

**Life is Built on Trust.**

# **Integrated Report 2018**

**DAITO KENTAKU GROUP**

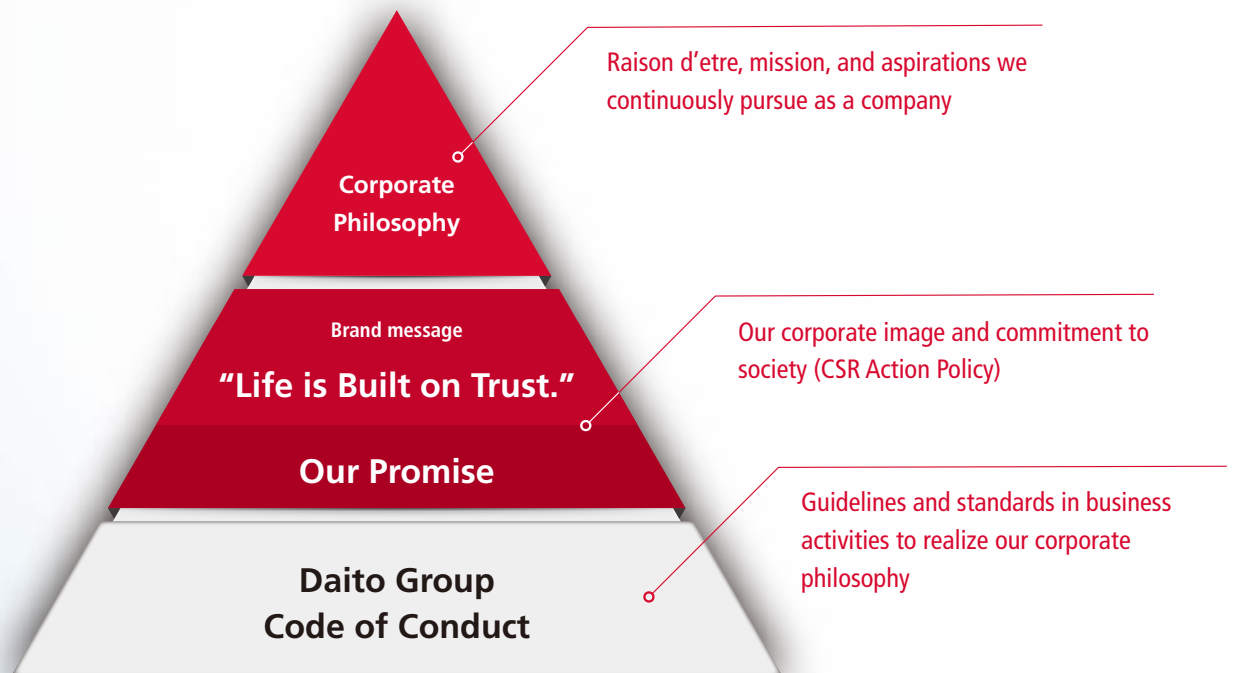


DAITO TRUST  
CONSTRUCTION CO., LTD.

### Corporate Philosophy

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

### Daito Group's Shared Values



Steady philosophy, changing strategy ——

Since our foundation in 1974, the Daito Group has been pursuing its corporate philosophy without being required to change or revise it substantially. Going forward, we will continue to respond to the trend of the times and the needs of our customers by adequately changing our business lineup. Simultaneously, we will strive to become a comprehensive living solutions company by further pursuing our unchanging corporate philosophy.



熊切直美

**Naomi Kumakiri**  
President and Representative Director  
(CEO), Daito Trust

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## About this Strategy Report

**Editorial policy:** This report is for our stakeholders, especially our shareholders and investors, to deepen their understanding about the Company. This report discloses and explains highly important information directly related to the improvement of our value-creating activities, among the Group's financial and non-financial information.

**Target readers:** Our stakeholders, especially our shareholders and investors.

**Indicators:** Unless otherwise indicated, the figures in this report considered to be "periodic" figures are for FY2017. Other figures are true as of March 31, 2018.

**Report period:** The fiscal year ended March 31, 2018

**Forward-looking statements:** Statements regarding the Group's future including business forecasts in this report are indicated based on future projections at the time of this report's release, assumptions used for planning, and predictions. The Company does not in any way guarantee the achievement of the projections. Our actual performance could significantly vary from these future projections, due to a variety of reasons.

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

- Daito Trust Construction → Daito Group

- Daito Trust Construction Co., Ltd → Daito Trust

# Daito Trust Code of Conduct

## 1. Legal Compliance and Corporate Ethics

- (1) As decent and responsible members of society, we shall comply with laws and regulations at all times while maintaining the highest ethical standards.
- (2) We shall respect the character and individuality of each person and not permit social discrimination or the infringement of human rights.
- (3) We shall resolutely oppose any antisocial influence or group that threatens public order and safety.

## 2. Management Transparency and Confidentiality

- (1) We shall strive to disclose information to customers and investors accurately and in a timely manner in order to facilitate a correct understanding of management and business activities.
- (2) To maintain fair and open business relationships, we shall refuse all gifts and entertainment offered by business partners and others.
- (3) We shall strictly manage information on customers and business clients obtained in the course of performing work duties and not use such information for another purpose without proper reason.

## 3. Customer-first principle

- (1) We shall act in the interests of our customers and constantly strive to provide a high level of satisfaction and earn their trust.
- (2) We shall act courteously toward all customers and strive to provide correct information and engage in fair business dealings.



### Brand Message

# “Life is Built

## Our Promise

P. 13 and “Our Promise” Report

### To our owners

“Entrusted with land that was built on or land to build on” We constantly pursue value that lasts for generations.

### To our tenants

From housing search to providing support for comfortable living, we offer services that bring the highest level of satisfaction to our customers.

### To our shareholders

We promise a continuous shareholder return by certain realizing our business plan.

The Daito Trust and the Daito Group have adopted the Daito Trust Code of Conduct to demonstrate their corporate philosophy and earn the confidence of customers and society in general. Comprising guidelines and standards for daily business activities, the Code applies to the conduct of all individuals in the Group.

#### 4. Social Responsibility

- (1) We shall maintain a sound financial position and debt-free business in order to perpetually provide products and services demanded by society.
- (2) We shall listen to the opinions of our various stakeholders while mindful of our relationship with society at all times.
- (3) We shall each consider the contribution we can make to society and strive to make contributions, not matter how small, starting in our immediate environment.

#### 5. Environmental Issues and Health and Safety

- (1) We shall actively strive to preserve the global environment by endeavoring to conserve energy and resources and through recycling efforts.
- (2) As a corporation that is innovative in its approach to land use, we shall endeavor to maintain comfortable living environments that emphasize harmony between the community and nature.
- (3) We shall strive to create a comfortable workplace environment that ensures the safety and health of all employees and other persons engaged in the Group's activities.

#### 6. Overseas Activities

- (1) We shall comply with international laws and regulations and those of individual countries and respect local culture and customs.
- (2) We shall maintain cordial relations with local communities and contribute to the development and prosperity of culture and society.

# on Trust."



##### To our business partners

We will build symbiotic partnerships by placing importance on local and human relationships.

##### To local communities

We will contribute to revitalize local economies and local society by anticipating social changes.

##### As employees

We will build a vibrant workplace environment where every employee is able to gain a sense of satisfaction through their challenges.

# Daito Group's Business Model

In Japan, a majority of people believe that land is an important hereditary asset that should be passed on to succeeding generations. On the other hand, dealing with inheritance and land possession taxes has become an issue to be addressed. Positioning our proprietary Lease Management Trust System in the center of our businesses, the Daito Group engages in the Construction Business, Real Estate Business, and Other Businesses, and provides owners with the stable operation of our building rental business, and tenants with safe and secure dwellings as well as comfortable lifestyles.

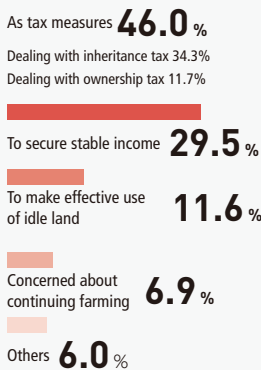
### Social changes relating to our businesses

- Increase in single-person households
- Advancement of aging society
- Increase in absence of residents in rural areas
- Increase in inheritance needs
- Enhancing awareness of environment, security, and disaster prevention
- Insufficient craftsmen and technicians in the construction industry

And others



### Landowners' purposes for land utilization



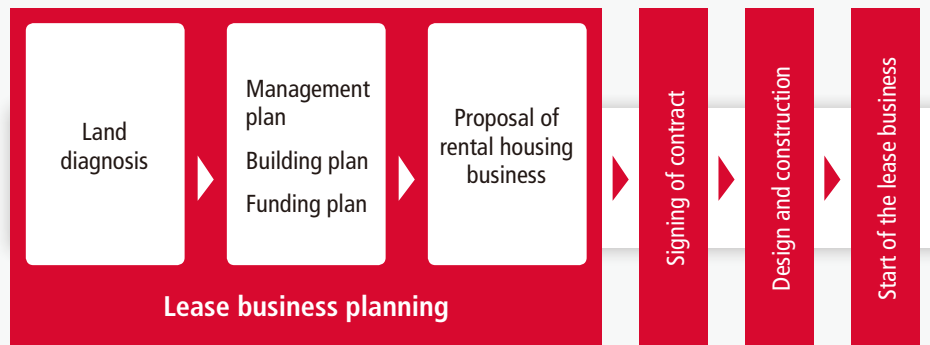
Source: FY2017 data provided by the Daito Group

## Industry-leading "Lease

From planning of leasing management to design and construction, — with the Daito Group's unique total system, we cover the various

### Construction Business

We propose building rental business to landowners who are considering land utilization and asset succession after researching and analyzing in detail locational conditions, surrounding environments, the needs of tenants, etc. We provide high-quality rental buildings through an integrated system based on direct construction.



Owners **81** thousand people (as of April 2018)

Cumulative number of buildings constructed **182** thousand buildings (as of March 31, 2018)

### Other

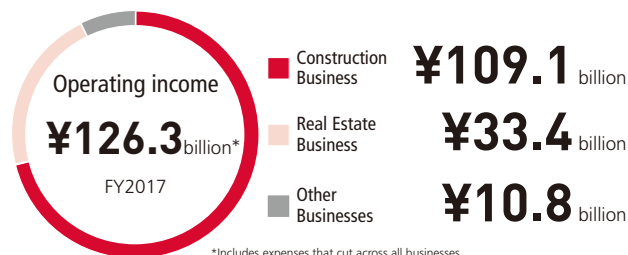
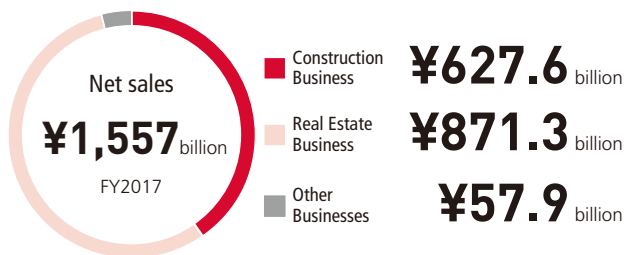
Energy Business

Care and Nursery School Business

Solid management foundation supporting our Lease Management Trust System

Corporate Governance

Risk



\*Includes expenses that cut across all businesses.

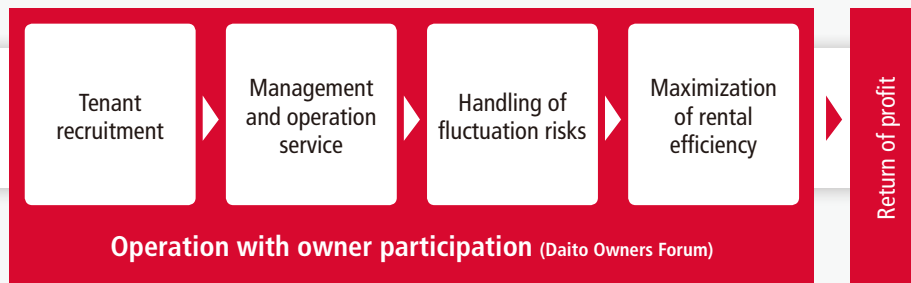
## Management Trust System™

tenant recruitment, as well as management and operation risks associated with lease management with a sense of security.

### Real Estate Business

We provide stable management in the long term by providing services such as tenant recruitment utilizing diverse media and channels, management and operation of building rental business, and unique tenant services to secure higher occupancy rate.

#### 35-year whole-building lease



Rent-based occupancy rate

**97.2%**

Tenants (estimate) 1,897 thousand people (as of March 31, 2018)

Rental properties under management

**1,072** thousand buildings

(as of March 31, 2018)

Unique strengths drive our growth **P.09**

### Businesses

Overseas Businesses

Other Businesses (Finance, etc.)

### Values that the Daito Group provides

- Stable leasing business
- Support for smooth asset succession
- Provision of dwellings that suit customers' lifestyles
- Utilization of local human resources and companies
- Revitalization of local economy and communities
- Environment-conscious company activities and product provision

And others



### FY2020 Targets

Net sales

**¥1,791** billion

Operating income

**¥138.0** billion

Operating income margin

**7.7%**

ROE

**30.0%**

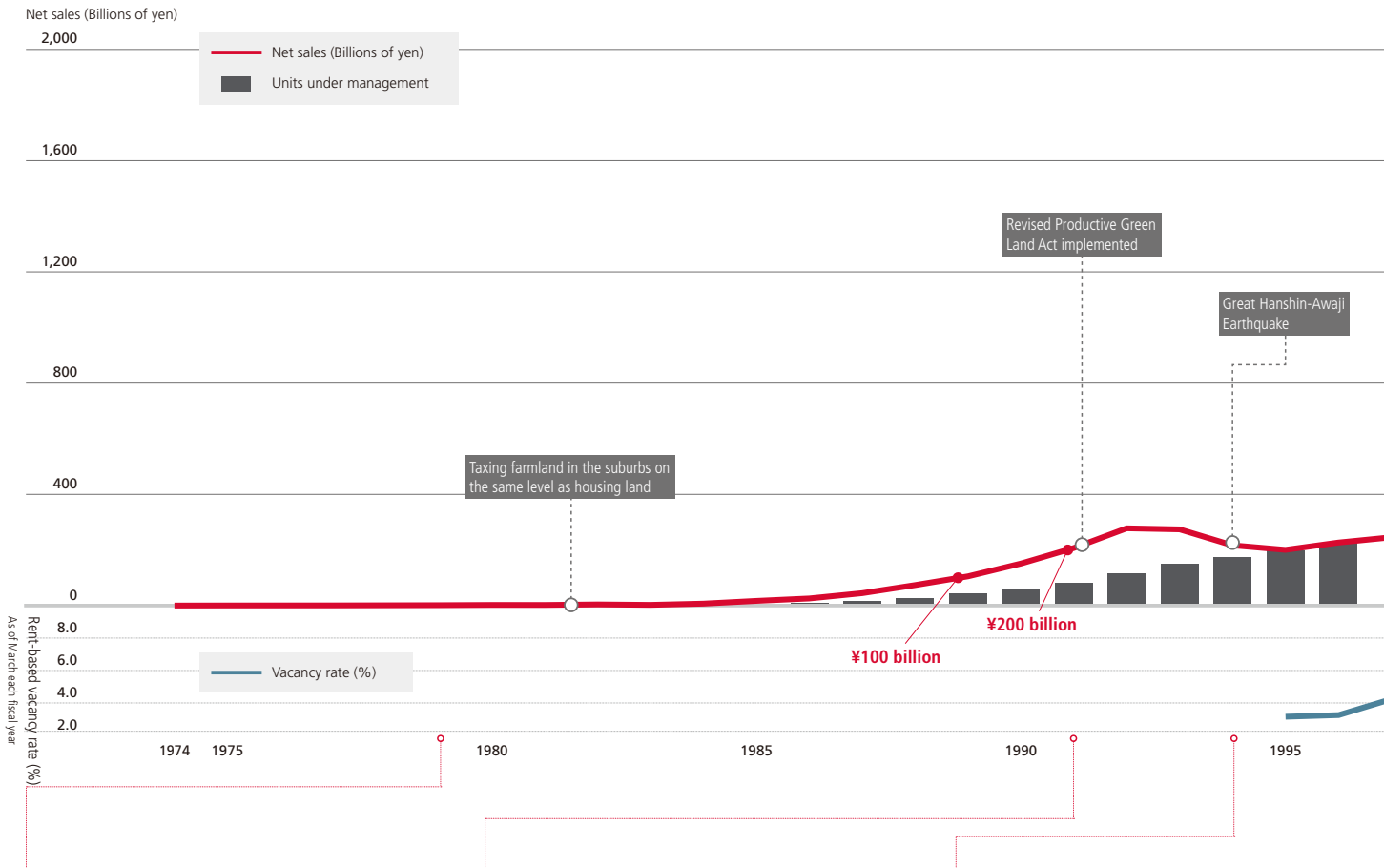
Management

Compliance



# History of Daito Group's Challenges and Breakthrough

Since its foundation in June 1974, while flexibly responding to the evolving times and changing society, the Daito Group has thoroughly been pursuing our customer-first principle. We have realized continuous growth by taking on numerous challenges over the years, such as shifting emphasis from commercial properties to residential properties, and transforming our business model from one based on a mutual aid association to a unique, whole-building lease method.



## March 1980: Founding Period Creating New Business Model for Effective Land Utilization

Drawing on the framework of a mutual-aid society, Daito Kyosaikai was founded to guarantee members benefits during vacancy periods, hedging against no-income risk that arises from managing a building rental business. This guarantee was realized through membership fees from mutual-aid society members' contributions. Daito Kyosaikai contributed to the stabilization of the leasing business.



## February 1992: Growth Period Toward a Listed Company on the First Section of the Tokyo Stock Exchange to Better Serve the Public

In 1985, Daito began a plan to list its stocks to improve and strengthen its management and become a company capable of better serving the public. In 1988, Daito changed its company name to Daito Kentaku (Daito Trust Construction), realizing its philosophy to be entrusted comfortably with leasing management. In March 1989, the Company's shares were listed on the Second Section of the Nagoya Stock Exchange, followed by a listing on the First Section of the Tokyo Stock Exchange in February 1992.

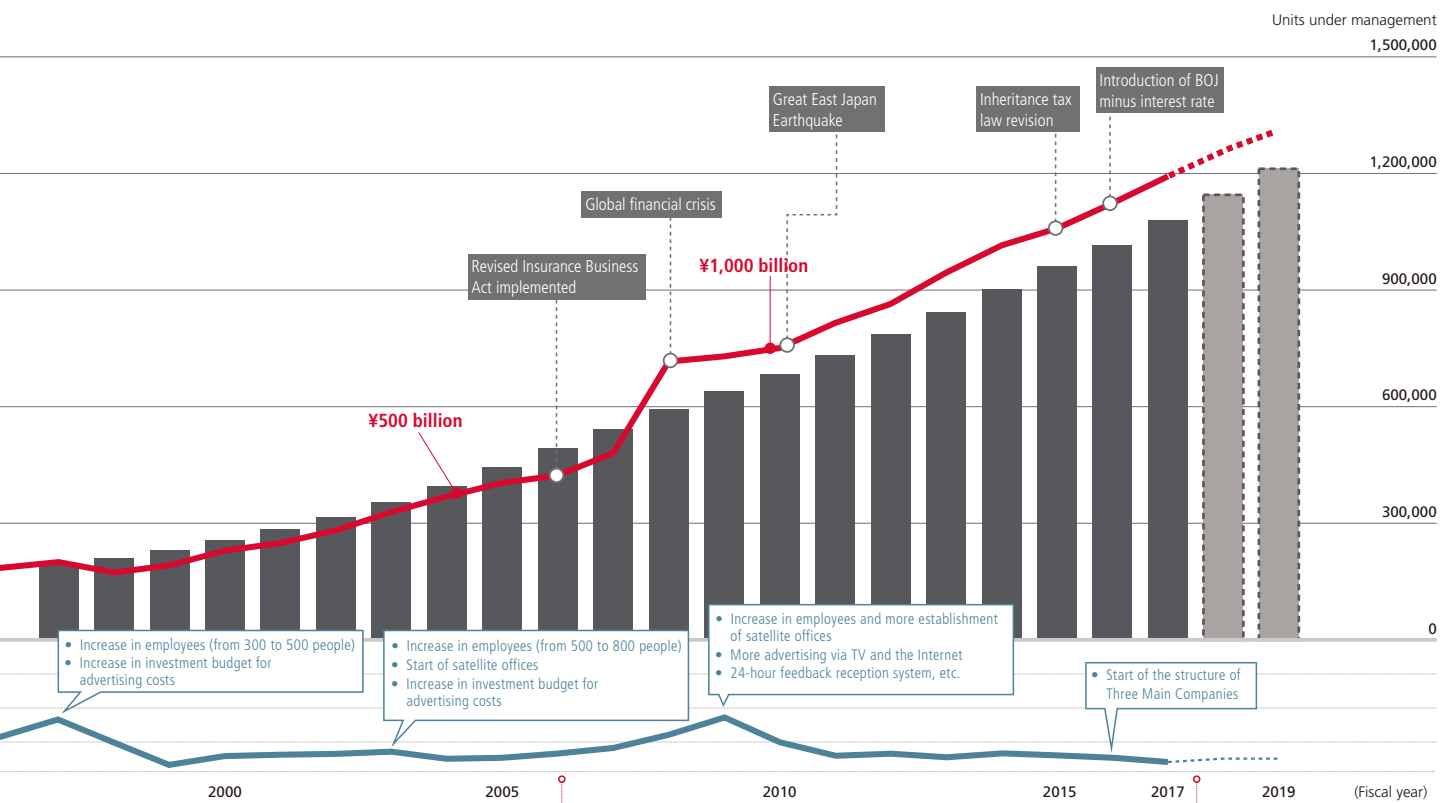


## February 1995: Transformation Period Major Shift of Provision from Commercial Rental Properties to Rental Housing

While the market for commercial rental properties (warehouses, factories, and stores) was maturing, the supply of rental housing increased greatly due to the Revised Productive Green Land Act, resulting in the rise in vacancy rates. Meanwhile, Daito developed a bet-the-company product New Crestall 24, an apartment building with an early American design, which was a new type of apartment buildings using the 2x4 Construction Method. It turned out to be very popular among property owners.







### July 2006: Accelerated Growth Period Development and Introduction of proprietary “Lease Management Trust System”

The continued operation of the Daito Kyosaikai ran into difficulties when the revised Insurance Business Act went into effect in April 2006. Using this opportunity, Daito shifted its business model to a 30-year whole-building lease method conformed with financing from financial institutions. Daito introduced its unique Lease Management Trust System to rigorously reduce the risk burden of lease management and pursuing safe, secure, and stable management support.

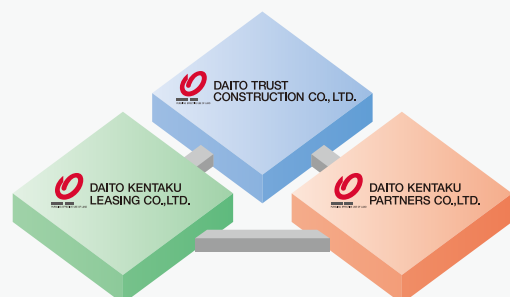


### Complete Differentiation with Tenant Services

Daito focused on expanding its tenant services, and introduced a diverse range of value-added services, including establishing the Daito Customer Center in 2007 and launching the Zero Deposit Plan in 2008, the 24-hour Housing Search Support in 2009, and Live-UP Services in 2012. By promoting complete differentiation, Daito became No. 1 in the leasing industry.

### May 2017: Toward the Breakthrough Period Reorganization to a Structure of Three Main Companies to Improve Operational Efficiency and Specialization

While pursuing further segmentation and streamlining of those operations, Daito aimed to further enhance specialization in these fields. The reorganized structure comprising the three main companies; Daito Trust Construction Co., Ltd. (rental building planning and 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) was implemented, to firm up our No. 1 position in the leasing industry.



# Daito Group's Strengths

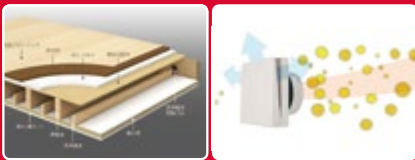
The Daito Group believes that becoming a reliable advisor by ascertaining the underlying needs through direct dialogs with owners is the fastest route toward effective land utilization. Since its foundation, the Group has positioned direct sales as the driving force for growth, which is to propose leasing management customized for each owner by understanding their circumstances and uncertainties through direct dialogs with them. We believe it is an undeniable strength over the competition.

## Construction Business

### Back-up our sales power

#### Technology

With unique technology developed with an eye to customers' and society's future needs, we realize more comfortable rental housing while minimizing the environmental burden as well as maintenance and management costs.



### Overwhelming “direct sales” capabilities

Construction sales representatives

**3,313** people

Value of orders received per construction sales representative

**¥16.51** million per month

Construction sales branches

**221** branches

#### Market understanding

We accurately provide rental housing by predicting detailed demand of each area through database analysis, including the properties of other companies.

Accumulated market research data      Approx. **911** thousand properties

Marketing staff for rental housing      **817** people

#### Product development

We constantly seek out future importance of rental housing, as well as propose and inform society about products that are ahead the times.

First-class architects      **1,507** people

New products for FY2017      **6** products

#### Cooperation with owners

We realize cooperative business operations with owners conducting information and opinion exchanges, through regular meetings of the Daito Owners Association.

Owners      **81** thousand people

#### Relationships with business partners

By creating good links with the communities, we utilize local human resources and companies.

Cooperating design and constructions companies      **9,638** companies

Financial institutions providing rental housing loans      **419** institutions

# Other Businesses

## Energy Business

Units with LP gas supply

**308** thousand units

Scale of solar power generation equivalent to

**53,623** households for a year

## Real Estate Business

### Service development

We develop and provide services in response to the changing social conditions, including new Live-Up Guard (insurance for rental housing tenants) and online applications for moving out of rental apartments.



### Customer service

We support customers' lifestyles 24 hours, 365 days a year through the utilization of our own 24-hour E-heya Support Center and DK Select Evolving Living app.



E-heya Support Center

### Tenant recruitment

Our agency results are No. 1 in the industry thanks to highly specialized recruitment activities based on the Group's structure positioning our three main companies at its core.

Staff specializing in leasing service **2,287** people

Dedicated leasing stores **401** offices

Rent-based occupancy rate **97.2** %

### Collaborations with local companies

We are continuously expanding our relationships with local partners, over wide-ranging aspects, including tenant recruitment, building management, and service provision.

Cooperating real estate companies **13** thousand stores

Local stores collaborating with DK Select: Evolving Rental Living **21** thousand stores

## Care and Nursery School Businesses

Day-care centers **77** centers

In-home care facilities **3** facilities

Welfare equipment rental office **1** office

Total annual users of day-care services

**1,081** thousand people

Nursery schools

**18** schools  
(as of April 1, 2018)

## Overseas Business

### Detailed management

Through our expert staff and unique management system, we thoroughly maintain asset value with an eye on the future, which does not simply end up managing contracts, rent, and buildings.

Staff specializing in management **1,360** people

Cleaning staff **3,718** people

Rate of rent delinquency **0.097** %

### Lifestyle services

We provide the DK Select: Evolving Rental Living services, enriching both tenants' lifestyles and their communities.

Registered users of DK SELECT app **299** thousand people

Use of DK SELECT Welcome Park **73** thousand

## Market Position and Our Status to Achieve

The Daito Group supplies approximately 63,000 units in housing each year.

In August 2017, the number of residential units under management reached one million, making our No. 1 position in the rental housing market solidified.

However, our share of construction starts remains small at only 15.5%.

The Daito Group will aim for further growth as a comprehensive living solutions company.

### Number of housing units supplied

# No.1

for 9 consecutive years

Source: Real Estate Economic Institute Co., Ltd., Market Economy Research Institute Ltd., July 2017 (Actual result: FY2016)

### Housing Supplier Ranking

(Excluding condominiums)

Rank	Company	Units
<b>1</b>	<b>Daito Trust Construction Co., Ltd.</b>	<b>64,025</b>
2	Daiwa House Industry Co., Ltd.	52,714
3	Sekisui House, Ltd.	47,286
4	Asahi Kasei Homes Corporation	17,327
5	Token Corporation	13,830

### Number of rental brokerage

# No.1

for 8 consecutive years

Source: Zenkoku Chintai Jutaku Shimbun, January 2018 (Actual result: Oct. 2016 - Sep. 2017)

### Rental Brokerage Ranking

Rank	Company	Units
<b>1</b>	<b>Daito Group</b>	<b>210,574</b>
2	MiniMini Corporation	151,663
3	Token Corporation	71,370
4	House Mate Partners Co., Ltd.	70,051
5	Taisei Housy Co., Ltd.	50,910

### Number of rental housing units under management

# No.1

for 21 consecutive years

Source: Zenkoku Chintai Jutaku Shimbun, August 2017 (Actual result: as of the end of FY2016)

### Rental Housing Management Ranking

Rank	Company	Units
<b>1</b>	<b>Daito Group</b>	<b>978,902</b>
2	Sekisui House Group	591,000
3	Leopalace21 Corporation	568,739
4	Daiwa Living Co., Ltd.	504,059
5	Starts Group	483,120



**Not only as a company  
conducting the building  
rental business, we will  
strive to become a company  
essential to the life of  
the society.**

# Promise to Our Stakeholders

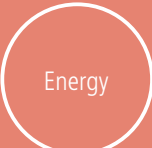
Based on the philosophy of “Sampo yoshi” (Good for the seller, good for the buyer, and good for society), the Daito Group regards owners, tenants, shareholders, business partners, local communities, and employees as important stakeholders who affect our business activities and their sustainability. From a long-term perspective, we firmly believe that deepening trust and partnership through responding to all our stakeholders’ expectations will lead to the development of the Daito Group.

## As employees

- Fair evaluation regarding high targets and their results
- Work environment for employees to work with pride and fulfillment
- Respect for humanity, values, and characters

### FY2018 Targets

Employees' overall degree of satisfaction	<b>70</b> % or higher
Total working hours	<b>2,160</b> hours



## Topics

### Actions toward Sustainable Development Goals (SDGs)

The Group’s business has great potential to contribute as a company to providing appropriate measures to address many social issues, including local-based employment and providing dwellings to support women’s active participation in the workplace. Going forward, we will actively conduct our business activities to resolve social issues, thus leading to the contribution toward SDGs.

P.15

### Serious issues deeply related to the Group’s business



## To local communities

- Revitalization of local economy and communities
- Environment-conscious company activities and product provision
- Providing innovative rental housing

### FY2018 Targets

CO <sub>2</sub> emissions (Scope 1+2)	<b>78,839</b> t-CO <sub>2</sub> e
---------------------------------------	-----------------------------------



## To our owners

- Secure land and asset value
- Stable leasing business
- Support for smooth asset inheritance
- Highly durable, high-quality buildings

### FY2018 Targets

Delay of completion after giving notice of one month before completion **0**

Occupancy rate **97.0** %

Construction

Real Estate

## Value Creation (Outcome)

## To our tenants

- Provision of dwellings that suit one's lifestyles
- Safe and secure living
- Support for comfortable lifestyle

### FY2018 Targets

Average time for the arrivals at emergency scenes within **45** minutes

Units with LP gas supply **336** thousand units

Care and Nursery School



**DAITO TRUST CONSTRUCTION CO., LTD.**

## Management capital (Input)

### Financial

ROE : 30.5%  
Net sales: ¥1,557 billion  
Asset value for buildings under management\*: ¥9,900 billion

### Human and intellectual

Employees: 17 thousand people  
Construction sales representatives : 3,313 people  
First-class architects: 1,507 people  
Staff specializing in mangement: 1,360 people  
Employment rate of people with disabilities: 2.91%

### Manufactured

Daito Trust branches: 221 branches  
Daito Kentaku Leasing stores: 237 stores  
Daito Kentaku Partners offices: 172 offices

### Social and relationship

Acquisition rate of paid leave: 58.1%  
Rate of special leave for childbirth of spouse: 42.9%  
Cooperating design and constructions companies: 9,638 companies

### Natural

Domestic lumber usage: 7,060 t

FY2017 \*Conversion of contract amounts

## To our shareholders

- Ensuring the realization of business plan
- Continuous high profit return
- Proactive information disclosure that is fair and transparent

### FY2018 Targets

ROE **30.0** %

Operating income margin **7.8** %

Overseas

Other

## To our business partners

- Fair transactions
- Mutually beneficial partnerships
- Utilization of local human resources and companies

### FY2018 Targets

Buildings orders received **8,360** buildings

Completed construction units **66,580** units



# Social Changes and Daito Group (from FY2020)

Social changes	Impacts on Daito Group
<p>Population/ household trends</p> <ul style="list-style-type: none"> <li>▶ Medium-to-long-term population/ household decreasing</li> <li>▶ Increasing population depletion in rural areas</li> <li>▶ Increase in single-person and dual-income households</li> <li>▶ Progressive aging of population</li> </ul>	<ul style="list-style-type: none"> <li><b>Opportunity</b> Increase in rental housing residents</li> <li><b>Opportunity</b> Increase in rent per household</li> <li><b>Opportunity</b> Growing demand for nursery school business</li> <li><b>Opportunity</b> Growing demand for care business</li> <li><b>Opportunity</b> Growing need for preventive medical care</li> <li><b>Opportunity</b> Rising demand for housing/services for elderly</li> <li><b>Opportunity</b> Increasing inheritance-related needs</li> <li><b>Risk</b> Glut of housing and increase in vacancy rates</li> <li><b>Risk</b> Declining demand for existing family-type properties</li> <li><b>Risk</b> Increase in people taking nursing care leave</li> <li><b>Risk</b> Increase in people dying alone</li> </ul>
<p>Labor force</p> <ul style="list-style-type: none"> <li>▶ Decline in productive-age population</li> <li>▶ Tightening regulations on labor standards (long hours, overtime, etc.)</li> <li>▶ Shortage of engineers/craftsmen in construction industry overall</li> </ul>	<ul style="list-style-type: none"> <li><b>Opportunity</b> Emergence of full-participation society</li> <li><b>Opportunity</b> Efforts to improve business efficiency</li> <li><b>Opportunity</b> Building training systems for engineers/craftsmen</li> <li><b>Risk</b> Labor shortage</li> <li><b>Risk</b> Shortage of sales representatives</li> <li><b>Risk</b> Increasing labor unit costs</li> <li><b>Risk</b> Prolonged construction periods</li> <li><b>Risk</b> Declining construction quality</li> </ul>
<p>Housing</p> <ul style="list-style-type: none"> <li>▶ Increasing longevity of housing</li> <li>▶ Declining desire among young people to own houses in urban areas</li> <li>▶ Rising prices of construction materials</li> </ul>	<ul style="list-style-type: none"> <li><b>Opportunity</b> Reduction in repair costs</li> <li><b>Opportunity</b> Slowdown in rental rate declines due to aging of buildings</li> <li><b>Opportunity</b> Increasing renovation demand</li> <li><b>Opportunity</b> Increase in people who prefer rental houses</li> <li><b>Risk</b> Decline in rebuilding demand</li> <li><b>Risk</b> Falling profit margins due to high costs</li> </ul>
<p>Consumer awareness/ lifestyles</p> <ul style="list-style-type: none"> <li>▶ Increasing awareness about environment, crime prevention, and disaster prevention</li> <li>▶ Diversifying life paths/styles</li> <li>▶ Rise of IT technologies</li> </ul>	<ul style="list-style-type: none"> <li><b>Opportunity</b> Growing demand for eco-friendly housing</li> <li><b>Opportunity</b> Growing demand for crime-proof housing</li> <li><b>Opportunity</b> Growing demand for disaster-proof housing</li> <li><b>Opportunity</b> Creation of workplaces and personnel systems friendly to all workers</li> <li><b>Opportunity</b> Improving efficiency of living/work</li> <li><b>Risk</b> Falling demand for products popular with various people</li> </ul>
<p>Laws and regulations</p> <ul style="list-style-type: none"> <li>▶ Revision of Inheritance Tax Law</li> <li>▶ Revision of Productive Green Land Act</li> <li>▶ Full liberalization of the energy retail markets</li> <li>▶ Stricter lending conditions adopted by financial institutions</li> </ul>	<ul style="list-style-type: none"> <li><b>Opportunity</b> Growing demand for land utilization and asset succession (if taxes increase or tax target base expands)</li> <li><b>Opportunity</b> Penetration/expansion of energy business</li> <li><b>Risk</b> No need to use land as inheritance tax countermeasure (if inheri- tance taxes are cut/abolished)</li> <li><b>Risk</b> Stricter lending conditions for apartment loans</li> </ul>
<p>Environment</p> <ul style="list-style-type: none"> <li>▶ Climate change</li> </ul>	<ul style="list-style-type: none"> <li><b>Risk</b> Growing demand for eco-friendly management</li> <li><b>Risk</b> Rising costs and construction delays due to increase in disasters (heavy rain, windstorms)</li> </ul>

By using its diversified capital to fulfill its promises to stakeholders, the Daito Group will not only achieve corporate growth but also establish a position as a company that is indispensable to a sustainable society.

FY2017

### Daito Group's responses

- P.32 > - Actively developed rental housing for single-person households
- P.32 > - Developed construction method enabling high quality and shorter construction periods
- P.36 > - Completed the first certification for "excellent crime prevention rental housing"
- P.36 > - Introduced DK SELECT Security system
- P.36 > - Introduced highly earthquake-resistant DK SELECT G3 Series
- P.36 > - Operating management service for unoccupied houses not limited to Group-managed buildings
- P.38 > - Launched city gas business in Tokyo Gas's area
- P.39 > - Started tenant recruitment for Elder Garden Yanaze
- P.39 > - Completed "en terrace" (multi-generational community rental housing)
- P.35 > - Enhanced business efficiency using advanced IT technologies
- P.41 > - Launched "Live-Up Guard" (comprehensive insurance service for rental housing tenants)
- P.34 > - Started field tests of smart rental housing
- P.34 > - Cosponsored "fukushima Sakura Project" in Fukushima, Tohoku
- P.34 > - Conducted "Light Down Campaign 2017" (reduction of lighting)
- P.34 > - Started field tests aimed at improving QOL in elder care facilities
- P.52 > - Expanded/upgraded in-house systems according to life events
- P.52 > - Launched teleworking system
- P.53 > - Installed AEDs at all branches nationwide
- P.53 > - Conducted dangerous experience training using VR
- P.56 > - Completed Japan's first rental condominium complex that meets ZEH standards
- P.56 > - Developed and obtained patent for non-combustible sleeve for ventilation
- P.56 > - Hosted 6th rental housing competition, "Rental Housing with Increasing Existing Value—Featuring Toshima Ward"
- P.31 > - Established system of sales administrators and dedicated customer sales staff
- P.40 > - Purchased Hilton Hotel in Malaysia
- P.40 > - Introduced "Scholarship Support System" for newly graduated employees of Care Partner
- P.35 > - Introduced housing search service using advanced IT technologies
- P.54 > - Continued promoting compliance education
- P.54 > - Started Web service for departing residents
- P.54 > - Introduced communication tools for foreign technical interns
- P.40 > - Invested in U.S. real estate
- P.40 > - Opened new Care Partner elderly day-care center
- P.40 > - Opened new Kids Partner nursery school
- P.35 > - Reinforced support system for foreign tenants

FY2018

- Construct "Exhibition place of Future Rental Housing" (tentative name) (Information base for transmitting the future of rental housing in line with diversified lifestyle.)
- Obtain "Excellent crime prevention rental housing" certification for all core residential products
- Introduce Vietnamese-language safety educational app
- Launch "Air Intake Filter" (to suppress pollen and PM2.5 intrusion)
- Oblige employees to take 5 days of paid leave annually (ahead of law revision in 2019)
- Start providing housing with pet coexistence option
- Expand sales channels
- Promote industrialization (unitization/panelization) of construction
- Use advanced IT technologies (AI, robots, etc.) at construction sites
- Broaden city gas supply area
- Promote sales of serviced housing for elderly

# Performance Highlights

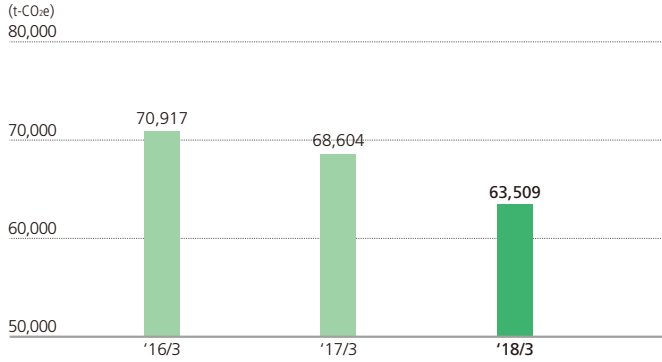
		'07/3	'08/3	'09/3	'10/3	'11/3	'12/3
<b>Operating results</b>		Unit					
Net sales	Billions of yen	564.3	641.0	954.8	972.6	1001.1	1087.1
Construction Business	Billions of yen	441.2	439.9	469.6	465.5	430.2	468.6
Real Estate Business	Billions of yen	93.8	171.3	464.7	483.5	545.2	589.9
Other Businesses	Billions of yen	29.1	29.7	20.4	23.4	25.6	28.5
Gross profit	Billions of yen	181.0	187.1	181.8	188.7	195.3	214.1
Construction Business	Billions of yen	135.4	141.8	150.3	166.4	167.0	175.1
Real Estate Business	Billions of yen	25.0	28.0	25.3	14.4	19.2	29.2
Other Businesses	Billions of yen	20.5	17.1	6.2	7.8	9.0	9.7
Operating income	Billions of yen	72.6	66.2	70.3	71.1	73.7	81.9
Operating income margin	%	12.9	10.3	7.4	7.3	7.4	7.5
Net income attributable to owners of the parent	Billions of yen	41.8	44.4	42.1	45.3	43.1	47.1
<b>Financial position</b>							
Owner's equity	Billions of yen	274.6	300.8	295.7	311.5	131.1	158.3
Equity ratio	%	58.0	56.5	54.7	55.8	24.6	27.8
ROE	%	16.2	15.5	14.1	14.9	19.5	32.5
<b>Shareholder return</b>							
EPS	Yen	345	367	349	386	384	594
Cash dividends per share	Yen	94	232	104	193	229	297
Payout ratio	%	27.2	63.2	29.8	49.9	59.6	50.0
Total return ratio (including treasury stock acquisition)	%	74.0	81.7	57.2	79.8	526.0	50.0
<b>Indicators related to the construction business</b>							
Value of orders received	Billions of yen	408.6	498.5	437.2	435.2	503.4	611.7
Number of construction sales representatives	People	2,985	3,087	3,020	2,830	2,981	3,222
Net sales from completed construction*	Billions of yen	441.2	439.9	469.6	465.5	430.2	468.6
Gross profit margin for completed projects	%	30.7	32.3	32.0	35.8	38.8	37.4
* 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.							
<b>Indicators related to the real estate business</b>							
Number of tenant recruitment	Thousands	146	159	171	180	204	214
Rental housing units under management	Thousands	454	502	552	598	645	694
Rent-based occupancy rate on a revenue-from-rent basis (March)	%	96.6	96.4	95.6	94.6	96.0	96.8
<b>Cash flows</b>							
Cash flows provided by operating activities	Billions of yen	60.3	25.4	30.2	46.0	60.7	77.8
Cash flows (used in) provided by investing activities	Billions of yen	(13.1)	12.4	(13.4)	(26.8)	49.9	(11.3)
Cash flows used in financing activities	Billions of yen	(12.1)	(10.7)	(39.6)	(29.8)	(94.9)	(29.4)
Cash and cash equivalents at end of period	Billions of yen	181.2	208.2	181.5	170.7	184.8	221.0

### Mid-Term Management Plan

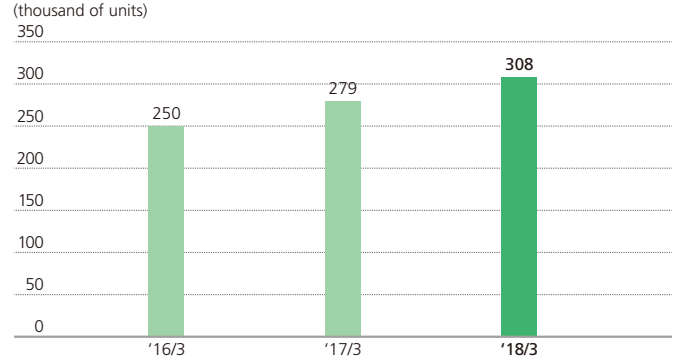
'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'20/3	'21/3	Year-on-year change ( $\frac{'18/3}{'17/3}$ )
1152.4	1259.6	1353.1	1411.6	1497.1	1557.0	1640.0	1705.0	1791.0	104.0%
489.5	545.3	589.1	595.3	623.9	627.6	663.0	678.0	703.0	100.6%
630.4	677.6	723.8	774.8	824.6	871.3	920.0	966.8	1022.7	105.7%
32.4	36.6	40.1	41.4	48.5	57.9	57.0	60.2	65.3	119.5%
218.4	233.0	238.9	254.4	285.5	297.0	303.2	312.6	323.3	104.0%
172.1	175.2	172.5	176.2	197.6	197.5	197.3	205.7	213.6	99.9%
35.3	45.3	52.2	62.6	72.7	79.0	83.5	84.4	87.3	108.8%
10.9	12.4	14.1	15.5	15.2	20.4	22.4	22.5	22.4	134.2%
82.4	89.7	91.5	101.0	120.1	126.3	128.0	135.0	138.0	105.2%
7.2	7.1	6.8	7.2	8.0	8.1	7.8	7.9	7.7	+0.1P
51.6	55.2	56.1	67.2	82.1	87.8	90.0	95.0	97.0	106.9%
191.2	224.8	240.5	250.1	276.0	299.8	321.6	342.6	355.9	108.6%
31.0	32.9	34.3	34.3	35.3	35.6	35.7	36.7	37.1	+0.3P
29.6	26.6	24.1	27.4	31.2	30.5	30.0	30.0	30.0	-0.7P
648	693	710	863	1,072	1,165	1,190	1,280	1,334	108.6%
324	347	375	432	536	583	595	640	668	108.8%
50.0	50.0	52.8	50.1	50.0	50.0	50.0	50.0	50.0	±0.0P
50.0	80.0	82.8	80.1	80.0	80.0	80.0	80.0	80.0	±0.0P
655.1	625.8	660.4	693.0	655.2	651.0	683.0	690.6	701.0	99.4%
3,204	3,325	3,247	3,420	3,383	3,313	3,470	3,500	3,550	97.9%
489.5	545.3	589.1	595.3	623.9	627.6	663.0	678.0	703.0	100.6%
35.2	32.1	29.3	29.6	31.7	31.5	29.8	30.3	30.4	-0.2P
220	241	253	267	281	296	304	313	323	105.2%
747	805	864	923	978	1,036	1,096	1,160	1,226	105.7%
96.7	96.9	96.7	96.8	96.9	97.2	97.0	97.0	97.0	+0.3P
87.8	83.8	59.4	78.8	124.0	62.5	CAGR (10 year period from '08/3 to '18/3)			
(10.3)	(59.4)	0.9	(93.5)	(33.4)	(22.9)	Net sales	10.0%	Number of construction sales rep.	0.8%
(36.2)	(39.1)	(60.8)	(57.9)	(72.2)	(25.3)	Operating income	6.8%	Number of tenant recruitment	6.5%
264.1	253.2	255.5	182.6	200.1	213.7	EPS	13.3%	Rental housing units under management	7.5%

# Non-financial Highlights

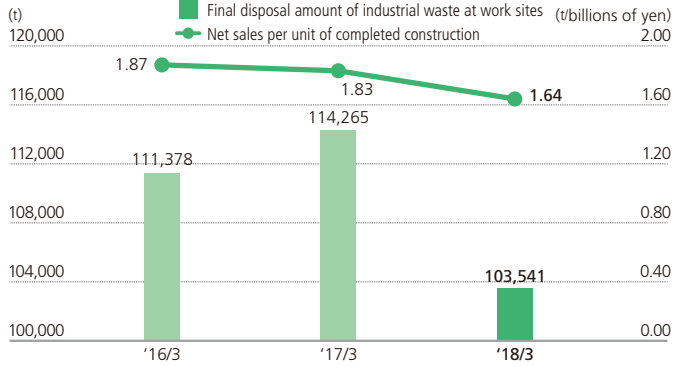
## Greenhouse gas emissions (scope 1 + 2)



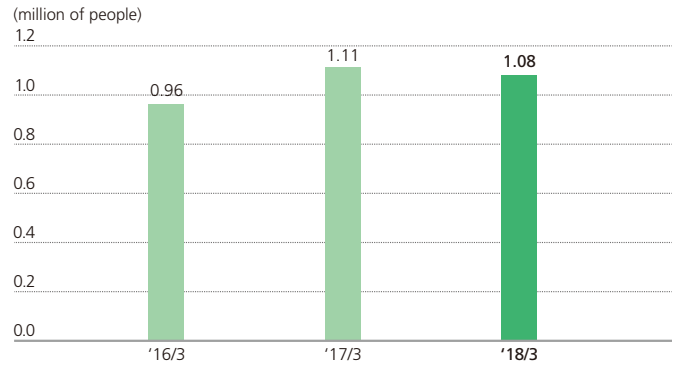
## Number of units with LP gas supply



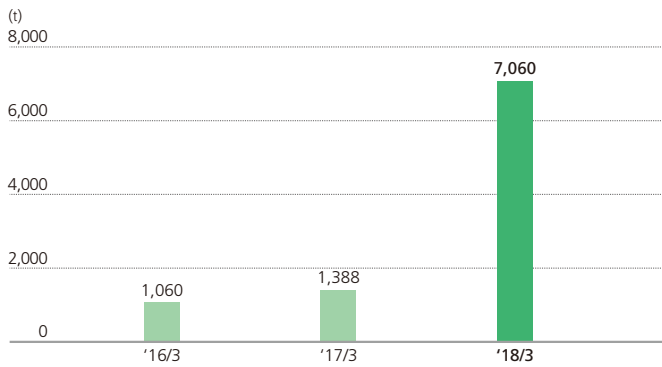
## Final disposal amount of industrial waste at work sites Net sales per unit of completed construction



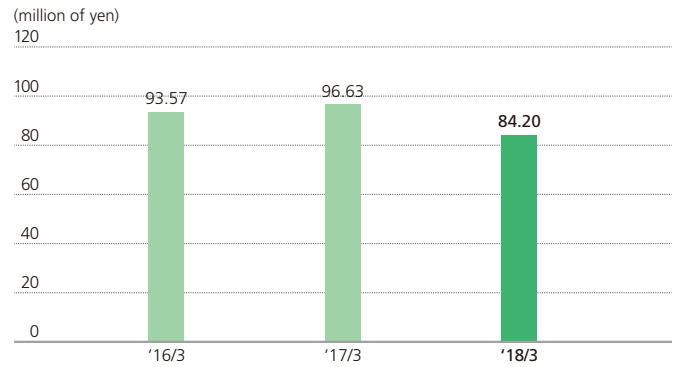
## Total annual users of day-care services for elderly people



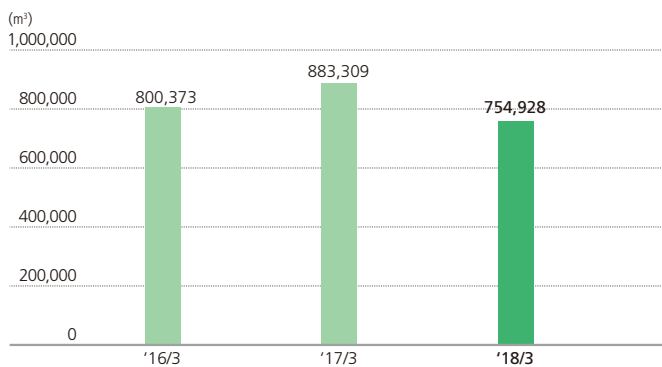
## Volume of domestic lumber used



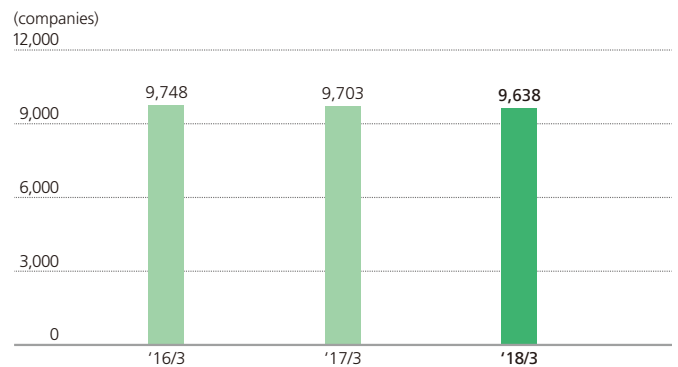
## Donations to Daito Group Mirai Fund



## Volume of water used

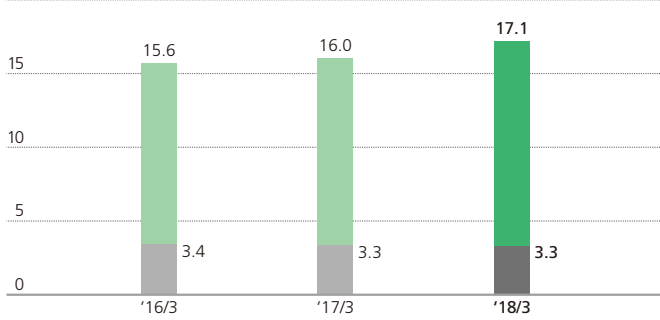


## Number of cooperating design and constructions companies



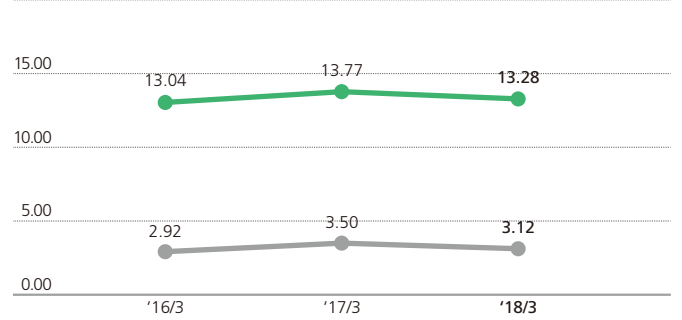
### Number of employees (consolidated) and number of construction sales representatives

(thousand of people) ■ Number of employees (consolidated) ■ Number of construction sales representatives



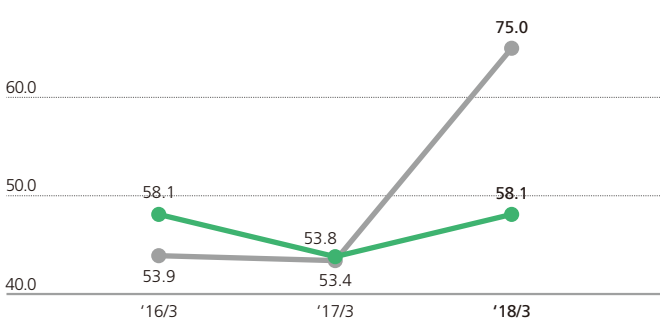
### Percentage of female workers

(%) ● Company total ● Management positions



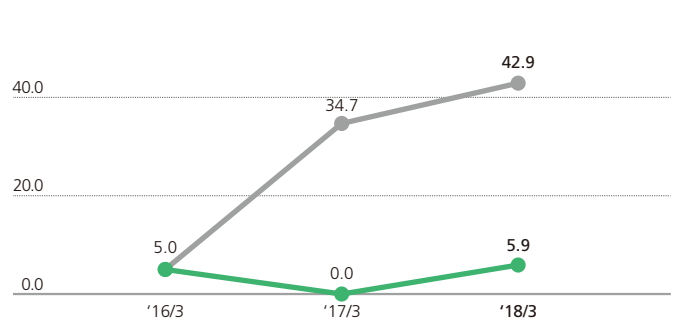
### Acquisition rate of paid leave and anniversary leave

(%) ● Paid leave ● Anniversary leave



### Percentage of male employees taking child-care leave and special leave for childbirth of spouse\*

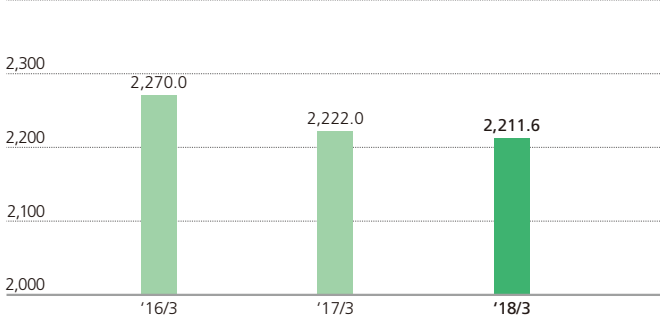
(%) ● Male employees taking child-care leave ● Special leave for childbirth of spouse



\*Percentage of male employees taking child-care leave and special childbirth vacation for spouses added together through end-March 2015

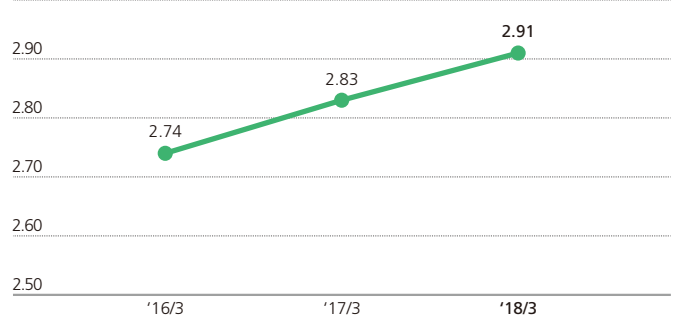
### Total working hours

(hours) 2,400



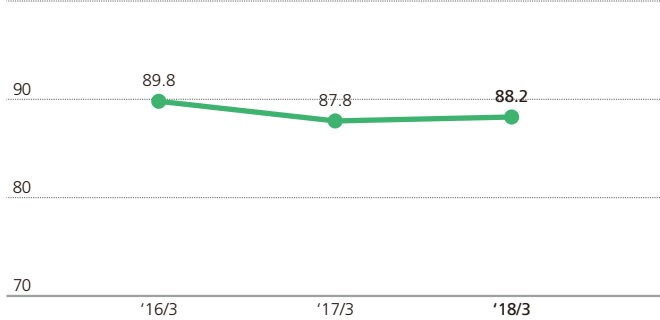
### Employment rate of people with disabilities

(%) 3.00



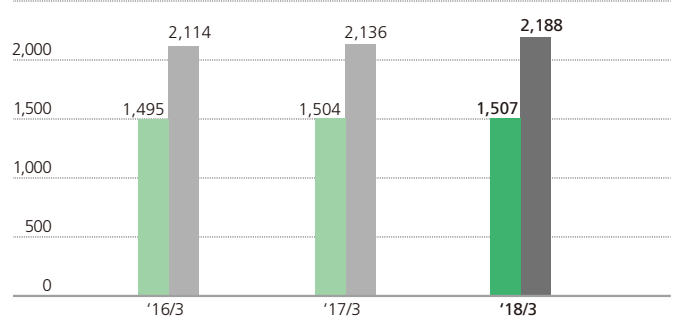
### Percentage of No overtime work days implemented

(%) 100



### Number of employees accredited as first-class architects and first-class building operation and management engineers

(people) ■ First-class architects ■ First-class building operation and management engineers



## Top Message



熊切直美

Naomi Kumakiri

President and Representative Director (CEO), Daito Trust



“Entrusted with land that was built on or land to build on”  
The Daito Group is striving toward even greater heights,  
working together as one.

**Achieved increased sales and profits for  
10 years straight and higher dividends for  
9 years straight**

While the rental housing market has shifted from a temporary boom to a stable growth period, the number of rental housing construction starts throughout Japan has decreased continuously for nine months. On the other hand, the urgency in the demand and supply for construction labor force has continued.

Under these circumstances, in the fiscal year ended March 31, 2018 (FY2017), the Group delivered new records in sales and all profit indicators; and we achieved increased sales and profits for a tenth straight year. Net sales increased 4.0% year on year to ¥1,557 billion, operating income increased 5.2% to ¥126,369 million, ordinary income increased 5.6% to ¥131,533 million, and net income attributable to owners of the parent increased 6.9% to ¥87,829 million. The value of orders received decreased 0.6% to ¥651,077 million, but the rent-based occupancy rate improved 0.3 percentage point to 97.2%, and we maintained a return on equity (ROE) of 30.5%,

which is greater than our targeted 30%. Overall, we were able to maintain a healthy condition.

As to shareholder return, the annual dividend increased ¥47 to ¥583 per share, and we realized an increased dividend for a ninth consecutive year. Furthermore, during FY2018, we plan to acquire or extinguish our own treasury stock by 1.43 million stocks (¥26.4 billion) equivalent to 30% of this fiscal year's net income, as well as to maintain a 50% payout ratio and an 80% total return ratio.

We believe the only path to being a company with infinite development is to ensure all Group employees understand the significance of “trust” in our motto “entrusted with land that was built on or with land to build on” and to put into practice our “customer-first” policy keeping in mind that “customer satisfaction is the sole indication of our business success,” no matter what kind of difficulties we have faced over almost 50 years since our founding and will face even over 100 years. Based on this creed, the Daito Group will strive for even greater heights in the future, working together as one.

**Increased sales in all segments; profits in real estate business and other businesses increased by double digit**

Next, we explain the results for each segment. First, in the construction business, the net sales of completed construction increased 0.6% year on year to ¥627,631 million by eliminating the balance owed for our many construction orders in hand. On the other hand, the gross profit margin for completed construction contract fell by 0.2 percentage point to 31.5% due to the impact of construction related to the Tokyo Olympic and Paralympic Games as well as the demand and supply pressure on labor force. In addition, operating income was at the same level as last fiscal year, ¥109,145 million.

For the real estate business, together with more whole-building leases properties, net sales increased 5.7% to ¥871,388 million and operating income increased 12.9% to ¥33,428 million thanks to the greater rental revenue of Daito Kentaku Partners Co., Ltd., operating whole-building leases, as well as increased contractors of House Leave Co., Ltd., which provides agency guarantee services for tenants. Moreover, while only one year has passed since we started the dual-company structure where

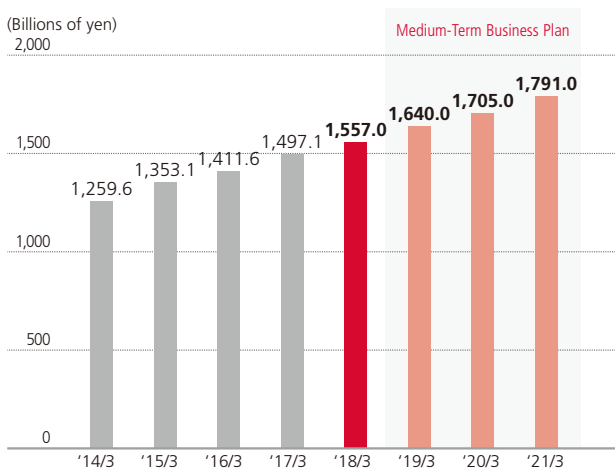
Daito Kentaku Leasing Co., Ltd. specializes in tenant recruitment, and Daito Kentaku Partners Co., Ltd. conducts sales targeting real estate companies, we were able to achieve steady growth in the number of tenant recruitment, increasing year on year 5.2% to 296,018.

In the other businesses, the number of properties supplied with LP gas from the Gaspal Group, the users at the elderly day-care centers operated by Care Partner Co., Ltd., and subscribers of HOUSE GUARD S.S. Insurance Co., Ltd. guaranteeing rent and household goods all increased; net sales increased 19.5% year on year to ¥57,997 million and operating income increased 45.6% to ¥10,881 million.

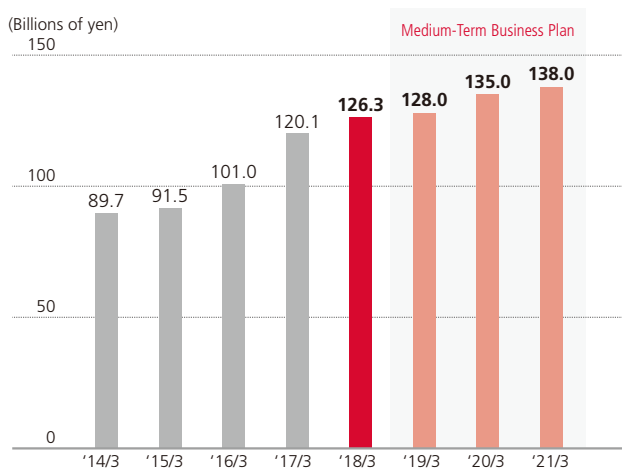
**Open-arm welcome to shift toward a healthy market**

In FY2017, the Group’s rental housing units under management reached one million units. Furthermore, the stock price indicated its highest value since being listed as ¥23,550 on December 27, 2017, and we realized a second-place ranking in the housing and construction industry with our aggregate market value of ¥1,413.6 billion. These figures demonstrate it was a year for our company to relish in our overall growth. Nevertheless, the results for con-

**Net sales** (Billions of yen)



**Gross profit** (Billions of yen)



struction contracts, which is the most important leading indicator, fell, while the ratio of contracts of new customers was lower than the previous year for a third year in a row. These factors resulted in a 0.4 percentage point drop in our market share for rental housing construction starts. It was thus also a year when many issues remained that need to be resolved in the future.

Yet, we believe the negative media regarding the building rental business and the sub-leasing industry has had a partial impact on the falling rate of contracts of new customers and our market share for construction starts. In fact, the number of customers hesitating after learning this type of news is on the rise.

To start with, we are facing the undeniable reality regarding the accelerating population decline as well as a society plagued with rapid aging and a low birthrate. Additionally, there is a strong feeling of uncertainty due to the varying rent and interest rates. In these circumstances, we feel landowners have naturally become anxious about leasing business. Since our Group's founding, with making the risks regarding all aspects of leasing business such as a fall in rent all clear, we have proposed lease management as maximum land utilization, and are proud of our ability to receive orders after leading owners and their families to a better understanding. As a result, we are able to maintain a high level occupancy rate. Notwithstanding, it is unfortunate a series of events, such as the media reporting vacancy rates of 20-30%, sub-leasing companies' bankruptcies, and class action lawsuits taken against sub-leasing companies, has led to the general climate that a problem lies in the entire industry.

However, it is our Group that has flown directly into these headwinds creating opportunities in our industry. Thanks to the situation of looming uncertainty, we believe our ability to demonstrate objectively the advantages and disadvantages of rental housing business is a substantial plus in our favor in the future, considering our results accumulated over many years, as the industry's leading company. Therefore, we welcome with open arms the shift toward a healthy market, such as the Ministry of Land,

## FY2017 Daito Group Topics

April	<ul style="list-style-type: none"> <li>• Changed the corporate name of Daito Building Management Co., Ltd. and introduced the three main company structure was launched</li> <li>• Established a licensed nursery school and a small-scale day nursery</li> <li>• Ranked first in the promotion video ranking of Mynavi, a recruitment information website for new graduates</li> <li>• Cosponsored the Fukushima Sakura Project</li> </ul>
May	<ul style="list-style-type: none"> <li>• "Ranking of Corporate Popularity among 2018 Graduates" – ranked record high of 8th in the Industry Ranking</li> <li>• Awarded bronze at the LIXIL Front Contest 2016</li> <li>• The first design of temporary enclosure featuring the Japan national football team was introduced at the construction sites in Kanagawa Prefecture</li> </ul>
June	<ul style="list-style-type: none"> <li>• Gaspal gained "Eruboshi" Certification (pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace)</li> <li>• Implemented the Light Down Campaign 2017</li> <li>• Started trial operation of "Pepper," the humanoid robot, at an elderly day service center</li> </ul>
July	<ul style="list-style-type: none"> <li>• Launched "Prototype 02", the second product of the DK SELECT Collaboration Project</li> <li>• Launched "REFLA", an original product of the DK SELECT Collaboration Project</li> <li>• Released Strategy Report 2017 and CSR Report 2017</li> <li>• Held the Daito Kentaku E-heyu Net Ladies, a professional golf tournament</li> </ul>
August	<ul style="list-style-type: none"> <li>• Ranked first in the "2017 Rental Housing Management Ranking" for 21st consecutive year</li> <li>• Ranked first in the "2016 Nationwide Detached House Supplier Ranking" for 9th consecutive year</li> <li>• The number of units under management in residential use reached one million units</li> </ul>
September	<ul style="list-style-type: none"> <li>• Started nationwide introduction and operation of "Sujikai-kun," adjustable steel stud for temporary cross bracing</li> <li>• Started accepting applications for the 6th Daito Trust Rental Housing Competition</li> <li>• Supported planting trees in Sumita-cho, Iwate Prefecture</li> </ul>
October	<ul style="list-style-type: none"> <li>• Started introducing a flex-time system</li> <li>• Ranked first in the 2017 "Awards for Excellence in Corporate Disclosure" for the 8th time, and for the 7th consecutive year in construction, housing and real estate section</li> <li>• Launched a new security brand "DK SELECT Security"</li> </ul>
November	<ul style="list-style-type: none"> <li>• Started introducing e-Heya Net Online Material Information System</li> <li>• Launched LIGNO, a DK SELECT product with steel reinforced concrete structures</li> <li>• Launched a DK SELECT product CONTE COCO</li> </ul>
December	<ul style="list-style-type: none"> <li>• Introduced HoloLens to bolster sales capabilities</li> <li>• Renewed "DK SELECT: Evolving Rental Living" app by adding AI</li> <li>• Gaspal Co., Ltd. Started city gas business in the Tokyo Gas territory</li> </ul>
January	<ul style="list-style-type: none"> <li>• Ranked first in the "2018 Rental Housing Brokerage Ranking" for the 8th consecutive year</li> <li>• House Leave Co., Ltd. completed the registration procedure based on "registration regulations for rent liability guarantee companies" set forth by the Ministry of Land, Infrastructure, Transport and Tourism</li> <li>• Daito Trust registered as a promotion partner for the "Action Plan for Promotion of Cancer Control"</li> </ul>
February	<ul style="list-style-type: none"> <li>• Launched LUTAN LACHIC, a new DK SELECT product for single-person households</li> <li>• Started trial operation of computerizing construction work contracts</li> </ul>
March	<ul style="list-style-type: none"> <li>• Care Partner Co., Ltd. started operation of staff uniforms designed by a student of Tokyo MODE GAKUEN</li> <li>• Installed AED units at all stores of three main company nationwide</li> <li>• Introduced the G3 Series, a DK SELECT product with high earthquake-resistant performance</li> <li>• Started demonstration trials of smart rental housing using an Internet of Things (IoT) platform</li> </ul>



## Steady philosophy, changing strategy

Infrastructure, Transport and Tourism tightening regulations on sub-leasing contracts, and greater controls over apartment loans. In addition to strengthening these laws and regulations, we intend to win back our market share for construction starts by changing our perspective about the conditions predicting the continued falling number of rental housing construction starts throughout Japan and seeing them as a significant opportunity, if we apply our direct sales force and all our accumulated knowledge, and assuage owners' concerns.

### Steady philosophy, changing strategy

The Group was founded in June 1974 and the nature of its business has changed with ease to adapt to the flow of the times and our customers' needs. On the other hand, our business philosophy, "Contributing to society by realizing extensive and effective use of limited land," has endured even today without requiring any change. Nonetheless, in the anticipated business environment in the future, it will likely not be easy to continue adhering to this business philosophy.

As Japan's population is declining even faster, the issue of housing oversupply is being much talked about. Nevertheless, we have maintained the high occupancy rate of 97% in these circumstances. One reason is due to a segment of new family tenants increasing as expected since the supply has been focused on this segment based on

market research. Going forward, the macro environment will become more and more difficult year after year. In this environment, it is vital for our business not only to consider the conventional standards such as distance from a station and age of a building, but also to develop new products which meet the needs of an era ahead of our competitors, as well as to expand services including the watching service to check on the wellbeing of elderly residents, insurance products. Moreover, as a sub-leasing company, we will have to make particular efforts to raise rents in line with the value of the units, working toward stabilization in leasing business. Simply raising rent prices alone will not be enough, and additional policies will also become essential, which include utilizing highly durable materials to provide products not dependent on a building's age so that the declining rent can be controlled.

In addition, old buildings have recently often become conspicuous, especially on land in good locations in Japan. Our Group has also gradually increased the number of buildings under management which are more than 20 years old. While we are developing this business in anticipation of a rebuilding demand, which is inevitable for a whole-building leasing company, we think even greater communication with owners for their timing of building repair and generational handover will lead to an increase in our market share.

## Reforming work styles, and uniquely responding to manpower shortage

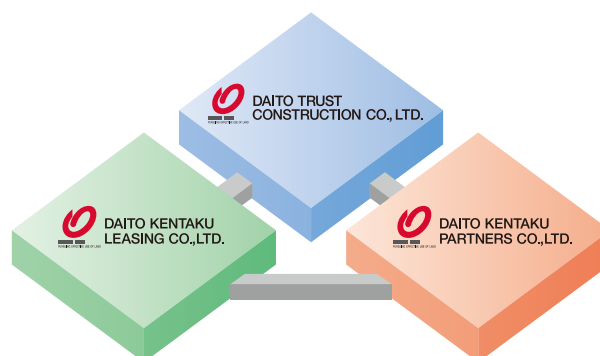
As explained, there are many things that we should do. Be that as it may, the most important management resource of the Group, which generates our growth and is the source of our strength, is our “personnel.” If we were unable to secure these human resources consistently, our Group would have no future. Nevertheless, Japan’s rapid aging and low birthrate society is making headway, and particularly in the construction industry, there is a growing concern regarding fundamental shortage of human resources and construction professionals. We do not believe this is a temporary problem caused by the preparation for the 2020 Tokyo Olympic and Paralympic Games.

Accordingly, while improving our product quality and productivity, we are simultaneously focusing on reforms for a comfortable working environment which promote reducing work hours and enhancing the paid leave usage. We intend to improve operational efficiency by reviewing our work flow, introducing RPA (Robotic Process Automation) to automate indirect operations, and incorporating methods for proposals, design, construction, and maintenance utilizing robots and AI. Furthermore, in the construction business, we are addressing the lack of construction professionals which will become a major topic in the future, not only by strengthening our relationships with cooperating companies, but also by promoting industrializing and labor-saving solutions for housing construction such as unitization and panel usage. In addition, we are building a workplace environment where all our employees including female staff, staff with disabilities, and elderly staff are able to work with great motivation and opportunities to challenge themselves.

## Aiming for increased sales and profits for 11 years straight

In the entire industry, we are in the middle of the worse adversity we have seen to date, but our Group aims to have increased sales and profits for 11 years straight. Moreover, we are actively creating a foundation toward sustainable

Positioning three main companies at our core



growth. As the priority issues for this purpose, in FY2018, we will focus on “restructuring the construction sales system” and “strengthening collaborations and demonstrating the comprehensive capabilities of our three main companies and among our group companies.”

First, regarding “restructuring the construction sales system,” our Group is aware we have not invested sufficient time and resources in our direct sales, which we consider is a major reason the ratio of new contracts has fallen for three consecutive years. Therefore, we will enhance our construction sales force by increasing 157 people compared to the end of last year, to 3,470 people in order to increase the number and hours of interviews with our customers as well as the total hours for the overall construction sales. We will also aim to reach our target of ¥683,000 million for order received, an increase of 4.9% year on year by creating an environment where sales staff can concentrate on developing new customers. Specifically, we plan to actively promote opening stores in promising areas around the Tokyo metropolitan area and appointing staff solely in charge of administrative work such as customer support and sales assistance.

For “strengthening collaborations and demonstrating the comprehensive capabilities of our three main companies and among our group companies,” the whole Group will create a foundation toward sustainable growth based on two axes: “strengthening our Core Businesses” and “developing businesses in new profitable fields.” The Core

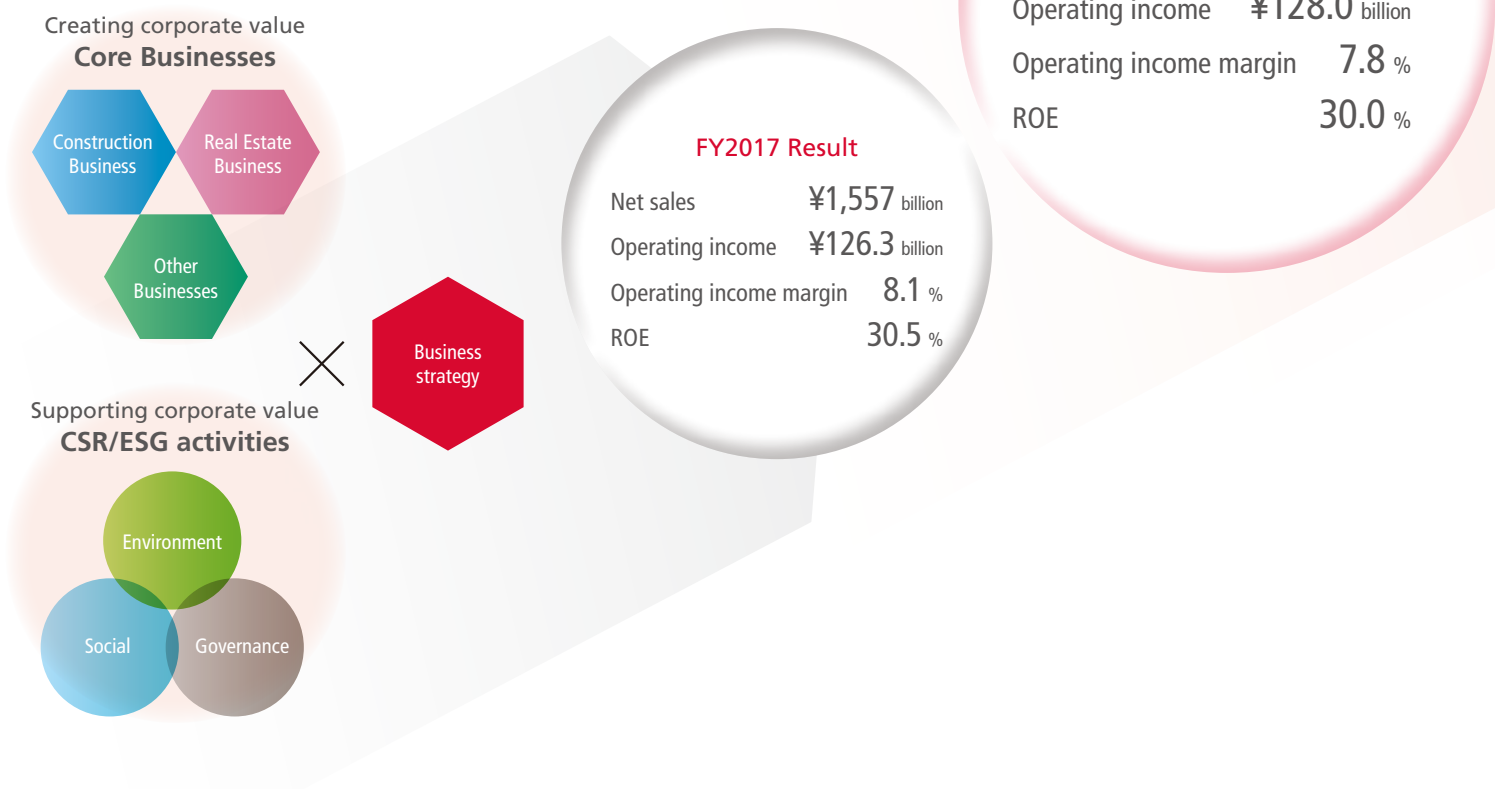
Businesses based on the Lease Management Trust System are becoming stronger every year, but they face major hurdles including the 2022 Amendment of the Productive Green Land Law, the 2025 crisis of super-aging society where the baby boomers reach the age over 75, and the 2040 problem of depopulated local cities. To realize continued growth in these circumstances of a changing society, we are focused on New Core Businesses that address society's new concerns: "the energy business," "the nursing care and childcare business," and "the overseas business." It is essential to our efforts to develop these New Core Businesses into other primary sources of revenue almost equal to our Core Businesses. While simultaneously strengthening our existing businesses such as expanding nursing care and daycare facilities as well as widening the

service areas for the city gas business, we will promote starting the businesses in new profitable fields by utilizing our group synergy, including construction of assisted living rental housing for senior citizens with Solasto Corporation, and considering the renovation business developed by Housecom Co., Ltd.

**Contributing society through our business**

We grew up to be society-significant company responsible for part of community infrastructures through proposing way to utilize land, supporting asset succession, constructing rental housing, tenant recruitment, and building management. In addition, we are doing a variety of business developments such as job creation in each local area, ordering to local cooperation company, operating care 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 Plan**

<b>Net sales</b>	<b>¥1,791 billion</b>
<b>Operating income</b>	<b>¥138.0 billion</b>
<b>Operating income margin</b>	<b>7.7 %</b>
<b>ROE</b>	<b>30.0 %</b>

nursery school facilities. It is not too much to say that our business is playing a role in part of revitalization of regional economies. Therefore, we are sure that our business has potential as a solution to social issue such as population decline and the low birth rate and the aging society. And also it may be response measure for negative media previously mentioned. First of all, we aim to achieve increasing sales and profit for 11 years straight with our practice "customer satisfaction is the sole indication of our business success". I would like to ask all our stakeholders, including our shareholders, for your continued unwavering support.





# Construction Business

We will strive to increase marketing efficiency and boost orders while continuing to expand and nurture our sales representatives.



**Katsuma Kobayashi**  
Senior Managing Director  
In charge of Construction Business  
Headquarters

## Review of Operations

### Record-high sales from completed construction contracts achieved

In the construction business, sales increased 0.6% year on year, to ¥627.6 billion on the back of robust orders in hand and steady work to complete projects. The gross profit margin decreased 0.2 percentage point to 31.5%, due mainly to an increase in labor costs associated with projects related to the 2020 Tokyo Olympics, as well as a tight supply–demand situation in the labor market. Operating income remained mostly unchanged, at ¥109.1 billion. However, orders received decreased 0.6% to

¥651.0 billion, and the year-end balance of orders in hand decreased 0.1% to ¥895.3 billion.

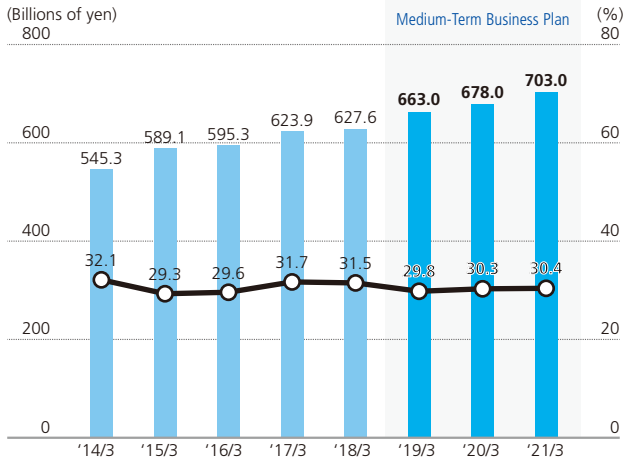
In FY2018, we will focus on developing new customers. Along with enhancing the sales force, we will develop branches based on market scale and long-term tenant demand, reflecting a marketing survey covering about 4,600 areas nationwide. For the year, we forecast orders of ¥683.0 billion (increase in 4.9% year on year), sales from completed construction contracts of ¥663.0 billion (increase in 5.6% year on year), and operating income from construction business of ¥105.8 billion (decrease in 3.1%).

## Growth Drivers

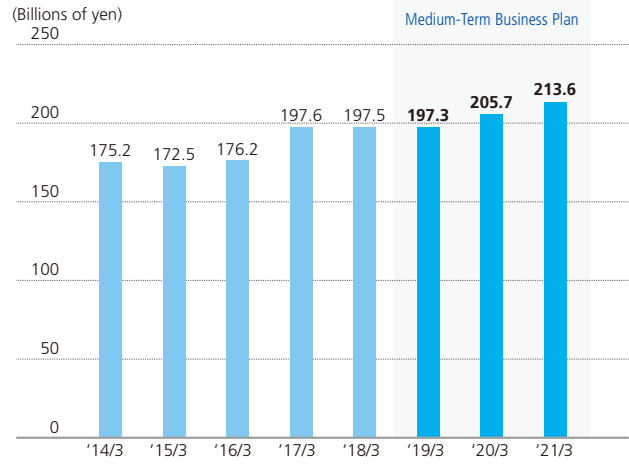


## Medium-Term Business Plan

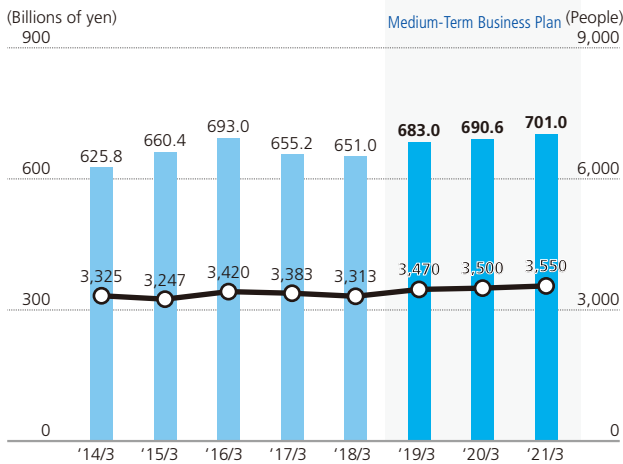
Net income from completed construction contracts (Billions of yen) / Operating income margin for completed construction contracts (%)



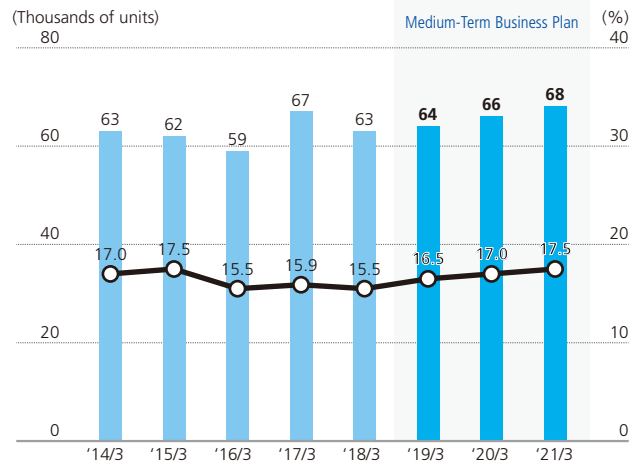
Gross profit from completed construction contracts (Billions of yen)



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



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



### Topics

## Full-size 3D building presentation

### Confirmation of full-size image of buildings after completion

In December 2017, Daito Trust introduced "HoloLens," a goggle-type head-mounted display offered by Microsoft Japan, for use as a sales support tool. Viewing a planned construction site while wearing a HoloLens enables users to obtain a full-size image of buildings on the site, allowing them to verify the affinity between the completed image and the surrounding environment after completion.



Planned construction site before completion of building



Using "HoloLens" to view image of completed rental condominium on planned construction site

Growth driver responses

Driver

**01** Number of construction sales representatives ▶▶ Sales jobs that make people happy

In order to attract competent construction sales representatives, we will increase the number of applicants and actively participate in job-seeking events as a matter of course. In particular, we will reinforce follow-up of staff after they have entered the Company.

In FY2017, we stepped up interviews and reinforced follow-up of new sales staff using condition visualization tools. Within three months, we were able to reduce the staff turnover rate to around one-third the previous level. We also organized scheduled classroom training sessions and used videos to provide scripts and explanations for specific sales scenarios. By introducing OJT complementary tools in these ways, we are stepping up support for our sales force with the aim of enabling newly joined staff to visit customers with confidence.

We are also concentrating on fostering leaders whom new employees can trust. For leaders who educate sales staff after joining the Company, we share communication methods aimed at building trust-based relationships with job applicants, and we provide training to enhance their leadership, negotiating, and management skills.

Driver

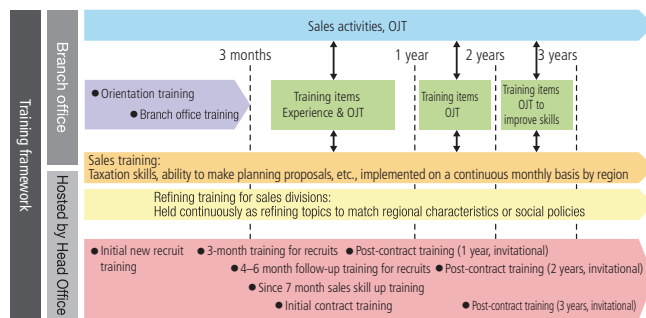
**02** Orders received per construction sales representatives ▶▶ Build system with a focus on sales

Our new contract-winning ratio has declined for three consecutive years, partly due to insufficient time invested in sales. Amid demands to reduce total working hours per person, the tasks of sales staff have diversified in non-sales areas, leading to a dilemma that we may not be able to devote enough time to sales activities to secure new contracts.

For this reason, we began arranging our sale staff into two groups—sales administrators and dedicated customer sales staff—as a new measure to complement our workstyle reforms. By separating existing customer follow-up and administrative work from the wide-ranging tasks of sales staff, we have established a system enabling sales staff to specialize in new customer development, tighten the grip on existing customers, and shorten the contract flow.

Going forward, we will aim to improve the number of new orders and enhance productivity of sales staff through division of labor in sales-related tasks and collaboration between individual business operations.

We will continue providing rigorous post-hiring follow-up to give sales staff a sense of motivation, as well as to attract and nurture people who can deliver sustained performances.



Unique training system aimed at professional sales development within 3 years of joining the Company

Number of construction sales representatives

FY2017 result: **3,313** people

FY2018 target: **3,470** people

Overview of sales administrators and dedicated customer sales staff

	Sales Administrators	Dedicated Customer Sales Staff
Purpose	Securing enough time for construction sales staff to engage in sales activities (increasing sales efficiency)	
	Shortening contract flow	Tightening grip on existing customers
Duties	<ul style="list-style-type: none"> <li>Administrative support prior to contract signing: Sales preparation, creation of rental inspection forms, creation of business estimates, applications for tax accountant visits, creation of order summaries, creation of financing forms, etc.</li> <li>Administrative support after contract signing: Administration of various applications, documents preparation, creation of financing forms, preparation for Shinto ground-breaking ceremony, procedures for description and property ownership registrations, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Regular visits to existing customers: Striving to tighten grip on customers by fostering peace of mind and trust</li> <li>Encouraging updates to and accumulation of existing customer information</li> <li>Acquiring introduction information</li> </ul>

Orders received per construction sales representative

FY2017 result: **¥16.51** million/month

FY2018 target: **¥16.70** million/month

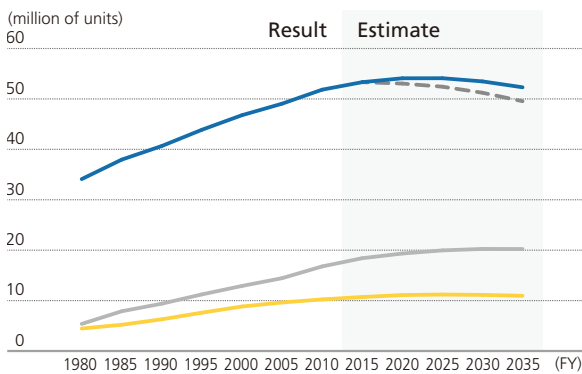
## Response to social changes

### Increasing number of single-person households

While the total number of households in Japan will peak in 2023 and decline thereafter, the number of single-person households is expected to continue rising through 2032, then flatten out.

#### Trend in households

— Total households — Estimated total households five years age  
— Single-person households — Households only for couples



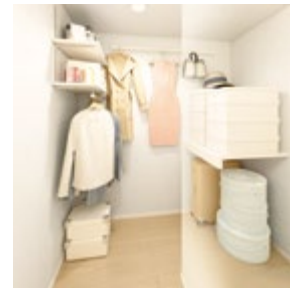
Sources: "National Census 1980–2015" (Ministry of Internal Affairs and Communications); "Future Estimate of Number of Households in Japan 2018" (National Institute of Population and Social Security Research)

### Aggressively develop new products for single-person households to help them "Live in their own way"

In November 2017, we launched "CONTE COCO," a new product for single-person households that enables people in such homes to "live according to their own style." For the first time, this product adopts new DK SELECT items (including multipurpose desks, kitchen shelves, and interior hooks) called "Kurashi@one" that are popular among single-person households.



Allows coats and the like to hung on the wall next to entrance

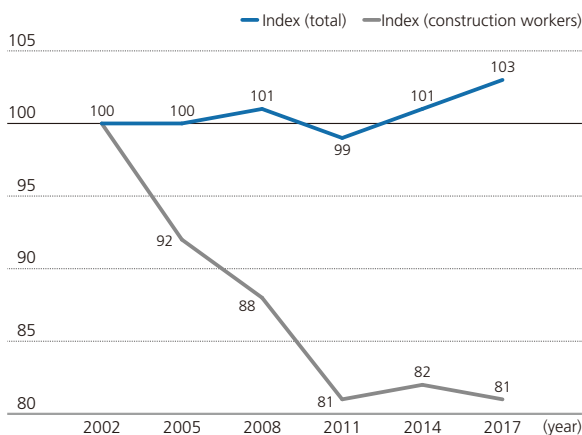


Deep multipurpose cloak storage at entrance

### Prolonged construction periods due to shortages of engineers and craftsmen

From 2002 to 2017, the number of construction workers declined by nearly 20%, while the total number of workers remained mostly unchanged.

#### Number of construction workers



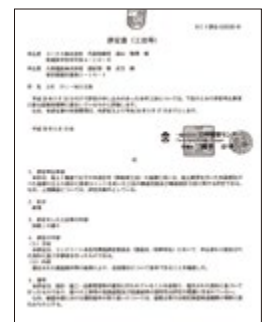
Source: "Labor Force Survey — Long-term Time-series Data" (Ministry of Internal Affairs and Communications)

### Developed a new foundation method called "DK Hi-MS Construction Method" that achieves high quality and shorter construction periods

In collaboration with Makes Co., Ltd., we developed "DK Hi-MS Construction Method," which achieves high quality and shorter construction periods, and started field tests in November 2017. "DK Hi-MS Construction Method" is a foundation construction method that combines steel frames—not used in foundations to date—and reinforced concrete. This is achieved by using factory batch production to create units, thus guaranteeing quality, saving labor, and shortening construction time.



Steel frame/reinforced concrete assembly



Construction Method Assessment Sheet

# Real Estate Business

In addition to responding meticulously to diversifying needs, we will use cutting-edge technologies to enhance convenience and efficiency and thus maintain high occupancy rates.



**Kei Takeuchi**  
 Managing Director  
 In charge of Real Estate Business  
 Headquarters

## Review of Operations

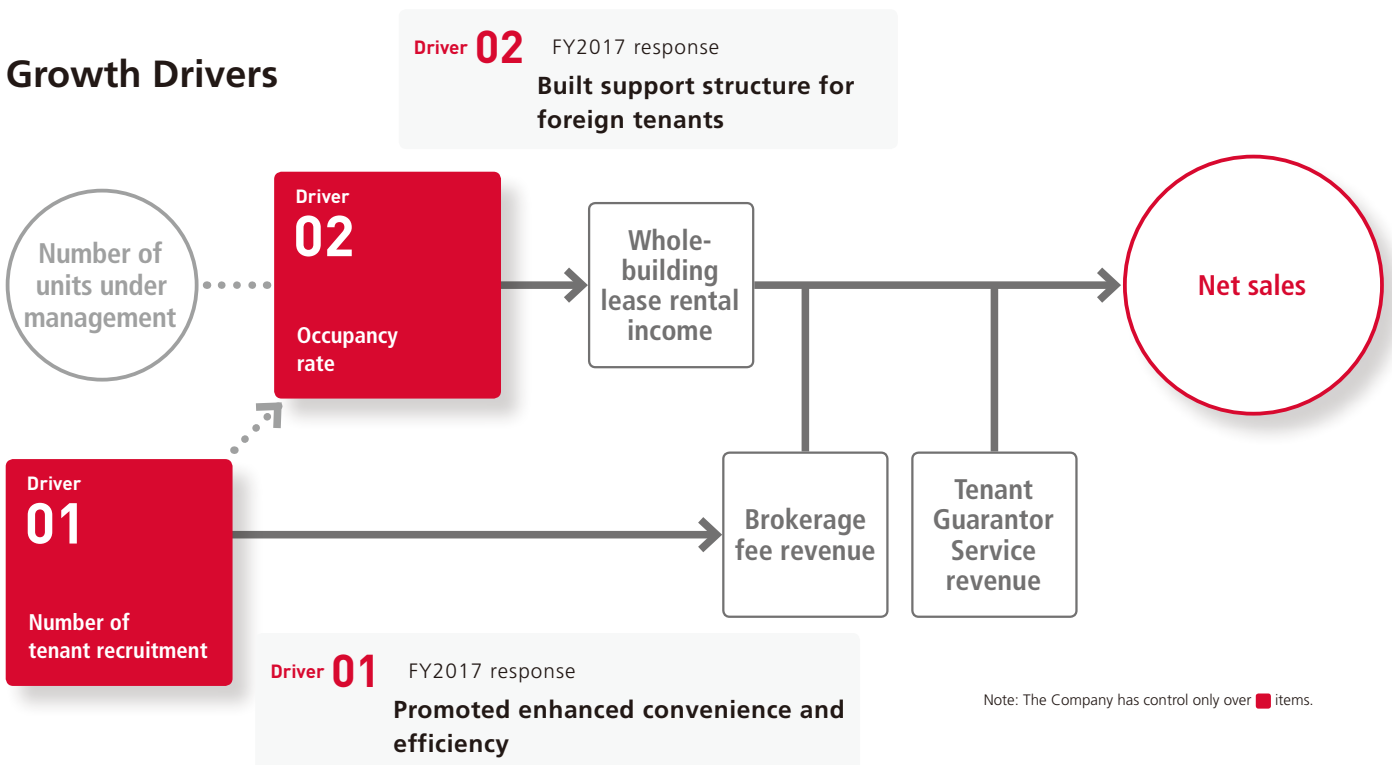
### Double-digit growth in operating income

Sales in the Real Estate Business increased 5.7% year on year, to ¥871.3 billion, while gross profit rose 8.8%, to ¥79.0 billion, and operating income climbed 12.9%, to ¥33.4 billion. This performance was due mainly to an increase in income from whole-building leases under the Lease Management Trust System, as well as a rise in number of users of our Tenant Guarantor Service. Number of tenant recruitment grew 5.2% year on year, to 296,018, buoyed by new TV commercials advertising the “E-heya Net” rental leasing brand, as well as year-round

promotions. The rent-based occupancy rate on a revenue-from-rent basis also held strong at 97.2%, up 0.3 percentage point from the previous year.

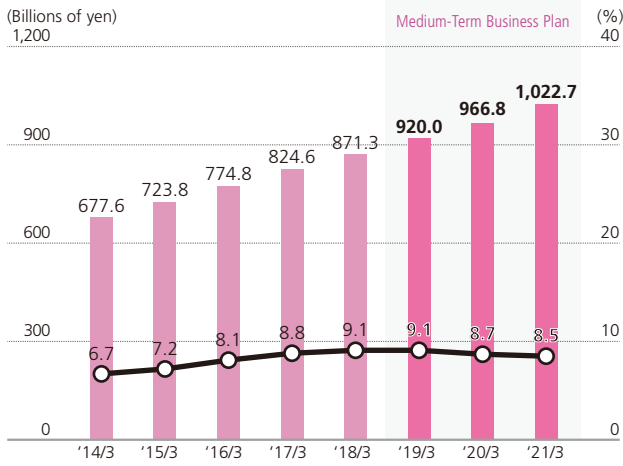
In FY2018, we will offer meticulous services according to the diversifying needs of tenants in such areas as the elderly, foreigners, and living with pets. At the same time, we will further enhance and proliferate “E-heya Net.” For the year, we are targeting segment sales of ¥920.0 billion (up 5.6% year on year), gross profit of ¥83.5 billion (up 5.6%), and operating income of ¥37.1 billion (up 11.0%).

## Growth Drivers

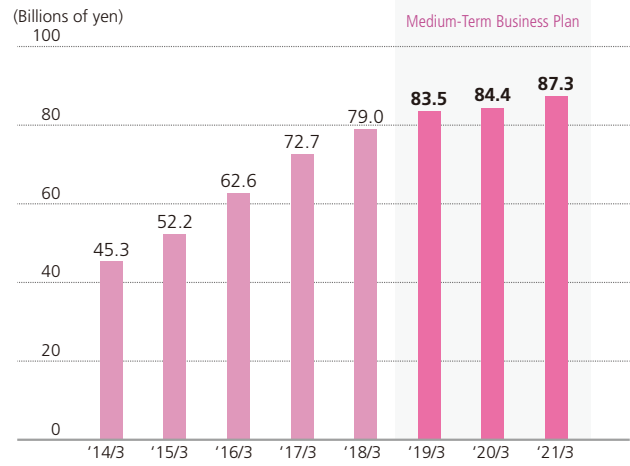


## Medium-Term Business Plan

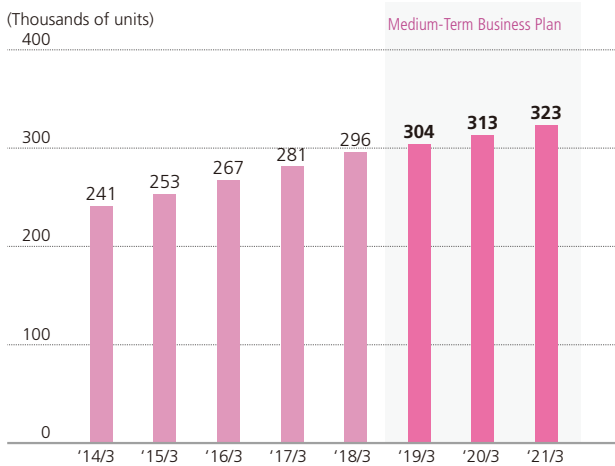
Net sales (Billions of yen) / Gross profit margin (%)



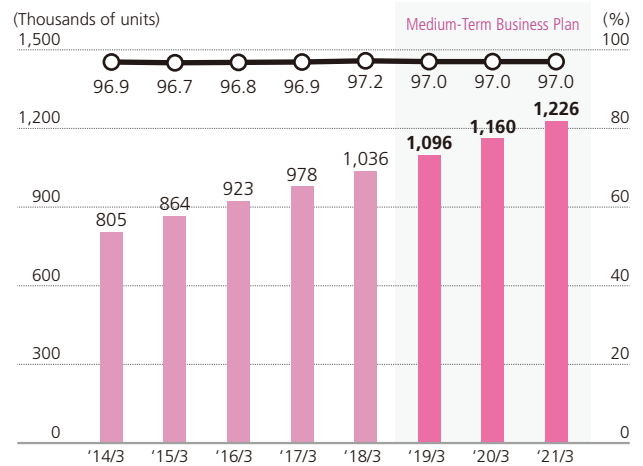
Gross profit (Billions of yen)



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 (%)



### Topics

## Aiming for fully automated rental housing

### Started field tests of smart rental housing

In March 2018, Daito Trust commenced field tests of a smart rental housing system using an in-home IoT platform offered by TEPCO Power Grid, Inc. and the "LiveSmart" IoT platform service of Giga Prize Co., Ltd. Features include a home automation system that enables users to operate home appliances from voice-controlled, AI-enabled speakers, as well as an away-from-home system using smart-locks. We will continue conducting field tests and evaluations with a view to full-scale rollout in FY2018.



#### Home automation system

Simply say "I'm home!" upon arrival and your preferred preset living environment will unfold.



Growth driver responses

Driver

**01** Number of tenant recruitment ▶▶ **Actively introduce advanced IT technology in tenant recruitment activities to enhance convenience and efficiency**

We are actively introducing and utilizing advanced IT technologies aimed at improving convenience for residents and the efficiency of the Daito Group.

Seeking to make housing searches easier and faster, Daito Trust developed “AI Rabbit-kun,” and chatbot service based on AI technologies. The service was launched by Daito Kentaku Leasing Co., Ltd. in December 2017. Customers can make inquiries about units that interest them anytime, 24 hours a day, allowing them to search for units that match their lifestyles without difficulty. In November 2017, meanwhile, Daito Kentaku Leasing, in accordance with revised guidelines from the Ministry of Land, Infrastructure, Transport and Tourism, introduced “e-Heya Net

Online Material Information System.” This allows us to provide explanations of important aspects (which we are obligated to do in person when signing rental contracts) online using a videophone system. The new service enables prospective tenants to receive the explanation via their own smartphone, tablet, or camera-fitted personal computer. Moreover, rental contracts for properties managed by the Daito Group can now be signed by people who live far away or find it difficult to visit our office. Going forward, we will actively deploy highly convenient equipment and services and provide search services unrestricted by time and place, in order to increase the number of tenant recruitment.

Driver

**02** Occupancy rate ▶▶ **Built support system for foreign residents**

From the perspectives of foreign workers and exchange students, whose numbers are expected to increase, the choice of residence is an important decision that will affect their lives going forward. The Daito Group provides extensive support for foreign residents to help them live safely and securely in unfamiliar environments.

Daito Trust has partnered with Global Trust Networks Co., Ltd., an organization specializing in providing guarantees to foreigners, to introduce a rental housing guarantee service

specifically for foreigners. This removes the need for foreign residents to find a guarantor, which is a heavy burden, and facilitates the process from contract signing to moving in. Meanwhile, in May 2018 we released “New Living Support Video” in five languages, to introduce key points about rules and manners for living in Japan. This includes how to put out the garbage—which foreign residents find difficult to understand—and rental payment methods.

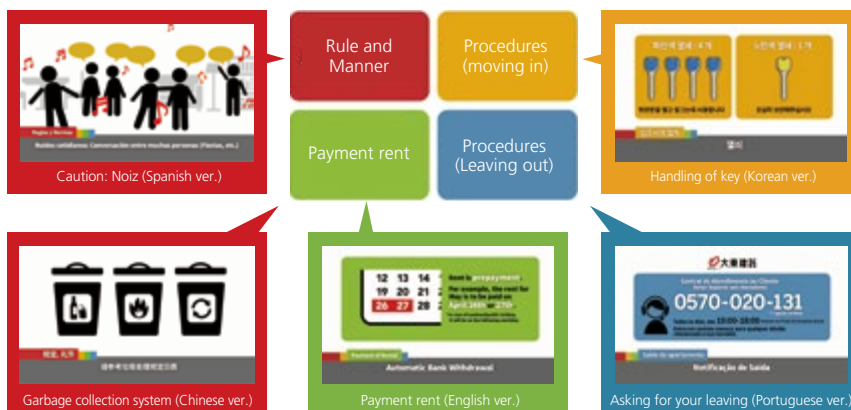


Image of “New Living Support Video” Available in five languages: English, Chinese, Korean, Portuguese, and Spanish

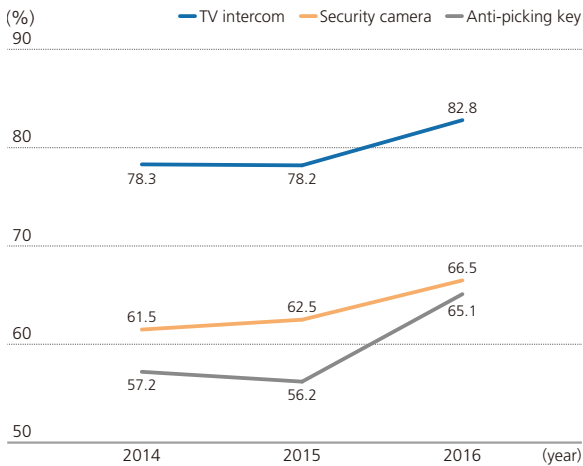


## Response to social changes

### Increasing consumer awareness (about security, BCP, etc.)

The need for security systems, including video intercoms and security cameras, is increasing year by year.

#### Needs of crime prevention equipment



"General survey of housing search (metropolitan area) FY2016"  
(Recruit Sumai Company, Ltd.)

### Completed the first certification for "Excellent crime prevention rental housing"

In February 2017, Daito Trust obtained certification as an "Excellent crime prevention rental housing"<sup>\*2</sup> for some of its core products. In September 2017. Going forward, we will strive to earn such certification for all of our core products. At the same time, we will promote adoption of our proprietary "DK SELECT Security" service, which enables customers to choose their own combinations of crime prevention equipment brands.

\*1 Crime prevention certification system established by third-party organizations (Japan National Crime Prevention Association and Center for Better Living)

\*2 Standardized condominium complexes can obtain prior certification after being examined to confirm whether or not their design, construction, and management conform to certification criteria.

Example  
of crime  
prevention  
system



TV intercom with video recording function and alarm

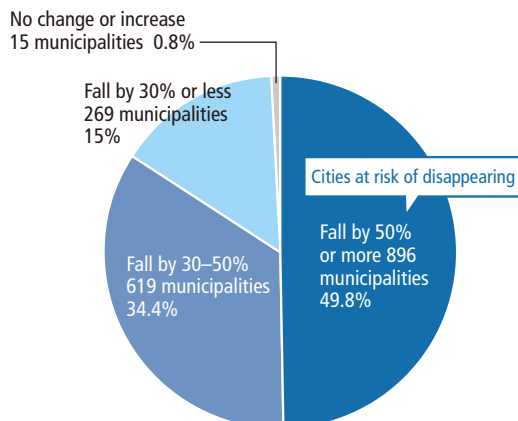


Memory key fob with 5-minute-plus resistance period and thumb turn lock

### Increase in resident-depleted regions due to declining populations/households in rural areas

It is estimated that, by 2040, the number of municipalities in which the populations of women will fall to below 50% of current levels, will reach 896.

#### Number of municipalities and rate of change of young female population (as of 2040)



Source: "Stop Declining Birthrates—Strategies for Vibrant Communities"  
(Subcommittee of Study on Population Decline Issues, Japan Policy Council)

### Unique marketing that specializes in rental properties

The Daito Group divides residential areas nationwide into approximately 4,600 subareas, and our specialist market research team predicts the vacancy rate over a one-year period based on the latest rental and building supply trends, and reviews its supply plan every three months. Based on this, we divide our sales coverage into construction promotion areas, conditional construction promotion areas, and temporary suspension areas to ensure that our building supply plan reflects real demand.

In April 2017, we commenced operation of our proprietary "DK MAP," a nationwide land information management system, leading to improved efficiency and higher accuracy of our supply plan and rental investigation processes.



Mapping of our supply plan area enables confirmation of rental fluctuations and supply trends

## Other Businesses

We have identified the energy business, nursing care and childcare business, and overseas business as New Core Businesses, and we will target synergies with our Core Businesses in order to expand our operations.



**Kanitsu Uchida**

Director  
General Manager of Subsidiary Business Headquarters  
In charge of Care and Nursery School Businesses  
In charge of Overseas Business

**Takeshi Nakagawa**

Director  
General Manager of Subsidiary Business Headquarters  
In charge of Energy Business

## Review of Operations

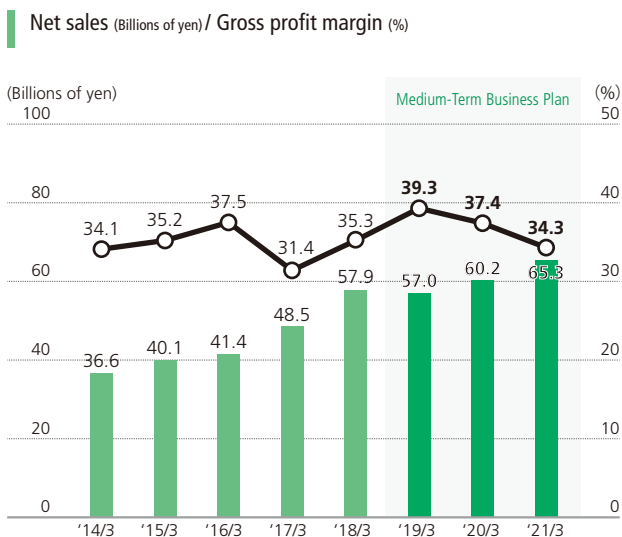
### Significant growth in sales and income thanks to increasing users of each service

In the Other Businesses segment, sales increased 19.5% year on year to ¥57.9 billion; gross profit increased 34.2% to ¥20.4 billion; and operating income increased 45.6% to ¥10.8 billion. Factors in this performance included growth in the number of houses supplied with LP gas by the Gaspal Group, an increase in users of elder day-care centers operated by Care Partner Co., Ltd., and growth in subscriber numbers for insurance services provided by HOUSE GUARD S.S. Insurance.

In FY2018, we forecast a 1.7% year on year decrease in segment sales to ¥57.0 billion. By focusing on businesses that leverage strong synergies with our Core Businesses, however, we forecast a 9.5% rise in gross profit to ¥22.4 billion, and a 7.5% increase in operating income to ¥11.7 billion.

Going forward, the Group will aim to commercialize new revenue fields to the level of Core Businesses. To this end, we will continue reinforcing other businesses, especially those we have positioned as New Core Businesses—energy business, care and nursery school businesses, and overseas business.

## Medium-Term Business Plan



## Review of Operations

### Double-digit growth in units with LP gas supply

The Gaspal Group handles contracted gas equipment work for rental buildings constructed by the Daito Group and supplies LP gas to homes nationwide. In FY2017, Gaspal Co., Ltd. posted net sales of ¥25.0 billion increase 5.9% year on year; gross profit of ¥10.7 billion increase 12.0%; and operating income of ¥4.2 billion increase 12.0%. At fiscal year-end, it supplied LP gas to 308,076 homes, up 10.4% from a year earlier.

Meanwhile, Daito Energy Co., Ltd.'s electric power supply service "E-Heya Electricity" experienced business contraction due to high electricity market prices and system collection difficulties. In its role as a provider of housing, however, it is crucial for the Group to deliver high-quality energy in

a safe manner. Looking ahead, we will continue supplying energy to managed buildings as a matter of course, while providing services that add value to homes in general.



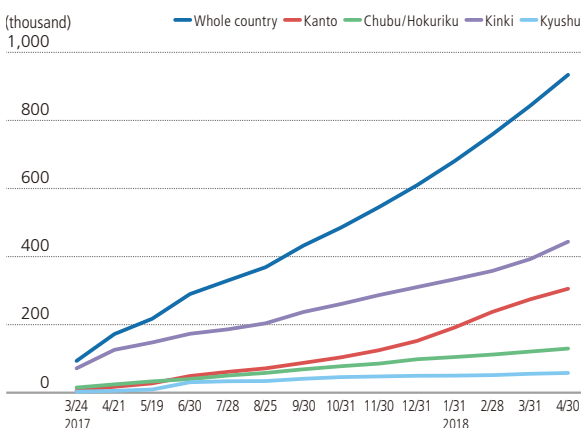
Gaspal Co., Ltd. and Gaspal Kyushu Co., Ltd. received the "High Pressure Gas Safety Institute of Japan Chairman's Prize" at the FY2017 LP Gas Consumer Security Performance Awards.

## Response to social changes

### Full liberalization of retail energy market

Amid liberalization of the city gas market, the number of applications to switch contracts reached around 933,358 nationwide between April 2017 and end of April 2018.

Trend in number of application for switching gas supplier (by region)



Source: "Progress report of liberalization of the city gas market" (April 2018) (Agency of Natural Resources and Energy)

### City gas business launched in Tokyo Gas's area

In December 2017, Gaspal Co., Ltd. launched city gas business "E-Heya Gas" in the supply area of Tokyo Gas Co., Ltd., following liberalization of the market that started in April 2017. In the liberalized gas market, a system in which unit prices decrease as gas usage increases is commonly used. By contrast, "E-Heya Gas" supplies gas at a uniform 3% discount compared with Tokyo Gas, regardless of usage volume. It is a service that satisfies the needs of rental households with few members. We will continue expanding our service target area in the future.



"E-Heya Gas" logo mark

# Care and Nursery School Businesses

Kanitsu Uchida

Director  
General Manager of Subsidiary Business Headquarters  
In charge of Care and Nursery School Businesses

## Review of Operations

### Expanding our networks of both elder care centers and nursery schools

Care Partner Co., Ltd. operates 77 elder day-care centers nationwide, and annual users have surpassed one million. It also provides a wide range of other services for the elderly, including home visits to provide physical care and living assistance, as well as in-home nursing care support based on various consultations related to care needs. We are also advancing our Kids Partner nursery school business, which centers on licensed nurseries and small-scale nurseries.

In FY2017, Care Partner posted net sales of ¥11.6 billion increase 2.0% year on year; gross profit of ¥1.3 billion increase 3.4%; and operating income of ¥370 million increase 10.5%.



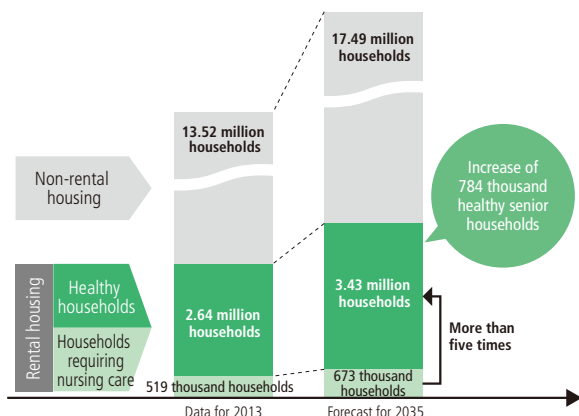
Since June 2017, we have been introducing "Pepper," a humanoid robot of SoftBank Robotics, into some day-care centers in order to enhance operational efficiency and services.

## Response to social changes

### Progressive ageing of population

Among the growing number of households with people aged 65 or over, we expect that the number of "healthy seniors" living in rental housing will increase more than five-fold from the current level by 2035.

Number of Senior Households (age 65 or older)



(Sources of basic numbers) "Household Projection for Japan (2018)", National Institute of Population and Social Security Research, "National Census 2013", MIC, "Comprehensive Survey on Housing and Living Environments 2013", MLIT  
(Calculation condition) Percentage of households living in rental housing = 19.0%  
Percentage of healthy senior households = 83.6%

### Started recruiting tenants for "Elder Garden Yanaze" serviced housing for the elderly

In November 2017, Daito Kentaku Partners Co., Ltd. started recruiting tenants for "Elder Garden Yanaze" serviced housing, which is also suitable for active seniors. Each unit has a floor space of more than 25m<sup>2</sup>, ensuring safe and secure living with ample consideration for privacy. It also features a community lounge that allows tenants to communicate with each other and welcomes visitors from nearby as well. In the future, Care Partners will also offer lifestyle support services for the elderly, including concierge support provided by holders of professional nursing qualifications.



External image of Elder Garden Yanaze

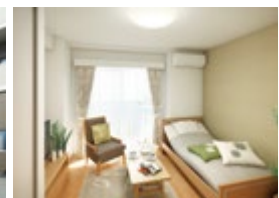


Image of room

# Overseas Business

Kanitsu Uchida

Director  
General Manager of Subsidiary Business Headquarters  
In charge of Overseas Business

## Review of Operations

The Daito Group is developing its overseas business by leveraging expertise built up through its Core Businesses in construction and real estate.

In Asia, we developed and own the five-star Le Meridien Kuala Lumpur Hotel in Malaysia. In November 2017, we acquired all of the shares (valued at around ¥13.7 billion) of Daisho Asia Development (M) Sdn. Bhd., which manages the Hilton Hotel (adjacent to Le Meridien).

In the United States, Daito Kentaku USA, LLC owns an apartment building that it co-developed with a local developer. Going forward, we will continue examining income-producing real estate development, ownership,

and management opportunities overseas while monitoring legal and market conditions in target countries.



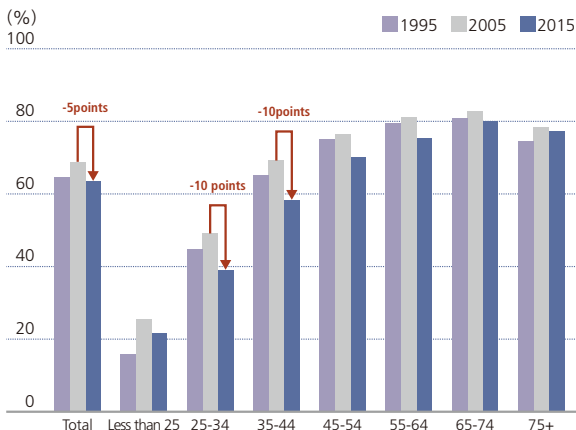
Hotels owned in Malaysia  
Left: Hilton Hotel  
Right: Le Meridien

### Response to social changes

#### Expanding rental demand in United States

Since the subprime mortgage crisis, home purchase rates among young people have been declining in the United States, while demand for rental housing is rising.

#### Aquisition rate of a house classified by age



Source: U.S. Census Bureau

#### Promote real estate development and investment in promising overseas markets

In the United States, Daito Trust, together with a leading local real estate developer Comstock Partners, LC., developed a 448-unit, 21-story condominium complex in the suburbs of Washington DC. Completed in April 2016, the complex achieved an occupancy rate of 95% in 2017. We will continue considering new real estate development projects in the United States while closely watching the occupancy rates of our property as well as its rent trends.



BLVD | RESTON STATION, which Daito jointly developed.



# Other Businesses

## Review of Operations

The Daito Group's operations related to the rental housing business are extensive. House Leave Co., Ltd., which provides guarantor services to tenants for lending and renting, posted net sales of ¥10.9 billion increase 12.9% year on year. HOUSE GUARD S.S. Insurance Co., Ltd., which develops and sells short-term and small-amount insurance products to protect the assets of tenants and building owners, reported net sales of ¥2.4 billion increase 23.5%.

In other businesses, 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 credit card payments are not yet common. Daito Mirai Trust Co., Ltd. provides real estate management trust services and asset succession consulting

services. In these and other ways, the entire Daito Group aims to provide services that enrich people's lives, not only through its building rental business.



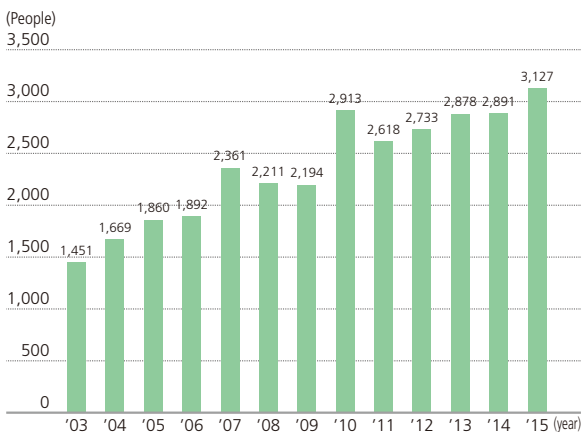
Daito Corporate Service Co., Ltd., a special subsidiary that employs people with disabilities, received an "Excellence Award" at the "Workplace Improvement Case Studies for People with Disabilities" held in September 2017.

### Response to social changes

#### Increase in people dying alone

In Tokyo's 23 wards, the number of deaths at home of people aged 65 and over who live alone is increasing.

The number of deaths at home of people aged 65 and over who live alone.



"Trend in death at home people who live alone in Tokyo's 23 wards" (Bureau of Social Welfare and Public Health, Tokyo Metropolitan Government)

#### Launched sales of "New Live-UP GUARD"

In June 2017, HOUSE GUARD S.S. Insurance Co., Ltd. started sales of "New Live-UP GUARD," a general insurance product designed to give peace of mind to owners of rental housing. This new product replaces "Live-UP GUARD," which has received 60 thousand applications since its launch in December 2014. In addition to expanded coverage, it features enhanced content to meet changing social circumstances, such as allowing landlords to request reimbursement of repair costs incurred when tenants pass away.

#### Special insurance to cover tenant death costs

This covers the cost of repairing damage to rental housing caused by the death of an insured person on the premises (landlords would normally be out of pocket for such costs).

#### Amount of insurance payment to be paid

Actual expenses for repair costs (up to ¥1 million per case)



# 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.

## ▶ Important Management Indicators and Shareholder Return Policy

### Important Management Indicators

Target	Fiscal year ended March 31, 2018 (FY2017)
Operating income margin: 7% or higher	8.1%
Return on equity (ROE): 20% or higher	30.5%

### Shareholder Return Policy

Payout ratio:	Payout ratio: <b>50%</b>
	Purchase / retirement of treasury stock: <b>30%*</b>

\* To be implemented if certain conditions are met including net income in excess of ¥10.0 billion and the absence of large funding needs.

## ▶ Features of the Daito Group's Corporate Governance

### 1. 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.

### 2. 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).

### 3. 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.)

### 4. 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.

### 5. 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.

# Corporate Governance

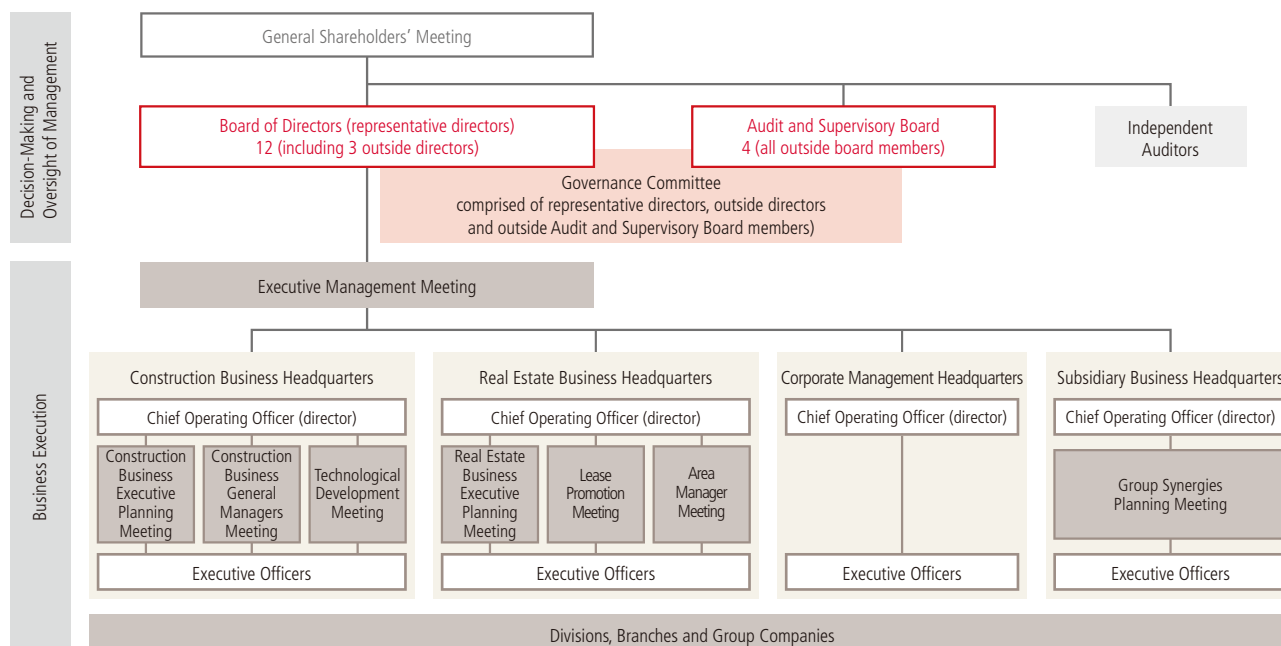
## History of Daito Group's Corporate Governance Structure

	1974	1989	2000	2011
Separation of management and business execution	Foundation of the Company	Listed on the Second Section of the Nagoya Stock Exchange	Introduced the executive officer system	Acquired and cancelled the shares held by the founder in a TOB
Term of office of directors		Introduced mandatory retirement age of 60 for directors		
Remuneration of directors				Introduced stock options as stock-linked compensation
Outside directors			Appointed one outside director	Appointed two outside directors Appointed three outside directors (from 2015, one female outside director shall be included)
Outside Audit & Supervisory Board member	Appointed one Audit & Supervisory Board member	Appointed three Audit & Supervisory Board members	Appointed four Audit & Supervisory Board members (all four are outside Audit & Supervisory Board members)	
Voluntary committee				Established the Evaluation Committee System (currently, Governance Committee)

## 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.



### 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.

## ► 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

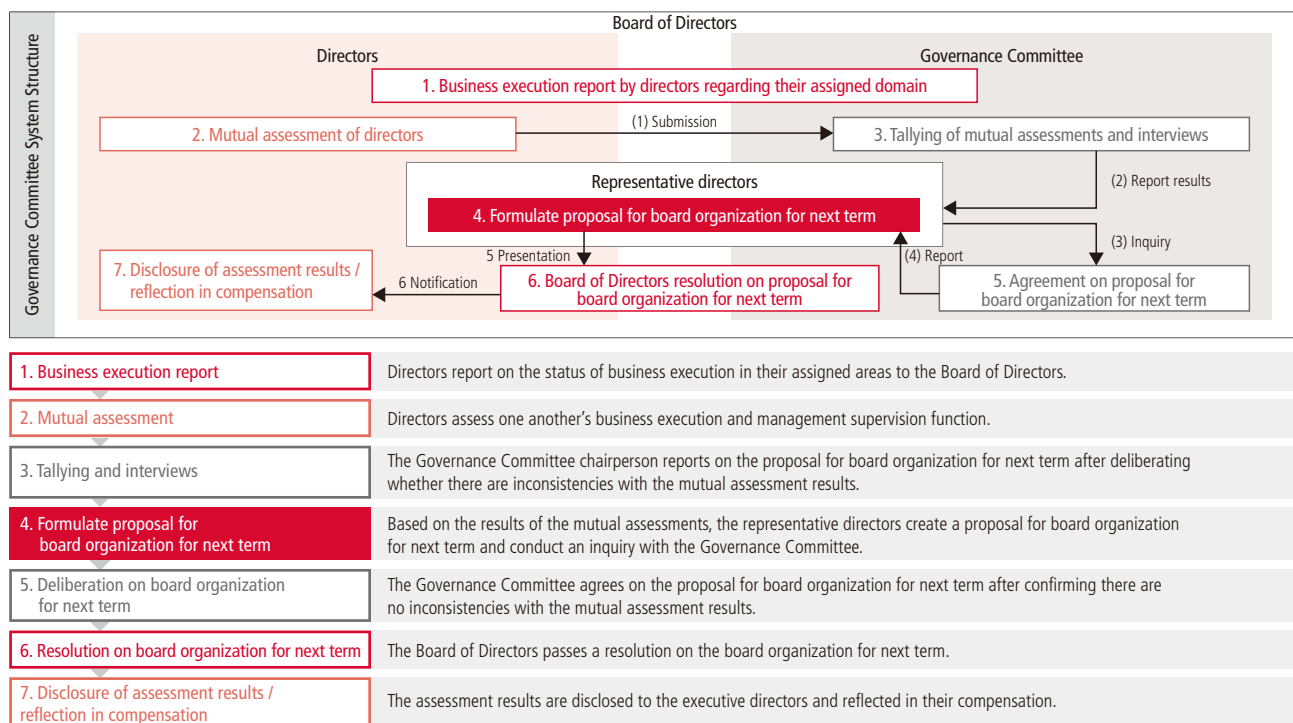
Comprised of representative directors, outside directors and outside Audit and Supervisory Board members

### Functions of the Governance Committee

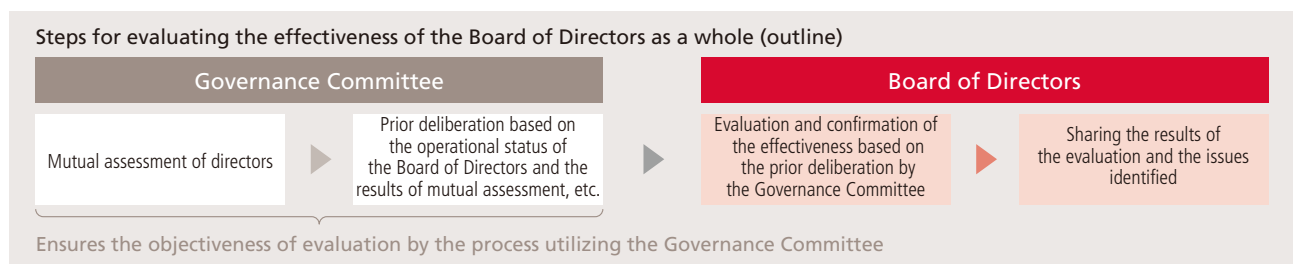
- (1) Collate and report on the results of mutual assessments of directors.
- (2) Deliberate and submit findings regarding proposals for board organization for the next term (directors and executive officers) as formulated by the representative directors and director candidates proposal (both reappointments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



## ► Evaluating the Effectiveness of the Board of Directors as a Whole



### <Summary of Evaluation Results for FY2016>

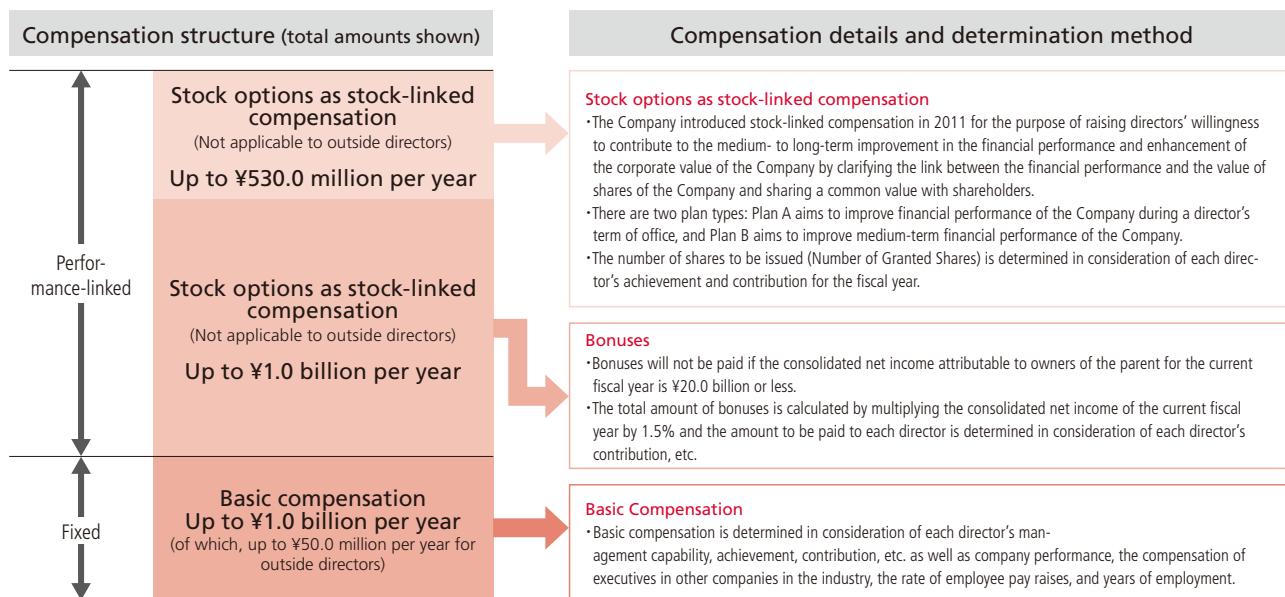
Based on the confirmed evaluation results, the Board of Directors verified from the perspectives of the Board of Directors' management and supervisory functions, the outside directors' activities and contribution, objectivity and systemization of the appointment process for directors and executive officers as well as the leadership of the organization's top management that the Company is being managed well overall and there are currently no areas requiring major improvement.

# Corporate Governance

## ► 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.)



<Reference> Total amount paid for directors' compensation (excluding outside directors) for FY2017

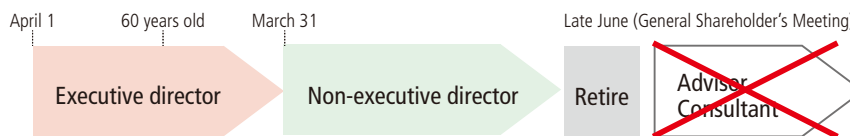
Number of persons paid	Total amount of compensation by type (Millions of yen)			Total amount of compensation (Millions of yen)
	Basic compensation	Bonuses	Stock options	
19(8)	474(95)	682(40)	307(—)	1,465(135)

\* The above number of persons paid includes the three retired directors whose term of office expired at the Ordinary General Meeting of Shareholders held on June 28, 2017.

## ► 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.

	Name	Profession	Expertise					Activities (fiscal year ended March 2018)
			Corporate management	Finance	Financial accounting	Laws	Administrative experience	
Outside directors	Toshiaki Yamaguchi	Lawyers	—	—	—	●	—	Attended 92.3% (12/13) of Board of Directors meetings
	Mami Sasaki	Former foreign financial institution management	—	●	—	—	—	Attended 100% (13/13) of Board of Directors meetings
	Takashi Shoda	Former company managers	●	—	—	—	—	Attended 100% (10/10) of Board of Directors meetings
Outside Audit and Supervisory Board member	Masayasu Uno	Certified public accountants Former company managers	●	—	●	—	—	Attended 100% (13/13) of Board of Directors meetings Attended 100% (13/13) of Audit and Supervisory Board meetings
	Hideo Hachiya	Lawyers	—	—	—	●	—	Attended 100% (13/13) of Board of Directors meetings Attended 100% (13/13) of Audit and Supervisory Board meetings
	Kazumitsu Futami	Consultants Former superintendent administrative experience	●	—	—	—	●	Attended 100% (13/13) of Board of Directors meetings Attended 100% (13/13) of Audit and Supervisory Board meetings
	Kazuo Fujimaki	Consultants US Certified Public Accountant	—	—	●	—	—	Attended 100% (13/13) of Board of Directors meetings Attended 100% (13/13) of Audit and Supervisory Board meetings

## Interview with an Outside Director

In addition to providing business management advice to foster a good balance between business performance and ESG, we will further enhance our training plan for future leaders to ensure that the top people are appointed in FY2019 and beyond.



Mami Sasaki  
Outside Director  
Member of the Company's  
Governance Committee

### Q1. Please give your opinion about your expected role as an outside director.

In order to improve corporate value and protect the interests of shareholders over the medium and long terms, I will do my utmost to oversee management from an independent standpoint. I am also expected to pay attention to balancing the interests of all stakeholders, including shareholders, employees, customers, and local communities.

A look at the ownership of Daito Trust reveals that institutional investors hold more than 80% of shares, with 57% of owners being overseas institutional investors and 25% domestic institutional investors. Because I worked at a U.S.-based financial institution developing its business globally, I had many opportunities to gauge the investment attitudes and judgments of institutional investors both in Japan and overseas. I am proud that the Board of Directors has asked me to provide opinions and comments based on my experiences and understanding.

Also, since I am the first female director of the Company, I'm expected to provide leadership in the field of "promoting the advancement of women." In my experience working at foreign financial institutions, I firmly believe that there is no difference between genders when it comes to making business decisions. In traditional Japanese society, by contrast, I have experienced difficulties accessing opportunities for women and working while raising children. I think I'm expected largely to provide advice on areas outside of business execution, given my personal experiences.

### Q2. If you were to give a report card, how would you evaluate the Company's management in FY2017 (scale of 1 to 5)? And please give the reasons for your evaluation.

I will use eight items to evaluate and explain my reasons.

#### (1) Progress of medium-term business plan

I feel that we are proceeding smoothly towards achieving the targets of our medium-term business plan, which is an important commitment to shareholders. Because I think the targets are attainable, I give a rating of 4.

#### (2) Leadership from top management

The Group started operating under a three-main-company structure from FY2017. Due to strong leadership both internally and externally, we have achieved year-on-year increases in sales and profits for 10 consecutive periods. Moreover, the three-main-company structure appears to be properly managed, and the directors in charge are demonstrating leadership in their respective fields. I give a rating of 5.

#### (3) Effectiveness of governance

Daito Trust Construction Co., Ltd. has established its own Governance Committee and is functioning properly in terms of both structure and operation.

With the expectation that further improvements can be made, such as revising the governance code and addressing changes in the organizational structure, I give a rating of 4.

#### (4) Constructive dialogue with shareholders

I give this a rating of 4. Top managers make regular visits to overseas investors to engage in constructive dialogue. I believe that we should continue working to improve corporate value through dialogue with various shareholders and other investors.

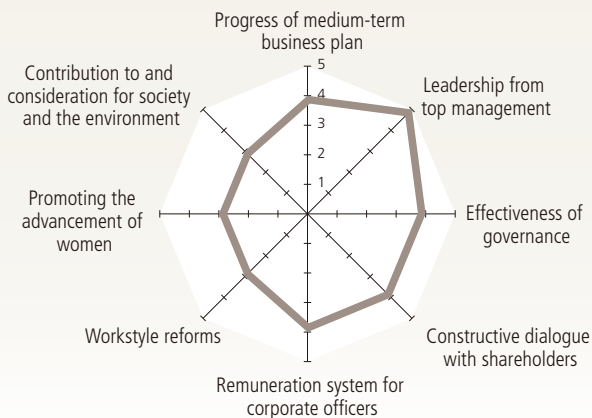
#### (5) Remuneration system for corporate officers

In FY2011, we introduced stock options as stock-linked compensation aimed at increasing management's desire to help improve corporate value over the medium and long terms, regardless of short-term performance. However, I think adjustments are necessary to link the system to changes in the times and stakeholders. I give a rating of 4.

#### (6) Workstyle reforms

The Company has put its utmost efforts into this area in recent years. In FY2017 alone, the Company implemented a wide range





#### Report Card (score of 1 to 5)

✓ Progress of medium-term business plan:	<b>4</b>
✓ Leadership from top management:	<b>5</b>
✓ Effectiveness of governance:	<b>4</b>
✓ Constructive dialogue with shareholders:	<b>4</b>
✓ Remuneration system for corporate officers:	<b>4</b>
✓ Workstyle reforms:	<b>3</b>
✓ Promoting the advancement of women:	<b>3</b>
✓ Contribution to and consideration for society and the environment:	<b>3</b>

of measures, including setting minimum intervals between work shifts, raising the age limit for re-employment after retirement, and introducing a flextime system for some occupations. Meanwhile, it is working to improve productivity by reviewing workflows and utilizing AI and the like. I give these swift responses and improvement rates a rating of 4–5. Going forward, however, I hope to see further improvements once the systems are entrenched and deliver clear outcomes, so I give a rating of 3.

#### (7) Promoting the advancement of women

Since my appointment as outside director in FY2015, I have conveyed a wide range of opinions. Even now, we are making good progress in establishing environments for recruiting female employees and executives. To this end, we encourage participation in career-specific seminars for women, and we have upgraded our support system for female employees working on the front lines and those balancing work and childcare commitments. Similar to “(6) Workstyle reforms,” however, I feel we have only just begun, so I give a rating of 3.

#### (8) Contribution to and consideration for society and the environment

I give this a rating of 3 because I feel there is room for further work, and the appeal of current efforts is lacking. We are contributing to the environment by actively developing rental housing that meets ZEH standards ahead of others in the industry, and we are addressing social issues through our businesses including the Care and Nursery School Business and the Energy Business. In addition, we are pursuing community contribution activities, such as regional industrial restoration through the use of local timber and support for regional revitalization and disaster recovery through the Daito Group Mirai Fund. Even among institutional investors, we rank highly in terms of ESG. I look forward to a continuation of proactive efforts that benefit society and the environment and disclosure of information on such efforts.

### Q3. From the perspective of its sustainability, what do you think the Company should recognize as “materiality”?

I have a huge personal interest in the fields of ESG and sustainability. Since businesses cannot be established without an enduring earth, world, and society, it is only natural that we as a company are committed to these things.

Accordingly, I think these are important priorities that we must tackle proactively. We will not gain approval from shareholders if we focus solely on ESG while short-term results and stock prices are declining. We are expanding our ESG investments because we firmly believe they are rational in the long term. We need to manage our operations with a good balance between business performance and ESG, and this should be constantly monitored, I believe.

### Q3. Based on our discussion so far, what kind of issues do you expect will receive particular attention in FY2018?

Of course, we will emphasize items described in my earlier evaluations, such as maintaining good business performances, workstyle reforms, promoting the advancement of women, proactively tackling ESG initiatives, and ESG information disclosure. However, the most important upcoming issue in the second half of FY2018 will be a change in top management expected in March 2019. Since 1989, there has been provision that the retirement age of directors is 60 years old, and that directors shall not assume positions, such as adviser or counselor, after retiring. From the governance standpoint, the provision that directors will not be reemployed after retiring is extremely positive. In light of moves to increase the official retirement age due to the ageing population and declining workforce, however, we feel it is necessary to review the provision that our directors retire at age 60.

To allay concerns among shareholders and other stakeholders about whether or not growth can be maintained after the change in top management, I will do my utmost to enhance our successor training programs to ensure that the best people are appointed to top management positions in FY2019 and beyond.

# 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

Senior 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, In charge of Construction Business Headquarters  
Apr. 2018 Senior managing director, In charge 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)



### Kei Takeuchi

Managing Director  
In charge 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  
Apr. 2018 Managing Director  
In charge of Real Estate 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)



### Kazuhiko Saito

Director  
In charge of East Japan Construction Business Headquarters  
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  
President and Representative Director 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)



### Fumiaki Nakagami

Director  
General Manager of Construction Management Department

Oct. 1988 Joined the Company  
Apr. 2012 General Manager of Technological Development Department (in charge of East Japan Region)  
Apr. 2014 General Manager of Technological Development Department In charge of East Japan Region  
Apr. 2015 Executive Officer, General Manager of Safety and Quality Control Department  
Apr. 2017 Executive Officer, General Manager of Construction Management Department (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.  
Jun. 2015 Elected Member of the Committee on Whistleblower Protection System, Consumer Affairs Agency  
April 2018 Outside Audit & Supervisory Board Member of Osaka Metro Co., Ltd. (current position)



## 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 UFJ 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.  
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	Executive Officer, General Manager of Chu-Shikoku Area Construction Business Department
Hirokichi Ono	Executive Officer, President and Representative Director of Daito Mirai Trust Co., Ltd.
Yoshihiro Mori	Executive Officer, President and Representative Director 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 Central Japan Region
Jun Matsufuji	Executive Officer, General Manager of East Kanto Area Construction Business Department

Takashi Suzuki	Senior Executive Officer, in charge of Central Japan Construction Business Headquarters
Masayoshi Tanaka	Executive Officer, President and Representative Director of Daito Finance Co., Ltd.
Kazunori Fukuda	Executive Officer, President and Representative Director of Daito Corporate Service Co., Ltd.
Eiji Kawahara	Executive Officer, Senior Managing Director of Daito Kentaku Partners Co., Ltd.
Masayuki Koishikawa	Executive Officer, General Manager of North Metropolitan Area Construction Business Department
Satoshi Miyake	Executive Officer, General Manager of Keihanshin Area Construction Business Department

# Human Resources and Diversity

In addition to fostering human resources, we aim to promote diversity in order to build organizations and workplace environments that are full of vitality.



**Shuji Kawai**  
 Managing Director  
 In charge of Corporate  
 Management Headquarters

## Overview

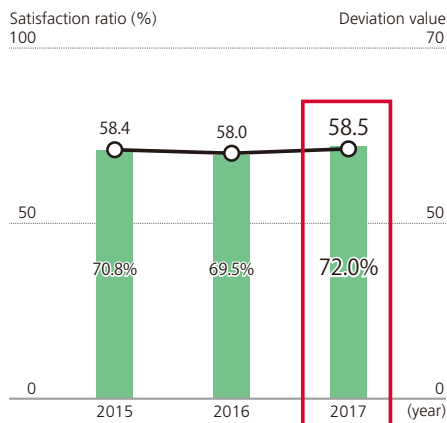
### Employee satisfaction 72.0%

As a group that has grown its business through “asset-light management,” we regard our human resources as our most valuable management asset. In April 2016, Daito Trust established a new human resources development system and systematized basic education for each job class and level. Furthermore, since April 2016 we have continuously engaged in a project aimed at addressing excessive working hours. This involves cross-lateral reviews of improvement measures throughout the Group. In addition, we emphasize diversi-

ty and focus on establishing organizations and workplace environments where all employees can work with passion. In FY2017, we considered introducing more flexible and diverse employment frameworks, including a remuneration system that addresses multiple workstyles, allowing time card entries from tablet terminals, and teleworking trials for employees working shorter hours due to childcare commitments. As a result, we maintained a strong 72.0% employee satisfaction level under D-COMPASS, an employee awareness survey we have conducted since FY2015.

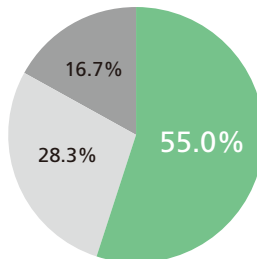
## D-COMPASS

Evaluation criteria	
Change from last time	Evaluation
+3% or higher	Improved
-3% to +3%	No change
-3% or less	Declined



Q. In my workplace, it is easy for men and women to access childcare and nursing care leave and work shorter hours.

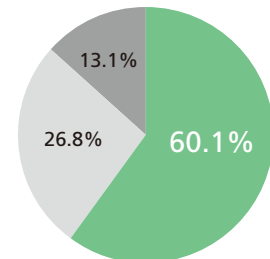
■ Satisfaction ratio ■ Neither ■ Dissatisfied



	2015	2016	2017
Satisfaction ratio	43.9%	40.2%	55.0%
Average	2.2	2.1	2.5

Q. My workplace is energetic and highly motivating.

■ Satisfaction ratio ■ Neither ■ Dissatisfied



	2015	2016	2017
Satisfaction ratio	57.0%	55.4%	60.1%
Average	2.5	2.5	2.6

The Company has conducted an employee satisfaction (ES) survey called D-COMPASS annually since 2015. The latest survey (third time) attracted 8,408 respondents, for a response rate of 94.3%.

For comparison purposes, we have entered “construction and real estate sector” and “3,000 employees or more” into the settings of the survey, which covers companies throughout Japan.

## Our Unique Human Resources Development Program

### Committing to the education of "Human Resources" as our greatest management resource

In April 2016, Daito Trust created a new human resources development framework and systematized the foundational education that is common to all occupations in order to advance the training of our "Human Resources" and to nurture our corporate culture of continuous learning.

#### Training System Within the New Human Resources Training Framework (excerpt)

Level	Timing	Training	Goals
Administrative Position	Upon employment	New graduate recruits	Introductory training upon employment Follow-up training
		Mid-career recruits	Training for new employees in all occupations
	2 - 4 years after employment	2nd year training	Acquire the basic skills as a business person
		4th year training	Acquire interpersonal skills and critical thinking skills
	Other	Female employee	Career planning training
Candidate for promotion	Training for division manager candidates		Acquire management skills, improvement skills, leadership skills, facilitation skills, etc.,
Management Position	Upon promotion	Training for newly promoted managers, development training for managers, and management position skill enhancement training	Acquire an understanding of the role of management positions as well as coaching skills for subordinate training, etc. Acquire the basic skills for management positions
	Candidate for promotion	Upper management position candidate training	Acquire skills including judgment making, problem solving, and interpersonal skills
		Business school attendance	Acquire management skills and interact with those in other industries
Upper management position	Upon promotion	Training for newly promoted upper management, enhancement training	Acquire upper management position skills in human resources, strategy, finance, etc.
	Candidate for officer	Training for senior management candidates	Acquire problem solving skills, interpersonal skills, leadership conduct, and other management strategy and business strategy skills
		Business school attendance	Acquire the perspective and viewpoint of a manager, acquire decision-making skills and organization management skills, interact with those in other industries
Officers		[New Appointee] Executive officer and director training Executive officer and director training	Acquire the skills required for an officer and share changes in the business environment

## Response to social changes

### Creation of workplaces and personnel systems friendly to all workers

The Daito Group aims to create a workplace environment in which those employees with restrictions on working hours due to the reasons such as regular out-patient hospital visits, returning to work after taking leave from child care and nursing care, can also work comfortably. In addition, the Group is actively working to introduce a personnel system that allows employees to work in ways that match their individual lifestyles and life events.

#### Systems Designed for Life Events

	Marriage	Pregnancy and Childbirth	Child Care	Nursing Care	Retirement
Systems related to work styles		[Up to 6 weeks before childbirth] • Maternity short-time work	[Up to 1 year old] • Child care time [Up to entry into elementary school] • Limited overtime work • Limited late-night work • Limited off-hours work [Up to third year of elementary school] • Child care short-time work	• Nursing care short-time work (for 5 years) • Limited overtime work • Limited late-night work • Transfer support system for long-distance nursing care • Internal and external nursing care consultation desk	• Re-employment system • Extended retirement age system
	Work location designation system				
	Come Back Pass system				
	Reduced work (when regular out-patient hospital visits are required and when the home situation requires)				
Flextime system (applicable to administrative positions, design positions, and head office positions)					
Systems related to vacation and leave	[5 continuous days] • Special marriage vacation	[From pregnancy up to 7 weeks before childbirth] • Maternity leave [From 6 weeks before childbirth until 8 weeks after childbirth] • Pre- and postpartum leave • Special leave for childbirth of spouse [Total of 7 days of paid leave]	[Up to the day before the third birthday] • Child care leave [5 days per year until entering elementary school] • Sick child care vacation (paid)	• Nursing care leave (1 year) • Nursing care vacation (paid)	
	Paid vacation (able to take in 1-hour, half-day, or full-day units)				
Support paid leave system					
Systems related to money	• Monetary marriage gift (employee association)	• Childbirth benefits (health insurance) • Monetary childbirth gift (employee association)	• One-time compensation for childbirth and child care (health insurance)	• Nursing care leave payments (employment insurance)	• Compulsory retirement benefits system • Retirement severance payment (employee association)
	[From 6 weeks before childbirth until the day before the third birthday] Exemption from social insurance premiums [From childbirth to the day before the third birthday] Special provisions for pension calculation				
[Other initiatives] • Anniversary vacation • Refresh vacation • FUKURI KOSEI (welfare) CLUB • Opt-in defined contribution plan (DC) system • Group Long Term Disability (GLTD) Insurance system, etc.					



## Occupational Safety and Health

We aim to create workplace environments that ensure the health and safety of our employees, as well as being comfortable and worthy of our employees' "life dreams."

Shuji Kawai

Managing Director  
In charge of Corporate Management Headquarters

### Overview

#### Promotion of health-oriented management by the Company and employees as a whole

We are promoting health-oriented management with the aim of realizing "energy-filled workplace environments that make people feel motivated and ready for challenges." We rigorously implement occupational health and safety controls according to "Safety Management Regulations" in order to prevent the occurrence of occupational accidents and diseases. In these ways, we are establishing safe, secure workplace environments. Based on "Health Management Regulations," meanwhile, we are creating workplace environments conducive to both physical and mental health, where employees can do their jobs while feeling healthy and secure. In July 2018, the "Daito Group Health & Productive Management Declaration" was established for further promoting the health-oriented manage-

ment with a more management-strategic perspective. We remain committed to the health and productive management by the Company and employees as a whole.



Mental health training for all employees conducted twice a year

### Response to social changes

#### Installed AED units at all branches nationwide

In February 2018, we installed automated external defibrillators (AEDs) at all Daito Trust branches nationwide. We also conducted AED workshops at each branch, attended by all employees. We are now working to install AEDs at each Group company base.



AED workshop at Daito Trust branch

#### Dangerous experience training utilizing virtual reality (VR)

Daito Trust aims to use simulated experiences to improve employees' sensitivity to risk, and conducts work experiential training sessions as part of measures to prevent workplace accidents. In 2018, we introduced new training using virtual reality (VR). By giving employees realistic experiences of dangerous situations (working in high places), we increase the risk sensitivity of Group employees and also of workers at collaborating companies.



Falling crash experience using VR



# Compliance

We conduct rigorous monitoring and education to raise awareness of compliance and prevent fraud.

Shuji Kawai  
 Managing Director  
 In charge of Corporate Management Headquarters

## Overview

### Focus on prevention and early detection of fraud

The Daito Group continues to monitor and strengthen compliance-related matters. For example, our Compliance Promotion Meeting—whose members include Standing and Outside Directors and Audit & Supervisory Board Members—meets regularly to discuss actual cases and monitor the status of legal compliance. For employees, we conduct fraud prevention and compliance education centered on spreading and entrenching awareness of “Daito Gohatto Nana-kajo,” Daito Group 7 Prohibition Rules (maximum punishment being dismissal). At the same time, we have set up an internal reporting system accessible to people inside and outside the Company, aimed at early detection of legal violations and fraud. In these and other ways, we conduct rigorous compliance management on an ongoing basis.

**“Daito Gohatto Nana-kajo”  
Daito Group 7 Prohibition Rules**

As part of the Daito Group’s internal regulations, employees are strictly forbidden from engaging in any of the following items (“Gohatto”). We make every effort to make sure our employees are aware that the maximum punishment for the violation of these rules is dismissal.

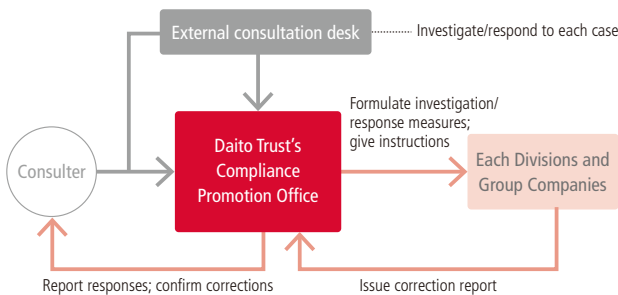
- ① No wining and dining with business partners
- ② No gambling, including Mahjong, with any internal or external parties
- ③ No drink-driving
- ④ No mid-year or year-end gifts
- ⑤ No personal rewards in connection with company systems, such as performance-based compensation or news scoop bonuses
- ⑥ No monetary loans between employees
- ⑦ No forgery, falsification, false entry, improper furnishing, or involvement in official documents

## Response to social changes

### Internal reporting system

The Daito Group seeks to strengthen compliance management and maintain sound workplace environments through the early detection and correction of internal legal violations and fraud. To this end, we established an internal reporting desk, accessible to people inside and outside the Company.

#### Internal reporting system



### Promoting compliance education

The Daito Group conducts compliance education for all employees, spearheaded by its Compliance Promotion Office. In addition we focus on preventing compliance violations through regular notifications, including distribution of compliance cards and our in-house email magazine called “Compliance Communications.”



Compliance card, which is easy to carry and includes a personal action checklist and contact details for compliance reporting and consultation desks

# Environment

Based on the belief that “global environment = living environment,” we propose high-quality living environments that are in harmony with local communities and nature.

Kanitsu Uchida

Director  
In charge of Environmental Management Project

## Overview

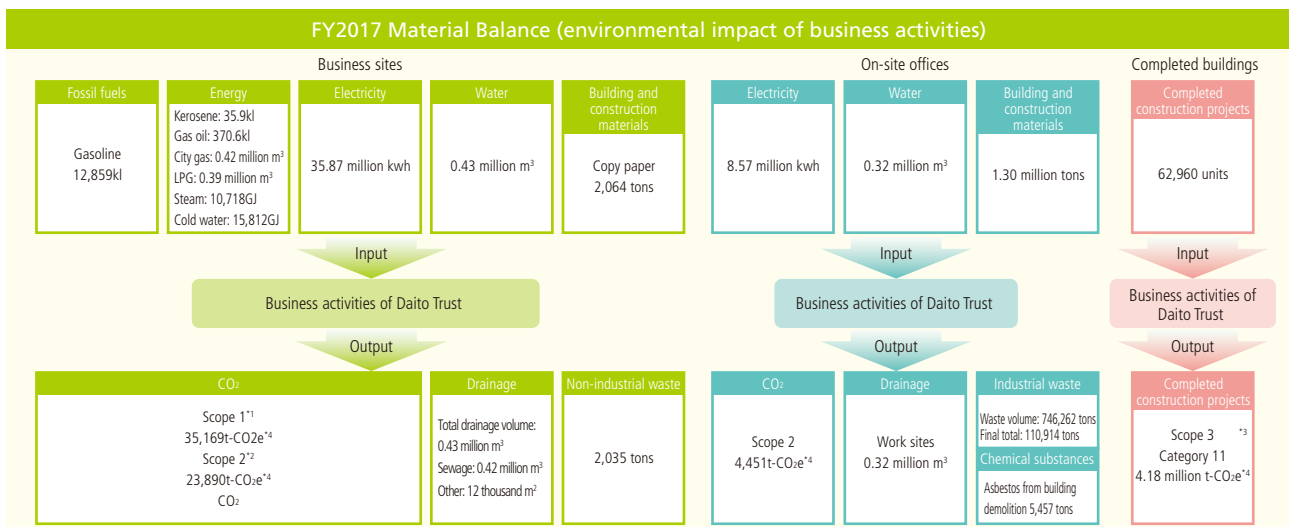
**Ranked second in construction industry for environmental management**  
**Actively rolling out ZEHs and other eco-friendly houses**

In all of its business activities, the Daito Group is committed to the “3 Rs” (reduce, reuse, recycle) and actively engages in initiatives to protect the global environment. FY2017, Daito Trust was ranked No. 2 in the construction industry in the “21st Environmental Management Level Survey” (2018). The survey, conducted by Nikkei Inc., evaluates companies that both implement environmental measures and enhance operational efficiency.

As a corporation that is innovative in its approach to land use, we have been proposing comfortable living envi-

ronments that emphasize harmony between the living and nature. In March 2017, the three buildings in the LUTAN rental housing complex, built by Daito Trust, received the top rating of 5 Stars from BELS (Building-Housing Energy-efficiency Labeling System), a building energy efficiency performance labeling system administered by the Ministry of Land, Infrastructure, Transport and Tourism. Then, in November 2017, we completed the first rental housing complex in Japan that meets the ZEH (net zero energy house) standard for detached housing. By continuing to actively develop and supply environmentally friendly housing, we will deliver diverse values to society, such as living spaces in harmony with nature, in addition to reduced environmental impact.

## Material balance



\*1 Amount of CO<sub>2</sub> generated from fossil fuels used by Daito Group

\*2 Amount of CO<sub>2</sub> generated from electricity and thermal energy purchased by Daito Group

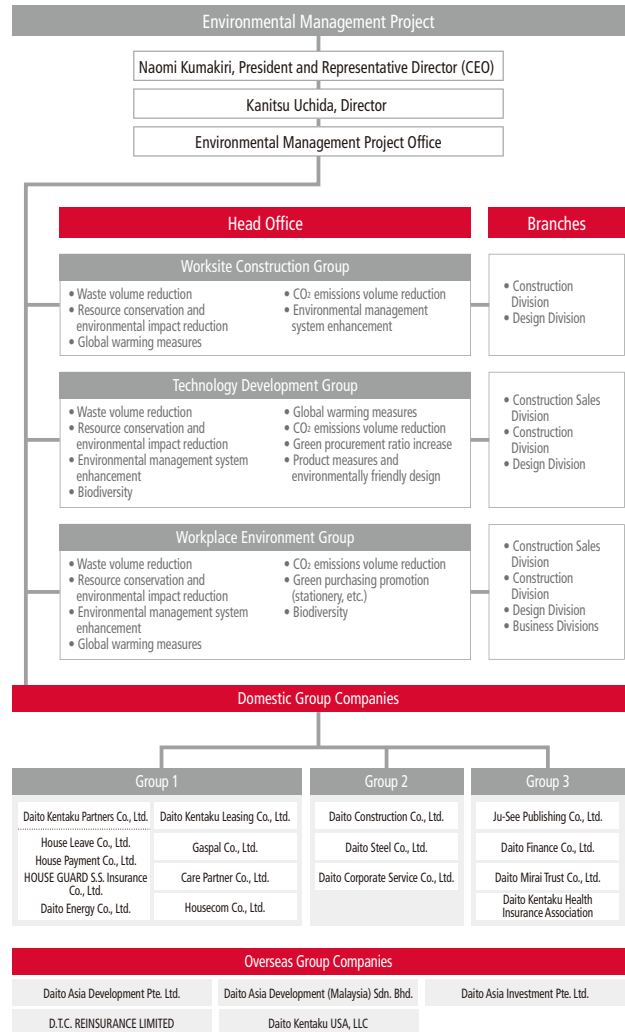
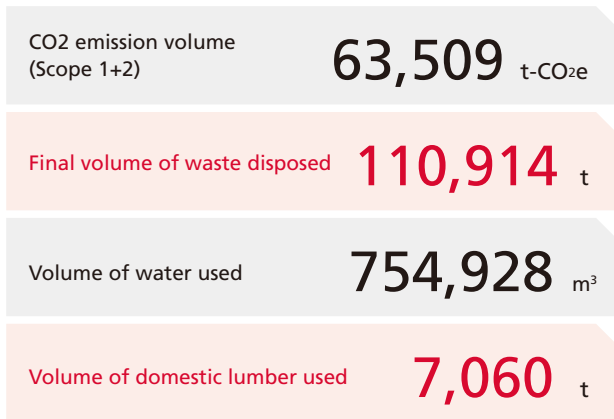
\*3 Amount of CO<sub>2</sub> expected to be generated over a 30-year period by customers who, in FY2017, lived in completed housing built by the Company (62,960 units)

\*4 tCO<sub>2</sub>e: Emission unit based on conversion of greenhouse gas into carbon dioxide (CO<sub>2</sub> equivalent)

## Environmental management system (EMS)

### Established our unique EMS, "Eco Challenge D"

Based on the approaches of ISO14001, Eco Action 21, and other environmental management systems (EMSs), in FY2009 we established our own EMS, "Eco Challenge D," which is suited to the Group's business circumstances, and we have since continued pursuing various initiatives. Through systematic environmental education, we are improving and promoting environmental initiatives by developing a companywide environmental improvement cycle. We also train in-house environmental auditors and conduct internal environmental audits as part of regular EMS improvement and confirmation activities.



## Response to social changes

Completed the first rental housing which satisfies the ZEH Standard in Japan

In November 2017, Daito Trust completed construction of a rental housing complex developed jointly with Kyocera Corporation. The complex was the first to meet Japan's ZEH (net zero energy house) standard for detached houses. In addition to delivering social benefits—with zero annual primary energy consumption—a ZEH when used in combination with a low-pressure bulk power receiving system helps improve the business performance of owners and reduce utility costs for tenants. For these reasons, we will continue actively rolling out ZEHs in the future.

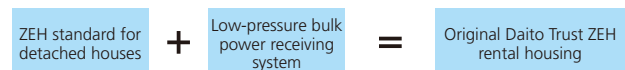


First rental housing complex to meet ZEH standard



Improved heat insulation performance behind cabin and under floor

Original Daito Trust ZEH rental housing, employing low-pressure bulk power receiving system\*



# Consolidated Financial Statements

## Consolidated Balance Sheet

(Millions of yen)

	Year Ended March 31, 2017	Year Ended March 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	248,180	246,714
Money held in trust	22,000	19,000
Notes and accounts receivable from completed construction contracts and other	38,297	51,908
Short-term investment securities	18,509	22,885
Costs on uncompleted construction contracts	14,841	14,846
Other inventories	5,803	5,919
Prepaid expenses	63,020	65,144
Deferred tax assets	19,696	20,338
Operating loans	62,736	64,262
Other	16,932	19,387
Allowance for doubtful accounts	(241)	(224)
Total current assets	509,778	530,182
Non-current assets		
Property, plant and equipment		
Buildings and structures	37,236	49,882
Machinery and equipment	37,315	36,267
Tools, furniture and fixtures	2,127	2,210
Land	47,596	57,571
Lease assets	1,621	1,478
Other	117	475
Total buildings and structures	126,014	147,884
Intangible assets	17,635	23,663
Investments and other assets		
Investment securities	38,367	47,869
Subordinated bonds and subordinated trust beneficiary rights	12,857	12,270
Deferred tax assets	34,296	41,026
Other	45,851	44,020
Allowance for doubtful accounts	(3,369)	(3,939)
Total investments and other assets	128,003	141,247
Total non-current assets	271,653	312,795
Total assets	781,431	842,978
<b>Liabilities</b>		
Current liabilities		
Accounts payable for construction contracts	43,677	42,739
Current portion of long-term loans payable	44,074	30,589
Lease obligations	201	200
Income taxes payable	30,751	28,460
Advances received on uncompleted construction contracts	57,019	49,519
Advances received	75,543	60,340
Provision for bonuses	21,523	23,179
Provision for warranties for completed construction	1,091	1,121
Deposits received	7,595	7,577
Other	56,511	52,510
Total current liabilities	337,990	296,238
Non-current liabilities		
Long-term loans payable	10,368	75,016
Lease liabilities	786	802
Deferred tax liabilities	94	464
Provision for repairs on whole-building leases	97,405	115,503
Net defined benefit liability	10,203	9,925
Long-term guarantee deposits	39,868	36,777
Other	9,228	11,212
Total non-current liabilities	167,955	249,700
Total liabilities	505,945	545,939
<b>Net assets</b>		
Shareholders' equity		
Capital stock	29,060	29,060
Capital surplus	34,540	34,540
Retained earnings	232,978	253,108
Treasury stock	(15,337)	(17,203)
Total shareholders' equity	281,243	299,507
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,526	5,882
Deferred gains or losses on hedges	(286)	(294)
Revaluation reserve for land	(7,584)	(7,584)
Foreign currency translation adjustment	(1,705)	(2,219)
Remeasurements of defined benefit plans	(1,429)	(1,264)
Total accumulated other comprehensive income	(8,479)	(5,479)
Subscription rights to shares	398	415
Non-controlling interests	2,322	2,596
Total net assets	275,485	297,039
Total liabilities and net assets	781,431	842,978

## Consolidated Statement of Income

(Millions of yen)

	Year Ended March 31, 2017	Year Ended March 31, 2018
Net sales		
Net sales of completed construction contracts	623,910	627,631
Sales on real estate business	824,642	871,388
Sales on other business revenue	48,551	57,997
Total net sales	1,497,104	1,557,017
Cost of sales		
Cost of sales of completed construction contracts	426,264	430,121
Cost of sales on real estate business	751,940	792,311
Cost of sales on other business	33,311	37,538
Total cost of sales	1,211,516	1,259,970
Gross profit		
Gross profit on completed construction contracts	197,645	197,510
Gross profit—real estate business	72,701	79,077
Gross profit—other business	15,240	20,458
Total gross profit	285,588	297,046
Selling, general and administrative expenses	165,426	170,677
Operating income	120,162	126,369
Non-operating income		
Interest income	527	522
Dividends income	212	236
Commission fee	3,654	3,662
Miscellaneous income	1,406	1,617
Total non-operating income	5,800	6,039
Non-operating expenses		
Interest expenses	401	322
Provision of allowance for doubtful accounts	89	112
Share of loss of entities accounted for using equity method	336	80
Miscellaneous expenses	627	360
Total non-operating expenses	1,453	875
Ordinary income	124,509	131,533
Extraordinary income		
Gain on sales of non-current assets	3	45
Gain on sales of investment securities	28	43
Total extraordinary income	31	88
Extraordinary loss		
Loss on sales and retirement of non-current assets	422	541
Impairment loss	122	136
Total extraordinary loss	545	677
Income before income taxes and non-controlling interests	123,995	130,944
Income taxes—current	49,511	51,525
Income taxes—deferred	(8,054)	(8,820)
Total income taxes	41,457	42,705
Net income	82,538	88,239
Profit attributable to non-controlling interests	369	410
Profit attributable to owners of the parent	82,168	87,829

## Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year Ended March 31, 2017	Year Ended March 31, 2018
Net income	82,538	88,239
Other comprehensive income		
Valuation difference on available-for-sale securities	(676)	3,355
Deferred gains or losses on hedges	657	(7)
Foreign currency translation adjustment	(1,475)	(513)
Remeasurements of defined benefit plans	161	158
Total other comprehensive income	(1,333)	2,992
Comprehensive Income	81,204	91,232
(Breakdown)		
Profit attributable to owners of the parent	80,840	90,829
Profit attributable to non-controlling interests	364	403

## Consolidated Statement of Changes in Equity

(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	Remeasurements 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

(Millions of yen)

Year ended March 31, 2018	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
BALANCE, APRIL 1, 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
Change in the year														
Cash dividends			(43,964)		(43,964)									(43,964)
Profit attributable to owners of the parent			87,829		87,829									87,829
Purchase of treasury stock				(27,992)	(27,992)									(27,992)
Disposal of treasury stock			(163)	2,556	2,393									2,393
Retirement of treasury stock			(23,569)	23,569	—									—
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						3,355	(7)	—	(513)	165	2,999	16	273	3,289
Net change in the year	—	—	20,129	(1,866)	18,263	3,355	(7)	—	(513)	165	2,999	16	273	21,553
BALANCE, MARCH 31, 2018	29,060	34,540	253,108	(17,203)	299,507	5,882	(294)	(7,584)	(2,219)	(1,264)	(5,479)	415	2,596	297,039



## Consolidated Statement of Cash Flows

(Millions of yen)

	Year Ended March 31, 2017	Year Ended March 31, 2018
Cash flows from operating activities		
Income before income taxes and minority interests	123,995	130,944
Depreciation and amortization	8,042	10,417
Impairment loss	122	136
Increase (decrease) in allowance for doubtful accounts	343	553
Increase (decrease) in provision for bonuses	(58)	1,652
Increase (decrease) in provision for repairs on whole-building leases	16,700	18,097
Increase (decrease) in net defined benefit liability	(262)	11
Interest and dividends income	(739)	(759)
Interest expenses	401	322
Share of (profit) loss of entities accounted for using equity method	336	80
Decrease (increase) in notes and accounts receivable—trade	324	(13,433)
Decrease (increase) in costs on uncompleted construction contracts	(1,512)	(5)
Decrease (increase) in other inventories	(1,037)	(86)
Decrease (increase) in prepaid expenses	(1,190)	447
Decrease (increase) in operating loans	(2,246)	(1,529)
Increase (decrease) in notes and accounts payable—trade	6,175	(1,114)
Increase (decrease) in accounts payable—other	6,237	786
Increase (decrease) in advances received on uncompleted construction contracts	9,744	(7,499)
Increase (decrease) in advances received	6,620	(15,203)
Increase (decrease) in long-term guarantee deposits	(5,315)	(3,091)
Other	1,563	(5,554)
Subtotal	168,243	115,170
Interest and dividend income received	1,184	1,119
Interest expenses paid	(401)	(321)
Income taxes paid	(44,927)	(53,409)
Net cash provided by (used in) operating activities	124,097	62,559
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	52,000	52,000
Payments into time deposits	(52,000)	(37,000)
Proceeds from decrease in money held in trust	4,500	3,000
Purchase of securities	(8,902)	(22,884)
Proceeds from sales and redemption of securities	12,510	18,505
Purchase of property, plant and equipment	(17,955)	(10,168)
Purchase of intangible assets	(12,137)	(8,429)
Purchase of investment securities	(6,960)	(5,512)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(13,258)
Other	(4,461)	802
Net cash provided by (used in) investing activities	(33,407)	(22,946)
Cash flows from financing activities		
Proceeds from long-term loans payable	—	90,000
Repayments of long-term loans payable	(17,190)	(45,074)
Repayments of lease liabilities	(271)	(250)
Cash dividends paid	(36,472)	(43,964)
Purchase of treasury stock	(20,242)	(27,992)
Disposal of treasury stock	1,996	2,072
Dividends paid to non-controlling interests	(99)	(119)
Other	(7)	(6)
Net cash provided by (used in) financing activities	(72,286)	(25,336)
Effect of exchange rate change on cash and cash equivalents	(853)	(743)
Net increase (decrease) in cash and cash equivalents	17,549	13,533
Cash and cash equivalents at beginning of period	182,631	200,180
Cash and cash equivalents at end of period	200,180	213,714

# Stock Information/Main Group Companies

## Stock Data

### Number of shares

Number of shares authorized	329,541,100 shares
Number of shares outstanding	75,628,879 shares

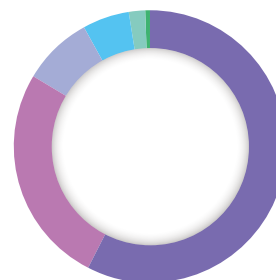
### Information for shareholders

Share unit	100 shares
Fiscal year	April 1 to March 31
Record dates	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 1-1 Nikkou-cho, Fuchu-shi, 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. <a href="http://www.kentaku.co.jp/e/ir/index.html">http://www.kentaku.co.jp/e/ir/index.html</a> 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 16,043

Breakdown of shareholders



Foreign corporations	43,572,028 shares (57.61%)
Financial institutions	19,737,914 shares (26.10%)
Individuals and others	6,247,996 shares (8.26%)
Domestic corporations	4,193,869 shares (5.55%)
Financial instruments firms	1,554,199 shares (2.05%)
Treasury stock	322,873 shares (0.43%)

(As of March 31, 2018)

## Main Group Companies [FY2017: Net sales and operating income (Billions of yen)]

### Construction Business

- Daito Trust Construction Co., Ltd. [634.84 / 64.39] Propose building rental business, Design and Construction.
- Daito Construction Co., Ltd. [8.18 / 0.15] Constructs mid- to high-rise rental condominiums in urban centers
- Daito Steel Co., Ltd. [4.94 / 0.20] Produces and constructs steel frames and sale of exterior products

### Real Estate Business

- Daito Kentaku Partners Co., Ltd. [839.43 / 39.11] Total management of rental buildings and provision of customer services
- Daito Kentaku Leasing Co., Ltd. [15.76 / 1.66] Rental building brokerage and tenant recruitment
- Housecom Co., Ltd. [10.82 / 1.07] Rental building real estate agent in Kanto and Tokai regions
- House Leave Co., Ltd. [10.95 / 7.29] Provides agency guarantee services mainly for tenants' rent liabilities

### Other Businesses

- Energy Business
- Care and Nursery School Business
- Overseas Business
- Other Businesses (Finance, etc.)
- Gaspal Group [25.00 / 4.26] Constructs LP gas facilities and supplies LP gas to rental buildings
- Daito Energy Co., Ltd. [11.24 / (0.56)] Supplies and sells energy such as electric power to rental buildings
- Care Partner Co., Ltd. [11.64 / 0.37] Operates elderly day-care centers (visiting care) and nurseries
- DAITO ASIA DEVELOPMENT (MALAYSIA) SDN. BHD. [3.11 / 0.38] Conducts overseas hotel business (Malaysia Le Meridien)
- DAITO ASIA DEVELOPMENT (MALAYSIA) II SDN. BHD. [0.36 / 0.06] Conducts overseas hotel business (Malaysia Hilton)
- Daito Finance Co., Ltd. [1.53 / 1.04] Handles financing such as construction funds (for a contract fee)
- HOUSE GUARD S.S. Insurance Co., Ltd. [2.42 / 0.23] Sells comprehensive insurance to rental housing tenants
- D.T.C. REINSURANCE LIMITED [3.32 / 1.33] A reinsurance company for tenants' fire insurance

# Corporate Information

## 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, 2018)

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	17,161 (Consolidated basis)

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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 2018

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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, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 18)	¥213,715	¥200,181	\$2,011,625
Money held in Trust (Note 18)	19,000	22,001	178,840
Marketable securities (Notes 4, 6 and 18)	19,886	15,510	187,180
Short-term investments (Note 18)	36,000	51,000	338,855
Notes and accounts receivable (Note 18):			
Construction contracts	40,560	28,656	381,777
Other	11,348	9,642	106,815
Total receivables	51,908	38,298	488,592
Operating loans (Note 18)	64,263	62,737	604,885
Inventories (Note 7)	20,766	20,644	195,463
Prepaid expenses—whole-building lease and other expenses (Note 23)	65,144	63,020	613,178
Deferred tax assets (Note 13)	20,338	19,697	191,434
Other current assets	19,388	16,932	182,493
Allowance for doubtful accounts	(225)	(242)	(2,118)
Total current assets	530,183	509,778	4,990,427
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 8 and 17):</b>			
Land	57,571	47,597	541,896
Buildings and structures	88,986	66,771	837,594
Machinery and equipment	44,272	42,679	416,717
Furniture and fixtures	9,133	7,190	85,965
Lease assets (Note 17)	6,385	6,492	60,100
Total	206,347	170,729	1,942,272
Accumulated depreciation	(58,463)	(44,714)	(550,292)
Net property, plant and equipment	147,884	126,015	1,391,980
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4, 6 and 18)	30,100	20,036	283,321
Subordinated bonds and subordinated trust beneficiary right (Notes 5 and 18)	12,270	12,857	115,493
Investments in associated companies (Note 18)	17,770	18,331	167,263
Intangible assets	23,664	17,635	222,741
Guarantee deposits (Note 6)	29,740	28,513	279,932
Deferred tax assets (Note 13)	41,027	34,297	386,173
Other assets	14,280	17,338	134,413
Allowance for doubtful accounts (Note 5)	(3,940)	(3,369)	(37,086)
Total investments and other assets	164,911	145,638	1,552,250
<b>TOTAL</b>	<b>¥842,978</b>	<b>¥781,431</b>	<b>\$7,934,657</b>



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of long-term loans (Notes 9 and 18)	¥ 30,589	¥ 44,075	\$ 287,924
Current portion of long-term lease obligations (Note 17)	200	201	1,883
Accounts payable (Note 18)	42,740	43,678	402,297
Advances received— construction contracts	49,519	57,019	466,105
Income taxes payable (Notes 13 and 18)	28,460	30,752	267,884
Advances received— whole-building lease and other (Note 23)	60,340	75,543	567,959
Accrued employees' bonuses	23,180	21,523	218,185
Deposits received (Note 18)	7,577	7,596	71,320
Other current liabilities	53,633	57,604	504,828
Total current liabilities	296,238	337,991	2,788,385
<b>LONG-TERM LIABILITIES:</b>			
Long-term bank loans (Notes 9 and 18)	75,016	10,368	706,099
Long-term lease obligations (Note 17)	802	787	7,549
Liability for retirement benefit (Note 10)	9,926	10,203	93,430
Provision for repair of whole-building lease system (Notes 2.1 and 23)	115,503	97,405	1,087,189
Deposits received for guarantee (Note 18)	36,777	39,868	346,169
Other long-term liabilities	11,677	9,324	109,912
Total long-term liabilities	249,701	167,955	2,350,348
<b>EQUITY (Note 11):</b>			
Common stock—authorized, 329,541 thousand shares; issued, 75,628 thousand shares in 2018 and 76,869 thousand shares in 2017	29,061	29,061	273,541
Capital surplus	34,541	34,541	325,122
Stock acquisition rights (Note 12)	415	399	3,906
Retained earnings	253,109	232,979	2,382,427
Treasury stock—at cost, 716 thousand shares in 2018 and 846 thousand shares in 2017	(17,203)	(15,337)	(161,926)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5,882	2,526	55,366
Deferred loss on derivatives under hedge accounting	(295)	(287)	(2,777)
Land revaluation surplus	(7,584)	(7,584)	(71,386)
Foreign currency translation adjustments	(2,220)	(1,706)	(20,896)
Defined retirement benefit plans	(1,264)	(1,430)	(11,898)
Total	294,442	273,162	2,771,479
Noncontrolling interests	2,597	2,323	24,445
Total equity	297,039	275,485	2,795,924
<b>TOTAL</b>	<b>¥842,978</b>	<b>¥781,431</b>	<b>\$7,934,657</b>

See notes to consolidated financial statements.

# Consolidated Statement of Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>NET SALES:</b>			
Construction contracts (Note 14)	¥ 627,631	¥ 623,910	\$ 5,907,671
Real estate	871,389	824,643	8,202,080
Other	57,997	48,552	545,906
Total net sales	1,557,017	1,497,105	14,655,657
<b>COST OF SALES:</b>			
Construction contracts	430,121	426,264	4,048,579
Real estate	792,311	751,941	7,457,747
Other	37,538	33,311	353,332
Total cost of sales	1,259,970	1,211,516	11,859,658
Gross profit	297,047	285,589	2,795,999
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)</b>			
Operating income	170,678	165,427	1,606,532
	126,369	120,162	1,189,467
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	760	740	7,154
Interest expense (Note 9)	(322)	(401)	(3,031)
Other — net (Note 16)	4,138	3,494	38,949
Other income (expenses) — net	4,576	3,833	43,072
<b>INCOME BEFORE INCOME TAXES</b>	<b>130,945</b>	<b>123,995</b>	<b>1,232,539</b>
<b>INCOME TAXES (Note 13):</b>			
Current	51,526	49,512	484,996
Deferred	(8,821)	(8,055)	(83,029)
Total income taxes	42,705	41,457	401,967
<b>NET INCOME</b>	<b>88,240</b>	<b>82,538</b>	<b>830,572</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>410</b>	<b>370</b>	<b>3,859</b>
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>¥ 87,830</b>	<b>¥ 82,168</b>	<b>\$ 826,713</b>

	Yen		U.S. dollars
<b>PER SHARE OF COMMON STOCK (Note 21):</b>			
Basic net income	¥ 1,165.29	¥ 1,072.64	\$ 10.97
Diluted net income	1,164.52	1,071.91	10.96
Cash dividends applicable to the year	583.00	536.00	5.49

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>NET INCOME</b>	<b>¥88,240</b>	<b>¥82,538</b>	<b>\$830,572</b>
<b>OTHER COMPREHENSIVE INCOME (Note 20):</b>			
Unrealized gain on available-for-sale securities	3,356	(677)	31,589
Deferred gain (loss) on derivatives under hedge accounting	(8)	657	(75)
Foreign currency translation adjustments	(514)	(1,476)	(4,838)
Defined retirement benefit plans	159	162	1,496
Total other comprehensive income	2,993	(1,334)	28,172
<b>COMPREHENSIVE INCOME</b>	<b>¥91,233</b>	<b>¥81,204</b>	<b>\$858,744</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of the parent	¥90,830	¥80,840	\$854,951
Noncontrolling interests	403	364	3,793

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2018

	Millions of yen													Total	Noncontrolling Interests	Total Equity
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total				
							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, 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		
Net income attributable to owners of the parent					87,830							87,830		87,830		
Cash dividends, ¥577 per share					(43,965)							(43,965)		(43,965)		
Purchase of treasury stock						(27,993)						(27,993)		(27,993)		
Disposal of treasury stock	(1,224,800)				(163)	2,557						2,394		2,394		
Retirement of treasury stock					(23,570)	23,570						–		–		
Changes in the parent's ownership interest due to transactions with noncontrolling interests					(2)							(2)		(2)		
Net change in the year				16			3,356	(8)		(514)	166	3,016	274	3,290		
BALANCE, MARCH 31, 2018	75,644,779	¥29,061	¥34,541	¥415	¥253,109	¥(17,203)	¥5,882	¥(295)	¥(7,584)	¥(2,220)	¥(1,264)	¥294,442	¥2,597	¥297,039		

	Thousands of U.S. dollars (Note 1)													Total	Noncontrolling Interests	Total Equity
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total					
						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, 2017	\$273,541	\$325,122	\$3,756	\$2,192,950	\$(144,362)	\$23,777	\$(2,702)	\$(71,386)	\$(16,058)	\$(13,460)	\$2,571,178	\$21,866	\$2,593,044			
Net income attributable to owners of the parent				826,713							826,713		826,713			
Cash dividends, \$4.20 per share				(413,827)							(413,827)		(413,827)			
Purchase of treasury stock					(263,488)						(263,488)		(263,488)			
Disposal of treasury stock				(1,534)	24,068						22,534		22,534			
Retirement of treasury stock				(221,856)	221,856						–		–			
Changes in the parents ownership interest due to transactions with noncontrolling interests				(19)							(19)		(19)			
Net change in the year			150			31,589	(75)		(4,838)	1,562	28,388	2,579	30,967			
BALANCE, MARCH 31, 2018	\$273,541	\$325,122	\$3,906	\$2,382,427	\$(161,926)	\$55,366	\$(2,777)	\$(71,386)	\$(20,896)	\$(11,898)	\$2,771,479	\$24,445	\$2,795,924			

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥130,945	¥123,995	\$1,232,539
Adjustments for:			
Income taxes—paid	(53,409)	(44,928)	(502,720)
Depreciation and amortization	10,417	8,042	98,052
Impairment losses	136	122	1,280
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	(13,434)	324	(126,450)
Decrease (increase) in inventories	(92)	(2,550)	(866)
Decrease (increase) in prepaid expenses— whole-building lease and other	447	(1,191)	4,207
Decrease (increase) in operating loans	(1,530)	(2,247)	(14,401)
Increase (decrease) in accounts payables	(1,114)	6,175	(10,486)
Increase (decrease) in advances received— whole-building lease and other	(15,203)	6,620	(143,101)
Increase (decrease) in advances received— construction contracts	(7,500)	9,745	(70,595)
Increase (decrease) in deposits received for guarantee	(3,091)	(5,315)	(29,094)
Increase (decrease) in deposits received	(22)	(31)	(207)
Increase (decrease) in allowance for doubtful accounts	553	343	5,205
Increase (decrease) in accrued employees' bonuses	1,653	(59)	15,559
Increase (decrease) in liability for retirement benefits	11	(263)	104
Increase (decrease) in provision for repair of whole-building lease system	18,098	16,701	170,350
Other—net	(4,305)	8,615	(40,521)
Total adjustments	(68,385)	103	(643,684)
Net cash provided by operating activities	62,560	124,098	588,855
<b>INVESTING ACTIVITIES:</b>			
Proceeds from time deposits	52,000	52,000	489,458
Payments for time deposits	(37,000)	(52,000)	(348,268)
Proceeds from money held in trust	3,000	4,500	28,238
Purchases of marketable and investment securities	(28,397)	(15,863)	(267,291)
Proceeds from sales and redemption of marketable and investment securities	18,505	12,510	174,181
Payments for purchase of property, plant and equipment	(10,168)	(17,956)	(95,708)
Payments for purchase of intangible assets	(8,429)	(12,137)	(79,339)
Payment for acquisition of shares of a subsidiary resulting in the consolidation scope (Note 3)	(13,259)	—	(124,802)
Other—net	802	(4,461)	7,549
Net cash used in investing activities	(22,946)	(33,407)	(215,982)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from long-term bank loans	90,000	—	847,138
Repayment of long-term bank loans	(45,075)	(17,191)	(424,275)
Dividends paid	(43,965)	(36,473)	(413,827)
Repurchase of treasury stock	(27,993)	(20,242)	(263,488)
Proceeds from disposal of treasury stock	2,073	1,997	19,512
Dividends paid to noncontrolling interests	(119)	(99)	(1,120)
Other—net	(257)	(279)	(2,419)
Net cash used in financing activities	(25,336)	(72,287)	(238,479)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
	(744)	(854)	(7,003)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>13,534</b>	<b>17,550</b>	<b>127,391</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>200,181</b>	<b>182,631</b>	<b>1,884,234</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥213,715</b>	<b>¥200,181</b>	<b>\$2,011,625</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2018

## 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 2017 consolidated financial statements to conform them to the classifications used in 2018.

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 ¥106.24 to \$1, the approximate rate of exchange at March 31, 2018. 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, 2018, include the accounts of the Company and its 28 (26 in 2017) 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 three (three in 2017) 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 one 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. Business Combination*—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the



liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

**c. 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.

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

**e. 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, except for nonmarketable available-for-sale securities, are reported 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.

**f. 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 fixtures. Leased assets are depreciated using the straight-line method over the estimated useful lives of assets which are the term of the respective leases.

**g. 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.

**h. 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 amount.

- i. 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.
- j. Accrued Employees’ Bonuses*—The Company and certain consolidated subsidiaries have provided for employees’ bonuses and has recorded a liability at the estimated amount payable to employees.
- k. 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. The actuarial gains and losses are recognized in profit or loss approximately over 6 years and 8 years, respectively, and past service costs are recognized in profit or loss over approximately 8 years, however, 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 the benefit payments.

- l. 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 a description of the whole-building lease system.
- m. 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.
- n. Employee Stock Ownership 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 Stock Ownership 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.

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

*p. 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 the construction contracts.

*q. Income Taxes*—The provision for income taxes is computed based on 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 law rates to the temporary differences.

*r. 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.

*s. 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.

*t. 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 and recorded in other comprehensive income.

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.

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

*v. Per Share Information*—Basic earnings 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.

*w. New Accounting Pronouncements*—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” (“ASBJ Statement No. 29”) and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition” (“ASBJ Guidance No. 30”). The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply ASBJ Statement No. 29 and ASBJ Guidance No. 30 from its annual reporting period beginning on or April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

### **3. BUSINESS COMBINATION**

Acquisition of companies through acquisition of shares

The Company’s subsidiary Daito Asia Development Pte. Ltd. concluded a share transfer agreement on November 15, 2017 to acquire all of the shares of Daisho Asia Development (M) Sdn. Bhd., and made it a wholly owned subsidiary.

*a. Outline of the business combination*

(1) Name of the acquired company and its business outline

Name of the acquired company: Daisho Asia Development (M) Sdn. Bhd.

Business outline: Ownership and management of the hotel business operated by Hilton International (“Hilton Hotel”).

(2) Name of company selling the shares

Daisho Development Singapore Pte. Ltd.

(3) Major reason for the business combination

The Company's subsidiary Daito Asia Development (Malaysia) Sdn. Bhd. is engaged in the management of the hotel business operated by Le Meridien in Kuala Lumpur, Malaysia ("Le Meridien Hotel"). Meanwhile, Daisho Asia Development (M) Sdn. Bhd., the target of share acquisition, manages the Hilton Hotel."

Le Meridien Hotel and Hilton Hotel are adjacent, and the Group determined that it can expect ample synergies from being able to enhance the attraction of customers through joint orders and making further cost reductions by owning both hotels.

(4) Date of business combination

November 30, 2017 (share acquisition date)

(5) Legal form of the business combination

Acquisition of shares with cash consideration

(6) Name of the company after combination

Daisho Asia Development (M) Sdn. Bhd.

The name of this company has been changed to Daito Asia Development (Malaysia) II Sdn. Bhd. after the business combination.

(7) Ratio of voting rights acquired

100%

(8) Basis for determining the acquirer

Daito Asia Development Pte. Ltd. acquired 100% of voting rights through the acquisition of shares with cash consideration.

b. The period for which the operations of the acquired company are included in the consolidated financial statements.

December 1, 2017—December 31, 2017

c. Acquisition cost of the acquired company and its breakdown by type of consideration

	Millions of yen	Thousands of U.S. dollars
Consideration for acquisition—Cash	¥14,084	\$132,568
Acquisition cost	¥14,084	\$132,568

d. Major acquisition-related costs

	Millions of yen	Thousands of U.S. dollars
Advisory fee	¥32	\$301

e. Goodwill occurred, cause for the occurrence, and amortization method and period

There was no goodwill which resulted from the acquisition.

f. Assets received and liabilities assumed on the date of the business combination and the major breakdown thereof

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,120	\$ 10,542
Property, plant and equipment	20,037	188,601
Total assets	21,157	199,143
Current liabilities	6,764	63,667
Long-term liabilities	309	2,909
Total liabilities	7,073	66,576
Net assets	¥14,084	\$132,567

g. Net Cash Flows on Acquisition of a Subsidiary

	Millions of yen	Thousands of U.S. dollars
Consideration paid for acquiring shares of DAISHO ASIA DEVELOPMENT (M) SDN.BHD	¥14,084	\$132,567
Less: cash and cash equivalents of DAISHO ASIA DEVELOPMENT (M) SDN.BHD	(825)	(7,765)
Net cash outflows for the acquisition	¥13,259	\$124,802

#### 4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current:			
Government and corporate bonds	¥12,504	¥13,911	\$117,696
Other	7,382	1,599	69,484
Total	¥19,886	¥15,510	\$187,180
Non-current:			
Marketable equity securities	¥21,479	¥16,731	\$202,174
Government and corporate bonds	5,651	542	53,191
Investments in other companies	2,940	2,733	27,673
Trust fund investments and other	30	30	283
Total	¥30,100	¥20,036	\$283,321

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2018 and 2017, were as follows:

March 31, 2018	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥12,990	¥8,489	¥—	¥21,479
Government and corporate bonds	18,121	2	13	18,110
Other	7,380	2	0	7,382
Held-to-maturity	45	1	—	46

March 31, 2017	Millions of yen			
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, 2018	Thousands of U.S. dollars			
Securities classified as:				
Available-for-sale:				
Equity securities	\$122,270	\$79,904	\$—	\$202,174
Government and corporate bonds	170,566	19	122	170,463
Other	69,465	19	0	69,484
Held-to-maturity	424	9	—	433



## 5. 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 the 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
	2018	2017	2018
Subordinated bonds and subordinated trust beneficiary rights	¥12,270	¥12,857	\$115,493
Allowance for doubtful accounts	¥ (201)	¥ (273)	\$ (1,892)
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	¥45,378	¥53,112	\$427,127
Outstanding bonds of SPEs	¥45,654	¥53,792	\$429,725
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.

## 6. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral required by the Building Lots and Buildings Transaction Business Law, and 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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Marketable securities	¥ 5	¥ 907	\$ 47
Investment securities	40	45	377
Guarantee deposits	10,170	8,597	95,726
Total	¥10,215	¥9,549	\$96,150

## 7. INVENTORIES

Inventories at March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Construction projects in progress	¥14,847	¥14,841	\$139,750
Materials	5,691	5,507	53,567
Merchandise	228	296	2,146
Total	¥20,766	¥20,644	\$195,463

## 8. 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 ¥3,781 million (\$35,599 thousand) and ¥3,755 million for the fiscal years ended March 31, 2018 and 2017, respectively.

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

Millions of yen			
	Carrying Amount		Fair Value
April 1, 2017	Increase	March 31, 2018	March 31, 2018
¥57,446	¥(708)	¥56,738	¥127,285

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

Thousands of U.S. dollars			
	Carrying Amount		Fair Value
April 1, 2017	Increase	March 31, 2018	March 31, 2018
\$540,719	\$(6,664)	\$534,055	\$1,198,089

### 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, 2018 primarily represents the acquisition of certain rental properties of ¥180 million (\$1,694 thousand), and decrease primarily represents the recognition of depreciation of ¥714 million (\$6,721 thousand).
3. Increase during the fiscal year ended March 31, 2017 primarily represents the acquisition of certain rental properties of ¥1,111 million, and decrease primarily represents the recognition of depreciation of ¥764 million.
4. Fair value of properties is measured by the Group in accordance with its Real-Estate Appraisal Standard.

## 9. LONG-TERM LOANS

Long-term loans at March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans from banks due on various dates through 2020 with interest rates ranging from 0.17% to 0.67% (2018) and from 0.26% to 0.76% (2017)	¥ 99,368	¥ 54,443	\$ 935,316
Loans due in 2018 with interest rates ranging from 2% to 3%	6,237	—	58,707
Total	105,605	54,443	994,023
Less current portion	(30,589)	(44,075)	(287,924)
Long-term bank loans, less current portion	¥ 75,016	¥ 10,368	\$ 706,099

Annual maturities of long-term bank loans, excluding finance leases (see Note 17), at March 31, 2018, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥24,352	\$229,216
2020	19,816	186,521
2021	19,200	180,723
2022	18,000	169,428
2023	18,000	169,428
Total	¥99,368	\$935,316

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 ¥99,012 million (\$931,965 thousand) with 11 Japanese banks. There was no balance under the committed loan facility agreements as of March 31, 2018.

## 10. 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.

Components of the liability for employees' retirement benefits at March 31, 2018 and 2017, consisted of the following:

1. The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥33,274	¥31,699	\$313,197
Current service cost	2,656	2,634	25,000
Interest cost	5	1	47
Actuarial gains and losses	960	938	9,036
Benefits paid	(2,191)	(1,998)	(20,623)
Balance at end of year	¥34,704	¥33,274	\$326,657

2. The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥23,071	¥21,000	\$217,159
Expected return on plan assets	344	314	3,237
Actuarial gains and losses	324	239	3,050
Contributions from the employer	2,590	2,914	24,379
Benefits paid	(1,525)	(1,396)	(14,354)
Balance at end of year	¥24,804	¥23,071	\$233,471

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, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded defined benefit obligation	¥25,194	¥24,179	\$237,142
Plan assets	24,804	23,071	233,471
	390	1,108	3,671
Unfunded defined benefit obligation	9,510	9,095	89,514
Net liability arising from benefit obligation	¥ 9,900	¥10,203	\$ 93,185

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liability for retirement benefits	¥9,926	¥10,203	\$93,430
Asset for retirement benefits	(26)	—	(245)
Net liability arising from benefit obligation	¥9,900	¥10,203	\$93,185

4. The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥2,656	¥2,634	\$25,000
Interest cost	5	1	47
Expected return on plan assets	(344)	(314)	(3,238)
Recognized actuarial gains and losses	858	925	8,076
Amortization of prior service cost	7	7	66
Net periodic benefit costs	¥3,182	¥3,253	\$29,951

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	¥ 7	¥ 7	\$ 66
Actuarial gains and losses	222	226	2,089
Total	¥229	¥233	\$2,155

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service cost	¥ (62)	¥ (69)	\$ (583)
Unrecognized actuarial gains and losses	(1,776)	(1,998)	(16,717)
Total	¥(1,838)	¥(2,067)	\$(17,300)

## 7. Plan assets

### (1) Components of plan assets

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments	43.2%	32.1%
Equity investments	15.4%	19.9%
Cash and cash equivalents	3.9%	5.9%
General accounts	35.3%	40.1%
Others	2.2%	2.0%
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, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.0%	0.0%
Expected rate of return on plan assets	1.5%	1.5%
Expected rate of future salary increases	1.6%	1.5%

## 11. 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**

***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’ 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 a 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, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
J-ESOP	¥5,811	¥3,245	\$54,697
Total	¥5,811	¥3,245	\$54,697

	Thousands of Shares	
	2018	2017
J-ESOP	404	316
Total	404	316

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 EPS of common stock and fully diluted EPS 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 the "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 to be acquired by the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan 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 the 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, 2018 and 2017, was as follow:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
ESOP trust	¥5,258	¥6,692	\$49,492

	Thousands of Shares	
	2018	2017
ESOP trust	393	501

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Long-term debt	¥4,560	¥7,240	\$42,922

The Company's stock held by the above trusts also has the same rights as a 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 the same reason.

## 12. STOCK OPTIONS

### The Company

The stock options outstanding as of March 31, 2018, were 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
2017 Stock Option (A)	10 directors	11,600 shares	2017.6.16	¥ 1 (\$0.01)	From June 17, 2017 to June 16, 2047
2017 Stock Option (B)	10 directors	7,000 shares	2017.6.16	¥ 1 (\$0.01)	From June 17, 2020 to June 16, 2025

The stock option activity for the years ended March 31, 2018 and 2017, 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)
<b>Year Ended March 31, 2018</b>						
(Shares)						
<b>Non-vested</b>						
March 31, 2017—Outstanding	—	—	—	—	—	11,600
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	—	11,600
March 31, 2018—Outstanding	—	—	—	—	—	—
<b>Vested</b>						
March 31, 2017—Outstanding	1,300	2,600	2,300	3,100	3,800	—
Vested	—	—	—	—	—	11,600
Exercised	300	1,300	700	1,400	1,300	10,000
Canceled	—	—	—	—	—	—
March 31, 2018—Outstanding	1,000	1,300	1,600	1,700	2,500	1,600
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	¥17,530 (\$16,500)	¥20,500 (\$193.52)	¥17,530 (\$16,500)	¥20,500 (\$193.52)	¥17,530 (\$165.00)	¥18,800 (\$176.96)
Fair value price at grant date	¥ 5,821 (\$ 54.79)	¥ 5,474 (\$ 51.52)	¥ 7,444 (\$ 70.07)	¥ 7,304 (\$ 68.75)	¥ 9,361 (\$ 88.11)	¥ 9,741 (\$ 91.69)

	2015 Stock Option (A)	2015 Stock Option (B)	2016 Stock Option(A)	2016 Stock Option(B)	2017 Stock Option(A)	2017 Stock Option(B)
<b>Year Ended March 31, 2018</b>						
(Shares)						
<b>Non-vested</b>						
March 31, 2017—Outstanding	—	8,200	—	7,000	—	—
Granted	—	—	—	—	11,600	7,000
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	11,600	—
March 31, 2018—Outstanding	—	8,200	—	7,000	—	7,000
<b>Vested</b>						
March 31, 2017—Outstanding	3,500	—	3,800	—	—	—
Vested	—	—	—	—	11,600	—
Exercised	1,000	—	1,300	—	9,000	—
Canceled	—	—	—	—	—	—
March 31, 2018—Outstanding	2,500	—	2,500	—	2,600	—
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	¥17,530 (\$165.00)	¥ — (\$ —)	¥17,525 (\$164.96)	¥ — (\$ —)	¥17,514 (\$164.85)	¥ — (\$ —)
Fair value price at grant date	¥10,328 (\$ 97.21)	¥10,667 (\$100.40)	¥13,013 (\$122.49)	¥13,044 (\$122.78)	¥13,013 (\$122.49)	¥13,044 (\$122.78)

	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	—

	2015 Stock Option (A)	2015 Stock Option (B)	2016 Stock Option(A)	2016 Stock Option(B)
Year Ended March 31, 2017				
(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	—

The Assumptions Used to Measure the Fair Value of the 2017 Stock Option (A)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 24.49%

Estimated remaining outstanding period: 4.93 years

Estimated dividend: ¥536 per share

Risk free interest rate: – 0.073%

The Assumptions Used to Measure the Fair Value of the 2017 Stock Option (B)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 23.89%

Estimated remaining outstanding period: 5.50 years

Estimated dividend: ¥536 per share

Risk free interest rate: – 0.065%

Consolidated subsidiary

The House com Corporation

The stock options outstanding as of March 31, 2018, were 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
2017 Stock Option	2 directors	5,300 shares	2017.5.31	¥ 1 (\$0.01)	From June 2, 2017 to June 1, 2047

The stock option activity for the years ended March 31 2018 and 2017, is as follows:

	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
<b>Year Ended March 31, 2018</b>	(Shares)			
<b>Non-vested</b>				
March 31, 2017—Outstanding	—	—	—	—
Granted	—	—	—	5,300
Canceled	—	—	—	—
Vested	—	—	—	5,300
March 31, 2018—Outstanding	—	—	—	—
<b>Vested</b>				
March 31, 2017—Outstanding	15,500	5,600	5,700	—
Vested	—	—	—	5,300
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2018—Outstanding	15,500	5,600	5,700	5,300
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	¥ 540 (\$5.08)	¥1,311 (\$12.34)	¥1,192 (\$11.22)	¥1,654 (\$15.57)

	2014 Stock Option	2015 Stock Option	2016 Stock Option
<b>Year Ended March 31, 2017</b>	(Shares)		
<b>Non-vested</b>			
March 31, 2016—Outstanding	—	—	—
Granted	—	—	5,700
Canceled	—	—	—
Vested	—	—	5,700
March 31, 2017—Outstanding	—	—	—
<b>Vested</b>			
March 31, 2016—Outstanding	15,500	5,600	—
Vested	—	—	5,700
Exercised	—	—	—
Canceled	—	—	—
March 31, 2017—Outstanding	15,500	5,600	5,700

The Assumptions Used to Measure the Fair Value of the 2017 Stock Option

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 31.33%

Estimated remaining outstanding period: 9 years

Estimated dividend: ¥59 per share

Risk free interest rate: 0.02%

### 13. 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% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 350	¥ 314	\$ 3,294
Allowance for doubtful accounts	1,275	1,106	12,001
Unrealized profit of assets	3,112	4,299	29,292
Accrued expenses	2,842	2,071	26,751
Accrued enterprise taxes	1,614	1,551	15,192
Depreciation	1,332	1,066	12,537
Accrued employees' bonuses	7,127	6,647	67,084
Provision for warranties for completed construction	343	337	3,229
Retirement benefit for employees	3,043	3,108	28,643
Provision for repair of whole-building lease system	35,367	29,843	332,897
Deferred cleaning revenue	4,172	3,828	39,270
Tax loss carryforwards	542	439	5,102
Others	7,726	6,215	72,722
Less valuation allowance	(1,173)	(897)	(11,041)
Total	67,672	59,927	636,973
Deferred tax liabilities:			
Reserve for special depreciation	3,688	4,818	34,714
Unrealized gain on available-for-sale securities	2,596	1,115	24,435
Others	488	95	4,594
Total	6,772	6,028	63,743
Net deferred tax assets	¥60,900	¥53,899	\$573,230

Deferred tax assets and liabilities were included in the consolidated balance sheets as of March 31, 2018 and 2017 as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets – Deferred tax assets	¥20,338	¥19,697	\$191,434
Non-current assets – Deferred tax assets	41,027	34,297	386,173
Non-current liabilities – Other	(465)	(95)	(4,377)



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, 2018, with the corresponding figures for 2017, is as follows:

	2018	2017
Normal effective statutory tax rate	30.9%	30.9%
Expenses not deductible for income tax purposes	1.6	2.0
Inhabitant tax on per capita basis	0.4	0.5
Valuation allowance	0.2	0.2
Others—net	(0.5)	(0.2)
Actual effective tax rate	32.6%	33.4%

At March 31, 2018, certain subsidiaries have tax loss carryforwards aggregating to approximately ¥1,771 million (\$16,670 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	15	—	141
2020	140	—	1,318
2021	39	—	367
2022	28	—	264
2023	64	—	602
2024	29	—	273
2025	78	—	734
2026	690	—	6,495
2027	688	—	6,476
Total	¥1,771	—	\$16,670

#### 14. CONSTRUCTION CONTRACTS

Revenue recognized with respect to construction contracts, which is accounted for by the percentage-of-completion method at March 31, 2018 and 2017, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Revenue	¥623,674	¥620,022	\$5,870,425

## 15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Research and development costs	¥1,610	¥1,425	\$15,154

## 16. OTHER INCOME—NET

Other income—net for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Commission fee	¥3,663	¥3,654	\$34,479
Impairment losses	(136)	(122)	(1,280)
Other	611	(38)	5,750
Other income—net	¥4,138	¥3,494	\$38,949

## 17. LEASES

### *Lessee*

The minimum rental commitments under noncancelable operating leases at March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 463,131	¥ 427,110	\$ 4,359,290
Due after one year	1,841,944	1,722,195	17,337,576
Total	¥2,305,075	¥2,149,305	\$21,696,866

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, 2018 and 2017, as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 458,938	¥ 422,300	\$ 4,319,823
Due after one year	1,828,709	1,705,177	17,212,999
Total	¥2,287,647	¥2,127,477	\$21,532,822

### *Lessor*

The minimum rental commitments under noncancelable operating leases at March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 621	¥ 621	\$ 5,845
Due after one year	2,485	3,106	23,391
Total	¥3,106	¥3,727	\$29,236

## 18. 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 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 guarantees 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, 2018	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥213,715	¥213,715	¥ —
Money held in trust	19,000	19,000	—
Short-term investments	36,000	36,000	—
Notes and accounts receivable	51,908		
Allowance for doubtful accounts	(38)		
	51,870	51,870	—
Marketable and investment securities:			
Held-to-maturity securities	45	46	1
Investments in associated companies	14,343	31,318	16,975
Available-for-sale securities	46,971	46,971	—
Operating loans	64,263		
Allowance for doubtful accounts	(125)		
	64,138	64,483	345
Total	¥446,082	¥463,403	¥17,321
Accounts payable	¥ 42,740	¥ 42,740	¥ —
Income taxes payable	28,460	28,460	—
Deposit received	7,577	7,577	—
Current portion of long-term loans and long-term loans	105,605	105,605	—
Deposits received for guarantees	36,777	36,675	(102)
Total	¥221,159	¥221,057	¥ (102)

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 investment	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 long-term bank loans	54,443	54,443	—
Deposits received for guarantees	39,868	39,790	(78)
Total	¥176,337	¥176,259	¥ (78)

March 31, 2018	Thousands of U.S. dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$2,011,625	\$2,011,625	\$ —
Money held in trust	178,840	178,840	—
Short-term investments	338,855	338,855	—
Notes and accounts receivable	488,592		
Allowance for doubtful accounts	(358)		
	488,234	488,234	—
<b>Marketable and investment securities:</b>			
Held-to-maturity securities	424	433	9
Investments in associated companies	135,006	294,786	159,780
Available-for-sale securities	442,121	442,121	—
Operating loans	604,885		
Allowance for doubtful accounts	(1,176)		
	603,709	606,956	3,247
<b>Total</b>	<b>\$4,198,814</b>	<b>\$4,361,850</b>	<b>\$163,036</b>
Accounts payable	\$ 402,297	\$ 402,297	\$ —
Income taxes payable	267,884	267,884	—
Deposit received	71,320	71,320	—
Current portion of long-term loans and long-term loans	994,023	994,023	—
Deposits received for guarantees	346,169	345,209	(960)
<b>Total</b>	<b>\$2,081,693</b>	<b>\$2,080,733</b>	<b>\$ (960)</b>

#### 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, 2018, 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 its 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 its 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 Loans and Long-Term Loans

For the current portion of long-term loans and for long-term 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 Guarantees

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

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Subordinated bonds and subordinated trust beneficiary rights	¥12,270	¥12,857	\$115,493
Investments in other companies	¥ 6,237	¥ 6,556	\$ 58,707
Investments in equity instruments that do not have a quoted market price in an active market	¥ 160	¥ 190	\$ 1,506

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

March 31, 2018	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
Cash and cash equivalents	¥213,715	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trusts	19,000					
Short-term investments	36,000					
Notes and accounts receivable	51,908	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	5	10	30	—	—	—
Available-for-sales securities with contractual maturities	19,880	500	—	2,000	3,100	—
Operating loans	43,638	2,742	2,402	2,127	1,820	11,520
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	12,448
<b>Total</b>	<b>¥384,146</b>	<b>¥3,252</b>	<b>¥2,432</b>	<b>¥4,127</b>	<b>¥4,920</b>	<b>¥23,968</b>

March 31, 2017	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
Cash and cash equivalents	¥200,181	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trusts	22,001					
Short-term investments	51,000					
Notes and accounts receivable	38,298	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	45	5	10	30	—	—
Available-for-sales securities with contractual maturities	15,460	—	—	—	500	—
Operating loans	31,779	3,547	3,069	2,727	2,459	19,137
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	13,091
<b>Total</b>	<b>¥358,764</b>	<b>¥3,552</b>	<b>¥3,079</b>	<b>¥2,757</b>	<b>¥2,959</b>	<b>¥32,228</b>



March 31, 2018	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	\$2,011,625	\$ —	\$ —	\$ —	\$ —	\$ —
Money held in trusts	178,840					
Short-term investments	338,855					
Notes and accounts receivable	488,592	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	47	94	283	—	—	—
Available-for-sale securities with contractual maturities	187,124	4,706	—	18,825	29,179	—
Operating loans	410,749	25,810	22,609	20,021	17,131	108,433
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	117,169
<b>Total</b>	<b>\$3,615,832</b>	<b>\$30,610</b>	<b>\$22,892</b>	<b>\$38,846</b>	<b>\$46,310</b>	<b>\$225,602</b>

Please see Note 9 for annual maturities of long-term loans.

## 19. DERIVATIVES

*Derivative transactions to which hedge accounting is applied*

March 31, 2018	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.\$	Forecasted transactions	¥16,768	¥5,203	¥(424)
March 31, 2017				
Foreign currency forward contracts:				
Buying U.S.\$	Forecasted transactions	¥14,693	¥4,244	¥(414)
March 31, 2018	Hedged Item	Thousands of U.S. dollars		
		Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.\$	Forecasted transactions	\$157,831	\$48,974	\$(3,991)

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

## 20. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥4,880	¥ (947)	\$45,935
Reclassification adjustments to profit or loss	(43)	(29)	(406)
Amount before income tax effect	4,837	(976)	45,529
Income tax effect	(1,481)	299	(13,940)
Total	¥3,356	¥ (677)	\$31,589
Deferred gains (losses) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ (10)	¥ 950	\$(94)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(10)	950	(94)
Income tax effect	2	(293)	19
Total	¥ (8)	¥657	\$(75)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (514)	¥(1,476)	\$ (4,838)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(514)	(1,476)	(4,838)
Income tax effect	—	—	—
Total	¥ (514)	¥(1,476)	\$ (4,838)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (636)	¥(699)	\$ (5,986)
Reclassification adjustments to profit or loss	865	932	8,141
Amount before income tax effect	229	233	2,155
Income tax effect	(70)	(71)	(659)
Total	¥159	¥ 162	\$ 1,496
Total other comprehensive income	¥2,993	¥(1,334)	\$28,172

## 21. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2018 and 2017, is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
Year Ended March 31, 2018	Net Income Attributable to Owners of the Parent	Weighted-Average Shares		EPS
Basic EPS—Net income available to common shareholders	¥87,830	75,371	¥1,165.29	\$10.97
Effect of dilutive securities—Warrants		48		
Diluted EPS—Net income for computation	¥87,830	75,419	¥1,164.52	\$10.96

	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	\$10.10
Effect of dilutive securities—Warrants		50		
Diluted EPS—Net income for computation	¥82,168	76,654	¥1,071.91	\$10.10

## 22. SUBSEQUENT EVENTS

### (1) Purchase of Treasury Stock

At the Board of Directors' meeting held on April 23, 2018, a plan was approved to repurchase up to 1,430,000 shares of the Company's common stock (aggregated amount up to a ceiling of ¥26,400 million (\$248,494 thousand) during April 24, 2018 through March 29, 2019 on the Tokyo Stock Exchange and retire the shares.

### (2) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the Company's shareholders' meeting held on June 26, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥304 (\$2.86) per share	¥22,893	\$215,484

## 23. 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 land owners and subleases them to tenants. Daito Finance Corporation provides operating loans to land owners 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 loans

### *(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							
	2018							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Construction	Real Estate	Finance	Total					
Sales:								
Sales to external customers	¥627,631	¥871,389	¥7,309	¥1,506,329	¥50,688	¥1,557,017	¥ —	¥1,557,017
Intersegment sales or transfers	4	3,029	734	3,767	3,830	7,597	(7,597)	—
Total	¥627,635	¥874,418	¥ 8,043	¥1,510,096	¥54,518	¥1,564,614	¥ (7,597)	¥1,557,017
Segment profit (loss)	¥109,145	¥ 33,429	¥ 3,092	¥ 145,666	¥ 7,789	¥ 153,455	¥ (27,086)	¥ 126,369
Segment assets	129,014	307,894	73,968	510,876	88,697	599,573	243,405	842,978
Other:								
Depreciation	3,787	5,149	123	9,059	1,332	10,391	26	10,417
Impairment losses of assets	—	41	—	41	95	136	—	136
Increase in property, plant and equipment and intangible assets	4,754	8,185	116	13,055	25,065	38,120	579	38,699

	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

Thousands of U.S. dollars								
2018								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	\$5,907,671	\$8,202,080	\$ 68,798	\$14,178,549	\$477,108	\$14,655,657	\$ —	\$14,655,657
Intersegment sales or transfers	38	28,511	6,909	35,458	36,050	71,508	(71,508)	—
Total	\$5,907,709	\$8,230,591	\$ 75,707	\$14,214,007	\$513,158	\$14,727,165	\$ (71,508)	\$14,655,657
Segment profit (loss)	\$1,027,344	\$ 314,655	\$ 29,104	\$ 1,371,103	\$ 73,315	\$ 1,444,418	\$ (254,951)	\$ 1,189,467
Segment assets	1,214,364	2,898,098	696,235	4,808,697	834,874	5,643,571	2,291,086	7,934,657
Other:								
Depreciation	35,646	48,466	1,157	85,269	12,538	97,807	245	98,052
Impairment losses of assets	—	386	—	386	894	1,280	—	1,280
Increase in property, plant and equipment and intangible assets	44,748	77,042	1,092	122,882	235,928	358,810	5,450	364,260

Notes for the year ended March 31, 2018

- (1) The reconciliations in segment profit include elimination of intersegment trades of ¥611 million (\$5,751 thousand) and corporate expenses not allocated to a reportable segment of ¥26,475million (\$249,200 thousand). Corporate expenses are mainly the Company's general administration expenses.
- (2) The reconciliations in segment assets include elimination of intersegment trades of ¥8,845million (\$83,255 thousand) and corporate assets not allocated to a reportable segment of ¥252,250 million (\$2,374,341 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, 2017

- (4) The reconciliations in segment profit include elimination of intersegment trades of ¥456 million and corporate expenses not allocated to a reportable segment of ¥26,530 million. Corporate expenses are mainly the Company's general administration expenses.
- (5) The reconciliations in segment assets include elimination of intersegment trades of ¥3,239 million and corporate assets not allocated to a reportable segment of ¥253,183 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.





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## 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, 2018, 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, 2018, 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 26, 2018

