

**Consolidated Financial Statements**

**Daiwa House Industry Co., Ltd.**

*Year ended March 31, 2021  
with Independent Auditor's Report*

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

*Year ended March 31, 2021*

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## Independent Auditor's Report

The Board of Directors  
Daiwa House Industry Co., Ltd.

### Opinion

We have audited the accompanying consolidated financial statements of Daiwa House Industry Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition on sales of real estate to real estate funds or others	
Description of Key Audit Matter	Auditor's Response
During the year ended March 31, 2021, the Group recorded sales of ¥237,222 million (\$2,142,733 thousand) involving the sale of development properties, including the sale of real estate to special purpose companies and REITs (hereinafter referred to as "real estate funds or others") with which the Group has	We mainly conducted the following procedures to assess the judgement over the transfer of risks and rewards of ownership regarding real estate sales transactions to real estate funds or others for certain transactions that satisfied the sampling criteria established by us.

<p>continuing business relationships.</p> <p>In general, the terms and conditions of real estate sales transactions are highly specific, and each transaction amount is material. In particular, the individual scheme and terms and conditions of transactions are complicated when the transferees are real estate funds or others. If the seller has some continuing involvement, such as providing management services, granting repurchase options, sales and leaseback transactions or the partial holding of equity interest after the transfer of the real estate is completed, the judgement as to whether substantially all of the risks and rewards of ownership has been transferred may be complicated. In the event that such judgment is erroneous, revenue from real estate sales transactions to real estate funds or others under which substantially all of the risks and rewards of ownership have not been transferred may be recognized.</p> <p>Accordingly, we have determined the judgement over the transfer of risks and rewards of ownership regarding real estate sales transactions to real estate funds or others to be a key audit matter.</p>	<ul style="list-style-type: none"> <li>• In order to understand the entire transaction scheme including the buyer, we inspected the request for approval and the minutes of the Board of Directors' meetings and made inquiries to the department in charge.</li> <li>• In order to verify whether any conditions of continuing involvement exist in relation to the transferred assets, we inspected related contracts such as sales contracts, investment contracts, and real estate management contracts.</li> <li>• In order to verify the fact of transfer of the assets, we inspected the evidence of cash receipt and certified copies of the real estate register.</li> </ul>
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Valuation of fixed assets related to large projects under development	
Description of Key Audit Matter	Auditor's Response
<p>The Group has invested in the development of large-scale real estate, mainly recognized in the Business and Corporate Facilities Business segment and the Commercial Facilities Business segment. The fixed assets under development related to these businesses were included in property, plant and equipment in the amount of ¥1,858,847 million (\$16,790,235 thousand) in the consolidated balance sheet as of March 31, 2021.</p> <p>Since a large amount of capital has been invested and the development period is long, there is a risk that the profitability will be lower than initially expected and the</p>	<p>We mainly conducted the following procedures to assess indicators of impairment of fixed assets related to large projects under development that satisfied the sampling criteria established by us.</p> <ul style="list-style-type: none"> <li>• In order to understand the business plan and its progress, and to verify whether there were any material changes that would significantly lower the recoverable value, we inspected the business plan, the request for approval, the minutes of the Board of Directors' meetings and made inquiries to the department in charge.</li> <li>• In order to verify the basis of the leasing</li> </ul>

<p>investment amount will not be recovered if the project is delayed or the plan is changed. Important factors in the business plan used to identify indicators of impairment of fixed assets under development include the progress of the project, leasing prices charged to tenants and the occupancy ratio after development, and estimated construction costs and others. If these factors are not properly reflected in the business plan, indications of impairment may not be identified in a timely manner.</p> <p>Accordingly, we have determined identifying indications of impairment of fixed assets related to large projects under development included in property, plant and equipment to be a key audit matter.</p>	<p>prices charged to tenants and the occupancy ratio included in the business plan, we inspected the lease intention letters from the prospective tenants and the consistency with similar transaction cases was considered.</p> <ul style="list-style-type: none"> <li>• Estimated construction costs were compared with cases involving similar transactions and the actual construction records in the past and agreed to the execution budget, which is the basis of calculating construction costs.</li> </ul>
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Valuation of real estate for sale in condominium business	
Description of Key Audit Matter	Auditor's Response
<p>The Group operates the real estate sales business such as sales of single-family houses, condominiums, commercial facilities, distribution facilities and inventories related to such business are recorded in the consolidated balance sheet. The total inventory balance as of March 31, 2021 was ¥1,093,759 million (\$9,879,495 thousand) as shown in the balance of real estate for sale in Notes 1 (v) "Significant Accounting Judgments, Estimates and Assumptions, (a) Valuation of real estate for sale including real estate for sales in process and undeveloped land." Of the total inventory balance, ¥403,794 million (\$3,647,312 thousand) was related to the condominium business and comprises the balance of real estate for sale related to condominiums.</p> <p>Condominiums for sale are exposed to risks over the long term such as changes in the condominium market, delays in development, and increases in construction costs because the period from acquisition of land to development and sale is relatively long and the business proceeds under the business plan is</p>	<p>We mainly conducted the following procedures to assess whether recognizing valuation loss on condominiums for sale is required for those properties that satisfied the sampling criteria established by us.</p> <ul style="list-style-type: none"> <li>• In order to understand the business plan and its progress, and to verify whether there were any material changes that would significantly lower the net selling value, we inspected meeting materials such as the minutes of the Management Meetings and requests for approval and made inquiries to the department in charge.</li> <li>• In order to understand the basis of determination for the estimated sales amount, we inspected the business plan and assessed the consistency with external information such as other transactions in the neighborhood.</li> <li>• For condominiums prior to completion, we vouched the construction contracts and performed a cost analysis in order to verify the estimated construction cost.</li> </ul>

based on major assumptions such as sales prices and construction costs and reflects past sales results and trends in the real estate market. As a result, the business plan for condominiums strongly reflects the subjective judgment of the management, and the uncertainty regarding the feasibility of the business plan is high, so it may be necessary to recognize valuation loss on real estate inventory.

Accordingly, we have determined that the judgement as to whether recognizing valuation loss on condominiums for sale is necessary to be a key audit matter.

### **Other Matter**

The predecessor auditor audited the consolidated financial statements of the Group as at March 31, 2020 and for the year then ended. It expressed an unqualified auditor's opinion on the consolidated financial statements effective June 19, 2020.

### **Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Osaka, Japan

June 28, 2021

/s/ Kaname Matsumoto

Kaname Matsumoto  
Designated Engagement Partner  
Certified Public Accountant

/s/ Yasuhiro Takata

Yasuhiro Takata  
Designated Engagement Partner  
Certified Public Accountant

/s/ Satoshi Abe

Satoshi Abe  
Designated Engagement Partner  
Certified Public Accountant



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2021	2020	2021
<b>Assets</b>			
<b>Current assets:</b>			
Cash and bank deposits ( <i>Notes 9, 24 and 26</i> )	¥ 425,980	¥ 281,434	\$ 3,847,710
Trade notes and accounts receivable ( <i>Notes 9 and 24</i> )	401,314	433,053	3,624,911
Lease receivables and investments in leases ( <i>Note 22</i> )	45,411	35,021	410,179
Mortgage notes receivable held for sale ( <i>Note 9</i> )	29,088	18,579	262,740
Securities maturing within one year ( <i>Notes 4, 9 and 24</i> )	550	814	4,967
Inventories ( <i>Notes 6 and 9</i> )	1,173,612	1,094,844	10,600,776
Other current assets ( <i>Note 9</i> )	292,088	249,133	2,638,316
Allowance for doubtful accounts	(13,682)	(9,016)	(123,584)
Total current assets	2,354,364	2,103,866	21,266,046
<b>Property, plant and equipment (<i>Note 7</i>):</b>			
Land ( <i>Notes 9 and 14</i> )	870,822	857,587	7,865,793
Buildings and structures ( <i>Notes 9 and 14</i> )	1,164,230	1,044,914	10,516,032
Machinery and equipment ( <i>Note 14</i> )	159,424	155,029	1,440,014
Furniture and fixtures ( <i>Note 14</i> )	75,280	69,917	679,974
Leased assets ( <i>Notes 14 and 22</i> )	93,235	78,190	842,155
Construction in progress ( <i>Note 14</i> )	166,588	134,361	1,504,724
Other tangible assets ( <i>Note 14</i> )	9,641	10,239	87,083
Total	2,539,224	2,350,241	22,935,814
Accumulated depreciation	(680,377)	(628,524)	(6,145,578)
Net property, plant and equipment	1,858,847	1,721,717	16,790,235
<b>Investments and other assets:</b>			
Investment securities ( <i>Notes 4, 9 and 24</i> )	231,490	207,219	2,090,958
Long-term loans receivable ( <i>Note 9</i> )	5,284	4,053	47,728
Lease deposits ( <i>Note 24</i> )	251,358	241,030	2,270,418
Deferred tax assets ( <i>Note 17</i> )	161,458	170,274	1,458,386
Goodwill ( <i>Note 14</i> )	74,046	63,457	668,828
Other assets ( <i>Note 14</i> )	118,026	118,086	1,066,082
Allowance for doubtful accounts	(1,825)	(2,315)	(16,484)
Total investments and other assets	839,839	801,805	7,585,936
<b>Total assets</b>	<b>¥ 5,053,052</b>	<b>¥ 4,627,388</b>	<b>\$ 45,642,236</b>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Payables (Note 24):			
Trade notes and accounts payable	¥ 296,165	¥ 360,338	\$ 2,675,142
Other	129,089	135,690	1,166,010
Short-term bank loans (Notes 8, 9 and 24)	124,584	110,519	1,125,318
Current portion of long-term debt (Notes 8, 9, 22 and 24):			
Bonds	40,000	65,000	361,304
Loans from banks	46,700	65,669	421,822
Lease obligation	7,576	6,083	68,431
Commercial paper (Notes 8 and 24)	–	49,000	–
Income taxes payable (Notes 17 and 24)	57,093	58,980	515,698
Advances received	175,978	77,071	1,589,540
Advances received on construction projects in progress	113,186	130,633	1,022,364
Accrued bonuses	53,276	57,288	481,221
Provision for warranties for completed construction	7,230	7,484	65,305
Asset retirement obligations (Note 11)	2,568	2,159	23,195
Other current liabilities (Note 9)	225,407	171,334	2,036,013
Total current liabilities	<u>1,278,858</u>	<u>1,297,254</u>	<u>11,551,422</u>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 8, 9, 22 and 24)			
Bonds	383,000	277,000	3,459,488
Loans from banks	677,700	473,689	6,121,398
Lease obligation	93,780	79,770	847,077
Long-term deposits received from the Group's club members	1,419	1,621	12,817
Lease deposits received (Notes 9 and 24)	284,946	284,323	2,573,805
Deferred tax liabilities on land revaluation	19,634	20,037	177,346
Liabilities for employees' retirement benefits (Note 10)	246,059	267,062	2,222,554
Asset retirement obligations (Note 11)	53,784	49,881	485,809
Other long-term liabilities	120,363	103,360	1,087,191
Total long-term liabilities	<u>1,880,689</u>	<u>1,556,745</u>	<u>16,987,525</u>
<b>Commitments and contingencies (Notes 22 and 23)</b>			
<b>Net assets (Notes 19, 20 and 29):</b>			
Shareholders' equity			
Common stock – 1,900,000,000 authorized shares, 666,238,205 issued and 654,237,616 outstanding as of March 31, 2021 and 666,238,205 issued and 664,019,434 outstanding as of March 31, 2020	161,699	161,699	1,460,563
Capital surplus	304,595	307,154	2,751,287
Retained earnings	1,339,558	1,217,407	12,099,701
Treasury stock – at cost, 12,000,589 shares in 2021 and 2,218,771 shares in 2020	(33,019)	(7,588)	(298,247)
Total shareholders' equity	<u>1,772,834</u>	<u>1,678,671</u>	<u>16,013,314</u>
Accumulated other comprehensive income (loss):			
Unrealized gain on securities	59,404	36,996	536,573
Deferred gain (loss) on hedging instruments	10	(10)	90
Land revaluation reserve	10,624	10,251	95,962
Foreign currency translation adjustments	(7,677)	1,087	(69,343)
Total accumulated other comprehensive income	<u>62,361</u>	<u>48,323</u>	<u>563,282</u>
Stock acquisition rights	91	101	821
Non-controlling interests	58,216	46,292	525,842
Total net assets	<u>1,893,504</u>	<u>1,773,388</u>	<u>17,103,278</u>
<b>Total liabilities and net assets</b>	<u>¥ 5,053,052</u>	<u>¥ 4,627,388</u>	<u>\$ 45,642,236</u>

See accompanying notes to the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2021	2020	2021
<b>Net sales (Note 7)</b>	<b>¥ 4,126,769</b>	<b>¥ 4,380,209</b>	<b>\$ 37,275,485</b>
<b>Cost of sales (Notes 6, 7, 10 and 12)</b>	<b>3,299,886</b>	<b>3,510,002</b>	<b>29,806,575</b>
<b>Gross profit</b>	<b>826,883</b>	<b>870,206</b>	<b>7,468,909</b>
<b>Selling, general and administrative expenses (Notes 7, 10 and 12)</b>	<b>469,761</b>	<b>489,091</b>	<b>4,243,166</b>
Operating income	<b>357,121</b>	<b>381,114</b>	<b>3,225,733</b>
<b>Other income (expenses):</b>			
Interest income	2,638	3,046	23,828
Dividend income	4,616	4,540	41,694
Insurance claim income	2,888	2,871	26,086
Subsidies income	3,521	697	31,803
Interest expense	(10,013)	(8,982)	(90,443)
Taxes and dues	(1,537)	(1,662)	(13,883)
Provision of allowance for doubtful accounts	(4,509)	–	(40,728)
Equity in losses of affiliates	(11,553)	(6,972)	(104,353)
Gain on sales of fixed assets (Note 13)	805	1,285	7,271
Gain on sales of investments in securities	449	454	4,055
Gain on liquidation of a subsidiary	–	1,512	–
Gain on sales of investments in capital of subsidiaries	1,115	–	10,071
Gain on change in equity interest	428	32	3,865
Subsidy income related to COVID-19 pandemic (Note 15)	1,871	–	16,900
Loss on sales of fixed assets (Note 13)	(215)	(164)	(1,942)
Loss on disposal of fixed assets	(1,372)	(2,408)	(12,392)
Impairment loss (Note 14)	(21,065)	(17,062)	(190,271)
Loss on sales of investments in securities	(0)	(3)	(0)
Loss on revaluation of investments in securities	(656)	(1,630)	(5,925)
Loss on sales of stocks of a subsidiary and an affiliate	(418)	–	(3,775)
Loss on COVID-19 pandemic (Note 16)	(7,561)	–	(68,295)
Other, net	(5,342)	(6,985)	(48,252)
<b>Profit before income taxes</b>	<b>311,210</b>	<b>349,683</b>	<b>2,811,037</b>
<b>Income taxes (Note 17):</b>			
Current	109,300	119,516	987,264
Deferred	573	(7,189)	5,175
Total income taxes	<b>109,873</b>	<b>112,327</b>	<b>992,439</b>
<b>Profit</b>	<b>¥ 201,336</b>	<b>¥ 237,356</b>	<b>\$ 1,818,589</b>
Profit attributable to non-controlling interests	6,260	3,753	56,544
Profit attributable to owners of the parent	<b>¥ 195,076</b>	<b>¥ 233,603</b>	<b>\$ 1,762,044</b>

*See accompanying notes to the consolidated financial statements.*

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
<b>Profit</b>	<b>¥ 201,336</b>	<b>¥ 237,356</b>	<b>\$ 1,818,589</b>
<b>Other comprehensive income (loss) (Note 18):</b>			
Unrealized gain (loss) on securities	22,455	(14,039)	202,827
Deferred gain on hedging instruments	19	10	171
Land revaluation difference	5	0	45
Foreign currency translation adjustments	(9,770)	(5,220)	(88,248)
Share of other comprehensive loss of affiliates accounted for by the equity method	(344)	(1,166)	(3,107)
<b>Total other comprehensive income (loss)</b>	<b>12,365</b>	<b>(20,415)</b>	<b>111,688</b>
<b>Comprehensive income</b>	<b>¥ 213,702</b>	<b>¥ 216,940</b>	<b>\$ 1,930,286</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	¥ 208,745	¥ 213,106	\$ 1,885,511
Non-controlling interests	4,956	3,834	44,765

See accompanying notes to the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year Ended March 31, 2021

	<i>Thousands</i>	<i>Millions of yen</i>				
	Number of shares of common stock outstanding <i>(Note 19)</i>	Common stock	Capital surplus	Retained earnings	Treasury stock <i>(Note 19)</i>	Total shareholders' equity
Balance, April 1, 2019	663,801	¥ 161,699	¥ 310,879	¥ 1,066,705	¥ (8,316)	¥ 1,530,968
Cash dividends	-	-	-	(79,016)	-	(79,016)
Profit attributable to owners of the parent	-	-	-	233,603	-	233,603
Change in equity of parent arising from transaction with non-controlling shareholders	-	-	(3,725)	-	-	(3,725)
Land revaluation reserve	-	-	-	(3,796)	-	(3,796)
Purchase of treasury stock	(73)	-	-	-	(244)	(244)
Disposal of treasury stock	292	-	-	(88)	972	883
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Balance, April 1, 2020	<b>664,019</b>	<b>161,699</b>	<b>307,154</b>	<b>1,217,407</b>	<b>(7,588)</b>	<b>1,678,671</b>
Cash dividends	-	-	-	(72,556)	-	(72,556)
Profit attributable to owners of the parent	-	-	-	195,076	-	195,076
Change in equity of parent arising from transaction with non-controlling shareholders	-	-	(2,614)	-	-	(2,614)
Land revaluation reserve	-	-	-	(367)	-	(367)
Purchase of treasury stock	(10,003)	-	-	-	(26,054)	(26,054)
Disposal of treasury stock	221	-	56	-	624	681
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Balance, March 31, 2021	<b>654,237</b>	<b>¥ 161,699</b>	<b>¥ 304,595</b>	<b>¥ 1,339,558</b>	<b>¥ (33,019)</b>	<b>¥ 1,772,834</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2021

Millions of yen

	Accumulated other comprehensive income							Total net assets
	Unrealized gain on securities	Deferred gain (loss) on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights (Note 20)	Non-controlling interests	
Balance, April 1, 2019	¥ 51,016	¥ (21)	¥ 6,453	¥ 7,574	¥ 65,023	¥ 114	¥ 47,610	¥ 1,643,717
Cash dividends	—	—	—	—	—	—	—	(79,016)
Profit attributable to owners of the parent	—	—	—	—	—	—	—	233,603
Change in equity of parent arising from transaction with non-controlling shareholders	—	—	—	—	—	—	—	(3,725)
Land revaluation reserve	—	—	—	—	—	—	—	(3,796)
Purchase of treasury stock	—	—	—	—	—	—	—	(244)
Disposal of treasury stock	—	—	—	—	—	—	—	883
Net change in items other than those in shareholders' equity	(14,019)	10	3,797	(6,487)	(16,699)	(13)	(1,318)	(18,031)
Balance, April 1, 2020	<b>36,996</b>	<b>(10)</b>	<b>10,251</b>	<b>1,087</b>	<b>48,323</b>	<b>101</b>	<b>46,292</b>	<b>1,773,388</b>
Cash dividends	—	—	—	—	—	—	—	(72,556)
Profit attributable to owners of the parent	—	—	—	—	—	—	—	195,076
Change in equity of parent arising from transaction with non-controlling shareholders	—	—	—	—	—	—	—	(2,614)
Land revaluation reserve	—	—	—	—	—	—	—	(367)
Purchase of treasury stock	—	—	—	—	—	—	—	(26,054)
Disposal of treasury stock	—	—	—	—	—	—	—	681
Net change in items other than those in shareholders' equity	22,407	21	373	(8,764)	14,037	(9)	11,924	25,952
Balance, March 31, 2021	<b>¥ 59,404</b>	<b>¥ 10</b>	<b>¥ 10,624</b>	<b>¥ (7,677)</b>	<b>¥ 62,361</b>	<b>¥ 91</b>	<b>¥ 58,216</b>	<b>¥ 1,893,504</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2021

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 19)	Total shareholders' equity
Balance, April 1, 2020	\$ 1,460,563	\$ 2,774,401	\$ 10,996,359	\$ (68,539)	\$ 15,162,776
Cash dividends	—	—	(655,369)	—	(655,369)
Profit attributable to owners of the parent	—	—	1,762,044	—	1,762,044
Change in equity of parent arising from transaction with non- controlling shareholders	—	(23,611)	—	—	(23,611)
Land revaluation reserve	—	—	(3,314)	—	(3,314)
Purchase of treasury stock	—	—	—	(235,335)	(235,335)
Disposal of treasury stock	—	505	—	5,636	6,151
Net change in items other than those in shareholders' equity	—	—	—	—	—
Balance, March 31, 2021	\$ 1,460,563	\$ 2,751,287	\$ 12,099,701	\$ (298,247)	\$ 16,013,314

Thousands of U.S. dollars (Note 3)

	Accumulated other comprehensive income							Total net assets
	Unrealized gain on securities	Deferred gain (loss) on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights (Note 20)	Non- controlling interests	
Balance, April 1, 2020	\$ 334,170	\$ (90)	\$ 92,593	\$ 9,818	\$ 436,482	\$ 912	\$ 418,137	\$ 16,018,318
Cash dividends	—	—	—	—	—	—	—	(655,369)
Profit attributable to owners of the parent	—	—	—	—	—	—	—	1,762,044
Change in equity of parent arising from transaction with non-controlling shareholders	—	—	—	—	—	—	—	(23,611)
Land revaluation reserve	—	—	—	—	—	—	—	(3,314)
Purchase of treasury stock	—	—	—	—	—	—	—	(235,335)
Disposal of treasury stock	—	—	—	—	—	—	—	6,151
Net change in items other than those in shareholders' equity	202,393	189	3,369	(79,161)	126,790	(81)	107,704	234,414
Balance, March 31, 2021	\$ 536,573	\$ 90	\$ 95,962	\$ (69,343)	\$ 563,282	\$ 821	\$ 525,842	\$ 17,103,278

See accompanying notes to the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year Ended March 31, 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
<b>Operating activities:</b>			
Profit before income taxes	¥ 311,210	¥ 349,683	\$ 2,811,037
Adjustments for:			
Depreciation	78,403	75,207	708,183
(Decrease) increase in liability for employees' retirement benefits	(21,052)	4,043	(190,154)
Interest and dividend income	(7,254)	(7,587)	(65,522)
Interest expense	10,013	8,982	90,443
Equity in losses of affiliates	11,553	6,972	104,353
Net loss on sales and disposal of property, plant and equipment	782	1,287	7,063
Impairment loss	21,065	17,062	190,271
Loss on revaluation of investments in securities	656	1,630	5,925
Decrease (increase) in trade receivables	33,762	(42,234)	304,958
Increase in inventories	(419)	(37,157)	(3,784)
Increase (decrease) in advances received	98,846	(34,427)	892,837
(Decrease) increase in advances received on construction projects in progress	(17,929)	21,389	(161,945)
Decrease in trade payables	(72,335)	(188,431)	(653,373)
Other	93,601	105,262	845,461
Subtotal	<u>540,904</u>	<u>281,683</u>	<u>4,885,773</u>
Interest and dividends received	8,964	6,218	80,968
Interest paid	(8,388)	(7,608)	(75,765)
Income taxes paid	(111,165)	(130,641)	(1,004,109)
Net cash provided by operating activities	<u>430,314</u>	<u>149,651</u>	<u>3,886,857</u>
<b>Investing activities:</b>			
Purchases of property, plant and equipment	(334,698)	(291,468)	(3,023,195)
Proceeds from sales of property, plant and equipment	6,454	12,059	58,296
Purchases of investment securities	(5,759)	(19,059)	(52,018)
Proceeds from sales and redemption of investment securities	10,442	7,649	94,318
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(20,935)	(4,731)	(189,097)
Purchase of investments in capital of subsidiaries resulting in change in scope of consolidation	(4,428)	(563)	(39,996)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(285)	–	(2,574)
Proceeds from sales of investments in capital of subsidiaries resulting in change in scope of consolidation	1,231	–	11,119
Payments for acquisition of business	(22,991)	(348)	(207,668)
Payments of leasehold and guarantee deposits	(6,971)	(9,618)	(62,966)
Other	(12,037)	(11,192)	(108,725)
Net cash used in investing activities	<u>¥ (389,980)</u>	<u>¥ (317,273)</u>	<u>\$ (3,522,536)</u>



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year Ended March 31, 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
<b>Financing activities:</b>			
Net increase in short-term bank loans	¥ 20,625	¥ 13,656	\$ 186,297
Net (decrease) increase in commercial paper	(49,000)	49,000	(442,597)
Proceeds from long-term debt – Loans from banks	260,299	275,988	2,351,178
Repayments of long-term debt – Loans from banks	(98,555)	(129,617)	(890,208)
Proceeds from issuance of bonds	146,000	150,000	1,318,760
Redemption of bonds	(65,000)	(95,000)	(587,119)
Repayments of finance lease obligations	(9,850)	(6,493)	(88,971)
Proceeds from share issuance to non-controlling shareholders	4,899	3,767	44,250
Repayments to non-controlling shareholders	(419)	(1,686)	(3,784)
Purchase of treasury stock	(26,054)	(244)	(235,335)
Proceeds from disposal of treasury stock	671	870	6,060
Dividends paid	(72,556)	(79,016)	(655,369)
Dividends paid to non-controlling shareholders	(3,221)	(2,342)	(29,094)
Purchase of shares of subsidiaries that do not result in change in scope of consolidation	(4)	(964)	(36)
Purchase of investments in capital that do not result in change in scope of consolidation	(6,573)	(9,096)	(59,371)
Net increase in payables under securitization of receivables	300	–	2,709
Other	1,170	307	10,568
Net cash provided by financing activities	<u>102,731</u>	<u>169,128</u>	<u>927,928</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(2,811)</u>	<u>(1,737)</u>	<u>(25,390)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>140,253</b>	<b>(230)</b>	<b>1,266,850</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>276,068</u>	<u>276,298</u>	<u>2,493,613</u>
<b>Cash and cash equivalents at the end of the year (Note 26)</b>	<u>¥ 416,321</u>	<u>¥ 276,068</u>	<u>\$ 3,760,464</u>

See accompanying notes to the consolidated financial statements.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements

March 31, 2021

### 1. Summary of Significant Accounting Policies

#### a. Basis of preparation

The accompanying consolidated financial statements of Daiwa House Industry Co., Ltd. (the “Company”) and consolidated subsidiaries (the “Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million yen and thousand U.S. dollars, respectively, in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan.

In addition, certain reclassifications of previously reported amounts have been made to conform the accompanying consolidated financial statements for the year ended March 31, 2020 to the 2021 presentation. Such reclassifications had no impact on consolidated profit or cash flow.

#### b. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The consolidated financial statements as of March 31, 2021 include the accounts of the Company and its 381 (317 in 2020) significant subsidiaries. Osaka Castle Park Management Co., Ltd. was not consolidated, though the Company owns a majority of its voting rights, because the joint arrangement specifies that unanimous consent of the parties is required to determine the significant financial and business policies.

During the year ended March 31, 2021, 86 subsidiaries were included in the consolidation as a result of new formation or acquisition and 22 subsidiaries were excluded from the consolidation as a result of liquidation or merger.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies

#### b. Principles of consolidation (continued)

Investments in affiliates (companies over which the Group has the ability to exercise significant influence) are accounted for by the equity method.

Investments in 61 (40 in 2020) affiliates (companies over which the Group has the ability to exercise significant influence) are accounted for by the equity method. During the year ended March 31, 2021, 26 affiliates were included in and 5 affiliates were excluded from affiliates that are accounted for by the equity method.

Investments in affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material. When the Group holds ownership interests of more than 20% to 50% of voting stock in an investee but does not have significant influence over the entity, it is excluded from the scope of equity-method affiliates. Kofu Public Service Co., Ltd. was excluded from the scope of equity-method affiliates because the impact on consolidated financial statements is deemed immaterial.

For consolidation purposes, the financial statements of all significant subsidiaries whose balance sheet dates are prior to December 31, were prepared based on a provisional financial statements as of December 31, January 31 or February 28. The financial statements of all significant subsidiaries whose balance sheet dates are on or after December 31, were prepared based on the accounts of their own balance sheet date. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from their balance sheet dates through March 31 have been adjusted, if necessary.

#### c. Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward foreign exchange contract rates. Gain or loss on each translation is credited or charged to income. All assets and liabilities of overseas subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of net assets are translated at their historical exchange rates. The income statement accounts are translated at the current exchange rate during the year. Differences arising from the translations are included in "Foreign currency translation adjustments" and "Non-controlling interests" in the accompanying consolidated balance sheet.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies

#### d. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

#### e. Investments in securities

Securities other than those of affiliates are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value estimated by using the average market price during the last month of the fiscal year with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method. For other than temporary declines in fair value, investment securities are reduced to net realize value by a charge to income.

#### f. Inventories

Real estate for sale, construction projects in progress, real estate for sale in process, work in progress and land (for sales, under development and undeveloped) are stated at the lower of cost or net selling value, cost being determined by the individual cost method. Construction materials and supplies are stated at the lower of cost or net selling value, cost being determined by the average method. Merchandise and products are stated at the lower of cost or net selling value, cost generally being determined by the retail method.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### g. Property, plant and equipment

Depreciation of property, plant and equipment is calculated principally by the declining-balance method based on the estimated useful lives and the residual value determined by the Group, except for certain buildings of the Company and domestic consolidated subsidiaries acquired on or after April 1, 1998 and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016, which are depreciated by the straight-line method.

Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated or amortized over the respective lease term to a nil residual value by the straight-line method.

As allowed under accounting standard for lease, the Group continues to account for leases on or before March 31, 2008 that do not transfer ownership of the leased property to the lessee as operating lease transactions.

#### h. Intangible assets (except for leased assets)

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

#### i. Goodwill

Goodwill is amortized by the straight-line method over the estimated useful life not exceeding 20 years. However, immaterial amounts of goodwill are charged to profit or loss in the year of acquisition.

#### j. Land revaluation

As of March 31, 2002, the Company and certain domestic subsidiaries revalued its land at fair value, pursuant to Article 2 of the “Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land” and its amendments. The related unrealized gain, net of applicable income taxes, has been recorded as “Land revaluation reserve” in net assets.

As of March 31, 2021 and 2020, the carrying amount of the land after the above revaluation exceeded the market value by ¥1,172 million (\$10,586 thousand) and ¥4,938 million, respectively.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### k. Impairment loss

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

#### l. Retirement benefits

Accrued retirement benefits have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet date. The retirement benefit obligation for employees is attributed to each period by the benefit formula method. Actuarial gains and losses and past service costs are recognized in profit or loss in the period in which the gains and losses are incurred.

#### m. Revenue recognition

The consolidated statement of income reflects revenue from operations in the following manner:

- (a) Revenues and costs of construction contracts for which contract revenues, contract costs and the percentage-of-completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage-of-completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for construction contracts for which the percentage-of-completion cannot be reliably estimated.
- (b) Revenue from finance lease transactions and related costs are recognized upon receipt of lease payments.

#### n. Income taxes

Income taxes are calculated based on taxable income and are determined in accordance with the applicable tax laws and charged to income on an accrual basis. Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### o. Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan are principally charged to income when incurred.

#### p. Appropriation of retained earnings

Under the Companies Act of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations.

#### q. Derivative financial instruments

The Group enters into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. Foreign currency forward contracts, currency swaps and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

##### i) Hedge accounting method

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

When foreign currency forward contracts and currency swap meet certain criteria, receivables and payables covered by the contracts are translated at the contracted rates (“allocation method”).

Interest-rate swaps that meet special matching criteria are not remeasured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income (“special treatment”).

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### q. Derivative financial instruments (continued)

##### ii) Hedging instruments and hedged items

Hedging instruments :	Interest rate swap contracts
	Interest rate and currency swap contracts
	Foreign currency forward contracts
Hedged items :	Long-term debt
	Long-term debt denominated in foreign currencies
	Accounts receivable denominated in foreign currencies

##### iii) Hedging policy

Derivative transactions are used to mitigate the risk of adverse fluctuations in interest rates, foreign currency exchange and improve financial cash flows.

##### iv) Assessing hedge effectiveness

The Group evaluates hedge effectiveness by comparing changes in market fluctuations or in cumulative cash flows of the hedged items with the corresponding changes in the hedging derivative instruments and using the ratio of the fluctuations. However, the evaluation of hedge effectiveness is omitted for interest rate swaps for which special treatment is applied when the substantial terms and conditions of the hedging instruments and the hedged forecasted transactions are the same.

*Hedge transactions under “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR”*

On September 29, 2020, ASBJ issued “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (“PITF No.40”). PITF No.40 allows an entity to assume that the basic interest rate applicable to the interest rate swaps that meets special matching criteria does not change after the discontinuation of LIBOR. The Group applied the exceptional treatment described in PITF No.40 to all hedge transactions that reference LIBOR and details of those hedge transactions as follows.

① Hedge accounting method	Deferral hedge
② Hedging instruments	Interest rate swap contracts
③ Hedged items	Long-term debt denominated in foreign currencies
④ Types of hedge transaction	Fixing cash flows



# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

#### **r. Allowance for doubtful accounts**

The allowance for doubtful accounts is provided based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined by an assessment of individual receivables.

#### **s. Accrued bonuses**

Accrued employees' bonuses are provided at the estimated amount of bonuses to be paid to the employees in the following year.

#### **t. Provision for warranties for completed construction**

Provision for warranties for completed construction due to defect liability is provided for anticipated future costs based on past experience arising from warranties for completed construction.

#### **u. Employee stockownership plan**

In accordance with PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts," upon transfer of treasury stock to the employee stockownership trust by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year-end, the Company records (1) the Company stock held by the trust as treasury stock in equity, (2) all other assets and liabilities of the trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the trust, and (iii) any expenses relating to the trust.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### v. Significant Accounting Judgments, Estimates and Assumptions

In preparing the consolidated financial statements, the Group makes judgments, accounting estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. These estimates and assumptions are based on the management's best judgments reflecting historical experiences and various factors that are believed to be reasonable under the circumstances. By their nature, however, actual results may differ from the estimates and assumptions. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects resulting from revisions of these estimates are recognized in the period in which the estimates are revised and in future periods affected by the revision.

Significant accounting estimates for the year ended March 31, 2021 were as follows:

- (a) Valuation of real estate for sale including real estate for sales in process and undeveloped land
- (1) The amount presented in the consolidated financial statements for the year ended March 31, 2021

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2021</b>	<b>2021</b>
Real estate for sale in inventories	¥ 1,093,759	\$ 9,879,495
Loss on devaluation recognized in cost of sales	¥ 1,626	\$ 14,687

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### v. Significant Accounting Judgments, Estimates and Assumptions (continued)

(a) Valuation of real estate for sale including real estate for sales in process and undeveloped land (continued)

(2) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements

① Method of measurement

The amount of real estate for sales are stated at the lower of cost or net selling value in accordance with “Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9)”. The net selling value is measured based on the selling price used in the business plan at the time of the acquisition of land, commencement of constructions, the commencement of sales and others. The net selling value is revised based the progress of the business plan and the status of sales activities.

② Significant assumptions

Significant assumptions used to measure the net selling value are selling price and construction cost. Those are measured based on the latest business plan with sales records in the past, market trends, the balance between supply and demand in the neighborhood and fluctuation of construction costs such as raw material including steels and labor cost and others being considered. In order to make a business plan for investment and rental property intended for sales in the future, leasing prices and status of leasing activities in the neighborhood are also considered. The expected impact of the spread of COVID-19 pandemic in the market is also reflected in the assumptions of selling price, selling costs and others by sales region.

③ Impact on the consolidated financial statements for the year ending March 31, 2022

An incremental loss on devaluation may be recorded in case that net selling value is lower than the carrying amounts due to changes in the market environment, progress of the business plan and the status of sales activities.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

v. Significant Accounting Judgments, Estimates and Assumptions (continued)

(b) Valuation of fixed assets

- (1) The amount presented in the consolidated financial statements for the year ended March 31, 2021

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2021</b>	<b>2021</b>
Property, plant and equipment, goodwill and intangible assets recognized in other	¥ 1,994,473	\$ 18,015,292
Impairment loss	¥ 21,065	\$ 190,271

- (2) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements

① Method of measurement

The Group reviews fixed assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling value at disposition. The net selling value is mainly measured considering appraisals conducted by real estate appraisers.

② Significant assumptions

Significant assumptions used to measure the future cash flows are business revenue and expenditures. Standard leasing prices in the market are affected by the location, size, similar transactions in the neighborhood, forecasts for the market and transaction records in the past and corresponding expense, occupancy ratio, discount rates and others are considered determining the accounting estimate. With regard to the expected impact of the spread of the COVID-19 pandemic on properties, the Group expects that the situation will gradually recover and normalize within three years.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### v. Significant Accounting Judgments, Estimates and Assumptions (continued)

##### (b) Valuation of fixed assets

(2) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements (continued)

③ Impact on the consolidated financial statements for the year ending March 31, 2022

An incremental impairment loss may be recorded if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group due to changes in the business environment and others.

##### (c) Measurement of retirement benefit and related expense

(1) The amount recorded for the year ended March 31, 2021

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2021</b>	<b>2021</b>
Retirement benefit obligation	<b>¥ 665,041</b>	<b>\$ 6,007,054</b>

(2) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements

① Method of measurement

Certain companies within the Group have defined benefit plans. The retirement benefit obligation and corresponding service cost under defined benefit plans are measured by estimating expected amount of the retirement benefit payment by using the actuarial assumptions and discounting it over the prospective period until the payment.

② Significant assumptions

Significant assumptions used to measure the retirement benefit obligation and corresponding service cost under defined benefit plans are the actuarial assumptions such as discount rates, expected rates and expected turnover rates.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

v. Significant Accounting Judgments, Estimates and Assumptions (continued)

(c) Measurement of expense related to retirement benefit obligation

(2) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements (continued)

③ Impact on the consolidated financial statements for the year ending March 31, 2022

The amount of liabilities for employees' retirement benefits and retirement benefit expense in the consolidated financial statements may be significantly impacted if any revision of the accounting estimate is required due to changes in uncertain economic conditions and others. A sensitivity analysis related to changes in discount rates is provided in the table below, while other actuarial assumptions other than the discount rates remain constant. In the table, the negative amount represents a decrease in the retirement benefit obligation and the positive amount represents an increase in the retirement benefit obligation.

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>	
	Change in actuarial assumptions	2021	2021
Discount rate	Increase by 0.5%	¥ (57,688)	\$(521,073)
	Decrease by 0.5%	¥ 66,545	\$ 601,074

The significant actuarial assumptions used to measure the retirement benefit obligation as of March 31, 2021 are presented in Note 10 "Retirement Benefit Plans".

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### w. Accounting standards issued but not yet effective

##### *Accounting Standard and Implementation Guidance on Revenue Recognition*

On March 31, 2020, the Accounting Standards Board of Japan (“ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

##### (1) Overview

This is a comprehensive accounting standard addressing revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from contracts with customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

##### (2) Scheduled date of adoption

The Group expects to adopt the accounting standard and implementation guidance from the beginning of the year ending March 31, 2022.

##### (3) Impact of adoption of accounting standard and implementation guidance

The impact of the adoption of this accounting standard and implementation guidance on its consolidated financial statements is immaterial.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### w. Accounting standards issued but not yet effective (continued)

##### *Accounting Standard for Fair Value Measurement and Related Implementation Guidance*

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30), and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31), along with related updates to “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9), “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10) and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19)”.

#### (1) Overview

The ASBJ has developed an “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter collectively, the “Fair Value Measurement Standard”), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- Financial instruments defined in “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes defined in “Accounting Standard for Measurement of Inventories”

In addition, the update to “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” requires extensive disclosures such as the leveling by the fair value hierarchy.

#### (2) Scheduled date of adoption

The Group expects to adopt the accounting standards and related implementation guidance from the beginning of the year ending March 31, 2022.

#### (3) Impact of adoption of revised accounting standard and related implementation guidance

The impact of the adoption of this accounting standard and implementation guidance on its consolidated financial statements is immaterial.



# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Accounting Change

#### Change in presentation

##### *Consolidated Balance Sheet*

- (a) Time deposits with maturities of more than three months in the amount of ¥5,366 million, previously presented as short-term investments in current assets in the consolidated balance sheet as of March 31, 2020, have been reclassified and included in ¥281,434 million of cash and bank deposits in current assets since the related reconciliation is disclosed in Note 26 “Supplemental Cash Flow Information”.
- (b) Investments in unconsolidated subsidiaries and associated companies in the amount of ¥78,378 million in investments in the consolidated balance sheet as of March 31, 2020 have been reclassified and included in ¥207,219 million of investment securities and ¥118,086 million of other assets since the same information with a breakdown by type of securities is disclosed separately in Note 5 “Investments in Affiliates”.

##### *Consolidated Statement of Income*

- (a) Major reclassifications in the consolidated statement of income to present the items in a form that is more detailed and familiar to readers are as follows:
  - (1) Interest income in the amount of ¥3,046 million and dividend income in the amount of ¥4,540 million, previously included within ¥7,588 million of interest income and dividends in other income (expenses) in the consolidated statement of income for the year ended March 31, 2020, have been reclassified and are presented as separate accounts in other income (expenses).
  - (2) Equity in losses of affiliates in the amount of ¥(6,972) million, taxes and dues in the amount of ¥(1,662) million, gain on sales of fixed assets in the amount of ¥1,285 million, gain on sales of investment in securities in the amount of ¥454 million, gain on change in equity interest in the amount of ¥32 million, loss on sales of fixed assets in the amount of ¥(164) million, loss on disposal of fixed assets in the amount of ¥(2,408) million, loss on sales of investments in securities in the amount of ¥(3) million and gain on liquidation of a subsidiary in the amount of ¥1,512 million, previously included in ¥(10,463) million of other, net in other income (expenses) in the consolidated statement of income for the year ended March 31, 2020, have been reclassified and are presented as separate accounts in other income (expenses).

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Accounting Change (continued)

#### Change in presentation (continued)

- (b) Subsidy income in the amount of ¥697 million previously included in ¥(10,463) million of other, net in other income (expenses) for the year ended March 31, 2020 has been reclassified and presented separately as a separate account in other income (expenses).

#### *Adoption of the “Accounting Standard for Disclosure of Accounting Estimates”*

The Group has adopted the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31) which was issued by the ASBJ on March 31, 2020 from the year ended March 31, 2021 and has disclosed related information in Note 1 v. “Significant Accounting Judgements Estimate and Assumptions”. Comparative information for the year ended March 31, 2020 was omitted in accordance with the exceptional treatment permitted for the initial adoption in the standard.

### 3. U.S. Dollar Amounts

Translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥110.71 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2021. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities

- (1) Information regarding securities classified as held-to-maturity debt securities and other securities

*Held-to-maturity debt securities*

	<i>Millions of yen</i>		
	<b>2021</b>		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	¥ 2,844	¥ 2,885	¥ 41
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	-
<b>Total</b>	<b>¥ 2,844</b>	<b>¥ 2,886</b>	<b>¥ 41</b>

	<i>Millions of yen</i>		
	2020		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	¥ 3,642	¥ 3,710	¥ 68
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	-
<b>Total</b>	<b>¥ 3,642</b>	<b>¥ 3,710</b>	<b>¥ 68</b>

	<i>Thousands of U.S. dollars</i>		
	<b>2021</b>		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	\$ 25,688	\$ 26,059	\$ 370
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	-
<b>Total</b>	<b>\$ 25,688</b>	<b>\$ 26,068</b>	<b>\$ 370</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities (continued)

- (1) Information regarding securities classified as held-to-maturity debt securities and other securities (continued)

*Other Securities*

	<i>Millions of yen</i>		
	<b>2021</b>		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 145,038	¥ 56,003	¥ 89,034
Other	39	32	6
Securities whose carrying value does not exceed their acquisition cost:			
Stock	2,855	3,810	(955)
Corporate bonds	11,568	11,568	-
Other	-	-	-
Total	<u>¥ 159,500</u>	<u>¥ 71,415</u>	<u>¥ 88,084</u>

Note: Unlisted stock of ¥13,561 million (\$122,491 thousand), preferred fund certificate of ¥14,717 million (\$132,932 thousand) and investments in limited liability partnership of ¥15,291 million (\$138,117 thousand) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value as of March 31, 2021.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities (continued)

(1) Information regarding securities classified as held-to-maturity debt securities and other securities (continued)

	<i>Millions of yen</i>		
	2020		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 110,444	¥ 53,052	¥ 57,391
Other	30	28	1
Securities whose carrying value does not exceed their acquisition cost:			
Stock	6,561	8,158	(1,596)
Corporate bonds	11,312	11,312	-
Other	34	34	(0)
Total	<u>¥ 128,382</u>	<u>¥ 72,586</u>	<u>¥ 55,796</u>

Note: Unlisted stock of ¥12,965 million, preferred fund certificate of ¥14,049 million and investments in limited liability partnership of ¥16,371 million are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value as of March 31, 2020.

	<i>Thousands of U.S. dollars</i>		
	2021		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$ 1,310,071	\$ 505,853	\$ 804,209
Other	352	289	54
Securities whose carrying value does not exceed their acquisition cost:			
Stock	25,788	34,414	(8,626)
Corporate bonds	104,489	104,489	-
Other	-	-	-
Total	<u>\$ 1,440,700</u>	<u>\$ 645,063</u>	<u>\$ 795,628</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities (continued)

- (2) Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2021 and 2020

	<i>Millions of yen</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
March 31, 2021			
Stock	¥ 1,447	¥ 449	¥ 0

  

	<i>Millions of yen</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
March 31, 2020			
Stock	¥ 1,066	¥ 410	¥ 3

  

	<i>Thousands of U.S. dollars</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
March 31, 2021			
Stock	\$ 13,070	\$ 4,055	\$ 0

- (3) Impairment of investment securities

The impairment losses on investment securities for the years ended March 31, 2021 and 2020 were ¥656 million (\$5,925 thousand) and ¥1,630 million, stated as loss on revaluation of investments in securities in other income (expenses), respectively.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Investments in Affiliates**

Investments in unconsolidated subsidiaries and affiliates at March 31, 2021 and 2020 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Shares of affiliates accounted for by the equity method	<b>¥ 22,865</b>	¥ 26,295	<b>\$ 206,530</b>
(Investment in jointly controlled entities included above)	<b>(840)</b>	(1,075)	<b>(7,587)</b>
Investments in preferred fund certificate of affiliates	<b>3,235</b>	6,275	<b>29,220</b>
Shares of affiliates which are not accounted for by the equity method	<b>23</b>	50	<b>207</b>
Bonds of affiliates	<b>11,000</b>	11,000	<b>99,358</b>
Investments in capital of affiliates in other	<b>25,253</b>	34,757	<b>228,100</b>

**6. Inventories**

Inventories at March 31, 2021 and 2020 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Real estate for sale	<b>¥ 172,150</b>	¥ 197,928	<b>\$ 1,554,963</b>
Construction projects in progress	<b>46,866</b>	47,861	<b>423,322</b>
Real estate for sale in process	<b>135,663</b>	118,210	<b>1,225,390</b>
Land held:			
For sale	<b>680,527</b>	597,468	<b>6,146,933</b>
Under development	<b>110,069</b>	101,378	<b>994,210</b>
Undeveloped	<b>3,421</b>	4,443	<b>30,900</b>
Merchandise, construction materials and others	<b>24,913</b>	27,553	<b>225,029</b>
Total	<b>¥ 1,173,612</b>	¥ 1,094,844	<b>\$ 10,600,776</b>

The Group manufactures and constructs prefabricated houses and structures and also engages in various contracted construction projects, primarily for the construction of large-scale commercial and residential buildings. To further its business, the Group purchases land for development and sale.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Inventories (continued)**

Loss on devaluation of inventories included in cost of sales for the years ended March 31, 2021 and 2020 was ¥1,626 million (\$14,687 thousand) and ¥3,882 million, respectively.

Land and buildings held as investment and rental properties in the amount of ¥60,577 million (\$547,168 thousand) in property, plant and equipment in the consolidated balance sheet as of March 31, 2020 have been reclassified to inventories in current assets due to the change in holding purpose during the year ended March 31, 2021.

**7. Investment and Rental Property**

The Group owns rental properties such as rental housing, commercial facilities and business facilities in Tokyo and other areas. The net of rental income and operating expenses, gain on sales and disposal, and impairment loss for those rental properties were ¥24,336 million (\$219,817 thousand), ¥360 million (\$3,251 thousand) and ¥4,573 million (\$41,306 thousand), respectively, for the year ended March 31, 2021. The net of rental income and operating expenses, gain on sales and disposal, and impairment loss for those rental properties were ¥28,600 million, ¥281 million and ¥3,305 million, respectively, for the year ended March 31, 2020.

The rental income for those rental properties was included in net sales. The operating expenses for those rental properties was included in cost of sales or selling, general and administrative expenses. The gain on sales and disposal and impairment loss for those rental properties were included in other income (expenses).

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

<i>Millions of yen</i>			
	Carrying value		Fair value
April 1, 2020	Increase/decrease	March 31, 2021	March 31, 2021
¥ 1,126,152	¥ 119,269	¥ 1,245,422	¥ 1,354,730

<i>Millions of yen</i>			
	Carrying value		Fair value
April 1, 2019	Increase/decrease	March 31, 2020	March 31, 2020
¥ 1,056,044	¥ 70,108	¥ 1,126,152	¥ 1,207,776

<i>Thousands of U.S. dollars</i>			
	Carrying value		Fair value
April 1, 2020	Increase/decrease	March 31, 2021	March 31, 2021
\$ 10,172,089	\$ 1,077,310	\$ 11,249,408	\$ 12,236,744



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Investment and Rental Property (continued)**

- Notes: 1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses included in property, plant and equipment.
- 2) Increase during the year ended March 31, 2021 primarily represents the acquisition of certain properties of ¥278,317 million (\$2,513,928 thousand) and decrease primarily represents depreciation of ¥30,559 million (\$276,027 thousand) and the transfer to inventories of ¥140,503 million (\$1,269,108 thousand).
- 3) Increase during the year ended March 31, 2020 primarily represents the acquisition of certain properties of ¥271,389 million and decrease primarily represents depreciation of ¥29,215 million and the transfer to inventories of ¥174,379 million.
- 4) The fair value of properties was primarily measured by the Group in accordance with its Real Estate Appraisal Standard.

**8. Short-Term Bank Loans, Commercial Paper and Long-Term Debt**

The annual weighted-average interest rates applicable to short-term bank loans as of March 31, 2021 and 2020 were 0.78% and 1.64%, respectively. The annual weighted-average interest rates applicable to current portion of long-term loans from banks as of March 31, 2021 and 2020 were 1.42% and 0.54%, respectively. The annual weighted-average interest rate applicable to commercial papers from banks as of March 31, 2020 was 0.00%.

Long-term debt and loans from banks as of March 31, 2021 and 2020 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Bonds, 0.00% to 0.80% (0.00% to 0.80% in 2020), due on various dates through 2059:			
Unsecured	¥ 273,000	¥ 192,000	\$ 2,465,901
Subordinated	150,000	150,000	1,354,891
Loans from banks, 0.00% to 10.75% (0.00% to 4.75% in 2020), due on various dates through 2057:			
Collateralized	60,900	82,480	550,085
Unsecured	663,500	456,878	5,993,135
Obligations under finance leases, due on various date through 2068	101,357	85,853	915,518
Total	<u>1,248,759</u>	<u>967,212</u>	<u>11,279,550</u>
Less current portion	94,277	136,752	851,567
Long-term debt – net of current portion	<u>¥ 1,154,481</u>	<u>¥ 830,459</u>	<u>\$ 10,427,973</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Short-Term Bank Loans, Commercial Paper and Long-Term Debt (continued)**

The aggregate annual maturities of long-term debt subsequent to March 31, 2021 were as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2022	¥ 94,277	\$ 851,567
2023	116,815	1,055,144
2024	161,806	1,461,530
2025	96,845	874,762
2026	168,001	1,517,487
2027 and thereafter	611,012	5,519,031
Total	¥1,248,759	\$ 11,279,550

**9. Mortgaged and Pledged Assets**

The assets pledged as collateral for short-term bank loans of ¥23,603 million (\$213,196 thousand) and ¥19,087 million, current portion of long-term bank loans of ¥13,442 million (\$121,416 thousand) and ¥14,896 million, other current liabilities of ¥1 million (\$9 thousand) and ¥1 million, long-term bank loans of ¥47,458 million (\$428,669 thousand) and ¥67,584 million and lease deposits received of ¥11 million (\$9 thousand) and ¥12 million as of March 31, 2021 and 2020, respectively, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2021	2020	2021
Cash and bank deposits	¥ 1,773	¥ 1,416	\$ 16,014
Trade notes and accounts receivable	10,047	13,231	90,750
Mortgage notes receivable held for sale	22,700	17,908	205,040
Inventories:			
Real estate for sale	25,836	62,338	233,366
Real estate for sale in process	56,250	40,690	508,084
Other current assets	7,745	8,062	69,957
Land	9,797	5,133	88,492
Buildings and structures	3,436	3,172	31,036
Total	¥ 137,584	¥ 151,954	\$ 1,242,742

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Mortgaged and Pledged Assets (continued)**

The carrying amounts of assets pledged as collateral for guarantees of liabilities of investees as of March 31, 2021 and 2020 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Investment securities	<b>¥ 395</b>	¥ 106	<b>\$ 3,567</b>
Short-term loans receivable in other current assets	<b>1</b>	1	<b>9</b>
Long-term loans receivable	<b>10</b>	12	<b>90</b>

The carrying amounts of assets pledged as collateral in substitutes for deposits of certain construction and advertisement contracts were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Cash and bank deposits	<b>¥ 2,153</b>	¥ 2,152	<b>\$ 19,447</b>
Securities maturing within one year	<b>0</b>	0	<b>0</b>
Investments in capital	<b>60</b>	60	<b>541</b>

Investment securities deposited in accordance with the Act on Assurance of Performance of Specified Housing Defect Warranty were ¥2,784 million (\$25,146 thousand) and ¥3,642 million as of March 31, 2021 and 2020, respectively.

Shares of consolidated subsidiaries used as collateral amounted to ¥313 million (\$2,827 thousand) and ¥301 million as of March 31, 2021 and 2020, respectively, which have been eliminated in the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Retirement Benefit Plans**

The Company and certain subsidiaries have adopted funded defined benefit plans, unfunded retirement benefit plans and defined contribution plans. In certain cases, special retirement benefits may be paid to employees.

- (1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Balance at beginning of year	<b>¥ 631,783</b>	¥ 613,569	<b>\$ 5,706,647</b>
Service cost	<b>28,609</b>	28,169	<b>258,413</b>
Interest cost	<b>5,109</b>	4,968	<b>46,147</b>
Actuarial losses (gains)	<b>14,406</b>	(362)	<b>130,123</b>
Retirement benefits paid	<b>(14,918)</b>	(14,560)	<b>(134,748)</b>
Adjustments for business restructurings	<b>51</b>	–	<b>460</b>
Balance at end of year	<b>¥ 665,041</b>	¥ 631,783	<b>\$ 6,007,054</b>

- (2) The changes in plan assets for the years ended March 31, 2020 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Balance at beginning of year	<b>¥ 364,720</b>	¥ 350,550	<b>\$ 3,294,372</b>
Actuarial gains	<b>42,054</b>	2,507	<b>379,857</b>
Contributions from the employer	<b>22,186</b>	20,333	<b>200,397</b>
Retirement benefits paid	<b>(9,979)</b>	(8,670)	<b>(90,136)</b>
Retirement balance at end of year	<b>¥ 418,981</b>	¥ 364,720	<b>\$ 3,784,491</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Retirement Benefit Plans (continued)**

- (3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2021 and 2020, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Funded defined benefit obligation	¥ <b>559,373</b>	¥ 530,066	<b>\$ 5,052,596</b>
Plan assets	<b>(418,981)</b>	(364,720)	<b>(3,784,491)</b>
	<b>140,391</b>	165,345	<b>1,268,096</b>
Unfunded defined benefit obligation	<b>105,667</b>	101,717	<b>954,448</b>
Net liabilities for retirement benefits in the balance sheet	<b>¥ 246,059</b>	¥ 267,062	<b>\$ 2,222,554</b>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Liabilities for retirement benefits	<b>¥ 246,059</b>	¥ 267,062	<b>\$ 2,222,554</b>
Net liabilities for retirement benefits in the balance sheet	<b>¥ 246,059</b>	¥ 267,062	<b>\$ 2,222,554</b>

- (4) The components of retirement benefit expense for the years ended March 31, 2021 and 2020, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Service cost	¥ <b>28,609</b>	¥ 28,169	<b>\$ 258,413</b>
Interest cost	<b>5,109</b>	4,968	<b>46,147</b>
Amortization of actuarial gain	<b>(27,648)</b>	(2,869)	<b>(249,733)</b>
Retirement benefit expense	<b>¥ 6,070</b>	¥ 30,268	<b>\$ 54,827</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Retirement Benefit Plans (continued)**

(5) Plan assets

a. Components of plan assets

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Domestic debt instruments	1%	1%
Overseas debt instruments	6	6
Domestic stocks	10	9
Overseas stocks	7	6
Cash and bank deposits	14	15
Private equity fund	21	19
Hedge fund	18	18
General accounts	8	9
Others	15	17
Total	<u>100%</u>	<u>100%</u>

b. Method of determining the expected rate of return on plan assets

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

(6) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	<u>2021</u>	<u>2020</u>
Discount rates	Principally 0.8%	Principally 0.8%
Expected rate of return on plan assets	0.0%	0.0%
Expected rates of pay raises	2.6%	2.6%

(7) Amortization of actuarial gain for employees' retirement benefits

Amortization of actuarial gain for employees' retirement benefits included in cost of sales and selling, general and administrative expenses was ¥ 27,648 million (\$249,733 thousand) and ¥2,869 million for the years ended March 31, 2021 and 2020, respectively.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Retirement Benefit Plans (continued)

#### (8) Defined contribution plans

Required contributions to defined contribution plans of the Company and its certain consolidated subsidiaries were ¥6,708 million (\$60,590 thousand) and ¥6,588 million for the years ended March 31, 2021 and 2020, respectively.

### 11. Asset Retirement Obligations

Asset retirement obligations are mainly consisted of the obligations to remove leasehold improvements attached to the rental property and return the property to its original state after vacating the premises.

The liability has been calculated with expected useful lives ranging from 0 to 50 years and discount rates ranging from 0.00% to 2.13%.

The changes in asset retirement obligations for the years ended March 31, 2021 and 2020 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Balance at beginning of year	<b>¥ 52,040</b>	¥ 47,318	<b>\$ 470,056</b>
Increase due to the acquisition of property, plant and equipment	<b>4,200</b>	4,816	<b>37,936</b>
Adjustment due to the elapse of time	<b>780</b>	681	<b>7,045</b>
Decrease due to fulfilment of asset retirement obligations	<b>(668)</b>	(775)	<b>(6,033)</b>
Balance at end of year	<b>¥ 56,352</b>	¥ 52,040	<b>\$ 509,005</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Research and Development Costs**

Research and development costs included in “Selling, general and administrative expenses” were ¥10,209 million (\$92,213 thousand) and ¥10,128 million for the years ended March 31, 2021 and 2020, respectively.

**13. Gain (loss) on Sales of Fixed Assets**

Gain (loss) on sales of fixed assets for the years ended March 31, 2021 and 2020 consists of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Gain on sales of property, plant and equipment, and other assets:			
Buildings and constructions	¥ 487	¥ 75	\$ 4,398
Machinery and vehicles	44	35	397
Furniture and fixtures	7	15	63
Land	265	1,159	2,393
Total	<u>¥ 805</u>	<u>¥ 1,285</u>	<u>\$ 7,271</u>
Loss on sales of property, plant and equipment:			
Buildings and constructions	¥ (49)	¥ (101)	\$ (442)
Machinery and vehicles	(47)	(27)	(424)
Furniture and fixtures	(12)	(20)	(108)
Land	(28)	(15)	(252)
Construction in progress	(38)	—	(343)
Intangible assets in other	(38)	—	(343)
Total	<u>¥ (215)</u>	<u>¥ (164)</u>	<u>\$ (1,942)</u>



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**14. Impairment Loss**

The Group classified fixed assets by managerial accounting unit such as branch office, location and individual property, which are utilized as a basis of continuous monitoring of revenue and expenditures. The carrying amounts of the above assets were written down to recoverable amounts due to decreases in the prices of real estate or significant declines in profitability caused by severe competition. The recoverable value of impaired fixed assets was mainly measured at estimated value in use or net selling value. The net selling value amount is measured at appraisals in accordance with real estate appraisal standards or other means.

The Group recognized impairment losses of the following groups of assets for the years ended March 31, 2021 and 2020:

Use	Type of Assets	Location	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
			2021	2021
Real estate for lease	Buildings and structures, machinery and equipment, furniture and fixtures, land, lease assets and intangible assets in other	Osaka Prefecture and others	¥ 8,693	\$ 78,520
Home center	Buildings and structures, furniture and fixtures and intangible assets in other	Kanagawa Prefecture and others	9	81
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures, land, lease assets, intangible assets in other and construction in progress	Hokkaido Prefecture and others	6,436	58,133
Health and leisure facilities	Buildings and structures, machinery and equipment, furniture and fixtures, land, lease assets and intangible assets in other	Ishikawa Prefecture and others	1,299	11,733
Offices, factories and others	Buildings and structures, machinery and equipment, furniture and fixtures, land and intangible assets in other	Aichi Prefecture and others	464	4,191
Idle assets	Buildings and structures and land	Hyogo Prefecture	21	189
Others	Buildings and structures, machinery and equipment, furniture and fixtures, land, lease assets, intangible assets in other and goodwill	Australia and others	4,139	37,385
Total			¥ 21,065	\$ 190,271

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Impairment Loss (continued)

Classification of Company	Type of Assets	Location	<i>Millions of yen</i>
			2020
Real estate for lease	Buildings and structures, machinery and equipment, furniture and fixtures, land, lease assets, other tangible assets and intangible assets in other	Kyoto Prefecture and others	¥ 3,762
Home center	Buildings and structures, furniture and fixtures, intangible assets in other and other assets	Hyogo Prefecture and others	375
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures and land	Hokkaido Prefecture and others	1,956
Health and leisure facilities	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Shiga Prefecture and others	517
Offices, factories and others	Buildings and structures, furniture and fixtures and lease assets	Akita Prefecture and others	408
Idle assets	Buildings and structures, furniture and fixtures, land and intangible assets in other	Hiroshima Prefecture and others	42
Others	Buildings and structures, furniture and fixtures, intangible assets in other and goodwill	Australia and others	9,999
Total			<u>¥ 17,062</u>

(Changes in Presentation)

The impairment loss for Hotel previously included in Health and leisure facilities for the year ended March 31, 2020 has been reclassified and disclosed separately as Hotel due to the increase in materiality for the year ended March 31, 2021.

As a result, the impairment loss for Health and leisure facilities in the amount of ¥2,474 million for the year ended March 31, 2020 has been reclassified and disclosed separately as Hotel in the amount of ¥1,956 million and Health and leisure facilities in the amount of ¥517million, respectively.

## Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **15. Subsidy Income Related to COVID-19 Pandemic**

Based on the announcements and requests of national and local governments to prevent the spread of COVID-19 pandemic, the Group temporarily closed operating facilities and others. The support funding received from national and local governments to compensate for fixed costs incurred during this period of temporary closures such as personnel expenses and depreciation expense have been recorded in other income as “Subsidy income related to COVID-19 Pandemic” in the consolidated statement of income for the year ended March 31, 2021.

#### **16 Loss on COVID-19 Pandemic**

Based on the announcements and requests of national and local governments to prevent the spread of COVID-19 pandemic, the Group temporarily closed operating facilities and others. Fixed costs incurred during this period of temporary closures such as personnel expenses and depreciation expense have been recorded in other expenses as “Loss on COVID-19 Pandemic” in the consolidated statement of income for the year ended March 31, 2021.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**17. Income Taxes**

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 31% for the years ended March 31, 2021 and 2020. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The significant components of the Group's deferred tax assets (liabilities) at March 31, 2021 and 2020 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Deferred tax assets:			
Loss on valuation of real estate for sale	¥ 3,872	¥ 4,085	\$ 34,974
Accrued bonuses	16,047	17,211	144,946
Accrued enterprise tax	4,159	4,177	37,566
Liabilities for employees' retirement benefits	76,289	82,783	689,088
Unrealized gains on property, plant and equipment by consolidation	11,901	12,328	107,497
Excess of depreciation of property, plant and equipment	30,158	27,190	272,405
Tax loss carryforwards	18,065	16,437	163,174
Other	99,629	93,644	899,909
Total of tax loss carryforwards and temporary differences	260,125	257,858	2,349,607
Less valuation allowance	(53,028)	(52,826)	(478,981)
Deferred tax assets	<b>207,096</b>	205,031	<b>1,870,616</b>
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	(2,386)	(2,379)	(21,551)
Net unrealized gain on securities	(25,359)	(16,166)	(229,057)
Other	(22,371)	(17,120)	(202,068)
Deferred tax liabilities	<b>(50,116)</b>	(35,666)	<b>(452,678)</b>
Net deferred tax assets	<b>¥ 156,979</b>	¥ 169,365	<b>\$ 1,417,929</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**17. Income Taxes (continued)**

A reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income for the year ended March 31, 2021 was as follows:

	<u>2021</u>
Statutory tax rate	<b>30.6%</b>
Effect of:	
Non-deductible expenses for tax purpose	<b>0.7</b>
Per capita portion of inhabitant tax	<b>0.5</b>
Equity in losses of affiliates	<b>1.1</b>
Change in valuation allowances	<b>0.1</b>
Expiration of tax loss carry forwards	<b>1.7</b>
Tax credits	<b>(0.3)</b>
Reversal of land revaluation reserve	<b>(0.1)</b>
Other	<b>1.0</b>
Effective tax rate	<u><u><b>35.3%</b></u></u>

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 was omitted because such differences was less than 5% of the statutory tax rate.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**18. Other Comprehensive Income (Loss)**

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 32,209	¥ (20,571)	\$ 290,931
Reclassification adjustments for losses included in profit	31	621	280
Amount before tax effect	32,240	(19,950)	291,211
Tax effect	(9,784)	5,910	(88,375)
Unrealized gain (loss) on securities	22,455	(14,039)	202,827
Deferred gain on hedging instruments:			
Amount arising during the year	27	14	243
Reclassification adjustments for gains included in profit	6	0	54
Amount before tax effect	33	14	298
Tax effect	(13)	(4)	(117)
Deferred gain on hedging instruments:	19	10	171
Land revaluation reserve:			
Tax effect	5	0	45
Foreign currency translation adjustments:			
Amount arising during the year	(9,795)	(6,853)	(88,474)
Reclassification adjustments for gains included in profit	24	1,632	216
Foreign currency translation adjustments:	(9,770)	(5,220)	(88,248)
Share of other comprehensive loss of affiliates accounted for by the equity method:			
Amount arising during the year	(344)	(1,166)	(3,107)
Total other comprehensive income (loss)	¥ 12,365	¥ (20,415)	\$ 111,688

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Net Assets

*Shareholders' equity*

The Companies Act of Japan (the "Act") requires the Company to transfer an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. The Company's legal reserve included in retained earnings at March 31, 2021 and 2020 amounted to ¥17,690 million (\$159,786 thousand). Under the Act, upon the issuance and sales of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as capital surplus.

*Shares issued and outstanding / treasury stock*

For the year ended March 31, 2021

Types of shares	Thousands of shares			Number of shares as of March 31, 2021
	Number of shares as of April 1, 2020	Increase	Decrease	
Shares issued:				
Common stock	<b>666,238</b>	–	–	<b>666,238</b>
Treasury stock:				
Common stock (Notes 1, 2 and 3)	<b>2,218</b>	<b>10,003</b>	<b>221</b>	<b>12,000</b>

Notes: 1) Details of the increase are as follows: *(Thousands of shares)*

Increase due to purchase of the treasury stock approved by resolution of the Board of Directors 10,000

Increase due to purchase of shares of less than standard unit 3

Notes: 2) Details of the decrease are as follows:

Decrease due to exercise of share acquisition rights 173

Decrease due to sale of shares less than one unit by the Company 0

Decrease due to third party share issuance to the trust for delivery of shares to directors 47

Notes: 3) The numbers of shares (83 thousand and 131 thousand) held by the trust for delivery of shares to directors as of March 31, 2021 and April 1, 2020, respectively, were included in the number of shares of treasury stock.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**19. Net Assets (continued)**

For the year ended March 31, 2020

Types of shares	<i>Thousands of shares</i>			Number of shares as of March 31, 2020
	Number of shares as of April 1, 2019	Increase	Decrease	
Shares issued:				
Common stock	666,238	—	—	666,238
Treasury stock:				
Common stock (Notes 1, 2 and 3)	2,436	73	292	2,218

Notes: 1) Details of the increase are as follows: *(Thousands of shares)*

Increase due to purchase of the trust for delivery of share to directors 70

Increase due to purchase of shares of less than standard unit 3

Notes: 2) Details of the decrease are as follows:

Decrease due to exercise of share acquisition rights 239

Decrease due to sale of shares less than one unit by the Company 0

Decrease due to third party share issuance to the trust for delivery of shares to directors 51

Notes: 3) The numbers of shares (131 thousand and 112 thousand) held by the trust for delivery of shares to directors as of March 31, 2020 and April 1, 2019, respectively, were included in the number of shares of treasury stock.

*Stock Acquisition Rights*

The amount of stock acquisition rights (2016 Stock Options) were ¥91 million (\$821 thousand) and ¥101 million as of March 31, 2021 and 2020, respectively. The issuer is the Company and type of shares issued upon exercising the right is common stock.

*Accounting Method for the Trust for Delivery of Shares to Directors*

From the year ended March 31, 2017, the Company adopted the Trust for Delivery of Shares to Directors that is a performance-based stock compensation plan for the Company's directors to achieve the earnings targets outlined in the Medium-Term Management Plan and sustained enhancement of corporate value.



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**19. Net Assets (continued)**

(1) Overview of transaction

Under the Trust for Delivery of Shares to Directors, the Company established and made financial contributions to a trust in accordance with the scope approved at the 77th general shareholders meeting held on June 28, 2016, and the trust then acquired shares of the Company. The trust delivered the shares to directors in amounts corresponding to the number of points assigned to the directors according to their rank and company return on equity (ROE).

(2) The trust held the treasury stock, which was included in the consolidated balance sheet as of March 31, 2021 and 2020, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Treasury stock	<b>¥ 256</b>	¥ 402	<b>\$ 2,312</b>
(Number of shares as of the fiscal year end) (In thousands)	<b>(83)</b>	(131)	
(Average number of shares during the fiscal year) (In thousands)	<b>(98)</b>	(95)	

The corresponding shares are treated as part of treasury stock that is excluded from the amount per share computation.

*Dividends paid*

For the year ended March 2021

Resolution	Types of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Shareholders' meeting held on June 26, 2020	Common stock	<b>¥ 39,849</b>	<b>\$ 359,940</b>	<b>¥ 60.0</b>	<b>\$ 0.54</b>	March 31, 2020	June 29, 2020
Meeting of the Board of Directors on November 11, 2020	Common stock	<b>¥ 32,707</b>	<b>\$ 295,429</b>	<b>¥ 50.0</b>	<b>\$ 0.45</b>	September 30, 2020	December 7, 2020

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**19. Net Assets (continued)**

*Dividends paid (continued)*

For the year ended March 2020

Resolution	Types of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Shareholder's meeting held on June 25, 2019	Common stock	¥ 42,490	¥ 64.0	March 31, 2019	June 26, 2019
Meeting of the Board of Directors on November 8, 2019	Common stock	¥ 36,526	¥ 55.0	September 30, 2019	December 5, 2019

**20 Stock Options**

On January 12, 2018, the ASBJ issued PITF No. 36, "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions," which requires transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions to be accounted for in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." PITF No. 36 is effective for annual periods beginning on or after April 1, 2018. The Company adopted PITF No. 36 prospectively as of April 1, 2018, and continued to account for the transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions that occurred prior to the application of PITF No. 36 in accordance with the accounting policy previously applied. A summary of these transactions that occurred prior to the adoption of PITF No. 36 is as follows:

When stock options are issued, the corresponding amount is recorded in net assets as stock acquisition rights. When stock options are exercised and corresponding treasury stock is disposed as a consideration, the difference between the book value of treasury stock disposed and the one of stock acquisition rights are recorded in net asset as gain or loss on disposal of treasury stock. In case of cancellation of stock option, the corresponding amount is charged to other income in the period that the cancellation is determined.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**20. Stock Options (continued)**

The stock options outstanding as of March 31, 2021, were as follows:

Stock options	Grantees	Number of options granted	Date of grant	Exercise price (Yen)	Exercise price (U.S. dollars)	Exercise period
2016 stock option	16 directors	2,013,500 shares	July 5, 2016	¥ 3,017	\$ 27	From May 1, 2019 to March 31, 2022
	41 corporate officers					
	418 employees					
	112 subsidiary directors					

The stock option activity is as follows:

	2016 Stock Option (Shares)
Non-vested	
March 31, 2020 – Outstanding	
Granted	–
Canceled	–
Vested	–
March 31, 2021 – Outstanding	–
Vested	
March 31, 2020 – Outstanding	1,773,600
Vested	–
Exercised	173,900
Canceled	–
March 31, 2021 – Outstanding	1,599,700
Exercise price	¥ 3,017 (\$27)
Average stock price at exercise	¥ 3,363 (\$30)

Conditions for the exercise of share subscription rights are as follows:

- 1) The Holders must continue their service with the Company or its subsidiaries and affiliates in the state of being employed or entrusted until the share subscription rights become exercisable.
- 2) The Group's operating results must meet certain predetermined performance targets of the Group which had already been achieved.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**21. Amounts Per Share**

Basic profit per share is computed by dividing profit attributable to owners of the parent by the weighted-average number of common shares outstanding for the year.

Diluted profit per share of common stock is computed by using the weighted-average number of common stock outstanding adjusted to include the potentially dilutive effect of stock acquisition rights that were outstanding during the year.

Amounts per share as of and for the years ended March 31, 2021 and 2020 were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Profit attributable to owners of parent:			
Basic	¥ 297.18	¥ 351.84	\$ 2.68
Diluted	–	¥ 351.76	–
Net assets	¥ 2,805.09	¥ 2,600.82	\$ 25.33

Diluted profit per share is not presented because there were no securities with dilutive effect outstanding for the year ended March 31, 2021.

The reconciliations of the differences between basic and diluted profit per share for the year ended March 31, 2020 was as follows:

	<i>Millions of yen</i>	<i>Thousands of shares</i>	<i>Yen</i>	<i>U.S. dollars</i>
		Weighted- average shares	Amounts per share	
<u>Year Ended March 31, 2020</u>				
Basic profit – Profit attributable to owners of the parent	¥ 233,603	663,949	¥ 351.84	\$ 3.22
Effect of dilutive securities:				
Stock acquisition rights	–	157	–	–
Diluted profit – Profit for computation	¥ 233,603	664,106	¥ 351.76	\$ 3.22

## Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 21. Amounts Per Share (continued)

In calculating the number of shares issued as of March 31, 2021 and 2020, above, the number of shares held by the Trust for Delivery of Shares to Directors (83 thousand shares and 131 thousand shares in 2021 and 2020, respectively) is reflected as treasury stock.

As noted in Note 1 u. “Employee stockownership plan”, the Company applied PITF No. 30, “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts.” In calculating the number of weighted-average shares above, the number of shares that are held by the Trust (98 thousand shares and 95 thousand shares in 2021 and 2020, respectively) is included in treasury stock.

#### 22. Leases

##### Finance leases:

*(Lessee)*

The Group leases certain city hotels, commercial facilities, city hotel equipment, computer equipment and intangible assets in other assets.

##### ***Pro forma information of leased property whose lease inception was on or before March 31, 2008***

ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. However, ASBJ Statement No. 13 permits leases that do not transfer ownership of the leased property to the lessee whose lease inception was on or before March 31, 2008 to continue to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the consolidated financial statements. The Group applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information regarding leased property whose lease inception was on or before March 31, 2008 was as follows:

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Leases (continued)

	<i>Millions of yen</i>		
	<b>2021</b>		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥ 156,135	¥ 59	¥ 156,195
Accumulated depreciation	(116,324)	(43)	(116,367)
Accumulated impairment loss	(3,490)	–	(3,490)
Net leased property	<u>¥ 36,321</u>	<u>¥ 16</u>	<u>¥ 36,337</u>

  

	<i>Millions of yen</i>		
	2020		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥ 177,975	¥ 167	¥ 178,143
Accumulated depreciation	(127,958)	(137)	(128,095)
Accumulated impairment loss	(3,938)	–	(3,938)
Net leased property	<u>¥ 46,078</u>	<u>¥ 30</u>	<u>¥ 46,109</u>

  

	<i>Thousands of U.S. dollars</i>		
	<b>2021</b>		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	\$ 1,410,306	\$ 532	\$ 1,410,848
Accumulated depreciation	(1,050,709)	(388)	(1,051,097)
Accumulated impairment loss	(31,523)	–	(31,523)
Net leased property	<u>\$ 328,073</u>	<u>\$ 144</u>	<u>\$ 328,218</u>

Future minimum lease payments subsequent to March 31, 2021 for finance leases were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2021</b>	<b>2021</b>
Years Ending March 31		
2022	¥ 9,405	\$ 84,951
2023 and thereafter	37,454	338,307
Total	<u>¥ 46,859</u>	<u>\$ 423,258</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**22. Leases (continued)**

The allowance for impairment loss on leased property of ¥1,611 million (\$14,551 thousand) and ¥1,759 million as of March 31, 2021 and 2020, respectively, is not included in the obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases for the years ended March 31, 2021 and 2020, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Depreciation expense	¥ 7,501	¥ 8,443	\$ 67,753
Interest expense	3,100	3,815	28,001
Lease payments	13,178	14,881	119,031
Reversal of allowance for impairment loss on leased property	476	567	4,299
Impairment loss	322	180	2,908

(Lessor)

The net investments in leases as of March 31, 2021 and 2020, were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Gross lease receivables	¥ 48,452	¥ 45,811	\$ 437,647
Unguaranteed residual values	1,974	1,570	17,830
Unearned interest income	(16,906)	(16,710)	(152,705)
Investments in leases, current	¥ 33,519	¥ 30,670	\$ 302,763

Contractual maturities of lease receivables from finance lease transactions subsequent to March 31, 2021 in which the ownership of the leased assets is transferred to the lessee are as follows:

<u>Years Ending March 31</u>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2022	¥ 1,857	\$ 16,773
2023	1,986	17,938
2024	1,958	17,685
2025	1,796	16,222
2026	1,682	15,192
2027 and thereafter	5,553	50,158
Total	¥14,836	\$134,007

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**22. Leases (continued)**

Contractual maturities of the above gross lease receivables subsequent to March 31, 2021 in which the ownership of the leased assets is not transferred to the lessee are as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2022	¥ 7,087	\$ 64,014
2023	5,924	53,509
2024	4,603	41,577
2025	3,911	35,326
2026	3,331	30,087
2027 and thereafter	23,594	213,115
Total	¥ 48,452	\$ 437,647

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statement of income, are computed by the straight-line method and the interest method, respectively.

**Operating Leases:**

*(Lessee)*

Future minimum lease payments subsequent to March 31, 2021 for noncancelable operating leases were as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2021</b>	<b>2021</b>
2022	¥ 60,988	\$ 550,880
2023 and thereafter	618,300	5,584,861
Total	¥ 679,288	\$ 6,135,742

Lease transactions of lessees subject to IFRS 16 “Leases” for overseas subsidiaries, were not included in the above amount for the year ended March 31, 2021.



# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Leases (continued)

(Lessor)

Future minimum lease income subsequent to March 31, 2021 for noncancelable operating lease were as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2021</b>	<b>2021</b>
2022	¥ 8,920	\$ 80,570
2023 and thereafter	254,258	2,296,612
Total	¥ 263,178	\$ 2,377,183

Penalty income for early cancelation is included in the amount for 2023 and thereafter.

### 23. Contingent Liabilities

As of March 31, 2021, the Group had the following contingent liabilities:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Trade notes receivable discounted	¥ 168	\$ 1,517
Guarantees and similar items of bank loans:		
House purchasers' loans from banks	22,943	207,235
Loans of affiliates from banks	24,174	218,354

### 24. Financial Instruments and Related Disclosure

#### (1) Policy for financial instruments

The Group manages cash surpluses mainly through low-risk financial assets. The Group raises funds mainly through bank loans and direct finance such as issuance of bonds and commercial paper. The Group enters into derivative transactions for the purpose of managing exposure to financial risks and does not enter into derivative transactions for speculative or trading purposes.

## Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 24. Financial Instruments and Related Disclosure (continued)

##### (2) Nature and extent of risks arising from financial instruments, and risk management for financial instruments

Receivables, such as trade notes and accounts receivable and lease deposits, are exposed to customer credit risk. The Group manages its credit risk by monitoring payment status, payment due and balances by customers to identify the default risk such as making financial positions of customers worse at an early stage.

Marketable and investment securities, such as stock, certificates of deposit, debt securities, investment trusts and investments in capital of partnership, are exposed to issuers' credit risk and market price fluctuation risk. The Group manages its credit risk and market price fluctuation risk by monitoring market values and the financial position of issuers and reviews the holding status on a regular basis with considering the business relationships with issuers.

Payment terms of payables, such as trade notes and accounts payable, are mainly less than one year. Lease deposits received consist mainly of the deposits of the real estate business. The loans from banks and bonds are used mainly for investment in plant, equipment and leased property. Some of such bank loans and payables are exposed to liquidity risk. The Group manages liquidity risk by maintaining appropriate amounts of liquid assets along with sufficient financial planning by the financial department of the Group based on the reports from each section and consolidated subsidiaries.

Loans with floating interest rates from banks and foreign currency receivables and payables denominated in foreign currencies are exposed to the fluctuation risks of interest rate or exchange rate. Derivative transactions such as interest swap contracts, foreign currency swap contracts and foreign currency forward contracts are used for certain transactions as heading instruments by individual contracts. Certain consolidated subsidiaries utilize bond future contracts to hedge interest fluctuation risk of loans.

The Group enters into derivative transactions described above based on internal guidelines. To minimize credit risks, the counterparties to those derivatives are mainly limited to major international financial institutions with higher credit ratings and status of derivative transactions are reported to Director of the Financing Department on a regular basis. Please see Note 1 q. "Derivative financial instruments".

##### (3) Supplemental information for fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. As various factors are incorporated into these calculations, the resulting values may vary if different assumptions are used. The contract amount as shown in Note 25 "Derivatives" does not indicate the market risk associated with derivative transactions.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Financial Instruments and Related Disclosure (continued)

(3) Supplemental information for fair values of financial instruments (continued)

The carrying values of financial instruments on the accompanying consolidated balance sheet as of March 31, 2021 and 2020 and their estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	<i>Millions of yen</i>		
	<b>2021</b>		
	Carrying value	Fair value	Difference
<b>Assets</b>			
Cash and bank deposits	¥ 425,980	¥ 425,980	¥ –
Trade notes and accounts receivables	401,314		
Allowance for doubtful accounts	(1,463)		
	<u>399,851</u>	<u>399,851</u>	<u>–</u>
Marketable and investment securities:			
Held-to-maturity debt securities	2,844	2,886	41
Other securities	159,500	159,500	–
Lease deposits	251,358		
Allowance for doubtful accounts	(200)		
	<u>251,157</u>	<u>246,701</u>	<u>(4,456)</u>
<b>Total assets</b>	<u>¥ 1,239,334</u>	<u>¥ 1,234,919</u>	<u>¥ (4,415)</u>
<b>Liabilities</b>			
Short-term bank loans	¥ 124,584	¥ 124,584	¥ –
Commercial paper	–	–	–
Payable:			
Trade notes and accounts payable	296,165	296,165	–
Other	129,089	129,089	–
Income taxes payable	57,093	57,093	–
Long-term debt:			
Bonds	423,000	423,431	431
Loans from banks	724,401	728,040	3,639
Lease deposits received	284,946	276,155	(8,790)
<b>Total liabilities</b>	<u>¥ 2,039,282</u>	<u>¥ 2,034,562</u>	<u>¥ (4,720)</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Financial Instruments and Related Disclosure (continued)

(3) Supplemental information for fair values of financial instruments (continued)

	<i>Millions of yen</i>		
	2020		
	Carrying value	Fair value	Difference
<b>Assets</b>			
Cash and bank deposits	¥ 281,434	¥ 281,434	¥ –
Trade notes and accounts receivables	433,053		
Allowance for doubtful accounts	(1,196)		
	<u>431,856</u>	<u>431,856</u>	<u>(0)</u>
<b>Marketable and investment securities:</b>			
Held-to-maturity debt securities	3,642	3,710	68
Other securities	128,382	128,382	–
Lease deposits	241,030		
Allowance for doubtful accounts	(200)		
	<u>240,830</u>	<u>238,195</u>	<u>(2,634)</u>
<b>Total assets</b>	<u>¥ 1,086,146</u>	<u>¥ 1,083,580</u>	<u>¥ (2,566)</u>
<b>Liabilities</b>			
Short-term bank loans	¥ 110,519	¥ 110,519	¥ –
Commercial paper	49,000	49,000	–
<b>Payable:</b>			
Trade notes and accounts payable	360,338	360,338	–
Other	135,690	135,690	–
Income taxes payable	58,980	58,980	–
<b>Long-term debt:</b>			
Bonds	342,000	340,171	(1,828)
Loans from banks	539,358	540,613	1,255
Lease deposits received	284,323	278,919	(5,403)
<b>Total liabilities</b>	<u>¥ 1,880,210</u>	<u>¥ 1,874,233</u>	<u>¥ (5,977)</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Financial Instruments and Related Disclosure (continued)

(3) Supplemental information for fair values of financial instruments (continued)

	<i>Thousands of U.S. dollars</i>		
	<b>2021</b>		
	Carrying value	Fair value	Difference
<b>Assets</b>			
Cash and bank deposits	\$ 3,847,710	\$ 3,847,710	\$ –
Trade notes and accounts receivables	3,624,911		
Allowance for doubtful accounts	(13,214)		
	<u>3,611,697</u>	<u>3,611,697</u>	<u>–</u>
<b>Marketable and investment securities:</b>			
Held-to-maturity debt securities	25,688	26,068	370
Other securities	1,440,700	1,440,700	–
Lease deposits	2,270,418		
Allowance for doubtful accounts	(1,806)		
	<u>2,268,602</u>	<u>2,228,353</u>	<u>(40,249)</u>
<b>Total assets</b>	<u><u>\$ 11,194,417</u></u>	<u><u>\$ 11,154,538</u></u>	<u><u>\$ (39,878)</u></u>
<b>Liabilities</b>			
Short-term bank loans	\$ 1,125,318	\$ 1,125,318	\$ –
Commercial paper	–	–	–
<b>Payable:</b>			
Trade notes and accounts payable	2,675,142	2,675,142	–
Other	1,166,010	1,166,010	–
Income taxes payable	515,698	515,698	–
<b>Long-term debt:</b>			
Bonds	3,820,793	3,824,686	3,893
Loans from banks	6,543,230	6,576,099	32,869
Lease deposits received	2,573,805	2,494,399	(79,396)
<b>Total liabilities</b>	<u><u>\$ 18,420,034</u></u>	<u><u>\$ 18,377,400</u></u>	<u><u>\$ (42,633)</u></u>

Note: 1) Methods to determine the estimated fair value of financial statements and other matters related to securities and derivative transactions

*Cash and bank deposits*

The carrying values of cash and bank deposits approximate fair value because of their short-term maturities.

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 24. Financial Instruments and Related Disclosure (continued)

#### (3) Supplemental information for fair values of financial instruments (continued)

##### *Trade notes and accounts receivables*

The fair values of trade notes and accounts receivables are measured at the amount to be received at maturity, discounted at the Group's assumed corporate discount rate with credit risks.

##### *Marketable and investment securities*

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 4 "Marketable and Investment Securities".

##### *Lease deposits*

The fair values of lease deposits are measured at present value calculated by maturity periods to collection and discounted rate with credit risks.

##### *Short-term bank loans, commercial paper, payables and income taxes payable*

The carrying values of short-term bank loans, commercial paper, payables and income taxes payable approximate fair value because of their short-term maturities.

##### *Long-term debt*

The fair values of bonds are based on quoted prices in active markets.

The carrying values of long-term loans from banks with floating rates approximate fair value because they reflect the market interest rates timely.

The fair values of loans from banks with fixed rates are determined at the present value by discounting the cash flows related to the debt the total amounts of principal and interest payments at the Group's assumed corporate discount rate corresponding to loan periods. The fair values of loans from banks with the interest rate swap or currency swap transactions are determined at the present value by the discounting the total amounts of principal and interest payments related to the debt at the Group's assumed corporate discount rate corresponding to loan periods.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Financial Instruments and Related Disclosure (continued)

(3) Supplemental information for fair values of financial instruments (continued)

*Lease deposits received*

The fair values of lease deposits received are measured at the present value calculating by the amount to be paid at maturity and, discounted at the Group's assumed corporate discount rate.

*Derivatives*

The information regarding the fair value for derivatives is included in Note 25 "Derivatives".

2) Financial instruments for which it is extremely difficult to determine the fair value

	Carrying amount		
	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2021</b>	2020	<b>2021</b>
Unlisted stocks	¥ 37,142	¥ 39,311	\$ 335,489
Preferred fund certificates	17,262	20,324	155,920
Investments in limited liability partnership and other	15,291	16,371	138,117

Because no quoted market price available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3) Redemption schedule for receivables and marketable and investment securities with maturities as of March 31, 2021 was as follows:

	<i>Millions of yen</i>			
	<b>2021</b>			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and bank deposits	¥ 425,980	¥ –	¥ –	¥ –
Trade notes and accounts receivables	380,256	20,308	–	749
Marketable and investment securities:				
Held-to-maturity debt securities	554	2,313	–	10
Available for sale securities with contractual maturities	–	11,448	–	120
Lease deposits	30,229	77,930	58,125	88,115
<b>Total</b>	<b>¥ 837,019</b>	<b>¥ 112,001</b>	<b>¥ 58,125</b>	<b>¥ 88,994</b>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**24. Financial Instruments and Related Disclosure (continued)**

(3) Supplemental information fair values of financial instruments (continued)

	<i>Thousands of U.S. dollars</i>			
	<b>2021</b>			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and bank deposits	<b>\$3,847,710</b>	\$ –	\$ –	\$ –
Trade notes and accounts receivables	<b>3,434,703</b>	<b>183,434</b>	–	<b>6,765</b>
Marketable and investment securities:				
Held-to-maturity debt securities	<b>5,004</b>	<b>20,892</b>	–	<b>90</b>
Available for sale securities with contractual maturities	–	<b>103,405</b>	–	<b>1,083</b>
Lease deposits	<b>273,046</b>	<b>703,911</b>	<b>525,020</b>	<b>795,908</b>
Total	<b><u>\$7,560,464</u></b>	<b><u>\$1,011,661</u></b>	<b><u>\$ 525,020</u></b>	<b><u>\$ 803,847</u></b>

- 4) The redemption schedule for bonds and bank loans is presented in Note 8 “Short-Term Bank Loans, Commercial Paper and Long-Term Debt.”

**25. Derivatives**

Derivative transactions to which hedge accounting was applied as of March 31, 2021 and 2020 were as follows:

		<i>Millions of yen</i>			
		<b>2021</b>		<b>2020</b>	
	Hedged item	Contract amount	Contract amount due after one year	Contract amount	Contract amount due after one year
Interest rate swaps:					
Fixed rate payment, floating rate receipt	Long-term debt – loans from banks	<b>¥ 30,972</b>	<b>¥ 25,526</b>	¥ 32,590	¥ 28,701
Interest rate and currency swaps:					
Fixed rate payment in yen, floating rate receipt in U.S. dollars	Long-term debt – loans from banks	<b>¥ 26,128</b>	<b>¥ 26,128</b>	¥ 26,128	¥ 26,128



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**25. Derivatives (continued)**

		<i>Thousands of U.S. dollars</i>	
		<b>2021</b>	
	<u>Hedged item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>
Interest rate swaps:			
Fixed rate payment, floating rate receipt	Long-term debt – loans from banks	<b>\$ 279,757</b>	<b>\$ 230,566</b>
Interest rate and currency swaps:			
Fixed rate payment in yen, floating rate receipt in U.S. dollars	Long-term debt – Loans from banks	<b>\$ 236,003</b>	<b>\$ 236,003</b>

The above interest rate swaps and interest rate and currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differentials paid or received under the swap agreements are recognized and included in interest expense or income, and long-term debts and short-term bank loans denominated in a foreign currency are translated at the contracted rates (allocation method and special treatment). In addition, the fair values of such interest rate swaps and interest rate and currency swaps in Note 24 “Financial Instruments and Related Disclosure” are included in those of the hedged items (i.e., long-term debt).

**26. Supplemental Cash Flow Information**

Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2021 and 2020 are reconciled to cash and bank deposits in the consolidated balance sheet as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Cash and bank deposits	<b>¥ 425,980</b>	¥ 281,434	<b>\$ 3,847,710</b>
Time deposits with maturities of more than three months	<b>(9,658)</b>	(5,366)	<b>(87,236)</b>
Cash and cash equivalents	<b>¥ 416,321</b>	¥ 276,068	<b>\$ 3,760,464</b>

# Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 27. Segment Information

#### 1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group operates in diversified and comprehensive business areas such as housing construction as well as the construction of commercial and office buildings. The Group has divided its operations into seven business domains and conducts its business activities by developing comprehensive business plans for each business domain in order to complement core competencies with timely decision-making, professionalism, value chain integration, leveraging of the customer base and others. The Group's reportable segments consist of the following 6 core businesses as reportable segments; Single-Family Houses Business, Rental Housing Business, Condominiums Business, Existing Home Business, Commercial Facilities Business, and Business and Corporate Facilities Business. The Single-Family Houses Business consists of orders of single-family houses and sales of packages of new houses with land. The Rental Housing Business consists of the Group's operations in rental housing development, construction, management, operation and real estate agency services. The Condominiums Business consists of development, sale and management of condominiums. The Existing Home Business consists of renovation and real estate agency services. The Commercial Facilities Business consists of development, construction, management and operation of commercial facilities. The Business and Corporate Facilities Business consists of development and construction of logistics, manufacturing facilities and medical and nursing care facilities, and building, management and operation of temporary facilities.

#### 2. Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 1 "Summary of Significant Accounting Policies".

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Segment Information (continued)

3. Information about sales, profit, assets and other items is as follows:

	<i>Millions of yen</i>						
	<b>2021</b>						
	Reportable segments						
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Sub-total
Sales:							
Sales to third parties	¥ 513,665	¥ 980,718	¥ 332,497	¥ 121,557	¥ 796,470	¥ 979,889	¥ 3,724,799
Intersegment sales and transfers	2,444	2,067	7,293	3,160	11,924	10,095	36,986
Total	¥ 516,109	¥ 982,785	¥ 339,790	¥ 124,718	¥ 808,395	¥ 989,984	¥ 3,761,785
Segment profit	¥ 21,818	¥ 90,832	¥ 5,397	¥ 10,438	¥ 122,898	¥ 115,910	¥ 367,295
Segment assets	418,194	344,713	695,615	29,980	1,005,569	1,689,501	4,183,574
Other:							
Depreciation	4,576	9,158	2,575	216	31,936	14,393	62,856
Increase in property, plant and equipment and intangible assets	4,895	30,258	12,852	229	56,871	234,821	339,929

	<i>Millions of yen</i>			
	<b>2021</b>			
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	¥ 401,970	¥ 4,126,769	¥ –	¥ 4,126,769
Intersegment sales and transfers	105,389	142,376	(142,376)	–
Total	¥ 507,359	¥ 4,269,145	¥ (142,376)	¥ 4,126,769
Segment profit	¥ 10,771	¥ 378,067	¥ (20,946)	¥ 357,121
Segment assets	633,339	4,816,913	236,138	5,053,052
Other:				
Depreciation	14,551	77,408	995	78,403
Increase in property, plant and equipment and intangible assets	29,957	369,887	3,016	372,904

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Segment Information (continued)

3. Information about sales, profit, assets and other items is as follows: (continued)

	<i>Millions of yen</i>						
	2020						
	Reportable segments						
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Sub-total
Sales:							
Sales to third parties	¥ 495,415	¥ 1,004,781	¥ 364,017	¥ 142,193	¥ 799,232	¥ 1,143,301	¥ 3,948,942
Intersegment sales and transfers	2,464	1,121	8,714	3,425	7,551	9,046	32,323
Total	¥ 497,880	¥ 1,005,902	¥ 372,731	¥ 145,619	¥ 806,784	¥ 1,152,347	¥ 3,981,266
Segment profit	¥ 18,080	¥ 98,587	¥ 15,883	¥ 16,723	¥ 140,632	¥ 120,636	¥ 410,544
Segment assets	378,685	329,309	607,998	31,762	922,884	1,582,230	3,852,871
Other:							
Depreciation	5,671	9,609	2,012	188	29,035	14,047	60,565
Increase in property, plant and equipment and intangible assets	5,835	30,585	15,469	642	113,440	173,765	339,739

	<i>Millions of yen</i>			
	2020			
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	¥ 431,267	¥ 4,380,209	¥ –	¥ 4,380,209
Intersegment sales and transfers	98,812	131,136	¥ (131,136)	–
Total	¥ 530,079	¥ 4,511,345	¥ (131,136)	¥ 4,380,209
Segment profit	¥ 19,285	¥ 429,829	¥ (48,714)	¥ 381,114
Segment assets	645,438	4,498,310	129,078	4,627,388
Other:				
Depreciation	13,532	74,098	1,109	75,207
Increase in property, plant and equipment and intangible assets	34,121	373,861	(9)	373,851

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Segment Information (continued)

3. Information about sales, profit, assets and other items is as follows: (continued)

<i>Thousands of U.S. dollars</i>							
<b>2021</b>							
Reportable segments							
	Single- family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Sub-total
Sales:							
Sales to third parties	\$ 4,639,734	\$ 8,858,440	\$ 3,003,314	\$ 1,097,976	\$ 7,194,201	\$ 8,850,952	\$ 33,644,648
Intersegment sales and transfers	22,075	18,670	65,874	28,543	107,704	91,184	334,080
Total	\$ 4,661,810	\$ 8,877,111	\$ 3,069,189	\$ 1,126,528	\$ 7,301,914	\$ 8,942,137	\$ 33,978,728
Segment profit	\$ 197,073	\$ 820,449	\$ 48,748	\$ 94,282	\$ 1,110,089	\$ 1,046,969	\$ 3,317,631
Segment assets	3,777,382	3,113,657	6,283,217	270,797	9,082,910	15,260,599	37,788,582
Other:							
Depreciation	41,333	82,720	23,258	1,951	288,465	130,006	567,753
Increase in property, plant and equipment and intangible assets	44,214	273,308	116,087	2,068	513,693	2,121,045	3,070,445

<i>Thousands of U.S. dollars</i>				
<b>2021</b>				
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	\$ 3,630,837	\$ 37,275,485	\$ –	\$ 37,275,485
Intersegment sales and transfers	951,937	1,286,026	(1,286,026)	–
Total	\$ 4,582,774	\$ 38,561,512	\$ (1,286,026)	\$ 37,275,485
Segment profit	\$ 97,290	\$ 3,414,930	\$ (189,197)	\$ 3,225,733
Segment assets	5,720,702	43,509,285	2,132,941	45,642,236
Other:				
Depreciation	131,433	699,196	8,987	708,183
Increase in property, plant and equipment and intangible assets	270,589	3,341,044	27,242	3,368,295

## Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 27. Segment Information (continued)

##### 3. Information about sales, profit, assets and other items is as follows: (continued)

Notes: 1) "Other" includes construction support, health and leisure and others.

- 2) Adjustments and eliminations for segment profit of ¥20,946 million (\$189,197 thousand) and ¥48,714 million include intersegment eliminations of ¥1,440 million (\$13,006 thousand) and ¥658 million, the amortization of goodwill of ¥803 million (\$7,253 thousand) and ¥699 million, and the corporate expenses not allocated to each business segment of ¥23,189 million (\$209,457 thousand) and ¥48,756 million for the years ended March 31, 2021 and 2020, respectively. Corporate expenses mainly consist of general and administrative expenses and experiment and research expenses not attributable to any reportable business segments.

Adjustments and eliminations for segment assets of ¥236,138 million (\$2,132,941 thousand) and ¥129,078 million include intersegment eliminations of ¥176,757 million (\$1,596,576 thousand) and ¥165,040 million, and the corporate assets of ¥412,896 million (\$3,729,527 thousand) and ¥294,118 million for the years ended March 31, 2021 and 2020, respectively. Corporate assets primarily consist of the Group's surplus funds (cash and bank deposits), the Group's long-term investment funds (investment securities) and the assets associated with administration headquarters of the Company.

Adjustments and eliminations for depreciation of ¥995 million (\$8,987 thousand) and ¥1,109 million include intersegment eliminations of ¥652 million (\$5,889 thousand) and ¥665 million, and the depreciation attributable to corporate assets of ¥1,647 million (\$14,876 thousand) and ¥1,775 million for the years ended March 31, 2021 and 2020, respectively.

Adjustments and eliminations for increase in property, plant and equipment and other assets of ¥3,016 million (\$27,242 thousand) and ¥9 million include intersegment eliminations of ¥4,267 million (\$38,542 thousand) and ¥3,546 million, and the headquarters' capital investments in properties and equipment of ¥7,283 million (\$65,784 thousand) and ¥3,537 million for the years ended March 31, 2021 and 2020, respectively.

- 3) Consolidated amounts of segment profit as mentioned above correspond to the amounts of operating income in the consolidated statement of income.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Segment Information (continued)

3. Information about sales, profit, assets and other items is as follows: (continued)

Impairment losses

<i>Millions of yen</i>									
<b>2021</b>									
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated
Impairment losses	¥ 3,941	¥ 3,915	¥ 424	¥ 369	¥ 3,594	¥ 4,001	¥ 4,607	¥ 211	¥ 21,065
<i>Millions of yen</i>									
<b>2020</b>									
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated
Impairment losses	¥9,920	¥ 3,128	¥ 157	¥ 9	¥ 2,381	¥ 279	¥ 1,186	¥ –	¥ 17,062
<i>Thousands of U.S. dollars</i>									
<b>2021</b>									
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated
Impairment losses	\$ 35,597	\$ 35,362	\$ 3,829	\$ 3,333	\$ 32,463	\$ 36,139	\$ 41,613	\$ 1,905	\$ 190,271

Notes: 1) Adjustments and eliminations for impairment loss of 211 million (\$1,905 thousand) represent the impairment loss for corporate assets that are not allocated to each business segment.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Segment Information (continued)

3. Information about sales, profit, assets and other items is as follows: (continued)

Amortization of goodwill

Millions of yen

2021

	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 727	¥ 61	¥ 1,791	¥ (8)	¥ 422	¥ 2,274	¥ 257	¥ –	¥ 5,526
Balance as of March 31, 2021	9,284	987	10,180	(53)	2,254	40,919	10,473	–	74,046

Millions of yen

2020

	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 1,095	¥ 542	¥ 1,051	¥ (8)	¥ 444	¥ 2,086	¥ 332	¥ –	¥ 5,545
Balance as of March 31, 2020	9,780	1,018	11,193	(61)	2,677	28,118	10,731	–	63,457

Thousands of U.S. dollars

2021

	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated
Amortization	\$ 6,566	\$ 550	\$ 16,177	\$ (72)	\$ 3,811	\$ 20,540	\$ 2,321	\$ –	\$ 49,914
Balance as of March 31, 2021	83,858	8,915	91,951	(478)	20,359	369,605	94,598	–	668,828

Gain on negative goodwill was nil for the years ended March 31, 2021 and 2020.

4. Information by product and service

This information is omitted because the same information is disclosed in segment information.



Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**27. Segment Information (continued)**

5. Information by geographic segment

(Sales)

This information is omitted because sales to external customers in Japan exceeds 90% of consolidated sales.

(Property, plant and equipment)

This information is omitted because property, plant and equipment in Japan exceeds 90% of property, plant and equipment of the consolidated balance sheet.

6. Information by major customer

This information is omitted because there is no specific external customer that accounts for 10% or more of consolidated sales.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

28. Related Party Transactions

The Group has related party transactions with unconsolidated subsidiary and directors and their relatives of the Company. Principal transactions and balances between the Group and its related parties as of and for the years ended March 31, 2021 and 2020 were as follows:

*Millions of yen*

Name	Location	Amount of capital	Nature of the business	Ownership ratio of voting shares	Relationship with the related party	Nature of transactions	Transaction amount	Account	Balance outstanding as of March 31, 2021
UNIFLOW CO., LTD (Note 1)	Shinagawa Ward, Tokyo	¥ 88	Manufacturing and sales of housing fittings	11.9% owned by the Company	Vendor of housing fittings	Purchase of housing fittings	¥ 12	Trade notes and accounts payable	¥ 0
					Providing supports for system development, designing housing fittings and vehicle leases	Commission income for providing supports for system development and designing housing fittings Lease income	¥ 95	Trade notes and accounts receivable Other current assets Advances received	¥ 1 ¥ 1 ¥ 0
Keiichi Yoshii and his relatives	–	–	Representative Director of the Company	0.0% owned by the related party	Land sales and house construction	Land sales and house construction (Note 2)	¥ 81	Other current liabilities	¥ 15
Takeshi Kosokabe	–	–	Representative Director of the Company	0.0% owned by the related party	Sales of condominium	Sales of condominium (Note 2)	¥ 160	–	–
					Sales of furniture and providing interior design coordination	Sales of furniture and providing interior design coordination	¥ 12	–	–

*Millions of yen*

Name	Location	Amount of capital	Nature of the business	Ownership ratio of voting shares	Relationship with the related party	Nature of transactions	Transaction amount	Account	Balance outstanding as of March 31, 2020
UNIFLOW CO., LTD (Note 1)	Shinagawa Ward, Tokyo	¥ 88	Manufacturing and sales of housing fittings	11.9% owned by the Company	Vendor of housing fittings	Purchase of housing fittings	¥ 13	Trade notes and accounts payable	¥ 0
					Providing supports for system development, designing housing fittings and vehicle leases	Commission income for providing supports for system development and designing housing fittings Lease income	¥ 176	Trade notes and accounts receivable Other current assets Payables – other	¥ 13 ¥ 1 ¥ 27

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

28. Related Party Transactions (continued)

Thousands of U.S. dollars

Name	Location	Amount of capital	Nature of the business	Ownership ratio of voting shares	Relationship with the related party	Nature of transactions	Transaction amount	Account	Balance outstanding as of March 31, 2021
UNIFLOW CO., LTD (Note 1)	Shinagawa Ward, Tokyo	\$ 794	Manufacturing and sales of housing fittings	11.9% owned by the Company	Vendor of housing fittings	Purchase of housing fittings	\$ 108	Trade notes and accounts payable	\$ 0
					Providing supports for system development, designing housing fittings and vehicle leases	Commission income for providing supports for system development and designing housing fittings	\$ 858	Trade notes and accounts receivable	\$ 9
						Lease income		Other current assets Advances received	\$ 9 \$ 0
Keiichi Yoshii and his relatives	–	–	Representative Director of the Company	0.0% owned by the related party	Land sales and house construction	Land sales and house construction (Note 2)	\$ 731	Other current liabilities	\$ 135
Takeshi Kosokabe	–	–	Representative Director of the Company	0.0% owned by the related party	Sales of condominium	Sales of condominium (Note 2)	\$ 1,445	–	–
					Sales of furniture and providing interior design coordination	Sales of furniture and providing interior design coordination	\$ 108	–	–

Note: 1. More than 50% of the shares are owned by Tamio Ishibashi, Representative Director and Vice President of the Company and his relatives.

As approved at the 82nd general shareholders meeting held on June 29, 2021, Tamio Ishibashi retired from the position of Representative Director Vice President.

2. The corresponding construction or sales has been completed and the ownership has been transferred to the related party in the year ended March 31, 2021.

3. Business transactions with related parties are carried out on the same method as for third party transactions.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**29. Subsequent Event**

Dividends

The following distribution of retained earnings of the Group, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2021, was approved at a shareholders' meeting held on June 29, 2021:

<u>Resolution</u>	<u>Types of shares</u>	<u>Total dividends (Millions of yen)</u>	<u>Total dividends (Thousands of U.S. dollars)</u>	<u>Dividends per share (yen)</u>	<u>Dividends per share (U.S. dollars)</u>	<u>Record date</u>	<u>Effective date</u>
Shareholders' meeting held on June 29, 2021	Common stock	<b>¥ 43,185</b>	<b>\$ 390,073</b>	<b>¥ 66</b>	<b>\$ 0.59</b>	March 31, 2021	June 30, 2021