

FINANCIAL STATEMENTS FOR THE FOURTEENTH FISCAL PERIOD

(September 1, 2012 — February 28, 2013)

To Our Unitholders

I would like to express my sincere gratitude to unitholders for your unwavering support of Daiwa House Residential Investment Corporation (“DHI”).

Recently, DHI marked the closing of the 14th Fiscal Period (from September 1, 2012 to February 28, 2013). I again would like to extend my heartfelt gratitude to unitholders, for this could not have been achieved without your understanding and support.

I hereby report on the management status and financial results for the 14th Fiscal Period.

The Japanese economy from fall 2012 began to show promising signs, such as the improvement in corporate export environment with the depreciation of the yen, the heightened expectations in the economic and monetary policies of the Japanese government and Bank of Japan, as well as the improvement in consumer sentiment due to high stock prices, etc.

In the J-REIT market in the 14th Fiscal Period, the TSE REIT Index significantly increased by 35.9% over the six-month period, backed by such factors as the expectations for pulling out of deflation and economic recovery.

Under such circumstances, the operations of DHI also maintained favorable conditions. Furthermore, concerning the occupancy status of portfolio properties, the occupancy rate at the end of each month of the 14th Fiscal Period exceeded 96% and the occupancy rate as of the end of February 2013 reached an all-time high of 97.6%.

In addition, in the 14th Fiscal Period, while selling two properties (sale price total: ¥3,063 million), which included a retail property, DHI newly acquired two properties (acquisition price total: ¥5,009 million), thereby realizing external growth and enhancing portfolio quality.

Concerning fund procurement, DHI refinanced a total amount of ¥26,510 million, thereby achieving longer procurement periods and reduced debt costs. Concerning ¥17,410 million of this amount, DHI signed interest-rate swap agreements to in effect fix interest rates and thereby hedge future interest rate fluctuation risk.

The results of the management above in the 14th Fiscal Period were operating revenues of ¥7,612 million, operating income of ¥3,398 million, ordinary income of ¥2,529 million and net income of ¥2,528 million. Concerning the ¥192 million in loss on sales of real estate properties, DHI decided to implement a reversal of internal reserves in accordance with the existing policy so as not to impact distributions. Accordingly, with ¥2,720 million set as total distributions, DHI declared distribution per investment unit for the 14th Fiscal Period of ¥16,947 (+¥683 compared with previous fiscal period; +¥447 compared with initial forecast), which is the highest distribution since listing (Note).

DHI implemented a 2-for-1 split of investment units with February 28, 2013 as the record date for the purpose of creating a more favorable environment for investment by investors through lowering the amount of the unit of investment in investment units based on feedback received in questionnaire surveys of unitholders conducted since the 10th Fiscal Period. DHI will keep up such investor-focused efforts.

DHI, together with the asset management company, will continue to do its utmost to achieve steady growth of the portfolio and maximize returns for unitholders while making the most of the comprehensive strengths and know-how of the sponsor the Daiwa House Group in the next and subsequent fiscal periods.

The continued support of unitholders is greatly appreciated.

(Note) Excluding the ¥17,337 distribution per investment unit for the Second Fiscal Period (settlement of accounts for 12 months), during which DHI was listed.

Daiwa House Residential Investment Corporation
Executive Director
Michio Taki



Daiwa House Asset Management Co., Ltd.
CEO & President
Yuji Yamada



Distribution per Unit (Yen)

¥16,947

Actual

Fourteenth Fiscal Period: (September 1, 2012 – February 28, 2013)

Distribution per Unit (Yen)

¥8,300 (after 2-for-1 split) *2

Forecast *1

Fifteenth Fiscal Period: (March 1, 2013 – August 31, 2013)

Distribution per Unit (Yen)

¥8,300 (after 2-for-1 split) *2

Forecast *1

Sixteenth Fiscal Period: (September 1, 2013 – February 28, 2014)

*1) Forecast as of April 11, 2013. Actual distributions per unit may vary. Moreover, these forecasts are not intended as a guarantee of distribution amount.

*2) DHI implemented a 2-for-1 split of investment units on March 1, 2013.

1. FINANCIAL HIGHLIGHT

(1) Management Highlight

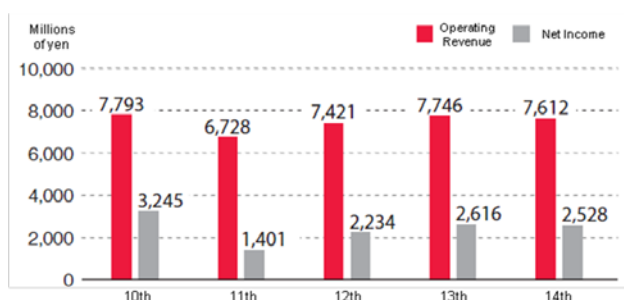
	(Millions of yen)			
	Operating Revenues	Operating Income	Ordinary Income	Net Income
Fourteenth Fiscal Period	¥7,612	¥3,398	¥2,529	¥2,528
Thirteenth Fiscal Period	¥7,746	¥3,691	¥2,724	¥2,616
Twelfth Fiscal Period	¥7,421	¥3,434	¥2,357	¥2,234
Eleventh Fiscal Period	¥6,728	¥2,478	¥1,437	¥1,401
Tenth Fiscal Period	¥7,793	¥3,796	¥2,761	¥3,245

	(Millions of yen, Yen; days)		
	Distribution per Unit (Yen)	Total Distributions (Millions of yen)	Management Days (days)
Fourteenth Fiscal Period	¥16,947	¥2,720	181
Thirteenth Fiscal Period	¥16,264	¥2,610	184
Twelfth Fiscal Period	¥16,000	¥2,568	182
Eleventh Fiscal Period	¥16,320	¥1,937	184
Tenth Fiscal Period	¥16,880	¥2,004	181

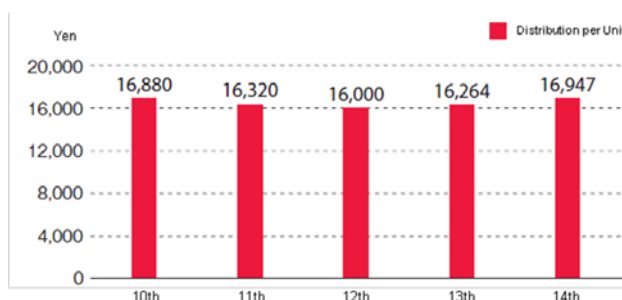
Notes:

1. Fourteenth Fiscal Period: September 1, 2012 — February 28, 2013
Thirteenth Fiscal Period: March 1, 2012 — August 31, 2012
Twelfth Fiscal Period: September 1, 2011 — February 29, 2012
Eleventh Fiscal Period: March 1, 2011 — August 31, 2011
Tenth Fiscal Period: September 1, 2010 — February 28, 2011
2. “Net income” for the Thirteenth and Tenth Fiscal Period is the amount including the reversal of internal reserves and differ from the funds from which distributions are paid out.
The funds from which distributions are paid out for the Fourteenth, Twelfth and Eleventh Fiscal Period are the amount including the reversal of internal reserves and differ from “net income”.

< Operating Revenue / Net Income >



< Distribution per Unit >



(2) Financial Position

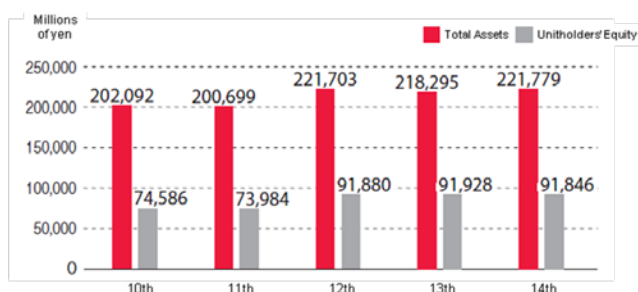
(Millions of yen; Yen; %)

	Total Assets (Millions of yen)	Unitholders' Equity (Millions of yen)	Equity Ratio (%)	Unitholders' Equity per Unit (Yen)	Interest-bearing Debt (Millions of yen)	LTV (%)
Fourteenth Fiscal Period	¥221,779	¥91,846	41.4%	¥286,063 *2	¥125,540	56.6%
Thirteenth Fiscal Period	¥218,295	¥91,928	42.1%	¥286,320 *2	¥121,834	55.8%
Twelfth Fiscal Period	¥221,703	¥91,880	41.4%	¥572,339	¥125,325	56.5%
Eleventh Fiscal Period	¥200,699	¥73,984	36.9%	¥623,103	¥122,653	61.1%
Tenth Fiscal Period	¥202,092	¥74,586	36.9%	¥628,176	¥123,325	61.0%

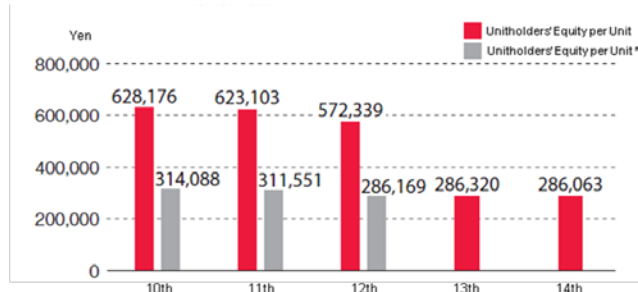
Notes:

- Fourteenth Fiscal Period: September 1, 2012 — February 28, 2013
Thirteenth Fiscal Period: March 1, 2012 — August 31, 2012
Twelfth Fiscal Period: September 1, 2011 — February 29, 2012
Eleventh Fiscal Period: March 1, 2011 — August 31, 2011
Tenth Fiscal Period: September 1, 2010 — February 28, 2011
- DHI implemented a 2-for-1 split of investment units on March 1, 2013.
“Unitholders’ equity per unit” was calculated under the assumption that the split was implemented at the beginning of the 13th fiscal period.

< Total Assets / Unitholders' Equity >



< Unitholders' Equity per Unit >



*) “Unitholders’ equity per unit” from the Tenth Fiscal Period to the Twelfth Fiscal period is calculated in proportion to the investment unit split (half).

Independent Auditor's Report

The Board of Directors
Daiwa House Residential Investment Corporation

We have audited the accompanying financial statements of Daiwa House Residential Investment Corporation which comprise the balance sheet as at February 28, 2013, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Daiwa House Residential Investment Corporation as at February 28, 2013, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As described in Note 17 "Significant Subsequent Events," Daiwa House Residential Investment Corporation completed a 2-for-1 split of its investment units, a public offering and a secondary offering through third-party allotment subsequent to February 28, 2013. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shinmihon LLC

May 16, 2013
Tokyo, Japan

Daiwa House Residential Investment Corporation

Balance Sheets

As of August 31, 2012 and February 28, 2013

	As of August 31, 2012	As of February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Assets			
Current assets:			
Cash and bank deposits (including trust accounts)	¥ 7,989,685	¥ 10,625,355	\$ 114,856
Rental receivables	52,959	40,861	441
Prepaid expenses	231,595	297,628	3,217
Consumption taxes receivable	—	5,691	61
Other current assets	2,964	680	7
Allowance for doubtful accounts	(9,358)	(7,816)	(84)
Total current assets	8,267,846	10,962,400	118,499
Property and equipment:			
Land	21,150,419	21,150,419	228,628
Buildings and structures	28,218,208	28,231,288	305,170
Machinery and equipment	432,205	432,205	4,671
Tools, furniture and fixtures	647,236	648,997	7,015
Land in trust	73,763,336	74,632,549	806,751
Buildings and structures in trust	87,670,028	88,700,994	958,826
Machinery and equipment in trust	1,320,493	1,363,827	14,742
Tools, furniture and fixtures in trust	290,791	296,693	3,207
Less – accumulated depreciation	(7,649,203)	(8,989,073)	(97,168)
Net property and equipment	205,843,516	206,467,903	2,231,844
Investments and other assets:			
Long-term prepaid expenses	703,379	875,114	9,459
Guarantee deposits	10,030	10,030	108
Leasehold rights in trust	2,244,584	2,239,038	24,203
Trademark rights	4,612	6,248	67
Lease and guarantee deposits in trust	1,200,020	1,200,020	12,971
Total investments and other assets	4,162,627	4,330,452	46,810
Deferred assets:			
Investment corporation bond issuance costs	21,183	18,830	203
Total deferred assets	21,183	18,830	203
 Total assets	 <u>¥ 218,295,174</u>	 <u>¥ 221,779,586</u>	 <u>\$ 2,397,357</u>

	As of August 31, 2012	As of February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Liabilities and net assets			
Current liabilities:			
Trade and other payables	¥ 503,195	¥ 419,110	\$ 4,530
Short-term loans	—	3,800,000	41,076
Accrued expenses	530,550	525,202	5,677
Consumption taxes payable	61,465	—	—
Rent received in advance	716,182	773,348	8,359
Deposits received	166,082	190,780	2,062
Current portion of rehabilitation obligations	15,012,890	3,573,845	38,631
Total current liabilities	16,990,366	9,282,286	100,338
Long-term liabilities:			
Investment corporation bonds	3,000,000	3,000,000	32,428
Long-term loans	73,795,000	100,305,000	1,084,261
Tenant leasehold and security deposits	327,220	328,754	3,553
Tenant leasehold and security deposits in trust	1,839,111	1,762,835	19,055
Asset retirement obligations	387,898	392,301	4,240
Rehabilitation obligations	30,026,737	14,861,887	160,651
Total long-term liabilities	109,375,968	120,650,779	1,304,191
Total liabilities	126,366,334	129,933,066	1,404,529
Net assets:			
Unitholders' equity:			
Unitholders' capital:			
Units authorized: 2,000,000			
Units issued and outstanding: 160,535	41,602,436	41,602,436	449,707
Capital surplus	28,241,587	28,241,587	305,281
Reserve for distribution	19,467,899	19,473,874	210,505
Retained earnings	2,616,916	2,528,622	27,333
Total unitholders' equity	91,928,839	91,846,520	992,828
Total net assets	91,928,839	91,846,520	992,828
Total liabilities and net assets	¥ 218,295,174	¥ 221,779,586	\$ 2,397,357

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Statements of Income and Retained Earnings

For the period from March 1, 2012 to August 31, 2012
and for the period from September 1, 2012 to February 28, 2013

	From March 1, 2012 to August 31, 2012	From September 1, 2012 to February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Operating revenues:			
Rental revenues	¥ 7,633,251	¥ 7,612,933	\$ 82,293
Gain on sales of real estate properties	112,869	—	—
Total operating revenues	7,746,121	7,612,933	82,293
Operating expenses:			
Real estate rental expenses	3,270,619	3,265,383	35,297
Loss on sales of real estate properties	—	192,067	2,076
Asset management fees	488,247	483,135	5,222
Asset custodian and consignment fees	21,791	21,833	236
Administrative service and consignment fees	72,631	72,058	778
Directors' remuneration	6,600	6,600	71
Provision of allowance for doubtful accounts	—	2,417	26
Other operating expenses	194,643	170,771	1,845
Total operating expenses	4,054,533	4,214,266	45,554
Operating income	3,691,587	3,398,666	36,738
Non-operating income (expenses):			
Interest income	693	619	6
Interest expense	(770,560)	(708,995)	(7,663)
Reversal of allowance for doubtful accounts	2,921	—	—
Interest expenses on investment corporation bonds	(16,109)	(16,523)	(178)
Amortization of investment corporation bond issuance costs	(2,353)	(2,353)	(25)
Financing related expenses	(178,222)	(141,742)	(1,532)
Other, net	(3,438)	(442)	(4)
Total non-operating income (expenses)	(967,068)	(869,439)	(9,398)
Ordinary income	2,724,518	2,529,227	27,340
Extraordinary loss:			
Impairment loss	106,996	—	—
Total extraordinary loss	106,996	—	—
Income before income taxes	2,617,521	2,529,227	27,340
Income taxes:			
Current	605	605	6
Total income taxes	605	605	6
Net income	2,616,916	2,528,622	27,333

Retained earnings at beginning of period	—	—	—
Retained earnings at end of period	<u>¥ 2,616,916</u>	<u>¥ 2,528,622</u>	<u>\$ 27,333</u>

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Statements of Changes in Net Assets

For the period from March 1, 2012 to August 31, 2012

	Net assets					
	Unitholders' equity					
	Number of units	Unitholders' capital	Capital surplus	Reserve for distribution	Retained earnings	Total unitholders' equity
						Total net assets
	<i>(Thousands of yen)</i>					
Balance as of March 1, 2012	160,535	¥41,602,436	¥28,241,587	¥19,802,245	¥2,234,214	¥91,880,482
Changes during the fiscal period:						
Reversal of reserve for distribution	—	—	—	(334,345)	334,345	—
Dividends from retained earnings	—	—	—	—	(2,568,560)	(2,568,560)
Net income	—	—	—	—	2,616,916	2,616,916
Total changes during the fiscal period	—	—	—	(334,345)	382,702	48,356
Balance as of August 31, 2012	160,535	¥41,602,436	¥28,241,587	¥19,467,899	¥2,616,916	¥91,928,839

For the period from September 1, 2012 to February 28, 2013

	Net assets					
	Unitholders' equity					
	Number of units	Unitholders' capital	Capital surplus	Reserve for distribution	Retained earnings	Total unitholders' equity
						Total net assets
	<i>(Thousands of yen)</i>					
Balance as of September 1, 2012	160,535	¥41,602,436	¥28,241,587	¥19,467,899	¥2,616,916	¥91,928,839
Changes during the fiscal period:						
Reserve of reserve for distribution	—	—	—	5,975	(5,975)	—
Dividends from retained earnings	—	—	—	—	(2,610,941)	(2,610,941)
Net income	—	—	—	—	2,528,622	2,528,622
Total changes during the fiscal period	—	—	—	5,975	(88,294)	(82,319)
Balance as of February 28, 2013	160,535	¥41,602,436	¥28,241,587	¥19,473,874	¥2,528,622	¥91,846,520

For the period from September 1, 2012 to February 28, 2013

	Net assets					
	Unitholders' equity					
	Number of units	Unitholders' capital	Capital surplus	Reserve for distribution	Retained earnings	Total unitholders' equity
						Total net assets
	<i>(Thousands of U.S. dollars)</i>					
Balance as of September 1, 2012	160,535	\$449,707	\$305,281	\$210,441	\$28,287	\$993,717
Changes during the fiscal period:						
Reserve of reserve for distribution	—	—	—	64	(64)	—
Dividends from retained earnings	—	—	—	—	(28,223)	(28,223)
Net income	—	—	—	—	27,333	27,333
Total changes during the fiscal period	—	—	—	64	(954)	(889)
Balance as of February 28, 2013	160,535	\$449,707	\$305,281	\$210,505	\$27,333	\$992,828

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Statements of Cash Flows

For the period from March 1, 2012 to August 31, 2012
and for the period from September 1, 2012 to February 28, 2013

	From March 1, 2012 to August 31, 2012	From September 1, 2012 to February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash flows from operating activities			
Income before income taxes	¥ 2,617,521	¥ 2,529,227	\$ 27,340
Depreciation and amortization	1,411,821	1,422,775	15,379
Amortization of investment corporation bond issuance costs	2,353	2,353	25
Impairment loss	106,996	—	—
Loss on retirement of noncurrent assets	9,133	3,323	35
Amortization of trademark rights	335	546	5
Interest income	(693)	(619)	(6)
Interest expense	786,669	725,519	7,842
Change in rental receivables	45,437	12,097	130
Change in accounts receivable, other	16	(572)	(6)
Change in consumption taxes receivable	101,809	(5,691)	(61)
Change in advance payments	(33,483)	(66,032)	(713)
Change in trade payables	103,933	(77,694)	(839)
Change in other payables	(24,546)	(44,687)	(483)
Change in accrued consumption taxes	61,465	(61,465)	(664)
Change in accrued expenses	22,763	(4,827)	(52)
Change in deposits received	(2,055)	4,373	47
Change in rent received in advance	(125,472)	57,166	617
Change in long-term prepaid expenses	(347,372)	(171,735)	(1,856)
Change in allowance for doubtful accounts	(11,425)	(1,541)	(16)
Decrease in disposal of property and equipment	416,641	—	—
Decrease in disposal of property and equipment in trust	2,778,353	3,243,437	35,060
Change in lease and guarantee deposits in trust	29,501	—	—
Other	(82,988)	(57,961)	(626)
Subtotal	7,866,716	7,507,990	81,158
Interest received	693	619	6
Interest paid	(761,104)	(693,406)	(7,495)
Income taxes paid	(597)	(340)	(3)
Net cash provided by operating activities	7,105,707	6,814,862	73,666
Cash flows from investing activities			
Purchases of property and equipment	(14,617)	(14,880)	(160)
Purchases of property and equipment in trust	(4,252,922)	(5,273,521)	(57,004)
Purchases of intangible fixed assets	(3,047)	(1,909)	(20)
Proceeds from tenant leasehold and security deposits	43,290	31,973	345
Payment of tenant leasehold and security deposits	(23,949)	(17,731)	(191)
Proceeds from tenant leasehold and security deposits in trust	204,398	197,427	2,134
Payment of tenant leasehold and security deposits in trust	(167,054)	(201,377)	(2,176)
Net cash used in investing activities	(4,213,903)	(5,280,020)	(57,075)
Cash flows from financing activities			
Proceeds from short-term loans	3,200,000	5,100,000	55,129
Repayment of short-term loans	(6,400,000)	(1,300,000)	(14,052)
Proceeds from long-term loans	31,495,000	26,510,000	286,563
Repayment of long-term loans	(12,519,000)	—	—
Proceeds from issuance of investment corporation bonds	2,976,462	—	—
Repayment of rehabilitation obligations	(22,268,926)	(26,603,895)	(287,578)
Dividend payment	(2,562,811)	(2,605,277)	(28,162)
Net cash provided by (used in) financing activities	(6,079,275)	1,100,827	11,899
Net (decrease) increase in cash and cash equivalents	(3,187,470)	2,635,669	28,490
Cash and cash equivalents at beginning of period	11,177,156	7,989,685	86,365
Cash and cash equivalents at end of period	¥ 7,989,685	¥ 10,625,355	\$ 114,856

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Notes to Financial Statements

For the period from March 1, 2012 to August 31, 2012
and for the period from September 1, 2012 to February 28, 2013

1. Organization and Basis of Presentation

(a) Organization

Daiwa House Residential Investment Corporation (“DHI”), a Japanese real estate investment corporation, was established on June 7, 2005 with an initial capitalization of ¥300 million under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. DHI was formed to invest primarily in residential and retail properties in Japan. DHI is externally managed by a licensed asset management company, Daiwa House Asset Management Co., Ltd.

DHI has concentrated on its beautiful life and residence vision by focusing its investment efforts on real estate properties and aims to build a hybrid portfolio to secure stable revenues in the mid- to long-term periods. By selecting properties suitable for modern lifestyle that appeal to tenants and consumers residential properties using strict but transparent and high standards such as by considering the area, building quality and amenities, DHI aims to gain steady growth for its portfolio and expand its primary investment income.

(b) Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law, the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been compiled and translated into English (with certain reclassifications and expanded descriptions) from the financial statements of DHI prepared in accordance with Japanese GAAP and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law.

In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made to the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. DHI’s fiscal period is a six-month period which ends at the end of February or August of each year. DHI has not prepared consolidated financial statements as it has no subsidiaries.

1. Organization and Basis of Presentation (continued)

The U.S. dollar amounts in the accompanying financial statements have been translated from yen amounts solely for the convenience of readers outside Japan and, as a matter of arithmetic computation only, at ¥92.51 = U.S.\$1.00, the rate of exchange prevailing on February 28, 2013. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and in trust, bank deposits and deposits in trust redeemable on demand, and short-term investments, which are readily convertible to cash, with an original maturity of three months or less, and an insignificant risk of price fluctuation.

(b) Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets ranging as stated below:

Buildings	2 – 69 years
Structures	6 – 63 years
Machinery and equipment	10 – 29 years
Tools, furniture and fixtures	2 – 28 years

(c) Intangible fixed assets

Amortization of intangible fixed assets is calculated on a straight-line basis. Leasehold rights (fixed-term land lease rights in general) are amortized on a straight-line basis over the life of each contract.

(d) Investment corporation bond issuance costs

Investment corporation bond issuance costs are amortized on a straight-line basis over the term of the bonds.

(e) Revenue recognition

Revenues from leasing of property are recognized on a straight-line accrual basis over the life of each lease contract.

(f) Taxes on property and equipment

Property and equipment are subject to various taxes, such as property taxes and city planning taxes. An owner of a property is registered in a record maintained by the local government of the applicable jurisdiction, and taxes are imposed on the owner registered in the record as of January 1, based on an assessment made by the local government. The taxes are determined in April to June each year and are paid in four installments during the year.

When a property is purchased prior to January 1 of any given calendar year, taxes for the previous year are imposed on the seller. DHI pays the seller the corresponding amount of the taxes for the period from the property's disposition date to December 31 of the previous year as included in the purchase price of the property, and capitalizes this amount as a cost of the property.

(g) Income taxes

Deferred tax assets and liabilities are computed based on the differences between the financial reporting and income tax bases of assets and liabilities using the enacted tax rates.

(h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the amount considered sufficient to cover possible losses on collection.

(i) Consumption taxes

Consumption taxes withheld and consumption taxes paid are not included in the accompanying statements of income and retained earnings. Non-deductible consumption taxes for acquisition of assets are added on to the acquisition cost of each asset.

(j) Trust beneficiary interests

For trust beneficiary interests in real estate, each of the trust assets and liabilities as well as all income generated and expenses incurred in trusts are recorded in the relevant balance sheet and income statement accounts.

(k) Derivatives and hedge accounting

(1) Derivatives and hedge accounting

DHI adopts deferral hedge accounting. However, the special treatment is applied for interest-rate swaps that meet certain conditions.

(2) Hedging instruments and hedged items

Hedging instruments:	Interest-rate swaps
Hedged items:	Interest rates on loans

(3) Hedging policy

DHI utilizes derivative financial instruments in accordance with basic risk management policies for the purpose of hedging risks specified in its bylaws.

(4) Method of evaluating hedge effectiveness

Hedging effectiveness is assessed and validated by comparing the cumulative gains or losses on the hedging instrument with the cumulative gains or losses the underlying hedged item. However, the evaluation of hedging effectiveness is omitted for interest-rate swaps meeting specific criteria.

3. Cash and Cash Equivalents

A reconciliation of cash and bank deposits in the accompanying balance sheets at August 31, 2012 and February 28, 2013 with cash and cash equivalents in the accompanying statements of cash flows is as follows:

	As of August 31, 2012 <i>(Thousands of yen)</i>	As of February 28, 2013 <i>(Thousands of yen)</i> <i>(Thousands of U.S. dollars)</i>	
Cash and bank deposits	¥ 2,969,663	¥ 6,506,958	\$ 70,337
Cash in trust and deposits in trust	5,020,022	4,118,396	44,518
Cash and cash equivalents	<u>¥ 7,989,685</u>	<u>¥ 10,625,355</u>	<u>\$ 114,856</u>

4. Lease Transactions

Operating lease transactions as lessor at August 31, 2012 and February 28, 2013 are as follows:

	As of August 31, 2012 <i>(Thousands of yen)</i>	As of February 28, 2013 <i>(Thousands of yen)</i> <i>(Thousands of U.S. dollars)</i>	
Future lease receivable equivalents			
Due within one year	¥ 937,191	¥ 870,584	\$ 9,410
Due after one year	1,203,378	593,678	6,417
Total	<u>¥ 2,140,569</u>	<u>¥ 1,464,263</u>	<u>\$ 15,828</u>

5. Short-Term Loans and Long-Term Loans

Short-term loans and the long-term loans as of August 31, 2012 and February 28, 2013 consisted of the following:

Lender	As of August 31, 2012 <i>(Thousands of yen)</i>	As of February 28, 2013 <i>(Thousands of yen)</i>	As of February 28, 2013 <i>(Thousands of U.S. dollars)</i>	Average interest rate (%) (1)	Due on	Use of funds	Note
Short-term loans:							
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	—	—	—				
Sumitomo Mitsui Banking Corporation	—	—	—	1.08	September 2, 2013		
Sumitomo Mitsui Trust Bank, Limited.	—	—	—				
Mizuho Corporate Bank, Ltd.	—	—	—			(2)	Unsecured without warranty
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	—	¥950,000	\$10,269				
Sumitomo Mitsui Banking Corporation	—	950,000	10,269	0.98	November 28, 2013		
Sumitomo Mitsui Trust Bank, Limited.	—	950,000	10,269				
Mizuho Corporate Bank, Ltd.	—	950,000	10,269				
Subtotal	—	3,800,000	41,076				
Long-term loans:							
Sumitomo Mitsui Banking Corporation	¥1,800,000	1,800,000	19,457				
Sumitomo Mitsui Trust Bank, Limited.	1,800,000	1,800,000	19,457				
Mizuho Corporate Bank, Ltd.	1,800,000	1,800,000	19,457	1.40	December 28, 2015	(3)	Unsecured without warranty
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	1,800,000	1,800,000	19,457				
Mitsubishi UFJ Trust and Banking Co., Ltd.	1,400,000	1,400,000	15,133				
Resona Bank, Ltd.	1,400,000	1,400,000	15,133				
Shinsei Bank, Limited.	500,000	500,000	5,404				
Sumitomo Mitsui Trust Bank, Limited.	5,200,000	5,200,000	56,210				
Sumitomo Mitsui Banking Corporation	5,200,000	5,200,000	56,210				
Mizuho Corporate Bank, Ltd.	5,200,000	5,200,000	56,210				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	5,200,000	5,200,000	56,210	1.10	September 30, 2016	(4)	Unsecured without warranty
Aozora Bank, Ltd.	4,500,000	4,500,000	48,643				
Mitsubishi UFJ Trust and Banking Co., Ltd.	3,000,000	3,000,000	32,428				
Resona Bank, Ltd.	2,500,000	2,500,000	27,024				
Shinsei Bank, Limited.	1,000,000	1,000,000	10,809				
Sumitomo Mitsui Banking Corporation	3,000,000	3,000,000	32,428				
Aozora Bank, Ltd.	1,500,000	1,500,000	16,214	1.03	March 31, 2017	(5)	Unsecured without warranty
Mitsubishi UFJ Trust and Banking Co., Ltd.	1,500,000	1,500,000	16,214				
Shinkin Central Bank	1,000,000	1,000,000	10,809				
Mizuho Corporate Bank, Ltd.	3,000,000	3,000,000	32,428				
Sumitomo Mitsui Trust Bank, Limited.	3,000,000	3,000,000	32,428	1.03	March 31, 2017	(5)	Unsecured without warranty
Mizuho Trust & Banking Co., Ltd.	1,000,000	1,000,000	10,809				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	4,000,000	4,000,000	43,238	1.07	March 27, 2019	(5)	Unsecured without warranty

Resona Bank, Ltd.	1,095,000	1,095,000	11,836	0.92	March 31, 2017	(6)	Unsecured
Sumitomo Mitsui Trust Bank, Limited.	3,480,000	3,480,000	37,617				
Sumitomo Mitsui Banking Corporation	3,480,000	3,480,000	37,617	0.70	July 31, 2017	(6)	Unsecured without warranty
Mizuho Corporate Bank, Ltd.	3,480,000	3,480,000	37,617				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	1,960,000	1,960,000	21,186				
Sumitomo Mitsui Trust Bank, Limited.	—	2,000,000	21,619				
Aozora Bank, Ltd.	—	2,000,000	21,619				
The Norinchukin Bank	—	1,000,000	10,809				
The Chiba Bank, Ltd.	—	600,000	6,485	0.48	March 31, 2016	(7)	Unsecured without warranty
Sumitomo Mitsui Banking Corporation	—	500,000	5,404				
Mizuho Corporate Bank, Ltd.	—	500,000	5,404				
The Shizuoka Bank, Ltd.	—	500,000	5,404				
The Bank of Fukuoka	—	500,000	5,404				
Sumitomo Mitsui Trust Bank, Limited.	—	4,430,000	47,886				
Sumitomo Mitsui Banking Corporation	—	3,260,000	35,239				
Aozora Bank, Ltd.	—	2,700,000	29,186				
Mizuho Corporate Bank, Ltd.	—	1,930,000	20,862	0.71	January 31, 2020	(7)	Unsecured without warranty
Mizuho Trust & Banking Co., Ltd.	—	1,830,000	19,781				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	—	1,350,000	14,593				
The Norinchukin Bank	—	1,000,000	10,809				
Mitsubishi UFJ Trust and Banking Co., Ltd.	—	910,000	9,836				
Development Bank of Japan Inc.	—	1,500,000	16,214	0.96	January 31, 2020	(7)	Unsecured without warranty
Subtotal	73,795,000	100,305,000	1,084,261				
Total	¥73,795,000	¥104,105,000	\$1,125,337				

- (1) The average interest rate for each loan has been rounded to the second decimal place.
- (2) Acquisition of trust beneficiary rights and real estate (incl. these co- ownership interests).
- (3) Purchase of rehabilitation obligations (others), retirement of rehabilitation obligations (investment corporation bonds), and repayment of part of rehabilitation obligations (loans).
- (4) Repayment of loans and rehabilitation obligations with right of separate satisfaction (refinance fund).
- (5) Purchase of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).
- (6) Repayment of existing loans (refinance fund).
- (7) Redemption of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).

6. Commitment Line

DHI has entered into separate commitment line agreements with four respective trading banks.

	<u>As of August 31, 2012</u>
	<i>(Thousands of yen)</i>
Total amount of commitment line	¥ 6,000,000
Outstanding loans at end of the period	—
Amount unutilized at end of the period	<u>¥ 6,000,000</u>

	<u>As of February 28, 2013</u>	
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Total amount of commitment line	¥ 10,000,000	\$ 108,096
Outstanding loans at end of the period	3,800,000	41,076
Amount unutilized at end of the period	<u>¥ 6,200,000</u>	<u>\$ 67,019</u>

7. Details of Rental Revenues and Expenses

	From March 1, 2012 to August 31, 2012	From September 1, 2012 to February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Real estate rental revenues:			
Rental income	¥ 6,922,889	¥ 6,933,010	\$ 74,943
Common service fees	208,117	219,404	2,371
Subtotal	7,131,007	7,152,415	77,315
Other rental revenues:			
Facility charges	193,530	201,432	2,177
Incidental revenues	35,311	39,063	422
Other rental business revenues	273,401	220,022	2,378
Subtotal	502,243	460,518	4,978
Total rental revenues	7,633,251	7,612,933	82,293
Real estate rental expenses:			
Management fees	793,286	788,112	8,519
Utilities	104,040	112,031	1,211
Taxes and public dues	393,807	386,957	4,182
Repairs	103,176	121,121	1,309
Insurance premiums	11,624	10,812	116
Restoration costs	206,729	173,939	1,880
Custodian fees	47,736	57,919	626
Depreciation and amortization	1,411,821	1,422,775	15,379
Other operating expenses	198,396	191,713	2,072
Total real estate rental expenses	3,270,619	3,265,383	35,297
Rental income	¥ 4,362,631	¥ 4,347,549	\$ 46,995

7. Details of Rental Revenues and Expenses (continued)

Details of Gain and Loss on Sales of Real Estate Properties

	From March 1, 2012 to August 31, 2012 <i>(Thousands of yen)</i>	
Comfort Time Otsuka		
Revenue from sale of real estate	¥ 803,010	
Cost of real estate sales	752,214	
Other sales expenses	14,954	
Gain on sales of real estate	35,841	
Aprile Tarumi		
Revenue from sale of real estate	30,031	
Cost of real estate sales	17,063	
Other sales expenses	540	
Gain on sales of real estate	12,427	
New City Residence Ichigaya Sanaicho		
Revenue from sale of real estate	450,925	
Cost of real estate sales	416,641	
Other sales expenses	9,607	
Gain on sales of real estate	24,676	
New City Residence Toyoda		
Revenue from sale of real estate	720,151	
Cost of real estate sales	712,150	
Other sales expenses	8,001	
Gain on sales of real estate	—	
New City Residence Todoroki		
Revenue from sale of real estate	1,350,000	
Cost of real estate sales	1,296,925	
Other sales expenses	13,150	
Gain on sales of real estate	39,924	
	From September 1, 2012 to February 28, 2013 <i>(Thousands of yen)</i> <i>(Thousands of U.S. dollars)</i>	
New City Residence		
Nishi Azabu Twin Tower		
Revenue from sale of real estate	¥ 2,210,000	\$ 23,889
Cost of real estate sales	2,207,400	23,861
Other sales expenses	2,600	28
Gain on sales of real estate	—	—
INAGEYA Yokohama Nishigaoka		
Revenue from sale of real estate	853,000	9,220
Cost of real estate sales	1,036,037	11,199
Other sales expenses	9,030	97
Loss on sales of real estate	192,067	2,076

7. Details of Rental Revenues and Expenses (continued)

Impairment loss

(a) For the period from March 1, 2012 to August 31, 2012

DHI recognized an impairment loss on the following asset group:

(Thousands of yen)

Purpose of use	Location	Type	
Rental apartment	Minato-ku, Tokyo	Land in trust	¥ 76,077
		Buildings in trust, etc.	30,918

(Note) The above rental apartment is New City Residence Nishi Azabu Twin Tower.

For the impairment loss calculation, an asset group is classified individually by each property. Therefore, the carrying amount of one fixed asset group that DHI plans to sell was reduced to the recoverable amount, and this reduction was recognized as an impairment loss (¥106,996 thousand), and included in extraordinary loss for the period.

The breakdown of the impairment loss is ¥30,580 thousand for buildings in trust, ¥260 thousand for structures in trust, ¥77 thousand for tools, furniture and fixtures in trust, and ¥76,077 thousand for land in trust.

The recoverable amount of this asset group is measured at fair value less costs to sell, which is calculated by subtracting the expected disposal cost from the actual sales price.

(b) For the period from September 1, 2012 to February 28, 2013

Not applicable.

8. Financial Instruments

1. Status of Financial Instruments

(a) Policy for the use of financial instruments

As a policy, when acquiring real estate and other properties, as well as when repaying its obligations, DHI raises necessary funds through loans from banks, issuance of investment corporation bonds and issuance of investment units, etc. As for financing efforts, DHI carefully pays attention to the long-term, cost effectiveness and soundness of the financial instruments, while considering the diversification of financial methods and repayment deadlines.

DHI may use derivative financial instruments for such purposes as hedging interest rate fluctuation risk, but does not engage in speculative transactions using these instruments.

Surplus funds can be invested in securities or monetary claims, however, as a current policy of DHI, they are deposited in interest-bearing accounts.

(b) Details of financial instruments, related risks and risk management system

Asset management companies stipulate basic provisions of risk management in their risk management rules.

Investment corporation bonds, long-term loans and rehabilitation obligations are used to finance such efforts as acquisition of real estate and repayment of loans. These financial instruments are exposed to liquidity risk, though DHI controls such risk by maintaining the ratio of interest-bearing debt to total assets under a certain percentage, diversifying repayment deadlines, and retaining a certain amount of highly liquid cash and deposits.

For floating rate borrowings exposed to the risk of interest rate fluctuations, DHI, in order to reduce the impact caused by rising interest rates, closely watches the movement of interest rates, and intends to increase the ratio of fixed rate loans, etc.

Deposits are exposed to credit risks, including collapse of the financial institutions where deposits are made, and, thus, are managed through the use of liquid deposits.

(c) Supplementary explanation concerning fair value of financial instruments

The fair values of financial instruments are determined by market prices, and in the case of financial instruments without observable market prices, reasonable estimates are included in valuation. Since certain assumptions are used to measure applicable fair values, the amounts are subject to change under the different assumptions.

8. Financial Instruments (continued)

2. Fair Value of Financial Instruments

The book value on the balance sheet, fair value and the difference as of August 31, 2012 and February 28, 2013 are as follows.

	As of August 31, 2012		
	<i>(Thousands of yen)</i>		
	Book Value	Fair Value	Difference
(1) Cash and bank deposits (including trust accounts)	¥ 7,989,685	¥ 7,989,685	—
(2) Short-term loans	—	—	—
(3) Current portion of rehabilitation obligations	15,012,890	15,012,890	—
(4) Investment corporation bonds	3,000,000	2,997,186	¥2,813
(5) Long-term loans	73,795,000	73,986,152	(191,152)
(6) Rehabilitation obligations	30,026,737	30,115,804	(89,066)
(7) Derivatives	—	—	—

	As of February 28, 2013		
	<i>(Thousands of yen)</i>		
	Book Value	Fair Value	Difference
(1) Cash and bank deposits (including trust accounts)	¥ 10,625,355	¥10,625,355	—
(2) Short-term loans	3,800,000	3,800,000	—
(3) Current portion of rehabilitation obligations	3,573,845	3,573,845	—
(4) Investment corporation bonds	3,000,000	3,011,188	(¥11,188)
(5) Long-term loans	100,305,000	100,933,342	(628,342)
(6) Rehabilitation obligations	14,861,887	14,954,678	(92,790)
(7) Derivatives	—	—	—

	As of February 28, 2013		
	<i>(Thousands of U.S. dollars)</i>		
	Book Value	Fair Value	Difference
(1) Cash and bank deposits (including trust accounts)	\$114,856	\$114,856	—
(2) Short-term loans	41,076	41,076	—
(3) Current portion of rehabilitation obligations	38,631	38,631	—
(4) Investment corporation bonds	32,428	32,549	(\$120)
(5) Long-term loans	1,084,261	1,091,053	(6,792)
(6) Rehabilitation obligations	160,651	161,654	(1,003)
(7) Derivatives	—	—	—

8. Financial Instruments (continued)

(Note 1) Methods of calculating the fair values of financial instruments.

(1) Cash and bank deposits (including trust accounts)

These instruments are settled in the short term and their fair values are approximately equal to their book values, thus, the measurement is based on their book values.

(2) Short-term loans and (3) Current portion of rehabilitation obligations

These instruments carry floating interest rates, and their fair values are approximately equal to their book values, thus, the measurement is based on their book values.

(4) Investment corporation bonds

The fair value of these bonds is measured as the present value, which is calculated by discounting the combined total of principal and interest by the interest rate determined taking into account the current maturity and corresponding credit risk.

(5) Long-term loans and (6) Rehabilitation obligations

These instruments carry floating interest rates, and their fair value is approximately equal to their book value, thus, the measurement is based on their book value. However, for long-term loans carrying floating interest rates that are hedged by interest-rate swaps meeting hedge accounting criteria, DHI employs a method to calculate the fair value by discounting the combined total of principal and interest under a separate accounting treatment as part of the corresponding interest-rate swaps, using an estimate of the interest rate to be applied to similar types of loans.

Those with fixed interest rates are measured based on a calculation method where the total principal is discounted at a reasonably estimated rate that would be applied if similar long-term loans and rehabilitation obligations (loans) were entered into.

(7) Derivatives

Please refer to “9. Derivative Transactions” below.

(Note 2) Amount of redemption (scheduled) for monetary claims after August 31, 2012 and February 28, 2013 are as follows.

	As of August 31, 2012	As of February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	Within one year		
Cash and bank deposits (including trust accounts)	¥7,989,685	¥10,625,355	\$114,856
Total	¥7,989,685	¥10,625,355	\$114,856

8. Financial Instruments (continued)

(Note 3) Redemptions (scheduled) for short-term loans, investment corporation bonds, long-term loans and rehabilitation obligations after August 31, 2012 and February 28, 2013 are as follows.

As of August 31, 2012						
<i>(Thousands of yen)</i>						
	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Current portion of rehabilitation obligations	¥15,012,890	—	—	—	—	—
Investment corporation bonds	—	—	—	—	¥3,000,000	—
Long-term loans	—	—	—	¥10,500,000	59,295,000	¥4,000,000
Rehabilitation obligations	—	¥15,012,890	¥15,013,847	—	—	—
Total	¥15,012,890	¥15,012,890	¥15,013,847	¥10,500,000	¥62,295,000	¥4,000,000

As of February 28, 2013						
<i>(Thousands of yen)</i>						
	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans	¥3,800,000	—	—	—	—	—
Current portion of rehabilitation obligations	3,573,845	—	—	—	—	—
Investment corporation bonds	—	—	—	—	¥3,000,000	—
Long-term loans	—	—	¥10,500,000	¥39,400,000	27,495,000	¥22,910,000
Rehabilitation obligations	—	¥14,861,887	—	—	—	—
Total	¥7,373,845	¥14,861,887	¥10,500,000	¥39,400,000	¥30,495,000	¥22,910,000

As of February 28, 2013						
<i>(Thousands of U.S. dollars)</i>						
	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans	\$41,076	—	—	—	—	—
Current portion of rehabilitation obligations	38,631	—	—	—	—	—
Investment corporation bonds	—	—	—	—	\$32,428	—
Long-term loans	—	—	\$113,501	\$425,899	297,211	\$247,648
Rehabilitation obligations	—	\$160,651	—	—	—	—
Total	\$79,708	\$160,651	\$113,501	\$425,899	\$329,640	\$247,648

9. Derivative Transactions

- (1) Derivative transactions for which hedge accounting has not been applied
Not applicable.
- (2) Derivative transactions for which hedge accounting has been applied
Contract amount, or amount equivalent to principal specified in the contract according to the hedge accounting method is shown as follows.

Hedge accounting method	Type of derivative transaction	Primary hedged item
Special treatment for interest-rate swaps	Interest-rate swap agreements Receive floating and pay fixed	Long-term loan

As of August 31, 2012

(Thousands of yen)

Hedge accounting method	Contract amount		Fair value	Calculation method for applicable fair value
		Due after one year		
Special treatment for interest-rate swaps	¥68,700,000	¥68,700,000	(Note)	—
Total	¥68,700,000	¥68,700,000	—	—

As of February 28, 2013

(Thousands of yen)

Hedge accounting method	Contract amount		Fair value	Calculation method for applicable fair value
		Due after one year		
Special treatment for interest-rate swaps	¥86,110,000	¥86,110,000	(Note)	—
Total	¥86,110,000	¥86,110,000	—	—

As of February 28, 2013

(Thousands of U.S. dollars)

Hedge accounting method	Contract amount		Fair value	Calculation method for applicable fair value
		Due after one year		
Special treatment for interest-rate swaps	\$930,818	\$930,818	(Note)	—
Total	\$930,818	\$930,818	—	—

(Note) Interest-rate swaps subject to special accounting treatment are included in the accounting for the hedged long-term loan, thus, the fair value is included in the fair value of the corresponding applicable long-term loan. (Please refer to “8.Financial Instruments” above.)

10. Asset Retirement Obligations

1. Details of applicable asset retirement obligations

DHI has entered into agreements involving fixed-term land lease rights with the landowners of assets of the Company, and recognizes asset retirement obligations associated with restoration obligations upon expiration of the lease agreements.

2. Methods of calculating the amounts of applicable asset retirement obligations

DHI estimates the useful life of applicable assets as the remaining agreement period of the applicable fixed-term land lease rights (54-60 years), and uses a 2.1%-2.4% discount rate for the calculation of applicable asset retirement obligations.

3. Changes in applicable asset retirement obligations

	From March 1, 2012 to August 31, 2012
	<i>(Thousands of yen)</i>
Balance at February 29, 2012	¥383,545
Increase due to purchase of property and equipment	—
Accretion expense	4,353
Balance at August 31, 2012	¥387,898

	From September 1, 2012 to February 28, 2013
	<i>(Thousands of yen)</i>
Balance at August 31, 2012	¥387,898
Increase due to purchase of property and equipment	—
Accretion expense	4,402
Balance at February 28, 2013	¥392,301

	From September 1, 2012 to February 28, 2013
	<i>(Thousands of U.S. dollars)</i>
Balance at August 31, 2012	\$4,193
Increase due to purchase of property and equipment	—
Accretion expense	47
Balance at February 28, 2013	\$4,240

11. Investment and Rental Properties

DHI owns residential housing for lease in Tokyo and other areas for the purpose of earning rental revenues. The book value on the balance sheet corresponding to these rental and other real estate properties, changes during the period and the fair value are as follows.

	As of August 31, 2012	As of February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Book value on balance sheets			
Balance at beginning of the period	¥208,543,507	¥208,088,100	\$2,249,357
Change during the period	(455,406)	618,840	6,689
Balance at end of the period	208,088,100	208,706,941	2,256,047
Fair value at end of the period	202,699,000	207,446,000	2,242,417

(Note 1) The book value on the balance sheet is the acquisition cost less accumulated depreciation.

(Note 2) Change during the period as of August 31, 2012, increase (¥4,187,426 thousand) was primarily due to the acquisition of 2 properties (Castalia Arakawa, etc). Decrease (¥3,194,994 thousand) was primarily due to the sale of 4 properties (New City Residence Todoroki, etc.), part of land and depreciation and amortization.

Change during the period as of February 28, 2013, increase (¥5,182,908 thousand) (\$56,025 thousand) was primarily due to the acquisition of 2 properties (Castalia Nakameguro, etc). Decrease (¥3,243,437 thousand) (\$35,060 thousand) was primarily due to the sale of 2 properties (New City Residence Nishi Azabu Twin Tower, etc.) and depreciation and amortization.

(Note 3) The fair value at end of the period represents the value assessed by a third-party real estate appraiser.

The profit or loss regarding rental and other real estate properties are as shown in “7. Details of Rental Revenues and Expenses.”

12. Segment Information

1. Segment Information

Since DHI has been engaged in a single segment of the real estate leasing business, and there is no other business segment for disclosure, segment information has been omitted.

2. Related Information

(1) Information about products and services

Since operating revenues from external customers for a single segment of product and service account for over 90% of total operating revenues in DHI's statements of income and retained earnings for the periods ended August 31, 2012 and February 28, 2013, information about products and services has been omitted.

(2) Information about geographic areas

(a) Operating revenues

Since operating revenues from external customers within Japan account for over 90% of total operating revenues in DHI's statement of income and retained earnings for the periods ended August 31, 2012 and February 28, 2013, information about geographic areas has been omitted.

(b) Property and equipment

Since over 90% of total property and equipment on the balance sheet as of August 31, 2012 and February 28, 2013 are located within Japan, information about geographic areas on such property and equipment has been omitted.

(3) Information about major customers

Since no single external client represents 10% or more of total operating revenues in DHI's statement of income and retained earnings for the periods ended August 31, 2012 and February 28, 2013, information about major client has been omitted.

3. Information about impairment loss for fixed assets

DHI booked ¥106,996 thousand of impairment loss for fixed assets for the period ended August 31, 2012. Related segment information has been omitted since DHI has been engaged in a single segment of the real estate leasing business.

13. Deferred Income Taxes

(a) Details of significant components of deferred tax assets and liabilities

	As of August 31, 2012 <i>(Thousands of yen)</i>
Deferred tax assets - current:	
Allowance for doubtful accounts	—
Others	¥20,704
Subtotal-Deferred tax assets - current	20,704
Valuation reserve	¥20,704
Total deferred tax assets - current	—
Net deferred tax assets - current	—
Deferred tax assets - non-current:	
Valuation difference from the time of merger (Long-term prepaid expenses, etc.)	¥3,756
Valuation difference from the time of merger (Land, Buildings)	1,880,520
Loss carryforward assumed at the time of merger	15,209,408
Asset retirement obligations	132,506
Impairment loss	39,150
Others	3,507
Subtotal	17,268,850
Deferred tax liabilities - non-current:	
Valuation difference from the time of merger (Land, Buildings)	1,993,127
Asset retirement costs (associated with asset retirement obligations)	128,585
Subtotal	2,121,712
Valuation reserve	¥15,147,137
Total deferred tax assets - non-current	—
Net deferred tax assets - non-current	—

13. Deferred Income Taxes (continued)

	As of February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Deferred tax assets - current:		
Allowance for doubtful accounts	¥662	\$7
Others	19,051	205
Subtotal-Deferred tax assets - current	19,714	213
Valuation reserve	¥19,714	\$213
Total deferred tax assets - current	—	—
Net deferred tax assets - current	—	—
Deferred tax assets - non-current:		
Valuation difference from the time of merger (Long-term prepaid expenses, etc.)	¥3,152	\$34
Valuation difference from the time of merger (Land, Buildings)	1,844,868	19,942
Loss carryforward assumed at the time of merger	15,209,408	164,408
Asset retirement obligations	134,010	1,448
Others	5,401	58
Subtotal	17,196,842	185,891
Deferred tax liabilities - non-current:		
Valuation difference from the time of merger (Land, Buildings)	1,967,912	21,272
Asset retirement costs (associated with asset retirement obligations)	128,585	1,389
Subtotal	2,096,497	22,662
Valuation reserve	¥15,100,344	\$163,229
Total deferred tax assets - non-current	—	—
Net deferred tax assets - non-current	—	—

- (b) Details of main entries causing significant differences between the statutory tax rate and the effective tax rate after applying deferred income tax accounting

	From March 1, 2012 to August 31, 2012	From September 1, 2012 to February 28, 2013
Statutory tax rate	39.33%	36.59%
(Adjustment)		
Tax-deductible dividends paid	(38.58)	(34.65)
Other	(0.73)	(1.92)
Effective tax rate after applying deferred income tax accounting	0.02%	0.02%

14. Related Party Transactions

1) Controlling company and major corporate investors

Not applicable.

2) Affiliates

Not applicable.

3) Sister companies

(a) For the period from March 1, 2012 to August 31, 2012

Attribute	Name	Location	Capital (Millions of yen)	Business type or occupation	Ownership percentage of investment units (Owned)	Type of relationship		Transaction type	Transaction amount (Thousands of yen)	Account	Balance at end of period (Thousands of yen)
						Position of director(s) serving concurrently	Business relationship				
Subsidiary of DHI's major corporate investors	Daiwa House Asset Management Co., Ltd.	Chiyoda- ku, Tokyo	¥300	Asset management	—	—	Consigned asset- management operations	Asset- management compensation payment	¥488,247	Accrued operating expenses payable	¥299,999

(Note 1) In the above table, consumption taxes are not included in the transaction amounts but are included in the balances at the end of the period.

(Note 2) Transaction terms and conditions and policies for determining transaction terms and conditions: market value is considered in such determinations.

(b) For the period from September 1, 2012 to February 28, 2013

Attribute	Name	Location	Capital (Millions of yen) (Millions of U.S. dollars)	Business type or occupation	Ownership percentage of investment units (Owned)	Type of relationship		Transaction type	Transaction amount (Thousands of yen) (Thousands of U.S. dollars)	Account	Balance at end of period (Thousands of yen) (Thousands of U.S. dollars)
						Position of director(s) serving concurrently	Business relationship				
Subsidiary of DHI's major corporate investors	Daiwa House Asset Management Co., Ltd.	Chiyoda- ku, Tokyo	¥300 (\$3)	Asset management	—	—	Consigned asset- management operations	Asset- management compensation payment	¥525,207 (\$5,677)	Accrued operating expenses payable	¥295,041 (\$3,189)

(Note 1) In the above table, consumption taxes are not included in the transaction amounts but are included in the balances at the end of the period.

(Note 2) Transaction terms and conditions and policies for determining transaction terms and conditions: market value is considered in such determinations.

4) Director and major individual investors

Not applicable.

15. Per Unit Information

(a) Information about net assets per unit and net income per unit:

	As of / For the six months ended August 31, 2012	As of / For the six months ended February 28, 2013	
	<i>(yen)</i>	<i>(yen)</i>	<i>(U.S. dollars)</i>
Net assets per unit	¥ 286,320	¥ 286,063	\$3,092
Net income per unit	¥ 8,150	¥ 7,875	\$85

Net income per unit is calculated by dividing net income by the number of average investment units weighted by the number of days in the period. Net income per unit after adjustment for latent units has not been reported because there were no latent units.

DHI implemented a 2-for-1 split of its investment units on March 1, 2013. “Net assets per unit” and “Net income per unit” were calculated under the assumption that the split was implemented at the beginning of the fiscal period ended August 31, 2012.

(b) Basis of calculation for the amounts of net income per unit is stated as follows:

	From March 1, 2012 to August 31, 2012	From September 1, 2012 to February 28, 2013	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Net income	¥2,616,916	¥2,528,622	\$27,333
Amount not attributable to common unitholders	—	—	—
Net income attributable to common units	¥2,616,916	¥2,528,622	\$27,333
Average number of investment units during the period (in units)	321,070	321,070	321,070

16. Net Assets

DHI shall maintain net assets of at least ¥50,000 thousand (\$540 thousand) as required by Clause 4 of Article 67 of the Investment Trust Law.

17. Significant Subsequent Events

(a) For the period from March 1, 2012 to August 31, 2012

1. Cash dividends

On October 11, 2012, DHI's Board of Directors approved a resolution for the payment of cash dividends of ¥16,264 per unit, aggregating to ¥2,610,941,240, to unitholders of record as of August 31, 2012.

(Method of calculation of cash dividends)

In accordance with Section 37.1.1 of the bylaws set forth by DHI for distributions of cash dividends, the amount of dividends payable is limited by the amount of income and more than 90% of income available for distribution of dividends of DHI as set forth in Section 67.15 of the Special Taxation Measures Law.

Also, since the previous fiscal period, DHI has introduced the concept of target distribution, intending to implement its policy of stabilized distribution by utilizing the reserve fund for distribution. With the target of distribution per unit set at ¥16,100 for this period, the distribution shall not be affected, as previously, by extraordinary profit or loss, if any, in connection with losses on sales of properties or impairment loss, etc.

In accordance with the foresaid policy, ¥2,610,941,240 (¥16,264 per unit) was set as the amount for distribution of dividends. In addition, the difference of ¥5,975,621, between the total distribution of ¥2,610,941,240 and the period's unappropriated income of ¥2,616,916,861, is reserved as the fund for distribution.

No cash distribution exceeding the income amount set forth in Section 37.1.2 of the bylaws of DHI shall be made.

17. Significant Subsequent Events (continued)

(b) For the period from September 1, 2012 to February 28, 2013

1. Cash dividends

On April 11, 2013, DHI's Board of Directors approved a resolution for the payment of cash dividends of ¥16,947 (\$183) per unit, aggregating to ¥2,720,586,645 (\$29,408,568), to unitholders of record as of February 28, 2013.

(Method of calculation of cash dividends)

In accordance with Section 37.1.1 of the bylaws set forth by DHI for distributions of cash dividends, the amount of dividends payable is limited by the amount of income and more than 90% of income available for distribution of dividends of DHI as set forth in Section 67.15 of the Special Taxation Measures Law.

Also, DHI implemented its policy of stabilized distributions by utilizing the reserve fund for distribution. In accordance with the foresaid policy, ¥2,720,586,645 (\$29,408,568) (¥16,947 per unit) (\$183 per unit) was set as the amount for distribution of dividends.

The amount is total of the current period's unappropriated income of ¥2,528,622,143 (\$27,333,500) and loss on sales of real estate properties of ¥191,964,502 (\$2,075,067) as the reversal of reserve for distribution.

No cash distribution exceeding the income amount set forth in Section 37.1.2 of the bylaws of DHI shall be made.

17. Significant Subsequent Events (continued)

2. Split of investment units

DHI implemented a 2-for-1 split of its investment units with February 28, 2013 as the record date and March 1, 2013 as the effective date.

(a) Purpose of split

DHI implemented a 2-for-1 split for the purpose of creating an environment favorable to investors for investment and thereby expanding the investor base and enhancing the liquidity of investment units of DHI.

(b) Method of split

With February 28, 2013 as the record date, DHI implemented a 2-for-1 split of the DHI investment units held by unitholders stated or recorded in the final unitholders registry as of that date.

(c) Increase in number of investment units through split

- ① Number of DHI investment units issued and outstanding before split: 160,535 units
- ② Increase in number of investment units through split: 160,535 units
- ③ Number of DHI investment units issued and outstanding after split: 321,070 units
- ④ Total number of investment units authorized after split (Note): 2,000,000 units

(Note) There is no change in the total number of investment units authorized before and after the split.

“Net assets per unit” and “Net income per unit” calculated under the assumption that the split was implemented at the beginning of the fiscal period ended August 31, 2012 are as follows.

For the fiscal period from March 1, 2012 to August 31, 2012

Net assets per unit: ¥ 286,320

Net income per unit: ¥ 8,150

For the fiscal period from September 1, 2012 to February 28, 2013

Net assets per unit: ¥ 286,063 (\$3,092)

Net income per unit: ¥ 7,875 (\$85)

17. Significant Subsequent Events (continued)

3. Issuance of new investment units

DHI passed a resolution at the board meeting held on March 1, 2013 to issue new investment units. The issuance of new investment units through a public offering was completed on March 18, 2013, and also a secondary offering through third-party allotment was completed on April 17, 2013.

As a result of the above issuances, total unitholders' capital has increased to ¥53,104 million (\$574 million) and the number of outstanding investment units to 351,870 units.

(a) Issuance of new investment units through public offering

Number of new investment units issued: 28,000 units
Price per unit (offered): ¥386,100 (\$4,173) per unit
Total price of units issued (offered): ¥10,810,800,000 (\$116,860,879)
Paid-in amount (value of investment units issued): ¥373,428 (\$4,036) per unit
Total paid-in amount (value of investment units issued): ¥10,455,984,000 (\$113,025,445)
Transaction date: March 18, 2013

(b) Issuance of new investment units through third-party allotment

Number of new investment units issued: 2,800 units
Paid-in amount (value of investment units issued): ¥373,428 (\$4,036) per unit
Total paid-in amount (value of investment units issued): ¥1,045,598,400 (\$11,302,544)
Transaction date: April 17, 2013
Allotment to: Daiwa Securities Co. Ltd.

17. Significant Subsequent Events (continued)

4. Acquisition of properties

DHI acquired of the following assets subsequent to February 28, 2013.

(1)

Property Name	Castalia Ohori Bay Tower
Asset Type	Beneficiary right in trust that places real estate in trust
Acquisition Price (Note) (Thousands of yen) (Thousands of U.S. dollars)	¥2,910,000 (\$31,456)
Seller	Special limited liability company in Japan
Acquisition Date	March 25, 2013

(2)

Property Name	Royal Parks Namba
Asset Type	Beneficiary right in trust that places real estate in trust
Acquisition Price (Note) (Thousands of yen) (Thousands of U.S. dollars)	¥2,830,000 (\$30,591)
Seller	Royal Parks Namba Co., Ltd.
Acquisition Date	March 29, 2013

(Note) Excluding such amounts as expenses related to acquisition, amount equivalent to reimbursement of taxes and dues, etc., and amount equivalent to consumption taxes.

5. Repayment of the loans based on commitment line

DHI prepaid the short-term loans based on a commitment line (¥3,800,000 thousand) (\$41,076 million) on March 29, 2013.

18. Changes in Investment Units Issued

The number of investment units issued and the changes in total unitholders' capital for the last five years are reported as follows:

Date	Type	Investment units issued (Units)		Total unitholders' capital (Millions of yen)		Comments
		Change in number	Balance	Amount of change	Balance	
April 1, 2010	Merger	69,475	118,735	—	¥24,002	(Note 1)
October 4, 2011	Capital increase by public offering	38,000	156,735	¥15,999	¥40,002	(Note 2)
November 2, 2011	Third-party allotment	3,800	160,535	¥ 1,599	¥41,602	(Note 3)
March 1, 2013	Split of investment units	160,535	321,070	—	¥41,602	(Note 4)
March 18, 2013	Capital increase by public offering	28,000	349,070	¥10,455	¥52,058	(Note 5)
April 17, 2013	Third-party allotment	2,800	351,870	¥ 1,045	¥53,104	(Note 6)

(Note 1) DHI merged with NCR on April 1, 2010.

(Note 2) Investment units were issued at ¥435,337 per unit (value of investment unit issued ¥421,049) by public offering to obtain funds for acquiring new properties.

(Note 3) Investment units were issued at ¥421,049 per unit by third-party allotment to obtain property acquisition funds.

(Note 4) Investment units were split (2-for-1) on March 1, 2013 as effective date.

(Note 5) Investment units were issued at ¥386,100 per unit (value of investment unit issued ¥373,428) by public offering to obtain funds for acquiring new properties.

(Note 6) Investment units were issued at ¥373,428 per unit by third-party allotment to obtain property acquisition funds.

19. Other Supplementary Information

1) Detailed Schedule of Portfolio

Not applicable.

2) Table of Contract Amounts and Market Value of Futures Trades of Marketable Portfolio and Foreign Exchange Contract Amounts and Their Values

(Thousands of yen)

Category	Type	Contract amount		Fair value
			Due after one year	
Over-the-counter transaction	Interest-rate swap agreements	¥86,110,000	¥86,110,000	—
Total		¥86,110,000	¥86,110,000	—

(Thousands of U.S. dollars)

Category	Type	Contract amount		Fair value
			Due after one year	
Over-the-counter transaction	Interest-rate swap agreements	\$930,818	\$930,818	—
Total		\$930,818	\$930,818	—

(Note 1) Contract amount is based on notional principal amount.

(Note 2) Interest rate swap agreements are subject to special accounting treatment. (Please see “8. Financial Instruments” for details.)

3) General Overview of Detailed Schedule of Real Estate as of February 28, 2013

(Thousands of yen)

Type of asset		Balance at beginning of the period	Increase during the period	Decrease during the period	Balance at end of the period	Less accumulated depreciation or accumulated amortization		Net book value at end of the period
							Depreciation or amortization for the period	
Tangible fixed assets	Buildings	¥ 27,979,362	¥ 12,799	—	¥27,992,162	¥ 1,599,314	¥283,328	¥26,392,847
	Structures	238,845	280	—	239,126	14,268	2,594	224,857
	Machinery and equipment	432,205	—	—	432,205	44,138	7,884	388,067
	Tools, furniture and fixtures	647,236	1,800	¥ 39	648,997	138,312	23,990	510,685
	Land	21,150,419	—	—	21,150,419	—	—	21,150,419
	Buildings in trust	87,014,046	1,790,862	781,663	88,023,245	6,756,378	1,025,299	81,266,867
	Structures in trust	655,981	37,203	15,436	677,748	52,659	12,402	625,089
	Machinery and equipment in trust	1,320,493	43,333	—	1,363,827	291,669	45,050	1,072,157
	Tools, furniture and fixtures in trust	290,791	11,211	5,309	296,693	92,331	16,679	204,362
	Land in trust	73,763,336	3,390,885	2,521,672	74,632,549	—	—	74,632,549
	Total	¥213,492,720	¥5,288,376	¥3,324,121	¥215,456,976	¥8,989,073	¥1,417,230	¥206,467,903
Intangible fixed assets	Leasehold rights in trust	¥2,254,750	—	—	¥2,254,750	¥15,712	¥5,545	¥2,239,038
	Trademark rights	6,556	¥2,182	—	8,738	2,489	546	6,248
	Total	¥2,261,306	¥2,182	—	¥2,263,489	¥18,201	¥6,092	¥2,245,287

19. Other Supplementary Information (continued)

(Thousands of U.S. dollars)

Type of asset		Balance at beginning of the period	Increase during the period	Decrease during the period	Balance at end of the period	Less accumulated depreciation or accumulated amortization		Net book value at end of the period
							Depreciation or amortization for the period	
Tangible fixed assets	Buildings	\$302,446	\$138	–	\$302,585	\$ 17,288	\$3,062	\$285,297
	Structures	2,581	3	–	2,584	154	28	2,430
	Machinery and equipment	4,671	–	–	4,671	477	85	4,194
	Tools, furniture and fixtures	6,996	19	\$0	7,015	1,495	259	5,520
	Land	228,628	–	–	228,628	–	–	228,628
	Buildings in trust	940,590	19,358	8,449	951,499	73,034	11,083	878,465
	Structures in trust	7,090	402	166	7,326	569	134	6,756
	Machinery and equipment in trust	14,274	468	–	14,742	3,152	486	11,589
	Tools, furniture and fixtures in trust	3,143	121	57	3,207	998	180	2,209
	Land in trust	797,355	36,654	27,258	806,751	–	–	806,751
	Total	\$2,307,779	\$57,165	\$35,932	\$2,329,012	\$97,168	\$15,319	\$2,231,844
Intangible fixed assets	Leasehold rights in trust	\$24,373	–	–	\$24,373	\$169	\$59	\$24,203
	Trademark rights	70	\$23	–	94	26	5	67
	Total	\$24,443	\$23	–	\$24,467	\$196	\$65	\$24,270

(Note) Details of the increase (decrease) during the period are shown below.

19. Other Supplementary Information (continued)

1. Increase in buildings in trust etc. (increase by acquisition and disposition etc.)

(Thousands of yen)

Meguro-ku, Tokyo	Castalia Nakameguro	Building in trust etc.	¥ 870,779
Sendai City, Miyagi	Castalia Tsutsujigaoka	Building in trust etc.	¥921,243

(Thousands of U.S. dollars)

Meguro-ku, Tokyo	Castalia Nakameguro	Building in trust etc.	\$ 9,412
Sendai City, Miyagi	Castalia Tsutsujigaoka	Building in trust etc.	\$9,958

2. Increase in land in trust (increase by acquisition and disposition etc.)

(Thousands of yen)

Meguro-ku, Tokyo	Castalia Nakameguro	Land in trust	¥3,008,569
Sendai City, Miyagi	Castalia Tsutsujigaoka	Land in trust	¥382,316

(Thousands of U.S. dollars)

Meguro-ku, Tokyo	Castalia Nakameguro	Land in trust	\$ 32,521
Sendai City, Miyagi	Castalia Tsutsujigaoka	Land in trust	\$4,132

3. Decrease in buildings in trust etc. (decrease by acquisition and disposition etc.)

(Thousands of yen)

Minato-ku, Tokyo	New City Residence Nishi Azabu Twin Tower	Building in trust etc.	¥ 707,641
Yokohama City, Kanagawa	INAGEYA Yokohama Nishigaoka	Building in trust etc.	¥ 119,383

(Thousands of U.S. dollars)

Minato-ku, Tokyo	New City Residence Nishi Azabu Twin Tower	Building in trust etc.	\$ 7,649
Yokohama City, Kanagawa	INAGEYA Yokohama Nishigaoka	Building in trust etc.	\$ 1,290

4. Decrease in land in trust (decrease by acquisition and disposition etc.)

(Thousands of yen)

Minato-ku, Tokyo	New City Residence Nishi Azabu Twin Tower	Land in trust	¥1,645,605
Yokohama City, Kanagawa	INAGEYA Yokohama Nishigaoka	Land in trust	¥ 952,144

(Thousands of U.S. dollars)

Minato-ku, Tokyo	New City Residence Nishi Azabu Twin Tower	Land in trust	\$ 17,788
Yokohama City, Kanagawa	INAGEYA Yokohama Nishigaoka	Land in trust	\$ 10,292

19. Other Supplementary Information (continued)

4) Detailed Schedule of Other Specific Assets
Not applicable.

5) Detailed Schedule of Investment Corporation Bonds

(Thousands of yen)

Name of bond	Date of issuance	Balance at beginning of the period	Decrease during the period	Balance at end of the period	Interest rate	Repayment deadline	Purpose of use	Comments
Daiwa House Residential Investment Corporation First Series Unsecured Investment Corporation Bonds (Note 1)	March 9, 2012	¥3,000,000	—	¥3,000,000	1.12%	March 9, 2017	(Note 2)	Unsecured

(Thousands of U.S. dollars)

Name of bond	Date of issuance	Balance at beginning of the period	Decrease during the period	Balance at end of the period	Interest rate	Repayment deadline	Purpose of use	Comments
Daiwa House Residential Investment Corporation First Series Unsecured Investment Corporation Bonds (Note 1)	March 9, 2012	\$32,428	—	\$32,428	1.12%	March 9, 2017	(Note 2)	Unsecured

(Note 1) This bond is issued with special pari passu conditions among specified DHI Bonds.

(Note 2) Proceeds are used as funds for repayment of existing loans.

(Note 3) Scheduled payment per year for the investment corporation bonds within a period of 5 years subsequent to February 28, 2013 is as follows.

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds	—	—	—	¥3,000,000
Total	—	—	—	¥3,000,000

(Thousands of U.S. dollars)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds	—	—	—	\$32,428
Total	—	—	—	\$32,428

(Note 4) Please refer to the following 7) Detailed Schedule of Rehabilitation Obligations for the rehabilitation obligations (investment corporation bonds).

19. Other Supplementary Information (continued)

6) Detailed Schedule of Loans as of February 28, 2013

Classification	Lender	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Short-term loans	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	¥325,000 (\$3,513)	¥325,000 (\$3,513)	—	1.08%	September 2, 2013	(Note 9)	Unsecured without warranty
	Sumitomo Mitsui Banking Corporation	—	325,000 (3,513)	325,000 (3,513)	—				
	Sumitomo Mitsui Trust Bank, Limited.	—	325,000 (3,513)	325,000 (3,513)	—				
	Mizuho Corporate Bank, Ltd.	—	325,000 (3,513)	325,000 (3,513)	—				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	950,000 (10,269)	—	¥950,000 (\$10,269)	0.98%	November 28, 2013		
	Sumitomo Mitsui Banking Corporation	—	950,000 (10,269)	—	950,000 (10,269)				
	Sumitomo Mitsui Trust Bank, Limited.	—	950,000 (10,269)	—	950,000 (10,269)				
	Mizuho Corporate Bank, Ltd.	—	950,000 (10,269)	—	950,000 (10,269)				
	Subtotal	—	5,100,000 (55,129)	1,300,000 (14,052)	3,800,000 (41,076)	—	—		
Long-term loans	Sumitomo Mitsui Banking Corporation	1,800,000 (19,457)	—	—	1,800,000 (19,457)	1.40% (Note 2)	December 28, 2015	(Note 10)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	1,800,000 (19,457)	—	—	1,800,000 (19,457)				
	Mizuho Corporate Bank, Ltd.	1,800,000 (19,457)	—	—	1,800,000 (19,457)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,800,000 (19,457)	—	—	1,800,000 (19,457)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	1,400,000 (15,133)	—	—	1,400,000 (15,133)				
	Resona Bank, Ltd.	1,400,000 (15,133)	—	—	1,400,000 (15,133)				
	Shinsei Bank, Limited.	500,000 (5,404)	—	—	500,000 (5,404)				
	Sumitomo Mitsui Trust Bank, Limited.	5,200,000 (56,210)	—	—	5,200,000 (56,210)	1.10% (Note 3)	September 30, 2016	(Note 11)	Unsecured without warranty
	Sumitomo Mitsui Banking Corporation	5,200,000 (56,210)	—	—	5,200,000 (56,210)				
	Mizuho Corporate Bank, Ltd.	5,200,000 (56,210)	—	—	5,200,000 (56,210)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,200,000 (56,210)	—	—	5,200,000 (56,210)				
	Aozora Bank, Ltd.	4,500,000 (48,643)	—	—	4,500,000 (48,643)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	3,000,000 (32,428)	—	—	3,000,000 (32,428)				
	Resona Bank, Ltd.	2,500,000 (27,024)	—	—	2,500,000 (27,024)				
	Shinsei Bank, Limited.	1,000,000 (10,809)	—	—	1,000,000 (10,809)				

19. Other Supplementary Information (continued)

Classification	Lender	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Long-term loans	Sumitomo Mitsui Banking Corporation	¥3,000,000 (\$32,428)	—	—	¥3,000,000 (\$32,428)	1.03% (Note 4)	March 31, 2017	(Note 12)	Unsecured without warranty
	Aozora Bank, Ltd.	1,500,000 (16,214)	—	—	1,500,000 (16,214)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	1,500,000 (16,214)	—	—	1,500,000 (16,214)				
	Shinkin Central Bank	1,000,000 (10,809)	—	—	1,000,000 (10,809)				
	Mizuho Corporate Bank, Ltd.	3,000,000 (32,428)	—	—	3,000,000 (32,428)	1.03% (Note 4)	March 31, 2017	(Note 12)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	3,000,000 (32,428)	—	—	3,000,000 (32,428)				
	Mizuho Trust & Banking Co., Ltd.	1,000,000 (10,809)	—	—	1,000,000 (10,809)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,000,000 (43,238)	—	—	4,000,000 (43,238)	1.07% (Note 5)	March 27, 2019	(Note 12)	Unsecured without warranty
	Resona Bank, Ltd.	1,095,000 (11,836)	—	—	1,095,000 (11,836)	0.92%	March 31, 2017	(Note 13)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	3,480,000 (37,617)	—	—	3,480,000 (37,617)	0.70% (Note 6)	July 31, 2017	(Note 13)	Unsecured without warranty
	Sumitomo Mitsui Banking Corporation	3,480,000 (37,617)	—	—	3,480,000 (37,617)				
	Mizuho Corporate Bank, Ltd.	3,480,000 (37,617)	—	—	3,480,000 (37,617)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,960,000 (21,186)	—	—	1,960,000 (21,186)				
	Sumitomo Mitsui Trust Bank, Limited.	—	¥2,000,000 (\$21,619)	—	2,000,000 (21,619)	0.48%	March 31, 2016	(Note 14)	Unsecured without warranty
	Aozora Bank, Ltd.	—	2,000,000 (21,619)	—	2,000,000 (21,619)				
	The Norinchukin Bank	—	1,000,000 (10,809)	—	1,000,000 (10,809)				
	The Chiba Bank, Ltd.	—	600,000 (6,485)	—	600,000 (6,485)				
	Sumitomo Mitsui Banking Corporation	—	500,000 (5,404)	—	500,000 (5,404)				
	Mizuho Corporate Bank, Ltd.	—	500,000 (5,404)	—	500,000 (5,404)				
	The Shizuoka Bank, Ltd.	—	500,000 (5,404)	—	500,000 (5,404)				
	The Bank of Fukuoka	—	500,000 (5,404)	—	500,000 (5,404)				

19. Other Supplementary Information (continued)

Classification	Lender	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Long-term loans	Sumitomo Mitsui Trust Bank, Limited.	—	¥4,430,000 (\$47,886)	—	¥4,430,000 (\$47,886)	0.71% (Note 7)	January 31, 2020	(Note 14)	Unsecured without warranty
	Sumitomo Mitsui Banking Corporation	—	3,260,000 (35,239)	—	3,260,000 (35,239)				
	Aozora Bank, Ltd.	—	2,700,000 (29,186)	—	2,700,000 (29,186)				
	Mizuho Corporate Bank, Ltd.	—	1,930,000 (20,862)	—	1,930,000 (20,862)				
	Mizuho Trust & Banking Co., Ltd.	—	1,830,000 (19,781)	—	1,830,000 (19,781)				
	The Bank of Tokyo -Mitsubishi UFJ, Ltd.	—	1,350,000 (14,593)	—	1,350,000 (14,593)				
	The Norinchukin Bank	—	1,000,000 (10,809)	—	1,000,000 (10,809)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	—	910,000 (9,836)	—	910,000 (9,836)				
	Development Bank of Japan Inc.	—	1,500,000 (16,214)	—	1,500,000 (16,214)	0.96% (Note 8)	January 31, 2020	(Note 14)	Unsecured without warranty
	Subtotal	73,795,000 (797,697)	26,510,000 (286,563)	—	100,305,000 (1,084,261)	—	—	—	—
Total		¥73,795,000 (\$797,697)	¥31,610,000 (\$341,692)	¥1,300,000 (\$14,052)	¥104,105,000 (\$1,125,337)	—	—	—	—

(Note 1) Average interest rates are loan interest rates (weighted average during the applicable term) of the corresponding lenders, and are rounded off to the nearest second decimal place.

(Note 2) On and after March 31, 2011, interest rate is substantially fixed at an annual rate of 1.40% based on interest-rate swap agreement dated on March 23, 2011.

(Note 3) On and after December 30, 2011, interest rate is substantially fixed at an annual rate of 1.096% based on interest-rate swap agreement dated on December 20, 2011.

(Note 4) On and after June 29, 2012, interest rate is substantially fixed at an annual rate of 1.025% based on interest-rate swap agreement dated on June 7, 2012.

(Note 5) This loan carries a fixed interest rate.

(Note 6) On and after July 31, 2012, the interest rate is substantially fixed at an annual rate of 0.69536% based on interest-rate swap agreement dated on July 24, 2012.

(Note 7) On and after February 28, 2013, the interest rate is substantially fixed at an annual rate of 0.9585% based on interest-rate swap agreement dated on February 4, 2013.

(Note 8) This loan carries a fixed interest rate.

(Note 9) To be used to acquire trust beneficiary rights and real estate (including these co-ownership interests).

(Note 10) To be used to purchase rehabilitation obligations (others), purchase rehabilitation obligations (investment corporation bonds) and repayment of part of rehabilitation obligations (loans).

(Note 11) To be used to refinance loans and rehabilitation obligations with right of separate satisfaction (refinance fund).

(Note 12) To be used to purchase rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).

(Note 13) To be used to repayment of existing loans (refinance fund).

(Note 14) To be used to redemption of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).

19. Other Supplementary Information (continued)

(Note 15) Payment schedule for long-term loans over five years subsequent to February 28, 2013 as follows:

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans	–	¥10,500,000	¥39,400,000	¥27,495,000

(Thousands of U.S. dollars)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans	–	\$113,501	\$425,899	\$297,211

7) Detailed Schedule of Rehabilitation Obligations as of February 28, 2013

Classification		Date of modification of rights	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Current portion of rehabilitation obligations (Loans)	Sumitomo Mitsui Trust Bank, Limited.	January 5, 2010 (Note 4)	¥3,217,992 (\$34,785)	–	¥3,217,992 (\$34,785)	–	1.44%	January 31, 2013	(Note 5)	Unsecured without warranty
	The Norinchukin Bank		3,039,055 (32,851)	–	3,039,055 (32,851)	–				
	Aozora Bank, Ltd.		2,353,146 (25,436)	–	2,353,146 (25,436)	–				
	Sumitomo Mitsui Banking Corporation		1,883,861 (20,363)	–	1,883,861 (20,363)	–				
	Mizuho Corporate Bank, Ltd.		1,215,486 (13,138)	–	1,215,486 (13,138)	–				
	Mizuho Trust & Banking Co., Ltd.		914,707 (9,887)	–	914,707 (9,887)	–				
	Development Bank of Japan Inc.		516,666 (5,584)	–	516,666 (5,584)	–				
	Mitsubishi UFJ Trust and Banking Corporation		455,817 (4,927)	–	455,817 (4,927)	–				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		425,537 (4,599)	–	425,537 (4,599)	–				
	The Chiba Bank, Ltd.		303,879 (3,284)	–	303,879 (3,284)	–				
	North Pacific Bank, Ltd.		151,949 (1,642)	–	151,949 (1,642)	–				
	The Norinchukin Bank		–	¥3,039,055 (\$32,851)	–	¥3,039,055 (\$32,851)		January 31, 2014		
	Subtotal	–	14,478,100 (156,503)	3,039,055 (32,851)	14,478,100 (156,503)	3,039,055 (32,851)	–	–	–	–
Current portion of rehabilitation obligations (Investment corporation bonds)	First Series Unsecured Investment Corporation Bonds (Note 2) (Note 3)	January 5, 2010 (Note 4)	534,789 (5,780)	–	534,789 (5,780)	–	1.44%	January 31, 2013	(Note 6)	Unsecured without warranty
			–	534,789 (5,780)	–	534,789 (5,780)		January 31, 2014		
	Subtotal	–	534,789 (5,780)	534,789 (5,780)	534,789 (5,780)	534,789 (5,780)	–	–	–	–
Total		–	¥15,012,890 (\$162,283)	¥3,573,845 (\$38,631)	¥15,012,890 (\$162,283)	¥3,573,845 (\$38,631)	–	–	–	–

19. Other Supplementary Information (continued)

Classification		Date of modification of rights	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Rehabilitation obligations (loans)	Sumitomo Mitsui Trust Bank, Limited.	January 5, 2010 (Note 4)	¥3,217,992 (\$34,785)	—	¥3,217,992 (\$34,785)	—	1.44%	January 31, 2014	(Note 5)	Unsecured without warranty
			3,218,197 (34,787)	—	—	¥3,218,197 (\$34,787)		January 30, 2015		
	The Norinchukin Bank		3,039,055 (32,851)	—	3,039,055 (32,851)	—		January 31, 2014		
			3,039,249 (32,853)	—	—	3,039,249 (32,853)		January 30, 2015		
	Aozora Bank, Ltd.		2,353,146 (25,436)	—	2,353,146 (25,436)	—		January 31, 2014		
			2,353,296 (25,438)	—	—	2,353,296 (25,438)		January 30, 2015		
	Sumitomo Mitsui Banking Corporation		1,883,861 (20,363)	—	1,883,861 (20,363)	—		January 31, 2014		
			1,883,981 (20,365)	—	—	1,883,981 (20,365)		January 30, 2015		
	Mizuho Corporate Bank, Ltd.		1,215,486 (13,138)	—	1,215,486 (13,138)	—		January 31, 2014		
			1,215,563 (13,139)	—	—	1,215,563 (13,139)		January 30, 2015		
	Mizuho Trust & Banking Co., Ltd.		914,707 (9,887)	—	914,707 (9,887)	—		January 31, 2014		
			914,765 (9,888)	—	—	914,765 (9,888)		January 30, 2015		
	Development Bank of Japan Inc.		516,666 (5,584)	—	516,666 (5,584)	—		January 31, 2014		
			516,699 (5,585)	—	—	516,699 (5,585)		January 30, 2015		
	Mitsubishi UFJ Trust and Banking Corporation		455,817 (4,927)	—	455,817 (4,927)	—		January 31, 2014		
			455,846 (4,927)	—	—	455,846 (4,927)		January 30, 2015		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		425,537 (4,599)	—	425,537 (4,599)	—		January 31, 2014		
			425,564 (4,600)	—	—	425,564 (4,600)		January 30, 2015		
	The Chiba Bank, Ltd.		303,879 (3,284)	—	303,879 (3,284)	—		January 31, 2014		
			303,898 (3,285)	—	—	303,898 (3,285)		January 30, 2015		
	North Pacific Bank, Ltd.	151,949 (1,642)	—	151,949 (1,642)	—	January 31, 2014				
		151,959 (1,642)	—	151,959 (1,642)	—	January 30, 2015				
	Subtotal		—	28,957,124 (313,016)	—	14,630,060 (158,145)	14,327,064 (154,870)	—	—	—

19. Other Supplementary Information (continued)

Classification		Date of modification of rights	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Rehabilitation obligations (investment corporation bonds)	First Series Unsecured Investment Corporation Bonds (Note 2) (Note 3)	January 5, 2010 (Note 4)	534,789 (5,780)	—	534,789 (5,780)	—	1.44%	January 31, 2014	(Note 6)	Unsecured without warranty
			534,823 (5,781)	—	—	534,823 (5,781)		January 30, 2015		
	Subtotal	—	1,069,613 (11,562)	—	534,789 (5,780)	534,823 (5,781)	—	—	—	—
Total		—	30,026,737 (324,578)	—	15,164,850 (163,926)	14,861,887 (160,651)	—	—	—	—
Total rehabilitation obligations		—	45,039,628 (486,862)	3,573,845 (38,631)	30,177,740 (326,210)	18,435,733 (199,283)	—	—	—	—

(Note 1) Average interest rates are loan interest rates (weighted average during the applicable term) of the corresponding lenders or investment corporation bonds, and are rounded off to the nearest second decimal place.

(Note 2) Limited only to qualified institutional investors, and with special pari passu conditions among specified Daiwa House Residential Investment Corporation bonds.

(Note 3) Rehabilitation obligations (investment corporation bonds) have been reduced through retirement by purchase.

(Note 4) NCR's rehabilitation plan (hereinafter referred to as "Rehabilitation Plan") filed at the Tokyo District Court as of November 9, 2009 was also approved at the creditors' meeting held on December 9, 2009. Approval by the Tokyo District Court was received as of the same day, and the order of confirmation of the Rehabilitation Plan became final and binding on January 5, 2010. Under the Rehabilitation Plan, terms and conditions for rehabilitation obligations with rights of separate satisfaction have been amended based on the agreement on rights of separate satisfaction made on October 13, 2009, and for other rehabilitation obligations, terms and conditions have been amended pursuant to the provisions stipulated in the Rehabilitation Plan.

(Note 5) The loan was made for use in funding repayment of loans, or to purchase real estates and real estate trust beneficiary rights.

(Note 6) These bonds were issued to finance funds for repayment of short-term loans, and for purchase of real estate trust beneficiary rights.

(Note 7) With regard to each rehabilitation obligation, excluding those with rights of separate satisfaction, a fixed interest rate has been applied to the balance of the principal with a maturity of January 30, 2015 (¥14,861,887 thousand at end of the period) (\$160,651 thousand) from September 1, 2010. Also, though a floating interest rate is currently applied as of the end of this period for the unpaid principal balances with maturity dates of January 31, 2014 (¥3,573,845 thousand for respective balance at the end of this period) (\$38,631 thousand), DHI has the option to convert to a fixed interest rate without changing the spread.

19. Other Supplementary Information (continued)

(Note 8) Payment schedule per year for rehabilitation obligations over five years subsequent to February 28, 2013 is as follows.

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Rehabilitation obligations (loans)	¥14,327,064	—	—	—
Rehabilitation obligations (investment corporation bonds)	534,823	—	—	—
Total	¥14,861,887	—	—	—

(Thousands of U.S. dollars)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Rehabilitation obligations (loans)	\$154,870	—	—	—
Rehabilitation obligations (investment corporation bonds)	5,781	—	—	—
Total	\$160,651	—	—	—