shareholder's Information, Dividend Policy, IR Library, IR Calendar, Monthly Report, and News Release.



Corporate Profile

<http://www.kentaku.co.jp/e/corporate/index.html>

Corporate Profile and List of Group Companies.



Initiatives for Corporate Governance Code

<http://www.kentaku.co.jp/e/ir/pdf/cgc.pdf>

The latest Investor Relations information: Mid-Term Business Plan, Financial Summary, Consolidated B/S, Consolidated P/L, Shareholder's Information, Dividend Policy, IR Library, IR Calendar, Monthly Report, and News Release.

Corporate Profile (as of March 31, 2017)

Corporation Name	Daito Trust Construction Co., Ltd.
Head Office	2-16-1, Konan, Minato-ku, Tokyo 108-8211 Japan
Established	June 20, 1974
Capital	29,060 million yen (Common stock)
Number of Employees	16,054 (Consolidated basis)

[Editing]
Public Information & CSR Section, Corporate Planning Division
[Contact]
Customer Service Office 0120-1673-43
(toll-free number in Japan only)
Toll-free number business hours: 10:00 a.m. to 5:00 p.m.
(except for weekends, public holidays, and the Company's
summer and New Year holidays.)
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Consolidated Financial Section 2017

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Notes to Consolidated Financial Statements	P. 7

Note:

Consolidated Financial Section contains audited English-language financial statements in which certain items have been changed for the convenience of overseas readers.

Consolidated Balance Sheet

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥200,181	¥182,631	\$1,784,303
Money held in Trust (Note 17)	22,001	26,506	196,105
Marketable securities (Notes 3, 5 and 17)	15,510	9,617	138,248
Short-term investments (Note 17)	51,000	51,000	454,586
Notes and accounts receivable (Note 17):			
Construction contracts	28,656	27,412	255,424
Other	9,642	11,215	85,943
Total receivables	38,298	38,627	341,367
Operating loans (Note 17)	62,737	60,490	559,203
Inventories (Note 6)	20,644	18,098	184,009
Prepaid expenses—whole-building lease and other expenses (Note 22)	63,020	59,688	561,726
Deferred tax assets (Note 12)	19,697	19,955	175,568
Other current assets	16,932	13,263	150,923
Allowance for doubtful accounts	(242)	(253)	(2,157)
Total current assets	509,778	479,622	4,543,881
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 16):			
Land	47,597	43,169	424,253
Buildings and structures	66,771	61,842	595,160
Machinery and equipment	42,679	35,576	380,417
Furniture and fixtures	7,190	7,547	64,088
Lease assets (Note 16)	6,492	3,639	57,866
Total	170,729	151,773	1,521,784
Accumulated depreciation	(44,714)	(37,815)	(398,556)
Net property, plant and equipment	126,015	113,958	1,123,228
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 5 and 17)	20,036	26,610	178,590
Subordinated bonds and subordinated trust beneficiary right (Notes 4 and 17)	12,857	12,857	114,600
Investments in associated companies (Notes 17)	18,331	18,900	163,392
Intangible assets	17,635	10,665	157,189
Guarantee deposits (Note 5)	28,513	24,118	254,149
Deferred tax assets (Note 12)	34,297	26,031	305,705
Other assets	17,338	18,803	154,541
Allowance for doubtful accounts (Note 4)	(3,369)	(3,015)	(30,029)
Total investments and other assets	145,638	134,969	1,298,137
TOTAL	¥781,431	¥728,549	\$6,965,246

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term bank loans (Notes 8 and 17)	¥ 44,075	¥ 16,691	\$ 392,860
Current portion of long-term lease obligations (Note 16)	201	241	1,792
Accounts payable (Note 17)	43,678	37,510	389,322
Advances received— construction contracts (Note 22)	57,019	47,274	508,236
Income taxes payable (Notes 12 and 17)	30,752	25,672	274,106
Advances received— whole-building lease and other	75,543	68,923	673,349
Accrued employees' bonuses	21,523	21,587	191,844
Deposits received (Note 17)	7,596	7,632	67,707
Other current liabilities	57,604	56,353	513,450
Total current liabilities	337,991	281,883	3,012,666
LONG-TERM LIABILITIES:			
Long-term bank loans (Notes 8 and 17)	10,368	54,943	92,415
Long-term lease obligations (Note 16)	787	908	7,015
Liability for retirement benefit (Note 9)	10,203	10,699	90,944
Provision for repair of whole-building lease system (Notes 2.k and 22)	97,405	80,705	868,215
Deposits received for guarantee (Note 17)	39,868	45,184	355,361
Other long-term liabilities	9,324	5,705	83,108
Total long-term liabilities	167,955	198,144	1,497,058
EQUITY (Note 10),			
Common stock—authorized: 329,541 thousand shares; issued, 76,869 thousand shares in 2017 and 78,094 thousand shares in 2016	29,061	29,061	259,034
Capital surplus	34,541	34,541	307,879
Stock acquisition rights (Note 11)	399	354	3,556
Retained earnings	232,979	206,510	2,076,647
Treasury stock—at cost, 846 thousand shares in 2017 and 978 thousand shares in 2016	(15,337)	(16,857)	(136,706)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,526	3,203	22,516
Deferred loss on derivatives under hedge accounting	(287)	(944)	(2,558)
Land revaluation surplus	(7,584)	(7,584)	(67,600)
Foreign currency translation adjustments	(1,706)	(230)	(15,206)
Defined retirement benefit plans	(1,430)	(1,597)	(12,746)
Total	273,162	246,457	2,434,816
Noncontrolling interests	2,323	2,065	20,706
Total equity	275,485	248,522	2,455,522
TOTAL	¥781,431	¥728,549	\$6,965,246

See notes to consolidated financial statements.

Consolidated Statement of Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
NET SALES:			
Construction contracts (Note 13)	¥ 623,910	¥ 595,365	\$ 5,561,191
Real estate	824,643	774,808	7,350,414
Other	48,552	41,471	432,766
Total net sales	1,497,105	1,411,644	13,344,371
COST OF SALES:			
Construction contracts	426,264	419,095	3,799,483
Real estate	751,941	712,197	6,702,389
Other	33,311	25,925	296,916
Total cost of sales	1,211,516	1,157,217	10,798,788
Gross profit	285,589	254,427	2,545,583
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)			
Operating income	165,427	153,426	1,474,525
	120,162	101,001	1,071,058
OTHER INCOME (EXPENSES):			
Interest and dividend income	740	783	6,596
Interest expense (Note 8)	(401)	(573)	(3,574)
Other — net (Note 15)	3,494	4,055	31,143
Other income (expenses) — net	3,833	4,265	34,165
INCOME BEFORE INCOME TAXES	123,995	105,266	1,105,223
INCOME TAXES (Note 12):			
Current	49,512	41,335	441,323
Deferred	(8,055)	(3,654)	(71,798)
Total income taxes	41,457	37,681	369,525
NET INCOME	82,538	67,585	735,698
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	370	305	3,298
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 82,168	¥ 67,280	\$ 732,400

	Yen		U.S. dollars
PER SHARE OF COMMON STOCK (Note 20):			
Basic net income	¥ 1,072.64	¥ 863.11	\$ 9.56
Diluted net income	1,071.91	862.52	9.55
Cash dividends applicable to the year	536.00	432.00	4.78

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
NET INCOME	¥82,538	¥67,585	\$735,698
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized gain on available-for-sale securities	(677)	(2,954)	(6,034)
Deferred gain (loss) on derivatives under hedge accounting	657	(1,547)	5,856
Foreign currency translation adjustments	(1,476)	(1,508)	(13,156)
Defined retirement benefit plans	162	(998)	1,444
Total other comprehensive income	(1,334)	(7,007)	(11,890)
COMPREHENSIVE INCOME	¥81,204	¥60,578	\$723,808
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥80,840	¥60,274	\$720,563
Noncontrolling interests	364	304	3,245

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen													
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total	Noncontrolling Interests	Total Equity
							Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2015	79,324,379	¥29,061	¥34,541	¥312	¥184,662	¥(13,486)	¥ 6,157	¥ 603	¥(7,584)	¥ 1,278	¥ (599)	¥234,945	¥1,850	¥236,795
Net income attributable to owners of the parent					67,280							67,280		67,280
Cash dividends, ¥389 per share					(30,439)							(30,439)		(30,439)
Purchase of treasury stock						(25,759)						(25,759)		(25,759)
Disposal of treasury stock	(1,230,000)		480			6,917						7,397		7,397
Retirement of treasury stock			(480)		(14,991)	15,471								
Changes in the parent's ownership interest due to transactions with noncontrolling interests					(2)							(2)		(2)
Net change in the year				42			(2,954)	(1,547)		(1,508)	(998)	(6,965)	215	(6,750)
BALANCE, MARCH 31, 2016	78,094,379	29,061	34,541	354	206,510	(16,857)	3,203	(944)	(7,584)	(230)	(1,597)	246,457	2,065	248,522
Net income attributable to owners of the parent					82,168							82,168		82,168
Cash dividends, ¥471 per share					(36,473)							(36,473)		(36,473)
Purchase of treasury stock						(20,242)						(20,242)		(20,242)
Disposal of treasury stock	(1,224,800)				(91)	2,628						2,537		2,537
Retirement of treasury stock					(19,134)	19,134								
Changes in the parent's ownership interest due to transactions with noncontrolling interests					(1)							(1)		(1)
Net change in the year				45			(677)	657		(1,476)	167	(1,284)	258	(1,026)
BALANCE, MARCH 31, 2017	76,869,579	¥29,061	¥34,541	¥399	¥232,979	¥(15,337)	¥ 2,526	¥ (287)	¥(7,584)	¥(1,706)	¥(1,430)	¥273,162	¥2,323	¥275,485

	Thousands of U.S. dollars (Note 1)													
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total	Noncontrolling Interests	Total Equity	
						Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				
BALANCE, MARCH 31, 2016	\$259,034	\$307,879	\$3,155	\$1,840,717	\$(150,254)	\$28,550	\$(8,414)	\$(67,600)	\$ (2,050)	\$(14,235)	\$2,196,782	\$18,406	\$2,215,188	
Net income attributable to owners of the parent				732,400								732,400		732,400
Cash dividends, \$4.20 per share				(325,100)								(325,100)		(325,100)
Purchase of treasury stock					(180,426)							(180,426)		(180,426)
Disposal of treasury stock				(811)	23,424							22,613		22,613
Retirement of treasury stock				(170,550)	170,550									
Changes in the parent's ownership interest due to transactions with noncontrolling interests				(9)								(9)		(9)
Net change in the year			401			(6,034)	5,856		(13,156)	1,489	(11,444)	2,300	(9,144)	
BALANCE, MARCH 31, 2017	\$259,034	\$307,879	\$3,556	\$2,076,647	\$(136,706)	\$22,516	\$(2,558)	\$(67,600)	\$(15,206)	\$(12,746)	\$2,434,816	\$20,706	\$2,455,522	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥123,995	¥105,266	\$1,105,223
Adjustments for:			
Income taxes—paid	(44,928)	(41,555)	(400,463)
Depreciation and amortization	8,042	6,026	71,682
Impairment loss	122	92	1,087
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	324	(2,006)	2,888
Decrease (increase) in inventories	(2,550)	210	(22,729)
Decrease (increase) in prepaid expenses— whole-building lease and other	(1,191)	(695)	(10,616)
Decrease (increase) in operating loans	(2,247)	(5,818)	(20,029)
Increase (decrease) in accounts payables	6,175	(4,710)	55,041
Increase (decrease) in advances received— whole-building lease and other	6,620	4,441	59,007
Increase (decrease) in advances received— construction contracts	9,745	(2,137)	86,862
Increase (decrease) in deposits received for guarantee	(5,315)	(6,126)	(47,375)
Increase (decrease) in deposits received	(31)	763	(276)
Increase (decrease) in allowance for doubtful accounts	343	101	3,057
Increase (decrease) in accrued employees' bonuses	(59)	1,054	(526)
Increase (decrease) in liability for retirement benefits	(263)	(238)	(2,344)
Increase (decrease) in provision for repair of whole-building lease system	16,701	15,550	148,864
Other—net	8,615	8,604	76,788
Total adjustments	103	(26,444)	918
Net cash provided by operating activities	124,098	78,822	1,106,141
INVESTING ACTIVITIES:			
Proceeds from time deposits	52,000	—	463,499
Payments for time deposits	(52,000)	(51,000)	(463,499)
Proceeds from money held in trust	4,500	6,000	40,111
Purchases of marketable and investment securities	(15,863)	(29,974)	(141,394)
Proceeds from sales and redemption of marketable and investment securities	12,510	8,000	111,507
Payments for purchase of property, plant and equipment	(17,956)	(18,347)	(160,050)
Payments for purchase of intangible assets	(12,137)	(6,241)	(108,183)
Other—net	(4,461)	(1,994)	(39,763)
Net cash used in investing activities	(33,407)	(93,556)	(297,772)
FINANCING ACTIVITIES:			
Proceeds from long-term bank loan	—	9,000	—
Repayment of long-term bank loan	(17,191)	(17,336)	(153,231)
Dividends paid	(36,473)	(30,439)	(325,100)
Repurchase of treasury stock	(20,242)	(25,759)	(180,426)
Proceeds from disposal of treasury stock	1,997	7,026	17,800
Dividends paid to noncontrolling interests	(99)	(81)	(882)
Other—net	(279)	(335)	(2,487)
Net cash used in financing activities	(72,287)	(57,924)	(644,326)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	(854)	(263)	(7,612)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,550	(72,921)	156,431
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	182,631	255,552	1,627,872
CASH AND CASH EQUIVALENTS, END OF YEAR	¥200,181	¥182,631	\$1,784,303

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform them to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Daito Trust Construction Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 26 (24 in 2016) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in 3 (2 in 2016) associated companies are accounted for by the equity method, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in 1 associated company is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificates of deposit, both of which mature within three months of the date of acquisition.

c. Inventories—Construction projects in progress are stated at cost determined on the specific project basis. Materials and other inventories are mainly stated at the lower of cost, determined by the moving-average method, or net selling value.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management’s intent, as follows:

(1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity are reported at amortized cost; and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported except for nonmarketable available-for-sale-securities at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost, determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, principal machinery and equipment, and all property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 10 to 60 years for buildings and structures, from 3 to 22 years for machinery and equipment, and from 2 to 20 years for furniture and fixture. Lease assets are depreciated using the straight-line method over the estimated useful lives of assets which are the term of the respective leases. Pursuant to an amendment to the Corporate Tax Act, the Company adopted Accounting Standards Board of Japan “ASBJ” Practical Issues Task Force No. 32 “Practical Solution on a change in depreciation method due to Tax Reform 2016” and changed the depreciation method for building-improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this change on consolidated financial statements is immaterial.

f. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Land Revaluation—Under the “Law of Land Revaluation,” the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account.

h. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding. The allowance for doubtful accounts related to the subordinated bonds and subordinated trust beneficiary rights issued by special-purpose entities “SPEs” is stated based on an evaluation of potential losses due to the deteriorating fiscal condition of the SPEs.

i. Accrued Employees' Bonuses—The Company and certain consolidated subsidiaries have provided for employees' bonuses to state the liability at the estimated amount payable to employees.

j. Retirement and Pension Plans—The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated domestic subsidiaries have unfunded retirement benefit plans for their employees.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over mainly 6 years and 8 years, mainly 8 years, respectively, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

k. Provision for Repair of Whole-Building Lease System—Certain consolidated subsidiaries have provided for a provision for repair of whole-building lease systems to cover probable costs of restoration and repairs being borne in the future based on the whole-building lease contracts. See Note 22 for description of whole-building the whole-building lease systems.

l. Stock Options—The accounting standard for stock options requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

m. Employee Stockownership Plan—In December 2013, the ASBJ issued PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" This PITF is effective for the beginning of annual periods beginning on or after April 1, 2014, with earlier application permitted from the beginning of annual periods first ending after the date of issuance of this PITF, and applied retrospectively.

In accordance with the PITF, upon the transfer of treasury stock to the employee stockownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock shall be recorded in capital surplus. At year end, the entity shall record (1) the entity stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

The Company applied this PITF effective April 1, 2014. As for the trust contracts concluded before April 1, 2014, the Company applied transitional accounting (as stipulated in this PITF) and continued the previous accounting treatment.

n. Research and Development Costs—Research and development costs are charged to income as incurred.

o. Construction Contracts—Under the accounting standard for construction contracts, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

p. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences. The company applied ASBJ Guidance No. 26, “Guidance on Recoverability of Deferred Tax Assets,” effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

q. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign Currency Financial Statements—The balance sheet accounts, revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

s. Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposure for imports are measured at fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

t. *Consumption Tax*—Consumption tax is accounted for by the tax exclusion method.

u. *Per Share Information*—Basic net income per share “EPS” is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted EPS reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted EPS of common stock assumes full conversion of the outstanding warrants at the beginning of the year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current:			
Government and corporate bonds	¥13,911	¥ 8,316	\$123,995
Other	1,599	1,301	14,253
Total	¥15,510	¥ 9,617	\$138,248
Non-current:			
Marketable equity securities	¥16,731	¥17,730	\$149,131
Government and corporate bonds	542	7,946	4,831
Investments in other companies	2,733	904	24,360
Trust fund investments and other	30	30	268
Total	¥20,036	¥26,610	\$178,590

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2017 and 2016, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,089	¥3,657	¥15	¥16,731
Government and corporate bonds	14,365	5	7	14,363
Other	1,600	—	1	1,599
Held-to-maturity	90	2	—	92
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,115	¥4,667	¥52	¥17,730
Government and corporate bonds	16,165	12	45	16,132
Other	1,300	1	—	1,301
Held-to-maturity	130	4	—	134

March 31, 2017	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$116,668	\$32,597	\$134	\$149,131
Government and corporate bonds	128,042	44	62	128,024
Other	41,002	—	9	40,993
Held-to-maturity	802	18	—	820

4. SUBORDINATED BONDS AND SUBORDINATED TRUST BENEFICIARY RIGHTS

The Company mediates the extension of apartment loans to customers who order construction of rental housing.

As for these loans, financial institutions establish SPEs and the loans are securitized by SPEs.

When the customers use these loans, the Company is required to buy the subordinated bonds or subordinated trust beneficiary rights issued by the SPEs according to the agreement with certain financial institutions.

Details of the subordinated bonds and subordinated trust beneficiary rights are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Subordinated bonds and subordinated trust beneficiary rights	¥12,857	¥12,857	\$114,600
Allowance for doubtful accounts	¥ (273)	¥ (476)	\$ (2,433)
Possession ratio of subordinated bonds and subordinated trust beneficiary rights	6.17%	6.17%	6.17%
Date of maturity	November 2034 – February 2043	November 2034 – February 2043	November 2034 – February 2043
Loan balance of SPEs	¥53,112	¥67,381	\$473,411
Outstanding bonds of SPEs	¥53,792	¥68,375	\$479,472
Number of SPEs	10	10	10

The possession ratio of the subordinated bonds and subordinated trust beneficiary rights is the ratio of the subordinated bonds and subordinated trust beneficiary rights balance of the Company to the total amount of bonds when issued.

5. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral required by the Building Lots and Buildings Transaction Business Law, the Act for Secure Execution of Defect Warranty Liability, and those pledged for the purpose of extending payment due dates for customs and consumption tax and insurance payments in accordance with the Trust Business Act and the Insurance Business Act, and payment for Settlement of Electricity Transaction at March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investment securities	¥ 952	¥3,877	\$ 8,486
Other	8,597	3,865	76,629
Total	¥9,549	¥7,742	\$85,115

6. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Construction projects in progress	¥14,841	¥13,224	\$132,285
Materials	5,507	4,545	49,086
Real estate held for sale	—	105	—
Merchandise	296	224	2,638
Total	¥20,644	¥18,098	\$184,009

7. INVESTMENT PROPERTY

The Group owns certain rental properties such as office buildings, apartments and car parking spaces. The net of rental income and operating expenses for those rental properties was ¥3,756 million (\$33,479 thousand) and ¥3,542 million for the fiscal years ended March 31, 2017 and 2016, respectively.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Millions of yen			
April 1, 2016	Carrying Amount		Fair Value
	Increase	March 31, 2017	March 31, 2017
¥57,104	¥342	¥57,446	¥125,395

Millions of yen			
April 1, 2015	Carrying Amount		Fair Value
	Increase	March 31, 2016	March 31, 2016
¥56,997	¥107	¥57,104	¥121,556

Thousands of U.S. dollars			
April 1, 2016	Carrying Amount		Fair Value
	Increase	March 31, 2017	March 31, 2017
\$508,994	\$3,048	\$512,042	\$1,117,702

Notes:

1. Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2. Increase during the fiscal year ended March 31, 2017 primarily represents the acquisition of certain properties of ¥1,111 million (\$9,903 thousand), and decrease primarily represents the recognition of depreciation of ¥764 million (\$6,810 thousand).
3. Increase during the fiscal year ended March 31, 2016 primarily represents the acquisition of certain properties of ¥891 million, and decrease primarily represents the recognition of depreciation of ¥776 million.
4. Fair value of properties is measured by the Group in accordance with its Real-Estate Appraisal Standard.

8. LONG-TERM BANK LOANS

Long-term bank loans at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans from banks due on various dates through 2020 with interest rates ranging from 0.26% to 0.76% (2017) and from 0.37% to 0.80% (2016)	¥ 54,443	¥ 71,634	\$ 485,275
Total	54,443	71,634	485,275
Less current portion	(44,075)	(16,691)	(392,860)
Long-term bank loans, less current portion	¥ 10,368	¥ 54,943	\$ 92,415

Annual maturities of long-term bank loans, excluding finance leases (see Note 16), at March 31, 2017, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥44,075	\$392,860
2019	6,352	56,618
2020	1,816	16,187
2021	2,200	19,610
Total	¥54,443	\$485,275

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

In addition, the Company entered into committed loan facility agreements totaling ¥99,024 million (\$882,646 thousand) with 12 Japanese banks. There was no balance under the committed loan facility agreements as of March 31, 2017.

9. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2017 and 2016, consisted of the following:

1. The changes in defined benefit obligation for the years ended March 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥31,699	¥29,171	\$282,547
Current service cost	2,634	2,429	23,478
Interest cost	1	47	9
Actuarial gains and losses	938	1,953	8,361
Benefits paid	(1,998)	(1,901)	(17,809)
Balance at end of year	¥33,274	¥31,699	\$296,586

2. The changes in plan assets for the years ended March 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥21,000	¥19,652	\$187,182
Expected return on plan assets	314	294	2,799
Actuarial gains and losses	239	(378)	2,130
Contributions from the employer	2,914	2,771	25,974
Benefits paid	(1,396)	(1,339)	(12,443)
Balance at end of year	¥23,071	¥21,000	\$205,642

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2017 and 2016, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded defined benefit obligation	¥24,179	¥23,039	\$215,518
Plan assets	23,071	21,000	205,642
	1,108	2,039	9,876
Unfunded defined benefit obligation	9,095	8,660	81,068
Net liability arising from benefit obligation	¥10,203	¥10,699	\$ 90,944

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liability for retirement benefits	¥10,203	¥10,699	\$90,944
Asset for retirement benefits	—	—	—
Net liability arising from benefit obligation	¥10,203	¥10,699	\$90,944

4. The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥2,634	¥2,429	\$23,478
Interest cost	1	47	9
Expected return on plan assets	(314)	(294)	(2,799)
Recognized actuarial gains and losses	925	906	8,245
Amortization of prior service cost	7	7	62
Net periodic benefit costs	¥3,253	¥3,095	\$28,995

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ 7	¥ 7	\$ 63
Actuarial gains and losses	226	(1,424)	2,014
Total	¥233	¥(1,417)	\$2,077

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (69)	¥ (75)	\$ (615)
Unrecognized actuarial gains and losses	(1,998)	(2,224)	(17,809)
Total	¥(2,067)	¥(2,299)	\$(18,424)

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Debt investments	32.1%	29.2%
Equity investments	19.9%	13.7%
Cash and cash equivalents	5.9%	6.1%
General accounts	40.1%	50.7%
Others	2.0%	0.3%
Total	100.0%	100.0%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.0%	0.0%
Expected rate of return on plan assets	1.5%	1.5%
Expected rate of future salary increases	1.5%	1.5%

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by

its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Company has set up a "Trust under Employee Stock Ownership Plan" (the "ESOP trust") and a "Trust for employees receiving in-kind benefit by stock" (the "J-ESOP") to improve the employees' benefit program, increase corporate value by enhancing awareness of the Company's results and stock price, and enhance employees' motivation and morale.

Trust Contracts Concluded Before April 1, 2014

ESOP trust

The implementation of an employee incentive plan ESOP trust was resolved at the Board of Directors' Meeting held on June 17, 2011, aiming to increase the Company's corporate value over the medium- to long-term. The Company has set up a trust for employees that are members of "Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan," who are eligible under certain requirements to be beneficiaries. During the designated acquisition period, July 1, 2011 to September 22, 2011, the ESOP trust purchased from stock exchanges the number of shares of the Company's stock which is expected the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan would acquire from the ESOP trust over five years after its establishment. Since the acquisition, the ESOP trust has sold shares of the Company's stock to Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan on a certain day of every month. As for the termination of the ESOP trust, where an increase in the stock price will have generated trust earnings on the sales of the shares of the Company's stock, money held in trust will be distributed to the employees as beneficiaries based on their contribution ratio. When a decrease in the stock price will have caused losses on the sales of the shares of the Company's stock, resulting in obligations

related to trust assets, the employees will not be obligated to make additional contributions because the Company will settle those obligations in a lump sum with the bank in accordance with a guarantee clause in the loan agreement. The ESOP trust was terminated in November 2015.

J-ESOP

The implementation of a new employee incentive plan J-ESOP was resolved at the Board of Directors' Meeting held on July 4, 2011. Under the J-ESOP, employees are granted shares of the Company's stock when they become vested in accordance with the Share-based Benefits Regulations established by the Company. The Company grants points to selected employees based on their performance and achievements. Employees who have met certain requirements will receive the number of shares of the Company's stock corresponding to their points obtained (one share to one point). Shares to be granted to employees are acquired for both current and future benefits with the money held in trust and separately managed as trust assets.

With the J-ESOP, the Company expects to enhance employees' morale and motivation to dedicate themselves to improving the Company's business performance and corporate value over the medium-term.

The Company's stock held by the above trusts at March 31, 2017 and 2016, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
J-ESOP	¥3,245	¥4,059	\$28,924
Total	¥3,245	¥4,059	\$28,924

	Thousands of Shares	
	2017	2016
J-ESOP	316	429
Total	316	429

The Company's stock held by the trusts is therefore presented as "Treasury Stock" and as a deduction to shareholders' equity in the consolidated balance sheet and consolidated shareholders' equity (or statement of changes in equity).

However, such stock is excluded from treasury stock in calculating net income per share of common stock and fully diluted net income per share of common stock.

Trust Contracts Concluded On or After April 1, 2014

ESOP trust

The implementation of an employee incentive plan ESOP trust was resolved at the Board of Directors' Meeting held on November 24, 2015, aiming to increase the Company's corporate value over the medium- to long-term. The Company has set up a trust for employees that are members of "Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan," who are eligible under certain requirements to be beneficiaries. During the designated acquisition period, December 16, 2015 to January 29, 2016, the ESOP trust purchased from stock exchanges the number of shares of the Company's stock which is expected the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan would acquire from the ESOP trust over five years after its establishment. Since the acquisition, the ESOP trust has sold shares of the Company's stock to Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan on a certain day of every month. As for the termination of the ESOP trust, where an increase in the stock price will have generated trust earnings on the sales of the shares of the Company's stock, money held in trust will be distributed to the employees as beneficiaries based on their contribution ratio. When a decrease in the stock price will have caused losses on the sales of the shares of the Company's stock, resulting in obligations related to trust assets, the employees will not be obligated to make additional contributions because the Company will settle those obligations in a lump sum with the bank in accordance with a guarantee clause in the loan agreement.

The Company's stock held by the above trust at March 31, 2017 and 2016, was as follow:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
ESOP trust	¥6,692	¥8,326	\$59,649

	Thousands of Shares	
	2017	2016
ESOP trust	501	623

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Long-term debt	¥7,240	¥9,000	\$64,533

The Company's stock held by the above trusts also has the same rights as normal stock, e.g., voting and dividend claim rights, as the stock does not meet the definition of treasury stock under the Companies Act. To calculate the available amounts of dividends as stipulated under Clause 2 of Article 461 of the Companies Act, the Company's stock held by the trusts is not deducted for of the same reason.

11. STOCK OPTIONS

The Company

The stock options outstanding as of March 31, 2017, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option (A)	10 directors	7,600 shares	2012.6.14	¥ 1 (\$0.01)	From June 15, 2012 to June 14, 2042
2012 Stock Option (B)	10 directors	17,500 shares	2012.6.14	¥ 1 (\$0.01)	From June 15, 2015 to June 14, 2020
2013 Stock Option (A)	11 directors	7,900 shares	2013.6.17	¥ 1 (\$0.01)	From June 18, 2013 to June 17, 2043
2013 Stock Option (B)	11 directors	14,300 shares	2013.6.17	¥ 1 (\$0.01)	From June 18, 2016 to June 17, 2021
2014 Stock Option (A)	6 directors	5,200 shares	2014.6.17	¥ 1 (\$0.01)	From June 18, 2014 to June 17, 2044
2014 Stock Option (B)	6 directors	11,600 shares	2014.6.17	¥ 1 (\$0.01)	From June 18, 2017 to June 17, 2022
2015 Stock Option (A)	7 directors	4,200 shares	2015.6.16	¥ 1 (\$0.01)	From June 17, 2015 to June 16, 2045
2015 Stock Option (B)	7 directors	8,200 shares	2015.6.16	¥ 1 (\$0.01)	From June 17, 2018 to June 16, 2023
2016 Stock Option (A)	9 directors	3,800 shares	2016.6.16	¥ 1 (\$0.01)	From June 17, 2016 to June 16, 2046
2016 Stock Option (B)	9 directors	7,000 shares	2016.6.16	¥ 1 (\$0.01)	From June 17, 2019 to June 16, 2024

The stock option activity for the years ended March 31, 2017 and 2016, is as follows:

	2012 Stock Option (A)	2012 Stock Option (B)	2013 Stock Option (A)	2013 Stock Option (B)	2014 Stock Option (A)	2014 Stock Option (B)
Year Ended March 31, 2017						
	(Shares)					
Non-vested						
March 31, 2016—Outstanding	—	—	—	14,300	—	11,600
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	14,300	—	—
March 31, 2017—Outstanding	—	—	—	—	—	11,600
Vested						
March 31, 2016—Outstanding	1,300	3,900	2,300	—	3,800	—
Vested	—	—	—	14,300	—	—
Exercised	—	1,300	—	11,200	—	—
Canceled	—	—	—	—	—	—
March 31, 2017—Outstanding	1,300	2,600	2,300	3,100	3,800	—
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥ — (\$ —)	¥16,565 (\$147.65)	¥ — (\$ —)	¥16,301 (\$145.30)	¥ — (\$ —)	¥ — (\$ —)
Fair value price at grant date	¥ 5,821 (\$ 51.89)	¥ 5,474 (\$ 48.79)	¥ 7,444 (\$ 66.35)	¥ 7,304 (\$ 65.10)	¥ 9,361 (\$ 83.44)	¥ 9,741 (\$ 86.83)

	2015 Stock Option (A)	2015 Stock Option (B)	2016 Stock Option (A)	2016 Stock Option (B)
Year Ended March 31, 2017				
	(Shares)		(Shares)	
Non-vested				
March 31, 2016—Outstanding	—	8,200	—	—
Granted	—	—	3,800	7,000
Canceled	—	—	—	—
Vested	—	—	3,800	—
March 31, 2017—Outstanding	—	8,200	—	7,000
Vested				
March 31, 2016—Outstanding	3,500	—	—	—
Vested	—	—	3,800	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2017—Outstanding	3,500	—	3,800	—
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥ — (\$ —)	¥ — (\$ —)	¥ — (\$ —)	¥ — (\$ —)
Fair value price at grant date	¥10,328 (\$ 92.06)	¥10,667 (\$ 95.08)	¥13,013 (\$115.99)	¥13,044 (\$116.27)

	2012 Stock Option (A)	2012 Stock Option (B)	2013 Stock Option (A)	2013 Stock Option (B)	2014 Stock Option (A)	2014 Stock Option (B)
Year Ended March 31, 2016	(Shares)					
Non-vested						
March 31, 2015—Outstanding	—	17,500	—	14,300	—	11,600
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	—	—
March 31, 2016—Outstanding	—	17,500	—	14,300	—	11,600
Vested						
March 31, 2015—Outstanding	2,300	—	3,200	—	4,600	—
Vested	—	17,500	—	—	—	—
Exercised	(1,000)	(13,600)	(900)	—	(800)	—
Canceled	—	—	—	—	—	—
March 31, 2016—Outstanding	1,300	3,900	2,300	—	3,800	—

	2015 Stock Option (A)	2015 Stock Option (B)
Year Ended March 31, 2016	(Shares)	
Non-vested		
March 31, 2015—Outstanding	—	—
Granted	4,200	8,200
Canceled	—	—
Vested	(4,200)	—
March 31, 2016—Outstanding	—	8,200
Vested		
March 31, 2015—Outstanding	—	—
Vested	4,200	—
Exercised	(700)	—
Canceled	—	—
March 31, 2016—Outstanding	3,500	—

The Assumptions Used to Measure the Fair Value of the 2016 Stock Option (A)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 24.84%

Estimated remaining outstanding period: 5.58 years

Estimated dividend: ¥432 per share

Risk free interest rate: -0.304%

The Assumptions Used to Measure the Fair Value of the 2016 Stock Option (B)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 25.02%

Estimated remaining outstanding period: 5.50 years

Estimated dividend: ¥432 per share

Risk free interest rate: -0.304%

Consolidated subsidiary

The House com Corporation

The stock options outstanding as of March 31, 2017, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 Stock Option	1 director	15,500 shares	2014.5.30	¥ 1 (\$0.01)	From May 31, 2014 to May 30, 2044
2015 Stock Option	2 directors	5,600 shares	2015.6.5	¥ 1 (\$0.01)	From June 6, 2015 to June 5, 2045
2016 Stock Option	2 directors	5,700 shares	2016.6.2	¥ 1 (\$0.01)	From June 4, 2016 to June 3, 2046

The stock option activity for the years ended March 31, 2017 and 2016, is as follows:

Year Ended March 31, 2017	2014 Stock Option	2015 Stock Option	2016 Stock Option
	(Shares)		
Non-vested			
March 31, 2016—Outstanding	—	—	—
Granted	—	—	5,700
Canceled	—	—	—
Vested	—	—	5,700
March 31, 2017—Outstanding	—	—	—
Vested			
March 31, 2016—Outstanding	15,500	5,600	—
Vested	—	—	5,700
Exercised	—	—	—
Canceled	—	—	—
March 31, 2017—Outstanding	15,500	5,600	5,700
Exercise price	¥ 1 (\$0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥ — (\$ —)	¥ — (\$ —)	¥ — (\$ —)
Fair value price at grant date	¥ 540 (\$4.81)	¥1,311 (\$11.69)	¥1,192 (\$10.62)

Year Ended March 31, 2016	2014 Stock Option	2015 Stock Option
	(Shares)	
Non-vested		
March 31, 2015—Outstanding	—	—
Granted	—	5,600
Canceled	—	—
Vested	—	(5,600)
March 31, 2016—Outstanding	—	—
Vested		
March 31, 2015—Outstanding	15,500	—
Vested	—	5,600
Exercised	—	—
Canceled	—	—
March 31, 2016—Outstanding	15,500	5,600

The Assumptions Used to Measure the Fair Value of the 2016 Stock Option

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 46.80%

Estimated remaining outstanding period: 10 years

Estimated dividend: ¥49 per share

Risk free interest rate: -0.1%

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 314	¥ 312	\$ 2,799
Allowance for doubtful accounts	1,106	1,002	9,858
Unrealized profit of assets	4,299	4,373	38,319
Accrued expenses	2,071	2,458	18,460
Accrued enterprise taxes	1,551	1,626	13,825
Depreciation	1,066	585	9,502
Accrued employees' bonuses	6,647	6,644	59,248
Provision for warranties for completed construction	337	351	3,004
Retirement benefit for employees	3,108	3,260	27,703
Provision for repair of whole-building lease system	29,843	24,743	266,004
Deferred cleaning revenue	3,828	3,390	34,120
Tax loss carryforwards	439	176	3,913
Others	6,215	4,759	55,397
Less valuation allowance	(897)	(627)	(7,996)
Total	59,927	53,052	534,156
Deferred tax liabilities:			
Reserve for special depreciation	4,818	5,645	42,945
Unrealized gain on available-for-sale securities	1,115	1,414	9,938
Others	95	91	847
Total	6,028	7,150	53,730
Net deferred tax assets	¥53,899	¥45,902	\$480,426

Deferred tax assets and liabilities were included in the consolidated balance sheets as of March 31, 2017 and 2016 as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets—Deferred tax assets	¥19,697	¥19,955	\$175,568
Non-current assets—Deferred tax assets	34,297	26,031	305,705
Non-current liabilities—Other	(95)	(84)	(847)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.1%
Expenses not deductible for income tax purposes	2.0	1.3
Inhabitant tax on per capita basis	0.5	0.5
Valuation allowance	0.2	(0.4)
Decrease in deferred tax assets by change of tax rate	0.1	2.5
Others—net	(0.3)	(1.2)
Actual effective tax rate	33.4%	35.8%

At March 31, 2017, certain subsidiaries have tax loss carryforwards aggregating to approximately ¥1,432 million (\$12,764 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ —	\$ —
2019	25	223
2020	140	1,248
2021	39	348
2022	29	258
2023	64	570
2024	55	490
2025	103	918
2026	977	8,709
Total	¥1,432	\$12,764

13. CONSTRUCTION CONTRACTS

Revenue recognized with respect to construction contracts, which is accounted for by the percentage-of-completion method at March 31, 2017 and 2016, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Revenue	¥620,022	¥589,827	\$5,526,535

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Research and development costs	¥1,425	¥1,387	\$12,702

15. OTHER INCOME—NET

Other income—net for the years ended March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Commission fee	¥3,654	¥3,656	\$32,570
Other	(160)	399	(1,427)
Other income—net	¥3,494	¥4,055	\$31,143

16. LEASES

Lessee

The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 427,110	¥ 394,575	\$ 3,807,023
Due after one year	1,722,195	1,632,365	15,350,700
Total	¥2,149,305	¥2,026,940	\$19,157,723

Lease payments fixed by contract with regard to the whole-building lease system are included in the above-mentioned minimum rental commitments at March 31, 2017 and 2016, as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 422,300	¥ 388,796	\$ 3,764,150
Due after one year	1,705,177	1,610,274	15,199,011
Total	¥2,127,477	¥1,999,070	\$18,963,161

Lessor

The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 621	¥ 621	\$ 5,535
Due after one year	3,106	3,727	27,685
Total	¥3,727	¥4,348	\$33,220

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly loans from banks, based on its capital financing plan for construction business. As a matter of policy, the Group only uses derivatives for actual operating requirements, not for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and the Risk Management for Financial Instruments

Money held in trust has been set up to separately manage tenancy deposits. The Group manages such trust assets as short-term deposits and low risk securities. These are exposed to variable risks, including issuers' credit, interest rate, and market. However, the Group periodically monitors the financial condition of issuers and the market value of debt securities.

Receivables such as trade notes and accounts receivable are exposed to customer credit risk. The Group decreases the risk by starting construction after customer financing is fixed.

Marketable and investment securities, mainly held-to-maturity securities and equity instruments, are exposed to variable risks, including issuers' credit, interest rate, and market. The Group periodically monitors the financial condition of the issuers of marketable investment securities. An ongoing review of securities held, other than held-to-maturity securities, is performed by taking into consideration the market as well as the relationship with the trading counterparties.

Short-term investments are time deposits that mature or become due after more than three months from the date of acquisition.

Operating loans, mainly loans for customers' construction financing (i.e., bridge loans until financial institutions execute a long-term loan) are exposed to customer credit risk. The Group thoroughly enforces credit risk management, which includes periodic monitoring of the financial condition of customers to mitigate the risk of uncollectible loans.

Subordinated bonds and subordinated trust beneficiary rights are financial instruments issued by an SPE established by a financial institution. The financial institution securitized the apartment loans of customers who order the Company to construct an apartment building for rent using the SPE. Subordinated bonds and subordinated trust beneficiary rights are exposed to the credit risk of the debtor of the apartment loan. The Group manages the credit risk by monitoring repayments of the loan.

Payment terms of payables, such as accounts payable, income taxes payable, and deposits received, are generally less than one year.

Loans from banks are exposed to market risk from changes in interest rates. The Group performs continuous monitoring of market fluctuations.

Long-term deposits received for guarantee are received from tenants in the real estate rental business by the whole-building lease system.

Derivatives are forward foreign currency exchange contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rate payables.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

March 31, 2017	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥200,181	¥200,181	¥ —
Money held in trust	22,001	22,001	—
Short-term investments	51,000	51,000	—
Notes and accounts receivable	38,298		
Allowance for doubtful accounts	(30)		
	38,268	38,268	—
Marketable and investment securities:			
Held-to-maturity securities	90	92	2
Investments in associated companies	14,348	16,570	2,222
Available-for-sale securities	32,693	32,693	—
Operating loans	62,737		
Allowance for doubtful accounts	(121)		
	62,616	63,116	500
Total	¥421,197	¥423,921	¥2,724
Accounts payable	¥ 43,678	¥ 43,678	¥ —
Income taxes payable	30,752	30,752	—
Deposit received	7,596	7,596	—
Current portion of long-term bank loans and short-term bank loans	54,443	54,443	—
Deposits received for guarantee	39,868	39,790	(78)
Total	¥176,337	¥176,259	¥ (78)

March 31, 2016	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥182,631	¥182,631	¥ —
Money held in trust	26,506	26,506	—
Short-term investments	51,000	51,000	—
Notes and accounts receivable	38,627		
Allowance for doubtful accounts	(30)		
	38,597	38,597	—
Marketable and investment securities:			
Held-to-maturity securities	130	134	4
Available-for-sale securities	35,163	35,163	—
Operating loans	60,490		
Allowance for doubtful accounts	(122)		
	60,368	61,158	790
Total	¥394,395	¥395,189	¥794
Accounts payable	¥ 37,510	¥ 37,510	¥ —
Income taxes payable	25,672	25,672	—
Deposit received	7,632	7,632	—
Current portion of long-term bank loans and short-term bank loans	71,634	71,634	—
Deposits received for guarantee	45,184	45,091	(93)
Total	¥187,632	¥187,539	¥ (93)

March 31, 2017	Thousands of U.S. dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$1,784,303	\$1,784,303	\$ —
Money held in trust	196,105	196,105	—
Short-term investments	454,586	454,586	—
Notes and accounts receivable	341,367		
Allowance for doubtful accounts	(267)		
	341,100	341,100	—
Marketable and investment securities:			
Held-to-maturity securities	802	820	18
Investments in associated companies	127,890	147,696	19,806
Available-for-sale securities	291,408	291,408	—
Operating loans	559,203		
Allowance for doubtful accounts	(1,079)		
	558,124	562,581	4,457
Total	\$3,754,318	\$3,778,599	\$24,281
Accounts payable	\$ 389,322	\$ 389,322	\$ —
Income taxes payable	274,106	274,106	—
Deposit received	67,707	67,707	—
Current portion of long-term bank loans and short-term bank loans	485,275	485,275	—
Deposits received for guarantee	355,361	354,666	(695)
Total	\$1,571,771	\$1,571,076	\$ (695)

Cash and Cash Equivalents, Notes and Accounts Receivable and Short-Term Investments

The carrying amounts of the accounts presented above approximate fair value because of their short maturities.

Money Held in Trust

The fair value of money held in trust is measured based on the financial instruments which comprise the money held in trust. At the end of the fiscal year ended March 31, 2017, all of the financial instruments that comprise money held in trust were deposits. As the carrying amount of this account approximates fair value, the carrying amount is treated as its fair value.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Operating Loans

The fair value of operating loans with floating-rates approximates carrying amount because the rate reflects market interest rates within a short period of time except for significant changes in credit conditions of debtors.

Loans with fixed rates consist of short-term bridge loans and long-term loans. The fair value of operating loans approximates carrying amount because the rate reflects market interest rates. The fair value of long-term loans is determined based on the present value calculated by using discount rates corresponding to the remaining period of the loan and credit risk.

Accounts Payable, Income Taxes Payable, and Deposits Received

The carrying amount of the accounts mentioned above approximate fair value because of their short maturities.

Current Portion of Long-Term Bank Loans and Short-Term Bank Loans

For the current portion of long-term bank loans and for short-term bank loans that have floating interest rates, the fair values approximate the carrying amount because the rates reflect market interest rates within a short period of time.

Deposits Received for Guarantee

The fair value of deposits received for guarantee is determined based on the present value calculated by using discount rates corresponding to credit risk and the remaining period of deposits received for guarantee.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Subordinated bonds and subordinated trust beneficiary right	¥12,857	¥12,857	\$114,600
Investments in other companies	¥ 6,556	¥ 5,258	\$ 58,437
Investments in equity instruments that do not have a quoted market price in an active market	¥ 190	¥14,546	\$ 1,694

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of yen					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
March 31, 2017						
Cash and cash equivalents	¥248,181	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trust	22,001					
Notes and accounts receivable	38,298	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	45	5	10	30	—	—
Available-for-sales securities with contractual maturities	18,460	—	—	—	500	—
Operating loans	31,779	3,547	3,069	2,727	2,459	19,137
Subordinated bonds and subordinated trust beneficiary right	—	—	—	—	—	13,091
Total	¥358,764	¥3,552	¥3,079	¥2,757	¥2,959	¥32,228

	Millions of yen					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
March 31, 2016						
Cash and cash equivalents	¥233,631	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trust	26,506					
Notes and accounts receivable	38,627	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	40	45	5	10	30	—
Available-for-sales securities with contractual maturities	9,570	7,860	—	—	—	—
Operating loans	28,698	3,859	3,369	2,875	2,521	19,164
Subordinated bonds and subordinated trust beneficiary right	—	—	—	—	—	13,091
Total	¥337,072	¥11,764	¥3,374	¥2,885	¥2,551	¥32,255

March 31, 2017	Thousands of U.S. dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	\$2,212,149	\$ —	\$ —	\$ —	\$ —	\$ —
Money held in trust	196,105					
Notes and accounts receivable	341,367	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	401	45	89	267	—	—
Available-for-sales securities with contractual maturities	164,542	—	—	—	4,457	—
Operating loans	283,261	31,616	27,355	24,307	21,918	170,577
Subordinated bonds and subordinated trust beneficiary right	—	—	—	—	—	116,686
Total	\$3,197,825	\$31,661	\$27,444	\$24,574	\$26,375	\$287,263

Please see Note 8 for annual maturities of long-term bank loans.

18. DERIVATIVES

Derivative transactions to which hedge accounting is applied

March 31, 2017	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward exchange contracts:				
Buying U.S.\$	Forecasted transactions	¥14,693	¥ 4,244	¥ (414)

March 31, 2016				
Foreign currency forward exchange contracts:				
Buying U.S.\$	Forecasted transactions	¥19,948	¥15,003	¥(1,365)

March 31, 2017	Hedged Item	Thousands of U.S. dollars		
		Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward exchange contracts:				
Buying U.S.\$	Forecasted transactions	\$130,965	\$37,829	\$(3,690)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ (947)	¥(4,331)	\$ (8,441)
Reclassification adjustments to profit or loss	(29)	(152)	(258)
Amount before income tax effect	(976)	(4,483)	(8,699)
Income tax effect	299	1,529	2,665
Total	¥ (677)	¥(2,954)	\$ (6,034)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ 950	¥(2,266)	\$ 8,468
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	950	(2,266)	8,468
Income tax effect	(293)	719	(2,612)
Total	¥ 657	¥(1,547)	\$ 5,856
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(1,476)	¥(1,508)	\$(13,156)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(1,476)	(1,508)	(13,156)
Income tax effect	—	—	—
Total	¥(1,476)	¥(1,508)	\$(13,156)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (699)	¥(2,330)	\$ (6,230)
Reclassification adjustments to profit or loss	932	913	8,307
Amount before income tax effect	233	(1,417)	2,077
Income tax effect	(71)	419	(633)
Total	¥ 162	¥ (998)	\$ 1,444
Total other comprehensive income	¥(1,334)	¥(7,007)	\$(11,890)

20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2017 and 2016, is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
Year Ended March 31, 2017	Net Income Attributable to Owners of the Parent	Weighted-Average Shares		EPS
Basic EPS—Net income available to common shareholders	¥82,168	76,604	¥1,072.64	\$9.56
Effect of dilutive securities—Warrants		50		
Diluted EPS—Net income for computation	¥82,168	76,654	¥1,071.91	\$9.55

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
Year Ended March 31, 2016	Net Income Attributable to Owners of the Parent	Weighted-Average Shares		EPS
Basic EPS—Net income available to common shareholders	¥67,280	77,950	¥863.11	\$7.69
Effect of dilutive securities—Warrants		52		
Diluted EPS—Net income for computation	¥67,280	78,002	¥862.52	\$7.69

21. SUBSEQUENT EVENTS

(1) Purchase of Treasury Stock

At the Board of Directors' meeting held on April 28, 2017, a plan was approved to repurchase up to 1,580,000 shares of the Company's common stock (aggregated amount up to a ceiling of ¥24,700 million (\$220,162 thousand)) during May 1, 2017 through March 30, 2018 on the Tokyo Stock Exchange and retire the shares.

(2) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at the Company's shareholders' meeting held on June 28, 2017:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥298 (\$2.66) per share	¥22,804	\$203,262

22. SEGMENT INFORMATION

Under the Accounting Standard for Segment Information Disclosures, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in determining how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to determine how resources are allocated among the Group.

The Company is engaged in the construction of apartments to foster effective utilization by customers. Daito Building Management Co., Ltd., a consolidated subsidiary, enters into whole-building leases as a "Lease management trust system" whereby it rents all apartments from landowners and subleases them to tenants. Daito Finance Corporation provides operating loans to landowners to fund construction projects. The Company creates management strategies and develops business activities for these operations.

Therefore, the Group consists of three reportable segments as follows:

Construction: civil engineering, construction, and other related business

Real estate: whole-building lease, rent, agency, guarantee of tenant and management business

Finance: construction finance business for land owners until financial institution executes long-term loan

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets and Other Items

	Millions of yen							
	2017							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Construction	Real Estate	Finance	Total					
Sales:								
Sales to external customers	¥623,910	¥824,643	¥ 6,695	¥1,455,248	¥41,857	¥1,497,105	¥ —	¥1,497,105
Intersegment sales or transfers	20	1,436	368	1,824	3,502	5,326	(5,326)	—
Total	¥623,930	¥826,079	¥ 7,063	¥1,457,072	¥45,359	¥1,502,431	¥ (5,326)	¥1,497,105
Segment profit (loss)	¥109,144	¥ 29,621	¥ 2,363	¥ 141,128	¥ 5,109	¥ 146,237	¥ (26,075)	¥ 120,162
Segment assets	115,853	281,851	69,842	467,546	63,941	531,487	249,944	781,431
Other:								
Depreciation	2,684	4,264	95	7,043	966	8,009	33	8,042
Impairment losses of assets	—	108	—	108	14	122	—	122
Increase in property, plant and equipment and intangible assets	9,793	13,433	53	23,279	4,417	27,696	1,749	29,445

	Millions of yen							
	2016							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Construction	Real Estate	Finance	Total					
Sales:								
Sales to external customers	¥595,365	¥774,808	¥ 5,579	¥1,375,752	¥35,892	¥1,411,644	¥ —	¥1,411,644
Intersegment sales or transfers	27	1,239	179	1,445	5,852	7,297	(7,297)	—
Total	¥595,392	¥776,047	¥ 5,758	¥1,377,197	¥41,744	¥1,418,941	¥ (7,297)	¥1,411,644
Segment profit (loss)	¥ 90,248	¥ 22,528	¥ 2,148	¥ 114,924	¥ 6,832	¥ 121,756	¥ (20,755)	¥ 101,001
Segment assets	105,611	266,560	65,233	437,404	54,699	492,103	236,446	728,549
Other:								
Depreciation	2,425	2,958	44	5,427	596	6,023	3	6,026
Impairment losses of assets	—	92	—	92	—	92	—	92
Increase in property, plant and equipment and intangible assets	6,972	17,208	241	24,421	1,988	26,409	6	26,415

Thousands of U.S. dollars								
2017								
	Reportable Segment			Total	Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance					
Sales:								
Sales to external customers	\$5,561,191	\$7,350,414	\$ 59,676	\$12,971,281	\$373,090	\$13,344,371	\$ —	\$13,344,371
Intersegment sales or transfers	178	12,800	3,280	16,258	31,215	47,473	(47,473)	—
Total	\$5,561,369	\$7,363,214	\$ 62,956	\$12,987,539	\$404,305	\$13,391,844	\$ (47,473)	\$13,344,371
Segment profit (loss)	\$ 972,850	\$ 264,025	\$ 21,062	\$ 1,257,937	\$ 45,539	\$ 1,303,476	\$ (232,418)	\$ 1,071,058
Segment assets	1,032,650	2,512,265	622,533	4,167,448	569,935	4,737,383	2,227,863	6,965,246
Other:								
Depreciation	23,924	38,007	846	62,777	8,611	71,388	294	71,682
Impairment losses of assets	—	962	—	962	125	1,087	—	1,087
Increase in property, plant and equipment and intangible assets	87,290	119,734	472	207,496	39,371	246,867	15,590	262,457

Notes for the year ended March 31, 2017

- (1) The reconciliations in segment profit include elimination of intersegment trades of ¥445 million (\$4,056 thousand) and corporate expenses not allocated to a reportable segment of ¥26,530 million (\$236,474 thousand). Corporate expenses are mainly the Company's general administration expenses.
- (2) The reconciliations in segment assets include elimination of intersegment trades of ¥3,239 million (\$28,871 thousand) and corporate assets not allocated to a reportable segment of ¥253,184 million (\$2,256,743 thousand). Corporate assets are mainly short-term investments and investment securities held by the Company and other assets of administrative departments.
- (3) Consolidated segment profit is equal to operating income in the consolidated statement of income. Consolidated segment assets are equal to total assets in the consolidated balance sheet.

Notes for the year ended March 31, 2016

- (4) The reconciliations in segment profit include elimination of intersegment trades of ¥338 million and corporate expenses not allocated to a reportable segment of ¥21,093 million. Corporate expenses are mainly the Company's general administration expenses.
- (5) The reconciliations in segment assets include elimination of intersegment trades of ¥1,427 million and corporate assets not allocated to a reportable segment of ¥237,872 million. Corporate assets are mainly short-term investments and investment securities held by the Company and other assets of administrative departments.
- (6) Consolidated segment profit is equal to operating income in the consolidated statement of income. Consolidated segment assets are equal to total assets in the consolidated balance sheet.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daito Trust Construction Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Daito Trust Construction Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daito Trust Construction Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2017

