

Consolidated Financial Statements

Daiwa House Industry Co., Ltd.

*Year ended March 31, 2023
with Independent Auditor's Report*

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2023

Contents

Consolidated Financial Statements

Independent Auditor's Report	1
Consolidated Balance Sheet	8
Consolidated Statement of Income.....	10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Changes in Net Assets.....	12
Consolidated Statement of Cash Flows.....	16
Notes to Consolidated Financial Statements	18

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, 2023, 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, 2023, 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.

Estimates of total construction costs for ordered contract transactions of which revenues are recognized based on the fulfillment of performance obligations over a certain period of time	
Description of Key Audit Matter	Auditor’s Response
As described in Note 1 (m) “Revenue recognition,” performance obligations related to ordered contract transactions in which contracts for construction work have been entered into with customers for single-family houses, rental housing, commercial facilities,	We mainly conducted the following audit procedures for the construction works selected by us based on quantitative and qualitative criteria we established in light of risks in order to assess the reasonableness of the estimates of total construction costs for

business and corporate facilities and others are satisfied over a certain period of time and revenues are recognized based on the progress of fulfillment of the performance obligations (“progress”). This progress is estimated using the input method based on cost (percentage of cost incurred to total construction costs). Specifically, the amount of revenue to be recognized is determined using the following formula:

Total construction revenue × progress (cost incurred ÷ total construction costs)

As described in Note 1 (u) “Significant accounting judgements, estimates and assumptions”, sales (including construction contracts in progress as at the end of the year) recorded for the year ended March 31, 2023 using the method of recognizing revenue based on the fulfillment of performance obligations over a certain period of time related to construction contracts amounted to ¥1,927,012 million (\$14,431,303 thousand)*.

Total construction costs are estimated using execution budgets for each construction contract, and the execution budgets are formulated using cost items such as the quantity of construction materials, labor hours, and procurement unit price as assumptions. These cost items reflect specific factors such as the specifications and status of construction contracts and external factors such as economic conditions and business environment and are aggregated according to construction type such as reinforced steel construction, concrete construction, and electrical equipment construction. Of these cost items, material construction costs for items not yet ordered are significant assumptions and involves uncertainty since such costs may differ from the execution budget due to fluctuations in prices and the like at some point in the future and thus have a significant impact on progress of fulfilling the performance obligations. In addition, estimates of execution budgets for construction contracts having a long construction period and unique specifications

ordered contract transactions that were in progress as at the end of the year for which revenues were recognized based on the progress of fulfillment of performance obligations over a certain period of time. In addition to the quantitative and qualitative criteria, we also included in the scope of audit procedures the construction works selected using our construction progress standard abnormality detection tool**.

** Construction progress standard abnormality detection tool

A tool for detecting unusual trends in the progress of construction and development projects that applies a method of recognizing revenue based on the fulfilment of performance obligations over a certain period of time based on progress forecasted using machine learning. This tool also allows users to predict which construction projects may have total construction costs that exceed total construction revenue and detect unusual timing of costs.

(1) Evaluation of internal controls

We evaluated the design and the effectiveness of the following internal controls of the Group related to the estimates of total construction costs.

- We evaluated the internal controls that ensure the reliability of execution budgets, which are the basis of the estimates of total construction costs, requiring that such execution budgets are formulated by persons in charge of construction work with specialized knowledge through a detailed cumulative calculation based on construction drawings, quotations obtained from third parties, and others, and that the necessary approval for such execution budgets is obtained.
- We evaluated internal controls ensuring that the estimates of total construction costs are revised on a timely basis according to the status of construction work, actual cost incurred, or instructions for changes in

<p>are complex since there are wide range of cost items.</p> <p>Accordingly, we have determined estimates of total construction costs for ordered contract transactions in progress as at the end of the year for which revenues were recognized based on the progress of fulfillment of performance obligations over a certain period of time to be a key audit matter.</p>	<p>specification from customers.</p> <p>(2) Estimates of total construction costs</p> <p>We mainly conducted the following audit procedures in order to assess the appropriateness of estimates of total constructions costs.</p> <p><Consideration of estimation methods></p> <ul style="list-style-type: none"> • We considered whether the execution budgets were prepared by aggregating data by construction type, and made inquiries of persons in charge of construction work in order to consider whether the construction type related to the construction work was incorporated in the execution budgets. • We considered whether the execution budgets contained any significant and unusual adjustments for the purpose of reflecting future uncertainties. <p><Consideration of significant assumptions></p> <ul style="list-style-type: none"> • We assessed whether construction costs for items not yet ordered were properly estimated by comparing the execution budgets to the quotations obtained from subcontractors, or the actual construction records in the past and the profit margin of similar construction works in progress. • We made inquiries of the person in-charge of construction sites regarding the construction progress and the status of orders to subcontractors and considered whether there were any significant events requiring a revision of total construction costs. • We inspected the documents for internal approval of the revision of the estimates of the total construction costs and assessed whether the execution budgets were revised in a timely and appropriate manner according to the progress of construction works. • We observed construction sites of certain construction works (including remote inspection, and others), made inquiries of the person in-charge of construction sites regarding the status of construction work,
--	--

	<p>and considered whether the answers we received are consistent with the progress of construction works and with the details of estimates of the total construction costs.</p> <p><Consideration of data></p> <ul style="list-style-type: none"> • We compared the construction costs for items that were already ordered from subcontractors to the acceptance on order and documents corroborating the volume, and considered the consistency between these costs and documents.
--	--

<p>Revenue recognition of real estate sales transactions to real estate funds and others, such as special purpose companies, REITs or parties with which the Group has continuing involvement</p>	
<p>Description of Key Audit Matter</p>	<p>Auditor's Response</p>
<p>The Group is engaged in the real estate development business mainly involving business facilities and commercial facilities.</p> <p>During the year ended March 31, 2023, the Group recorded revenue from sales of real estate to real estate funds, which is mainly included in net sales of ¥222,297 million (\$1,664,771 thousand)* arising from sales of development properties.</p> <p>Revenue from sales of real estate to real estate funds and others is recognized when the real estate has been transferred at an appropriate price and substantially all the risks and rewards of ownership of the real estate have been transferred. In general, the terms and conditions of the sale of development properties are highly specific, and each transaction amount is material. In particular, when the transferees are real estate funds or others, there is a risk that the real estate will not be transferred at an appropriate price since transferees differ in nature from ordinary counterparties, and transferees leverage this difference in nature to adjust real estate prices to be advantageous for them. In addition, the individual scheme and terms and conditions of transactions are complicated and, if the Group has continuing</p>	<p>We mainly conducted the following procedures for certain transactions in which the sales transaction amount exceeded a quantitative threshold in order to assess revenue recognition for real estate sales transactions to real estate funds and others.</p> <ul style="list-style-type: none"> • In order to consider whether real estate was transferred at appropriate prices, we compared the prices with prices for real estate transactions in the same areas and real estate appraisals. In addition, we compared future cash flows and discount rates, which form the basis for real estate appraisals, to information such as real estate transactions in the same areas, rent data published by external organizations, and market reports on yields. • In order to understand the entire transaction scheme, including the buyers, consider whether the transaction entails the continuing involvement of the Group, and assess the economic rationality of the transaction, we inspected the request for approval and the minutes of the Board of Directors' meetings and, when necessary, made inquiries of the responsible department. • In order to assess whether there are any

<p>involvement, such as providing management services, granting repurchase options, sale and leaseback transactions or the partial holding of equity interest after the transfer of the real estate is completed, a material amount of revenue may be recognized even though substantially all of the risks and rewards of ownership of the real estate have not been transferred. Accordingly, we have determined revenue recognition for real estate sales transactions to real estate funds and others to be a key audit matter.</p>	<p>conditions that demonstrate continuing involvement (degree of risk) in relation to the transferred assets, we inspected related contracts such as sales contracts, investment contracts, and real estate management contracts and, when necessary, made inquiries of the responsible department.</p> <ul style="list-style-type: none"> • In order to assess the completion of the transfer of the assets, we inspected the evidence of cash receipts and certified copies of the real estate register.
---	---

* The translation of Japanese yen amounts into U.S. dollar amounts has been made on the basis described in Note 3 to the consolidated financial statements.

Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

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 consolidated 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, 2023 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

July 21, 2023

/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, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Assets			
Current assets:			
Cash and bank deposits <i>(Notes 9, 26 and 28)</i>	¥ 358,086	¥ 337,632	\$ 2,681,689
Trade notes and accounts receivable <i>(Notes 9, 26 and 30)</i>	454,341	407,430	3,402,538
Lease receivables and investments in leases <i>(Note 24)</i>	98,809	89,875	739,976
Mortgage notes receivable held for sale <i>(Note 9)</i>	15,771	28,473	118,108
Securities maturing within one year <i>(Notes 4, 5, 9 and 26)</i>	3,570	7,568	26,735
Inventories <i>(Notes 6, 7 and 9)</i>	2,091,678	1,562,408	15,664,479
Other current assets <i>(Note 9)</i>	232,876	277,601	1,743,997
Allowance for doubtful accounts <i>(Note 26)</i>	(3,145)	(18,195)	(23,552)
Total current assets	<u>3,251,988</u>	<u>2,692,794</u>	<u>24,353,987</u>
 Property, plant and equipment <i>(Notes 6 and 7):</i>			
Land <i>(Notes 6, 9 and 14)</i>	916,871	878,851	6,866,404
Buildings and structures <i>(Notes 6, 9 and 14)</i>	1,410,373	1,302,750	10,562,218
Machinery, equipment and vehicles <i>(Notes 6, 9 and 14)</i>	166,189	160,254	1,244,581
Tools, furniture and fixtures <i>(Notes 6 and 14)</i>	86,869	79,847	650,557
Leased assets <i>(Notes 14 and 24)</i>	105,361	105,714	789,043
Construction in progress <i>(Notes 6, 9 and 14)</i>	128,381	174,780	961,439
Other tangible assets <i>(Note 14)</i>	14,951	9,733	111,967
Total	<u>2,828,998</u>	<u>2,711,934</u>	<u>21,186,235</u>
Accumulated depreciation	(795,369)	(742,868)	(5,956,481)
Net property, plant and equipment	<u>2,033,629</u>	<u>1,969,066</u>	<u>15,229,753</u>
 Investments and other assets:			
Investment securities <i>(Notes 4, 5, 9 and 26)</i>	218,834	228,794	1,638,837
Long-term loans receivable <i>(Note 9)</i>	4,560	2,255	34,149
Lease deposits <i>(Note 26)</i>	256,582	251,053	1,921,530
Deferred tax assets <i>(Note 19)</i>	141,265	159,203	1,057,927
Goodwill <i>(Note 29)</i>	94,467	93,895	707,458
Other assets <i>(Notes 5, 9 and 14)</i>	142,250	126,304	1,065,303
Allowance for doubtful accounts <i>(Note 26)</i>	(1,510)	(1,705)	(11,308)
Total investments and other assets	<u>856,449</u>	<u>859,801</u>	<u>6,413,906</u>
Total assets	<u>¥ 6,142,067</u>	<u>¥ 5,521,662</u>	<u>\$ 45,997,655</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet (continued)

March 31, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Liabilities and net assets			
Current liabilities:			
Payables:			
Trade notes and accounts payable	¥ 380,004	¥ 355,936	\$ 2,845,832
Other	125,732	121,051	941,601
Short-term bank loans (Notes 8 and 9)	133,028	151,421	996,240
Current portion of long-term debt (Notes 8, 9, 24 and 26):			
Bonds	50,000	25,000	374,447
Loans from banks	159,044	79,589	1,191,073
Lease obligation	8,074	8,810	60,465
Income taxes payable (Note 19)	57,254	69,170	428,772
Advances received (Note 30)	142,950	199,824	1,070,545
Advances received on construction projects in progress (Note 30)	183,273	137,977	1,372,523
Accrued bonuses	60,728	56,759	454,789
Provision for warranties for completed construction	7,460	7,680	55,867
Asset retirement obligations (Note 11)	4,130	3,140	30,929
Other current liabilities (Note 9)	215,166	228,229	1,611,368
Total current liabilities	<u>1,526,847</u>	<u>1,444,592</u>	<u>11,434,486</u>
Long-term liabilities:			
Long-term debt (Notes 8, 9, 24 and 26):			
Bonds	559,000	408,000	4,186,325
Loans from banks	945,507	758,496	7,080,858
Lease obligation	97,420	102,731	729,573
Long-term deposits received from the Group's club members	1,146	1,332	8,582
Lease deposits received (Notes 9 and 26)	307,593	296,500	2,303,549
Deferred tax liabilities on land revaluation	18,405	19,117	137,834
Liabilities for employees' retirement benefits (Note 10)	103,617	193,753	775,982
Asset retirement obligations (Note 11)	58,009	55,904	434,426
Other long-term liabilities	135,605	129,848	1,015,539
Total long-term liabilities	<u>2,226,305</u>	<u>1,965,684</u>	<u>16,672,695</u>
Commitments and contingencies (Notes 24 and 25)			
Net assets (Notes 21, 22 and 33):			
Shareholders' equity			
Common stock – 1,900,000,000 authorized shares, 666,290,951 issued and 658,871,301 outstanding as of March 31, 2023 and 666,238,205 issued and 655,668,128 outstanding as of March 31, 2022	161,845	161,699	1,212,049
Capital surplus	303,741	301,982	2,274,702
Retained earnings	1,710,582	1,486,900	12,810,469
Treasury stock – at cost, 7,419,650 shares in 2023 and 10,570,077 shares in 2022	(20,327)	(29,081)	(152,227)
Total shareholders' equity	<u>2,155,842</u>	<u>1,921,500</u>	<u>16,145,001</u>
Accumulated other comprehensive income:			
Unrealized gain on securities	54,701	64,017	409,653
Deferred loss on hedging instruments	(118)	(860)	(883)
Land revaluation reserve	9,277	10,642	69,475
Foreign currency translation adjustments	64,508	24,857	483,097
Total accumulated other comprehensive income	<u>128,369</u>	<u>98,657</u>	<u>961,349</u>
Non-controlling interests	104,701	91,227	784,100
Total net assets	<u>2,388,914</u>	<u>2,111,385</u>	<u>17,890,466</u>
Total liabilities and net assets	<u>¥ 6,142,067</u>	<u>¥ 5,521,662</u>	<u>\$ 45,997,655</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, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2023	2022	2023
Net sales (Notes 7 and 30)	¥ 4,908,199	¥ 4,439,536	\$ 36,757,275
Cost of sales (Notes 6, 7 and 10)	3,953,004	3,574,853	29,603,864
Gross profit	955,194	864,682	7,153,403
Selling, general and administrative expenses (Notes 7, 10 and 12)	489,824	481,425	3,668,269
Operating income	465,370	383,256	3,485,134
Other income (expenses):			
Interest income	2,390	2,901	17,898
Dividend income	5,146	4,431	38,538
Equity in earnings (losses) of affiliates	844	(6,810)	6,320
Insurance claim income	1,836	2,277	13,749
Interest expense	(18,836)	(13,033)	(141,061)
Provision of allowance for doubtful accounts	(849)	(1,635)	(6,358)
Gain on sales of fixed assets (Notes 7 and 13)	3,935	2,167	29,469
Gain on sales of investments in securities	1,662	1,635	12,446
Gain on sales of stocks of subsidiaries and affiliates	301	–	2,254
Gain on sales of investments in capital of subsidiaries and affiliates	3,651	–	27,342
Gain on step acquisitions	–	3,907	–
Gain on change in equity interest	476	788	3,564
Subsidy income related to COVID-19 pandemic (Note 16)	–	379	–
Gain on reversal of stock acquisition rights	–	10	–
Loss on sales of fixed assets (Note 13)	(223)	(466)	(1,670)
Loss on disposal of fixed assets (Note 7)	(3,879)	(1,383)	(29,049)
Impairment loss (Notes 7 and 14)	(11,271)	(24,147)	(84,407)
Loss on sales of investments in securities	(218)	(880)	(1,632)
Loss on revaluation of investments in securities	(498)	(174)	(3,729)
Loss on sales of stocks of subsidiaries and affiliates	(4,066)	(763)	(30,450)
Loss on sales of investments in capital of subsidiaries and affiliates	(194)	(593)	(1,452)
Tenant compensation expenses (Note 15)	(5,191)	–	(38,875)
Special retirement benefit expenses related to employee career support after retirement (Note 17)	–	(2,207)	–
Loss on COVID-19 pandemic (Note 18)	–	(1,208)	–
Other, net (Note 2)	108	4,851	808
Profit before income taxes	440,496	353,300	3,298,854
Income taxes (Note 19):			
Current	96,806	123,917	724,975
Deferred	28,012	423	209,780
Total income taxes	124,819	124,341	934,763
Profit	¥ 315,677	¥ 228,958	\$ 2,364,090
Profit attributable to non-controlling interests	¥ 7,277	¥ 3,686	\$ 54,497
Profit attributable to owners of the parent	308,399	225,272	2,309,585

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, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2023	2022	2023
Profit	¥ 315,677	¥ 228,958	\$ 2,364,090
Other comprehensive income (Note 20):			
Unrealized (loss) gain on securities	(9,317)	4,631	(69,774)
Deferred gain (loss) on hedging instruments	742	(870)	5,556
Land revaluation reserve	6	15	44
Foreign currency translation adjustments	50,068	34,163	374,956
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	(4,434)	2,249	(33,206)
Total other comprehensive income	37,065	40,190	277,578
Comprehensive income	¥ 352,742	¥ 269,148	\$ 2,641,668
Total comprehensive income attributable to:			
Owners of the parent	¥ 339,484	¥ 261,565	\$ 2,542,379
Non-controlling interests	13,258	7,583	99,288

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, 2023

	<i>Thousands</i>	<i>Millions of yen</i>				Total shareholders' equity
	Number of shares of common stock outstanding <i>(Note 21)</i>	Common stock	Capital surplus	Retained earnings	Treasury stock <i>(Note 21)</i>	
Balance, April 1, 2021	654,237	¥ 161,699	¥ 304,595	¥ 1,339,558	¥ (33,019)	¥ 1,772,834
Cumulative impact of changes in accounting policies	-	-	-	1,311	-	1,311
Balance, April 1, 2021 (as restated)	654,237	161,699	304,595	1,340,870	(33,019)	1,774,146
Cash dividends	-	-	-	(79,239)	-	(79,239)
Profit attributable to owners of the parent	-	-	-	225,272	-	225,272
Change in equity of parent arising from transaction with non-controlling shareholders	-	-	(3,072)	-	-	(3,072)
Land revaluation reserve	-	-	-	(2)	-	(2)
Purchase of treasury stock	(3)	-	-	-	(12)	(12)
Disposal of treasury stock	1,434	-	458	-	3,950	4,408
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Balance, April 1, 2022	655,668	161,699	301,982	1,486,900	(29,081)	1,921,500
Issuance of common stock	90	145	145	-	-	291
Cash dividends	-	-	-	(86,089)	-	(86,089)
Profit attributable to owners of the parent	-	-	-	308,399	-	308,399
Change in equity of parent arising from transaction with non-controlling shareholders	-	-	520	-	-	520
Land revaluation reserve	-	-	-	1,371	-	1,371
Purchase of treasury stock	(3)	-	-	-	(10)	(10)
Disposal of treasury stock	23	-	0	-	189	189
Cancellation of treasury stock	-	-	(104)	-	104	-
Changes arising from share exchanges	3,092	-	1,197	-	8,471	9,669
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Balance, March 31, 2023	658,871	¥ 161,845	¥ 303,741	¥ 1,710,582	¥ (20,327)	¥ 2,155,842

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2023

Millions of yen

	Accumulated other comprehensive income							Total net assets
	Unrealized gain on securities	Deferred loss on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights (Note 22)	Non-controlling interests	
Balance, April 1, 2021	¥ 59,404	¥ 10	¥ 10,624	¥ (7,677)	¥ 62,361	¥ 91	¥ 58,216	¥ 1,893,504
Cumulative impact of changes in accounting policies	–	–	–	–	–	–	–	1,311
Balance, April 1, 2021 (as restated)	59,404	10	10,624	(7,677)	62,361	91	58,216	1,894,816
Cash dividends	–	–	–	–	–	–	–	(79,239)
Profit attributable to owners of the parent	–	–	–	–	–	–	–	225,272
Change in equity of parent arising from transaction with non-controlling shareholders	–	–	–	–	–	–	–	(3,072)
Land revaluation reserve	–	–	–	–	–	–	–	(2)
Purchase of treasury stock	–	–	–	–	–	–	–	(12)
Disposal of treasury stock	–	–	–	–	–	–	–	4,408
Net change in items other than those in shareholders' equity	4,613	(870)	18	32,535	36,295	(91)	33,010	69,215
Balance, April 1, 2022	64,017	(860)	10,642	24,857	98,657	–	91,227	2,111,385
Issuance of common stock	–	–	–	–	–	–	–	291
Cash dividends	–	–	–	–	–	–	–	(86,089)
Profit attributable to owners of the parent	–	–	–	–	–	–	–	308,399
Change in equity of parent arising from transaction with non-controlling shareholders	–	–	–	–	–	–	–	520
Land revaluation reserve	–	–	–	–	–	–	–	1,371
Purchase of treasury stock	–	–	–	–	–	–	–	(10)
Disposal of treasury stock	–	–	–	–	–	–	–	189
Cancellation of treasury stock	–	–	–	–	–	–	–	–
Changes arising from share exchanges	–	–	–	–	–	–	–	9,669
Net change in items other than those in shareholders' equity	(9,315)	742	(1,364)	39,650	29,712	–	13,474	43,186
Balance, March 31, 2023	¥ 54,701	¥ (118)	¥ 9,277	¥ 64,508	¥ 128,369	¥ –	¥ 104,701	¥ 2,388,914

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2023

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 21)	Total shareholders' equity
Balance, April 1, 2022	\$ 1,210,956	\$ 2,261,529	\$ 11,135,325	\$ (217,786)	\$ 14,390,024
Issuance of common stock	1,085	1,085	–	–	2,179
Cash dividends	–	–	(644,716)	–	(644,716)
Profit attributable to owners of the parent	–	–	2,309,585	–	2,309,585
Change in equity of parent arising from transaction with non-controlling shareholders	–	3,894	–	–	3,894
Land revaluation reserve	–	–	10,267	–	10,267
Purchase of treasury stock	–	–	–	(74)	(74)
Disposal of treasury stock	–	0	–	1,415	1,415
Cancellation of treasury stock	–	(778)	–	778	–
Changes arising from share exchanges	–	8,964	–	63,438	72,410
Net change in items other than those in shareholders' equity	–	–	–	–	–
Balance, March 31, 2023	\$ 1,212,049	\$ 2,274,702	\$ 12,810,469	\$ (152,227)	\$ 16,145,001

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2023

	Accumulated other comprehensive income				Total accumulated other comprehensive income	Non- controlling interests	Total net assets
	Unrealized gain on securities	Deferred loss on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments			
Balance, April 1, 2022	\$ 479,420	\$ (6,440)	\$ 79,697	\$ 186,152	\$ 738,837	\$ 683,194	\$ 15,812,064
Issuance of common stock	-	-	-	-	-	-	2,179
Cash dividends	-	-	-	-	-	-	(644,716)
Profit attributable to owners of the parent	-	-	-	-	-	-	2,309,585
Change in equity of parent arising from transaction with non- controlling shareholders	-	-	-	-	-	-	3,894
Land revaluation reserve	-	-	-	-	-	-	10,267
Purchase of treasury stock	-	-	-	-	-	-	(74)
Disposal of treasury stock	-	-	-	-	-	-	1,415
Cancellation of treasury stock	-	-	-	-	-	-	-
Changes arising from share exchanges	-	-	-	-	-	-	72,410
Net change in items other than those in shareholders' equity	(69,759)	5,556	(10,214)	296,937	222,511	100,906	323,417
Balance, March 31, 2023	\$ 409,653	\$ (883)	\$ 69,475	\$ 483,097	\$ 961,349	\$ 784,100	\$ 17,890,466

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, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2023	2022	2023
Operating activities:			
Profit before income taxes	¥ 440,496	¥ 353,300	\$ 3,298,854
Adjustments for:			
Depreciation	113,464	100,328	849,726
Decrease in liability for employees' retirement benefits	(90,260)	(52,308)	(675,952)
Interest and dividend income	(7,537)	(7,332)	(56,444)
Interest expense	18,836	13,033	141,061
Equity in (earnings) losses of affiliates	(844)	6,810	(6,320)
Net loss (gain) on sales and disposal of property, plant and equipment	167	(316)	1,250
Impairment loss	11,271	24,147	84,407
Loss on revaluation of investments in securities	498	174	3,729
(Increase) decrease in trade receivables	(43,375)	13,988	(324,833)
Increase in inventories	(230,373)	(228,299)	(1,725,252)
Decrease in advances received	(61,274)	(3,609)	(458,878)
Increase in advances received on construction projects in progress	44,637	22,999	334,284
Increase in trade payables	19,370	59,472	145,061
Other	134,875	148,572	1,010,072
Subtotal	349,951	450,962	2,620,766
Interest and dividends received	10,718	9,496	80,266
Interest paid	(16,625)	(11,884)	(124,503)
Income taxes paid	(113,745)	(112,138)	(851,831)
Net cash provided by operating activities	230,298	336,436	1,724,691
Investing activities:			
Purchases of property, plant and equipment and intangible assets	(486,516)	(410,981)	(3,643,495)
Proceeds from sales of property, plant and equipment	7,894	14,673	59,117
Purchases of investment securities	(11,845)	(13,064)	(88,706)
Proceeds from sales and redemption of investment securities	14,743	8,010	110,409
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 28)	(17,230)	(53,118)	(129,034)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(2,313)	(98)	(17,321)
Payments for acquisition of business	-	(12,213)	-
Proceeds from collection of leasehold and guarantee deposits	22,432	26,039	167,992
Payments of leasehold and guarantee deposits	(24,190)	(22,810)	(181,157)
Other	(8,156)	(3,860)	(61,079)
Net cash used in investing activities	¥ (505,181)	¥ (467,423)	\$ (3,783,277)

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year Ended March 31, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Financing activities:			
Net (decrease) increase in short-term bank loans	¥ (23,372)	¥ 19,012	\$ (175,031)
Proceeds from long-term debt – Loans from banks	433,846	181,281	3,249,052
Repayments of long-term debt – Loans from banks	(201,940)	(115,838)	(1,512,319)
Proceeds from issuance of bonds	201,000	50,000	1,505,279
Redemption of bonds	(25,000)	(40,000)	(187,223)
Repayments of finance lease obligations	(8,350)	(9,763)	(62,532)
Proceeds from share issuance to non-controlling shareholders	1,858	26,508	13,914
Purchase of treasury stock	(10)	(12)	(74)
Proceeds from disposal of treasury stock	189	4,328	1,415
Dividends paid	(86,089)	(79,239)	(644,716)
Dividends paid to non-controlling shareholders	(7,028)	(5,381)	(52,632)
Purchase of investments in subsidiaries that do not result in change in scope of consolidation	(2,939)	(7,876)	(22,010)
Other	5,289	1,407	39,609
Net cash provided by financing activities	<u>287,452</u>	<u>24,427</u>	<u>2,152,714</u>
Effect of exchange rate changes on cash and cash equivalents	<u>5,809</u>	<u>16,283</u>	<u>43,503</u>
Net increase (decrease) in cash and cash equivalents	<u>18,379</u>	<u>(90,276)</u>	<u>137,639</u>
Cash and cash equivalents at the beginning of the year	<u>326,250</u>	<u>416,321</u>	<u>2,443,271</u>
Increase in cash and cash equivalents from a newly consolidated subsidiary	<u>1,524</u>	<u>205</u>	<u>11,413</u>
Cash and cash equivalents at the end of the year (Note 28)	<u>¥ 346,154</u>	<u>¥ 326,250</u>	<u>\$ 2,592,331</u>

See accompanying notes to the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2023

1. Summary of Significant Accounting Policies

a. Basis of preparation

The accompanying consolidated financial statements of Daiwa House Industry Co., Ltd. (the “Company”) and its consolidated subsidiaries (collectively, 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.

Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

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, 2023 include the accounts of the Company and its 432 (421 in 2022) 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, 2023, 33 subsidiaries were included in the consolidation as a result of acquisition and others, and 22 subsidiaries were excluded from the consolidation as a result of merger and others.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 54 (57 in 2022) 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, 2023, 4 affiliates were included in and 7 affiliates were excluded from affiliates that are accounted for by the equity method.

Investments in an affiliate, 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 statement 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.

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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. Securities classified as other securities other than securities without quoted market price are stated at fair value 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. Securities without quoted market price 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.

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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, 2023, the difference is not presented as the market value of land subject to revaluation exceeded the carrying amount of the land after the above revaluation.

As of March 31, 2022, the carrying amount of the land after the above revaluation exceeded the market value by ¥2,468 million.

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

m. Revenue recognition

(a) Revenue from contracts with customers

The main performance obligations in key businesses of the Group concerning revenue from contracts with customers and the typical timing for satisfying such performance obligations (that is, when revenue is recognized) are summarized as follows:

(1) Ordered contract transactions

With respect to ordered contract transactions, the Group concludes construction contracts with customers for single-family houses, rental housing, commercial facilities, business and corporate facilities and others and has an obligation to perform construction works based on the construction contracts. The Group determines that the performance obligations are satisfied over a certain period of time and recognizes revenues based on the progress of fulfillment of performance obligations.

The progress is estimated using the input method based on cost (percentage of cost incurred to total construction costs).

With respect to construction contracts for which the progress cannot be reasonably estimated but the costs incurred in fulfilling the performance obligation are expected to be recovered, revenue is recognized based on a cost recovery method until such time when the progress of fulfillment of performance obligation can be reasonably estimated.

(2) Real estate sales transactions

With respect to real estate transactions, the Group has an obligation to transfer properties developed or purchased by the Group (such as single-family houses, rental housing, condominiums, commercial facilities, and business and corporate facilities) based on real estate sales contracts with customers. Revenues are recognized at the time of transfer of properties to the customers.

(b) Revenue from finance lease transactions

Revenue from finance lease and related costs are recognized upon receipt of lease payments.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

o. 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.

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
	Currency swap contracts
	Foreign currency forward contracts and others
Hedged items :	Loans
	Forecast transactions denominated in foreign currencies and others

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 March 17, 2022, the Accounting Standards Board of Japan (“ASBJ”) issued “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (Practical Issues Task Force (“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 are as follows.

① Hedge accounting method	Special treatment for interest rate swaps
② Hedging instruments	Interest rate swap contracts
③ Hedged items	Loans 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 warranty and others is provided for anticipated future costs based on past experience arising from warranties for completed construction.

u. Significant accounting judgments, estimates and assumptions

(a) Revenues recognized based on the fulfillment of performance obligations over a certain period of time for construction contracts

(1) Amounts presented in the consolidated financial statements for the years ended March 31, 2023 and 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Sales recorded by the method of recognizing revenue based on the fulfillment of performance obligations over a certain period of time	¥ 1,927,012	¥ 1,908,959	\$ 14,431,303

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

① Method of measurement

The Group calculates revenues from construction contracts by the method of recognizing revenue over a certain period of time as performance obligations are fulfilled. The progress of fulfillment of performance obligations is estimated using the input method based on cost (percentage of cost incurred to total construction costs).

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

u. Significant accounting judgments, estimates and assumptions (continued)

(a) Revenues recognized based on the fulfillment of performance obligations over a certain period of time for construction contracts (continued)

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

② Significant assumptions

Significant assumptions used to measure the total construction costs include the quantity of construction materials, labor hours, procurement unit price and others based on construction plans. These items are estimated based on specific factors such as the specifications and status of construction works and external factors such as economic conditions and business environment.

③ Impact on the consolidated financial statements for the next year

The amount of revenue recognized in the consolidated financial statements for the year ending March 31, 2024 may be impacted by changes in the progress of the fulfillment of performance obligations if it becomes necessary to revise the total construction costs due to uncertain factors in the future such as delays in construction works and changes in material costs and construction costs during the construction works.

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

(1) Amounts presented in the consolidated financial statements for the years ended March 31, 2023 and 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Real estate for sale in inventories	¥ 2,000,748	¥ 1,479,169	\$ 14,983,509
Loss on devaluation recognized in cost of sales	3,575	8,027	26,773

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

u. Significant accounting judgments, estimates and assumptions (continued)

(b) 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 on the progress of the business plan and the status of sales activities. The net selling value for certain real estate for sale is measured considering appraisals conducted by real estate appraisers.

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 accounting estimates are based on the assumption that the expected impact of the spread of COVID-19 pandemic in the market is immaterial.

③ Impact on the consolidated financial statements for the next year

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)

u. Significant accounting judgments, estimates and assumptions (continued)

(c) Valuation of fixed assets

- (1) Amounts presented in the consolidated financial statements for the years ended March 31, 2023 and 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Property, plant and equipment, goodwill and intangible assets recognized in other assets	¥2,227,223	¥ 2,139,984	\$ 16,679,570
Impairment loss	11,271	24,147	84,407

- (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 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 value, which is the higher of the net selling value or value in use. Value in use is calculated at the discounted future cash flows. 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. The expected impact of the spread of the COVID-19 pandemic on properties is based on the assumption that such impact is immaterial.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

u. Significant accounting judgments, estimates and assumptions (continued)

(c) Valuation of fixed assets (continued)

(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 next year

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 of the asset or asset group due to changes in the business environment and others.

(d) Measurement of expense related to retirement benefit obligation

(1) Amounts recorded for the years ended March 31, 2023 and 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Retirement benefit obligation	¥ 619,254	¥ 679,608	\$ 4,637,564

(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 of return on plan assets and expected rates of pay raises.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

u. Significant accounting judgments, estimates and assumptions (continued)

(d) Measurement of expense related to retirement benefit obligation (continued)

(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 next year

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.

Actuarial gains and losses and past service costs are included in profit or loss in the period in which the gains and losses are recognized.

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.

	Change in actuarial assumptions	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
		2023	2022	2023
Discount rate	Increase by 0.5%	¥ (49,432)	¥(57,791)	\$ (370,193)
	Decrease by 0.5%	56,454	66,522	422,781

The significant actuarial assumptions used to measure the retirement benefit obligation 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)

v. Accounting standards issued but not yet effective

Accounting Standard for Current Income Taxes and others

- *Accounting Standard for Current Income Taxes*
(ASBJ Guidance No. 27, October 28, 2022)
- *Accounting Standard for Presentation of Comprehensive Income*
(ASBJ Guidance No. 25, October 28, 2022)
- *Implementation Guidance on Accounting Standard for Tax Effect Accounting*
(ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

These accounting standards and guidance establish the accounting classification for corporate taxes resulting from other comprehensive that is subject to taxation, as well as the treatment of tax effects related to the sale of shares in subsidiaries when group taxation regime is applied.

(2) Scheduled date of adoption

The Group expects to adopt the accounting standards and the implementation guidance from the beginning of the year ending March 31, 2025.

(3) Impact of adoption of the accounting standards and implementation guidance

The impact of the adoption of the Accounting Standard for Current Income Taxes and others on its consolidated financial statements are currently under evaluation.

2. Accounting Change

a. Change in accounting policies

Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

“Implementation Guidance on Accounting Standard for Fair Value Measurement” ((ASBJ Guidance No. 31, June 17, 2021), hereinafter the “Guidance”) has been adopted from the beginning of the year ended March 31, 2023 and new accounting policies are adopted prospectively in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Guidance.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Accounting Change (continued)

a. Change in accounting policies (continued)

Application of Implementation Guidance on Accounting Standard for Fair Value Measurement (continued)

As a result, the method of measurement applicable to some investment trusts, which had been valued based on acquisition cost on the consolidated balance sheet as nonmarketable securities, is changed to the one based on fair value on the consolidated balance sheet.

In addition, information related to investment trusts for the year ended March 31, 2022 is not included in “Breakdown by level of fair value of financial instruments” in Note 26 “Financial Instruments” in accordance with Paragraph 27-3 of the Guidance.

Application of ASC 842 “Leases”

Overseas subsidiaries that apply U.S. the Generally Accepted Accounting Principles have applied Accounting Standards Codification (“ASC”) 842 “Leases” from the year ended March 31, 2023.

All operating leases (as lessees) under ASC 842 are, in principle, recognized as assets and liabilities on the consolidated balance sheets. The cumulative impact of applying the new accounting standard is recognized at the initial date of application in accordance with the transitional treatment.

The impact on consolidated financial statements was immaterial for the year ended March 31, 2023.

b. Change in Presentation

(Consolidated Statements of Income)

In the year ended March 31, 2023 under review, “Subsidies income,” which was presented as a separate item in “Other income (expenses)” in the year ended March 31, 2022 is now included in “Other, net” since “Subsidies income” became less significant. Therefore, items in the consolidated financial statements for the year ended March 31, 2022 have been reclassified to reflect this change in the presentation. Consequently, ¥3,041 million previously presented in “Subsidies income” under “Other income (expenses)” in the year ended March 31, 2022 has been included in “Other, net” of ¥4,851 million in “Other income (expenses).”

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 ¥133.53 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2023. 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.

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>		
	2023		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	¥ 1,829	¥ 1,840	¥ 11
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	-
Total	¥ 1,829	¥ 1,840	¥ 11

	<i>Millions of yen</i>		
	2022		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	¥ 2,304	¥ 2,324	¥ 20
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	-
Total	¥ 2,304	¥ 2,324	¥ 20

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>Thousands of U.S. dollars</i>		
	2023		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	\$ 13,697	\$ 13,779	\$ 82
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	–
Total	<u>\$ 13,697</u>	<u>\$ 13,779</u>	<u>\$ 82</u>

Other Securities

	<i>Millions of yen</i>		
	2023		
	<u>Carrying value</u>	<u>Acquisition cost</u>	<u>Difference</u>
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 130,806	¥ 54,601	¥ 76,204
Other			
Preferred fund certificates	19,972	11,614	8,358
Investment trusts	5,144	4,519	624
Securities whose carrying value does not exceed their acquisition cost:			
Stock	8,011	9,880	(1,868)
Corporate bonds	10,398	12,718	(2,319)
Other			
Preferred fund certificates	16	16	–
Investment trusts	5	6	(1)
Total	<u>¥ 174,356</u>	<u>¥ 93,357</u>	<u>¥ 80,998</u>

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)

Note: Unlisted stocks in the amount of ¥8,888 million (\$66,561 thousand) and investments in limited liability partnership and others in the amount of ¥13,017 million (\$97,483 thousand) are not subject to disclosure of fair value in accordance with Paragraph 5 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020) and Paragraph 24-16 of the “Implementation Guidance on Accounting Standard for Measurement of Fair Value” (ASBJ Guidance No. 31, June 17, 2021), respectively, therefore these items are not included “Other Securities” in the table above.

	<i>Millions of yen</i>		
	2022		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 147,588	¥ 58,606	¥ 88,981
Other			
Preferred fund certificates	20,591	14,175	6,416
Securities whose carrying value does not exceed their acquisition cost:			
Stock	3,874	4,872	(997)
Corporate bonds	14,718	14,718	-
Other			
Preferred fund certificates	772	1,143	(370)
Total	<u>¥ 187,544</u>	<u>¥ 93,515</u>	<u>¥ 94,028</u>

Notes: Unlisted stocks in the amount of ¥12,167 million and investments in limited liability partnership and others in the amount of ¥14,674 million are not subject to disclosure of fair value in accordance with Paragraph 5 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020) and Paragraph 27 of the “Implementation Guidance on Accounting Standard for Measurement of Fair Value” (ASBJ Guidance No. 31, July 4, 2019), respectively, therefore these items are not included “Other Securities” in the table above.

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>Thousands of U.S. dollars</i>		
	2023		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$ 979,600	\$ 408,904	\$ 570,688
Other			
Preferred fund certificates	149,569	86,976	62,592
Investment trusts	38,523	33,842	4,673
Securities whose carrying value does not exceed their acquisition cost:			
Stock	59,994	73,990	(13,989)
Corporate bonds	77,870	95,244	(17,366)
Other			
Preferred fund certificates	119	119	–
Investment trusts	37	44	(7)
Total	<u>\$ 1,305,744</u>	<u>\$ 699,146</u>	<u>\$ 606,590</u>

- (2) Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2023 and 2022

<u>March 31, 2023</u>	<i>Millions of yen</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
Stock	¥ 3,759	¥ 1,662	¥ 217

<u>March 31, 2022</u>	<i>Millions of yen</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
Stock	¥ 3,313	¥ 1,538	¥ 880
Other	29	3	–
Total	<u>¥ 3,343</u>	<u>¥ 1,542</u>	<u>¥ 880</u>

<u>March 31, 2023</u>	<i>Thousands of U.S. dollars</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
Stock	\$ 28,150	\$ 12,446	\$ 1,625

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities (continued)

(3) Impairment of investment securities

The impairment losses on investment securities classified as other securities for the years ended March 31, 2023 and 2022 were ¥498 million (\$3,729 thousand) and ¥174 million, stated as loss on revaluation of investments in securities in other expenses, respectively.

(4) Change in purpose of holding securities

Investments in special purpose companies in the amount of ¥4,893 million, that were recorded in “Investment securities” in investments and other assets as of March 31, 2021 are reclassified to “Securities maturing within one year” in current assets as of March 31, 2022.

5. Investments in Affiliates

Investments in affiliates at March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Current portion of bonds of an affiliate	¥ 2,240	¥ 2,000	\$ 16,775
Shares of affiliates accounted for by the equity method	16,846	16,144	126,158
(Investment in jointly controlled entities included above)	(646)	(672)	(4,837)
Investments in preferred fund certificate of affiliates	7,443	3,504	55,740
Shares of affiliates which are not accounted for by the equity method	23	23	172
Bonds of an affiliate	4,480	9,000	33,550
Investments in capital of affiliates in other	1,436	18,383	10,754

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Inventories

Inventories at March 31, 2023 and 2022 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	2023	2022	2023
Real estate for sale	¥ 364,285	¥ 192,511	\$ 2,728,113
Construction projects in progress	49,993	48,516	374,395
Real estate for sale in process	325,007	270,888	2,433,962
Land held:			
For sale	1,146,951	875,499	8,589,463
Under development	173,014	146,054	1,295,693
Undeveloped	2,348	3,288	17,584
Merchandise, construction materials and others	30,076	25,650	225,237
Total	¥ 2,091,678	¥ 1,562,408	\$ 15,664,479

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.

Loss on devaluation of inventories included in cost of sales for the years ended March 31, 2023 and 2022 was ¥3,575 million (\$26,773 thousand) and ¥8,027 million, respectively.

Land, buildings and structures and others held as investment and rental properties in the amount of ¥224,712 million (\$1,682,857 thousand) and ¥61,766 million, in property, plant and equipment in the consolidated balance sheets as of March 31, 2022 and 2021, respectively, have been reclassified to “Inventories” in current assets due to the change in holding purpose during the years ended March 31, 2023 and 2022.

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, net gain on sales and disposal, and impairment loss for those rental properties were ¥19,124 million (\$143,218 thousand), ¥604 million (\$4,523 thousand) and ¥5,867 million (\$43,937 thousand), respectively, for the year ended March 31, 2023. The net of rental income and operating expenses, net gain on sales and disposal, and impairment loss for those rental properties were ¥19,861 million, ¥918 million and ¥6,470 million, respectively, for the year ended March 31, 2022.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Investment and Rental Property (continued)

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 net gain on sales and disposal and impairment loss for those rental properties were included in other income (expenses).

In addition, the carrying value, changes in such amounts and fair value of such properties are as follows:

<i>Millions of yen</i>			
Carrying value		Fair value	
April 1, 2022	Increase/decrease	March 31, 2023	March 31, 2023
¥ 1,285,559	¥ 62,508	¥ 1,348,067	¥ 1,530,441

<i>Millions of yen</i>			
Carrying value		Fair value	
April 1, 2021	Increase/decrease	March 31, 2022	March 31, 2022
¥ 1,245,422	¥ 40,136	¥ 1,285,559	¥ 1,469,676

<i>Thousands of U.S. dollars</i>			
Carrying value		Fair value	
April 1, 2022	Increase/decrease	March 31, 2023	March 31, 2023
\$ 9,627,491	\$ 468,119	\$ 10,095,611	\$ 11,461,401

Notes: 1) Carrying value recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses included in property, plant and equipment.

2) Increase during the year ended March 31, 2023 primarily represents the acquisition of certain properties of ¥387,873 million (\$2,904,762 thousand) and decrease primarily represents depreciation of ¥38,406 million (\$287,620 thousand) and the transfer to inventories of ¥272,981 million (\$2,044,342 thousand).

3) Increase during the year ended March 31, 2022 primarily represents the acquisition of certain properties of ¥284,196 million and decrease primarily represents depreciation of ¥32,591 million and the transfer to inventories of ¥205,570 million.

4) The fair value of properties was primarily measured by the Group in accordance with its Real Estate Appraisal Standard including adjustments based on certain indexes.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Short-Term Bank Loans and Long-Term Debt

The annual weighted-average interest rates applicable to short-term bank loans as of March 31, 2023 and 2022 were 3.06% and 0.88%, respectively. The annual weighted-average interest rates applicable to current portion of long-term loans from banks as of March 31, 2023 and 2022 were 1.59% and 1.28%, respectively.

Long-term debt and loans from banks as of March 31, 2023 and 2022 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	2023	2022	2023
Bonds, 0.00% to 2.00% (0.00% to 0.80% in 2022), due on various dates through 2059:			
Collateralized	¥ 1,000	¥ –	\$ 7,488
Unsecured	458,000	283,000	3,429,940
Subordinated	150,000	150,000	1,123,343
Loans from banks, 0.05% to 7.00% (0.00% to 10.75% in 2022), due on various dates through 2057:			
Collateralized	120,828	96,907	904,875
Unsecured	983,723	741,179	7,367,056
Obligations under finance leases, due on various date through 2056	105,494	111,542	790,039
Total	1,819,047	1,382,628	13,622,758
Less current portion	217,119	113,400	1,625,994
Long-term debt – net of current portion	¥ 1,601,927	¥ 1,269,227	\$ 11,996,757

The aggregate annual maturities of long-term debt subsequent to March 31, 2023 were as follows:

<u>Years Ending March 31</u>	<i>Millions of yen</i>	<i>Thousands of</i>
		<i>U.S. dollars</i>
2024	¥ 217,119	\$ 1,625,994
2025	167,522	1,254,564
2026	269,117	2,015,404
2027	138,073	1,034,022
2028	268,035	2,007,301
2029 and thereafter	759,178	5,685,448
Total	¥ 1,819,047	\$ 13,622,758

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Mortgaged and Pledged Assets

The assets pledged as collateral for short-term bank loans of ¥16,923 million (\$126,735 thousand) and ¥26,310 million, current portion of long-term bank loans of ¥16,761 million (\$125,522 thousand) and ¥18,203 million, other current liabilities of ¥1 million (\$7 thousand) and ¥1 million, long-term bank loans of ¥104,067 million (\$779,352 thousand) and ¥78,703 million and lease deposits received of ¥8 million (\$59 thousand) and ¥10 million as of March 31, 2023 and 2022, respectively, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Cash and bank deposits	¥ 3,443	¥ 1,711	\$ 25,784
Trade notes and accounts receivable	7,315	8,173	54,781
Mortgage notes receivable held for sale	14,995	28,413	112,296
Inventories:			
Real estate for sale	83,812	58,183	627,664
Real estate for sale in process	130,614	101,658	978,162
Other current assets	7,370	7,574	55,193
Land	8,173	7,448	61,207
Buildings and structures	4,660	4,274	34,898
Machinery, equipment and vehicles	1	–	7
Construction in progress	2,167	–	16,228
Total	¥ 262,553	¥ 217,438	\$ 1,966,247

The carrying amounts of assets pledged as collateral for guarantees of liabilities of investees as of March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Investment securities	¥ 388	¥ 395	\$ 2,905
Short-term loans receivable in other current assets	1	1	7
Long-term loans receivable	7	8	52

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 in substitutes for deposits of certain construction and advertisement contracts were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	2023	2022	2023
Cash and bank deposits	¥ 284	¥ 1,154	\$ 2,126
Securities maturing within one year	0	–	0
Investment securities	–	0	–
Investments in capital in other assets	60	60	449

Securities maturing within one year deposited in accordance with the Act on Assurance of Performance of Specified Housing Defect Warranty were ¥1,121 million (\$8,395 thousand) and ¥467 million as of March 31, 2023 and 2022, respectively.

Investment securities deposited in accordance with the Act on Assurance of Performance of Specified Housing Defect Warranty were ¥707 million (\$5,294 thousand) and ¥1,792 million as of March 31, 2023 and 2022, respectively.

Shares of consolidated subsidiaries used as collateral amounted to ¥218 million (\$1,632 thousand) and ¥271 million as of March 31, 2023 and 2022, 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, 2023 and 2022, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Balance at beginning of year	¥ 679,608	¥ 665,041	\$ 5,089,552
Service cost	29,489	29,340	220,841
Interest cost	5,502	5,374	41,204
Actuarial gains	(81,023)	(3,634)	(606,777)
Retirement benefits paid	(14,718)	(17,615)	(110,222)
Past service cost	275	1,100	2,059
Adjustments for business restructuring and others	120	1	898
Balance at end of year	¥ 619,254	¥ 679,608	\$ 4,637,564

- (2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Balance at beginning of year	¥ 485,854	¥ 418,981	\$ 3,638,538
Actuarial gains	15,908	48,455	119,134
Contributions from the employer	23,785	27,917	178,124
Retirement benefits paid	(9,911)	(9,500)	(74,223)
Balance at end of year	¥ 515,636	¥ 485,854	\$ 3,861,574

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, 2023 and 2022, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Funded defined benefit obligation	¥ 515,888	¥ 574,809	\$ 3,863,461
Plan assets	(515,636)	(485,854)	(3,861,574)
	251	88,955	1,879
Unfunded defined benefit obligation	103,365	104,798	774,095
Net liabilities for retirement benefits in the balance sheet	¥ 103,617	¥ 193,753	\$ 775,982

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Liabilities for retirement benefits	¥ 103,617	¥ 193,753	\$ 775,982
Net liabilities for retirement benefits in the balance sheet	103,617	193,753	775,982

- (4) The components of retirement benefit expense for the years ended March 31, 2023 and 2022, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Service cost	¥ 29,489	¥ 29,340	\$ 220,841
Interest cost	5,502	5,374	41,204
Amortization of actuarial gain	(96,931)	(52,089)	(725,911)
Past service cost	275	1,100	2,059
Retirement benefit expense	¥ (61,664)	¥ (16,274)	\$ (461,798)

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, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Domestic debt instruments	1%	1%
Overseas debt instruments	6	6
Domestic stocks	9	9
Overseas stocks	7	7
Cash and bank deposits	12	13
Private equity fund	31	28
Hedge fund	14	15
General accounts	8	8
Others	12	13
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, 2023 and 2022, were set forth as follows:

	<u>2023</u>	<u>2022</u>
Discount rates	Principally 1.5%	Principally 0.8%
Expected rate of return on plan assets	0.0%	0.0%
Expected rate of pay raises	2.6%	2.6%

(7) Amortization of actuarial gain and past service cost for employees' retirement benefits

Amortization of actuarial gain and past service cost for employees' retirement benefits included in cost of sales and selling, general and administrative expenses was ¥96,656 million (\$723,852 thousand) and ¥50,989 million for the years ended March 31, 2023 and 2022, 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 ¥7,484 million (\$56,047 thousand) and ¥6,958 million for the years ended March 31, 2023 and 2022, 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, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Balance at beginning of year	¥ 59,045	¥ 56,352	\$ 442,185
Increase due to the acquisition of property, plant and equipment	4,186	3,587	31,348
Adjustment due to the elapse of time	728	655	5,451
Decrease due to fulfilment of asset retirement obligations	(1,819)	(1,550)	(13,622)
Balance at end of year	¥ 62,140	¥ 59,045	\$ 465,363

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 ¥10,427 million (\$78,087 thousand) and ¥9,503 million for the years ended March 31, 2023 and 2022, respectively.

13. Gain (Loss) on Sales of Fixed Assets

Gain (loss) on sales of fixed assets for the years ended March 31, 2023 and 2022 consists of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Gain on sales of property, plant and equipment, and other assets:			
Buildings and structures	¥ 150	¥ 1,655	\$ 1,123
Machinery, equipment and vehicles	2,790	171	20,894
Tools, furniture and fixtures	8	3	59
Land	970	328	7,264
Intangible assets in other	14	9	104
Total	<u>¥ 3,935</u>	<u>¥ 2,167</u>	<u>\$ 29,469</u>
Loss on sales of property, plant and equipment, and other assets:			
Buildings and structures	¥ (49)	¥ (204)	\$ (366)
Machinery, equipment and vehicles	(2)	(8)	(14)
Tools, furniture and fixtures	(7)	(12)	(52)
Land	(8)	(241)	(59)
Construction in progress	(155)	–	(1,160)
Intangible assets in other	(0)	(0)	(0)
Total	<u>¥ (223)</u>	<u>¥ (466)</u>	<u>\$ (1,670)</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 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, 2023 and 2022:

Use	Type of Assets	Location	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
			2023	2023
Real estate for lease	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, leased assets, construction in progress, other tangible assets and intangible assets in other	Aichi Prefecture and others	¥ 6,347	\$ 47,532
Hotel	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land and intangible assets in other	Osaka Prefecture and others	1,453	10,881
Health and leisure facilities	Leased assets	Tokyo Prefecture	377	2,823
Offices, factories and others	Buildings and structures, tools, furniture and fixtures, land, leased assets and intangible assets in other	Shizuoka Prefecture and others	2,394	17,928
Others	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, leased assets, intangible assets in other and investments and other assets in other	Australia and others	698	5,227
Total			¥ 11,271	\$ 84,407

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Impairment Loss (continued)

Use	Type of Assets	Location	<i>Millions of yen</i> 2022
Real estate for lease	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, leased assets, other tangible assets and intangible assets in other	Aichi Prefecture and others	¥ 3,805
Hotel	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land and intangible assets in other	Kagoshima Prefecture and others	2,527
Health and leisure facilities	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land and leased assets	Ishikawa Prefecture and others	12,676
Offices, factories and others	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, leased assets, intangible assets in other and construction in progress	Myanmar and others	552
Others	Buildings and structures, tools, furniture and fixtures, land and intangible assets in other	U.S.A and others	4,585
Total			¥ 24,147

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Tenant Compensation Expenses

Expenses arising when tenants vacate a property recorded in other expenses in the consolidated statement of income for the year ended March 31, 2023 consist of payments of compensation and others for tenants vacating the property due to the reconstruction of Osaka Marubiru.

16. 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, 2022.

17. Special Retirement Benefit Expenses Related to Employee Career Support After Retirement

The Company has decided to expand its “career design support program” (a special early retirement program) for its employees, and applicants have been confirmed. As a result, extra retirement benefit expenses have been recorded as “Special retirement benefit expenses related to employee career support after retirement” in the consolidated statement of income for the year ended March 31, 2022.

18. 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, 2022.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. 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, 2023 and 2022. 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, 2023 and 2022 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Deferred tax assets:			
Loss on valuation of real estate for sale	¥ 4,883	¥ 4,288	\$ 36,568
Accrued bonuses	18,199	16,907	136,291
Accrued enterprise tax	4,464	4,098	33,430
Liabilities for employees' retirement benefits	32,654	60,058	244,544
Unrealized gains on property, plant and equipment by consolidation	15,029	14,671	112,551
Excess of depreciation of property, plant and equipment	29,737	32,627	222,699
Impairment loss	16,784	17,824	125,694
Tax loss carryforwards	29,679	22,367	222,264
Other	95,689	94,636	716,610
Total of tax loss carryforwards and temporary differences	247,123	267,483	1,850,692
Less valuation allowance	(64,022)	(61,302)	(479,457)
Deferred tax assets	183,100	206,181	1,371,227
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	(2,333)	(2,359)	(17,471)
Net unrealized gain on securities	(23,724)	(29,167)	(177,667)
Other	(37,694)	(25,542)	(282,288)
Deferred tax liabilities	(63,751)	(57,069)	(477,428)
Net deferred tax assets	¥ 119,349	¥ 149,111	\$ 893,799

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Income Taxes (continued)

A reconciliation between the statutory tax rate and the effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for tax purpose	0.8	0.7
Per capita portion of inhabitant tax	0.4	0.5
Equity in losses of affiliates	(0.1)	0.6
Change in valuation allowances	(1.8)	2.8
Expiration of tax loss carry forwards	0.5	0.2
Tax credits	(0.6)	(0.2)
Reversal of land revaluation reserve	(0.1)	0.0
Other	(1.4)	0.2
Effective tax rates	<u>28.3%</u>	<u>35.2%</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Unrealized holding (loss) gain on securities:			
Amount arising during the year	¥(12,246)	¥ 6,404	\$ (91,709)
Reclassification adjustments	(1,377)	(383)	(10,312)
Amount before tax effect	(13,623)	6,020	(102,022)
Tax effect	4,306	(1,388)	32,247
Unrealized (loss) gain on securities	(9,317)	4,631	(69,774)
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	1,067	(1,259)	7,990
Amount before tax effect	1,067	(1,259)	7,990
Tax effect	(324)	389	(2,426)
Deferred gain (loss) on hedging instruments:	742	(870)	5,556
Land revaluation reserve:			
Tax effect	6	15	44
Foreign currency translation adjustments:			
Amount arising during the year	50,272	34,163	376,484
Reclassification adjustments	(204)	–	(1,527)
Foreign currency translation adjustments:	50,068	34,163	374,956
Share of other comprehensive (loss) income of affiliates accounted for by the equity method:			
Amount arising during the year	698	1,688	5,227
Reclassification adjustments	(5,133)	560	(38,440)
Share of other comprehensive (loss) income of affiliates accounted for by the equity method:	(4,434)	2,249	(33,206)
Total other comprehensive income	¥ 37,065	¥ 40,190	\$ 277,578

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. 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, 2023 and 2022 amounted to ¥17,690 million (\$132,479 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, 2023

Types of shares	<i>Thousands of shares</i>			Number of shares as of March 31, 2023
	Number of shares as of April 1, 2022	Increase	Decrease	
Shares issued:				
Common stock (Notes 1 and 2)	666,238	90	38	666,290
Treasury stock:				
Common stock (Notes 3,4 and 5)	10,570	3	3,153	7,419

Notes: 1) Details of the increase are as follows:

	<i>Thousands of shares</i>
Increase due to issuance of common stock as restricted stock awards	90

2) Details of the decrease are as follows:

	<i>Thousands of shares</i>
Decrease due to cancellation of treasury stock	38

3) Details of the increase are as follows:

	<i>Thousands of shares</i>
Increase due to purchase of shares of less than standard unit	3

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Net Assets (continued)

4) Details of the decrease are as follows:

	<u>Thousands of shares</u>
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	23
Decrease due to cancellation of treasury stock	38
Decrease due to changes by share exchanges	3,092

5) The numbers of shares (61 thousand) held by the trust for delivery of shares to directors as of April 1, 2022 were included in the number of shares of treasury stock. The trust for delivery of shares to directors was terminated in August 2022.

For the year ended March 31, 2022

<u>Types of shares</u>	<u>Thousands of shares</u>			<u>Number of shares as of March 31, 2022</u>
	<u>Number of shares as of April 1, 2021</u>	<u>Increase</u>	<u>Decrease</u>	
Shares issued:				
Common stock	666,238	–	–	666,238
Treasury stock:				
Common stock (Notes 1, 2 and 3)	12,000	3	1,434	10,570

Notes:1) Details of the increase are as follows:

	<u>Thousands of shares</u>
Increase due to purchase of shares of less than standard unit	3

2) Details of the decrease are as follows:

	<u>Thousands of shares</u>
Decrease due to exercise of stock acquisition rights	1,411
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	22

3) The numbers of shares (61 thousand and 83 thousand) held by the trust for delivery of shares to directors as of March 31, 2022 and April 1, 2021, 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)

21. Net Assets (continued)

Stock Acquisition Rights

Not applicable

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. The Company recorded the Company stock held by the trust as part of treasury stock in equity. The trust for delivery of shares to directors was terminated in August 2022.

(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 Group's return on equity (ROE).

(2) The trust held the treasury stock, which was included in the consolidated balance sheet as of March 31, 2022 was as follows:

	<u>Millions of yen</u>
	<u>2022</u>
Treasury stock	¥ 188

	<u>Thousands of shares</u>
	<u>2022</u>
Number of shares as of the fiscal year end	61
Average number of shares during the fiscal year	68

Since the Trust for delivery of shares to directors was terminated in August 2022, the treasury stock held by the Trust was not recorded in the consolidated balance sheet as of March 31, 2023.

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Net Assets (continued)

Dividends paid

For the year ended March 31, 2023

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 29, 2022	Common stock	¥ 46,556	\$ 348,655	¥ 71.0	\$ 0.53	March 31, 2022	June 30, 2022
Meeting of the Board of Directors held on November 10, 2022	Common stock	¥ 39,532	\$ 296,053	¥ 60.0	\$ 0.44	September 30, 2022	December 5, 2022

For the year ended March 31, 2022

Resolution	Types of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Shareholders' meeting held on June 29, 2021	Common stock	¥ 43,185	¥ 66.0	March 31, 2021	June 30, 2021
Meeting of the Board of Directors held on November 9, 2021	Common stock	¥ 36,054	¥ 55.0	September 30, 2021	December 6, 2021

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Stock Options

The gain on reversal of stock acquisition rights due to forfeiture by non-exercise of rights for the year ended March 31, 2022 was ¥10 million.

23. 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.

Amounts per share as of and for the years ended March 31, 2023 and 2022 were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2023	2022	2023
Profit attributable to owners of parent:			
Basic	¥ 469.12	¥ 343.82	\$ 3.51
Net assets	3,466.86	3,081.07	25.96

Diluted profit per share is not presented because there were no potential shares outstanding for the years ended March 31, 2023 and 2022.

In calculating the number of shares issued as of March 31, 2022, above, the number of shares held by the Trust for Delivery of Shares to Directors (61 thousand shares in 2022) is reflected as treasury stock.

In calculating the number of weighted-average shares above, the number of shares that are held by the Trust (23 thousand shares and 68 thousand shares in 2023 and 2022, respectively) is included in treasury stock. The Trust for Delivery of Shares to Directors was terminated in August 2022.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Leases

Finance leases:

(Lessee)

The Group leases certain city hotels, commercial facilities, city hotel equipment, system server, 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:

	<i>Millions of yen</i>		
	2023		
	Buildings and structures	Machinery, equipment and vehicles	Total
Acquisition cost	¥ 111,418	¥ 59	¥ 111,478
Accumulated depreciation	(86,245)	(49)	(86,294)
Accumulated impairment loss	(2,219)	–	(2,219)
Net leased property	<u>¥ 22,953</u>	<u>¥ 10</u>	<u>¥ 22,963</u>
	<i>Millions of yen</i>		
	2022		
	Buildings and structures	Machinery, equipment and vehicles	Total
Acquisition cost	¥ 141,079	¥ 59	¥ 141,139
Accumulated depreciation	(108,515)	(46)	(108,561)
Accumulated impairment loss	(3,040)	–	(3,040)
Net leased property	<u>¥ 29,523</u>	<u>¥ 13</u>	<u>¥ 29,536</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Leases (continued)

Finance leases: (continued)

	<i>Thousands of U.S. dollars</i>		
	2023		
	Buildings and structures	Machinery, equipment and vehicles	Total
Acquisition cost	\$ 834,404	\$ 441	\$ 834,853
Accumulated depreciation	(645,884)	(366)	(646,251)
Accumulated impairment loss	(16,617)	–	(16,617)
Net leased property	<u>\$ 171,893</u>	<u>\$ 74</u>	<u>\$ 171,968</u>

Future minimum lease payments subsequent to March 31, 2023 for finance leases were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Years Ending March 31	2023	2023
2024	¥ 6,273	\$ 46,978
2025 and thereafter	22,798	170,733
Total	<u>¥ 29,072</u>	<u>\$ 217,718</u>

The allowance for impairment loss on leased property of ¥1,025 million (\$7,676 thousand) and ¥1,397 million as of March 31, 2023 and 2022, 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, 2023 and 2022, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Lease payments	¥ 9,771	¥ 11,517	\$ 73,174
Reversal of allowance for impairment loss on leased property	411	438	3,077
Depreciation expense	5,783	6,737	43,308
Interest expense	2,566	3,304	19,216
Impairment loss	39	224	292

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Leases (continued)

Finance leases: (continued)

(Lessor)

The net investments in leases as of March 31, 2023 and 2022, were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Gross lease receivables	¥ 85,679	¥ 71,542	\$ 641,646
Unguaranteed residual values	2,231	2,231	16,707
Unearned interest income	(28,705)	(21,915)	(214,970)
Investments in leases, current	¥ 59,204	¥ 51,858	\$ 443,376

Contractual maturities of lease receivables from finance lease transactions subsequent to March 31, 2023 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>
2024	¥ 8,832	\$ 66,142
2025	8,258	61,843
2026	7,829	58,631
2027	6,472	48,468
2028	4,657	34,876
2029 and thereafter	15,853	118,722
Total	¥ 51,904	\$ 388,706

Contractual maturities of the above gross lease receivables subsequent to March 31, 2023 in which the ownership of the leased assets is not 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>
2024	¥ 12,619	\$ 94,503
2025	10,826	81,075
2026	9,495	71,107
2027	7,342	54,983
2028	6,256	46,850
2029 and thereafter	39,139	293,110
Total	¥ 85,679	\$ 641,646

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Leases (continued)

Operating Leases:

(Lessee)

Future minimum lease payments subsequent to March 31, 2023 for noncancelable operating leases were as follows:

<u>Years Ending March 31</u>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2023	2023
2024	¥ 73,494	\$ 550,393
2025 and thereafter	646,024	4,838,043
Total	¥ 719,518	\$ 5,388,437

Lease transactions of lessees subject to IFRS 16 and ASC 842 “Leases” for overseas subsidiaries, were not included in the above amount for the year ended March 31, 2023.

(Lessor)

Future minimum lease income subsequent to March 31, 2023 for noncancelable operating lease were as follows:

<u>Years Ending March 31</u>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2023	2023
2024	¥ 12,672	\$ 94,900
2025 and thereafter	269,596	2,018,991
Total	¥ 282,268	\$ 2,113,892

Penalty income for early cancelation is included in the amount for 2025 and thereafter.

25. Contingent Liabilities

As of March 31, 2023, the Group had the following contingent liabilities:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Trade notes receivable discounted	¥ 10	\$ 74
Guarantees and similar items of bank loans:		
House purchasers’ loans from banks	17,157	128,487
Loans of affiliates from banks	8,740	65,453

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures

(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.

(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".

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (continued)

(3) Supplemental information for fair values of financial instruments

As various factors are incorporated into fair value calculations, the resulting values may vary if different assumptions are used. In addition, the contract amounts as shown in Note 27 “Derivatives” do not indicate the market risk associated with derivative transactions.

The carrying values of financial instruments on the accompanying consolidated balance sheets as of March 31, 2023 and 2022 and their estimated fair values are shown in the following table. The following table does not include stocks with no market prices and investments in limited liability partnership and others.

Cash and bank deposits, trade notes and accounts payables, payables-other, short-term bank loans, and income taxes payable are omitted since they are cash, or their fair values approximate their carrying values because of their short-term maturities.

	<i>Millions of yen</i>		
	2023		
	Carrying value	Fair value	Difference
Assets			
Trade notes and accounts receivables	¥ 194,066	¥	¥
Allowance for doubtful accounts	(1,241)		
	<u>192,824</u>	<u>192,234</u>	<u>(590)</u>
Marketable and investment securities:			
Held-to-maturity debt securities	1,829	1,840	11
Other securities	174,356	174,356	-
Lease deposits	256,582	246,758	(9,824)
Total assets	<u>¥ 625,593</u>	<u>¥ 615,189</u>	<u>¥ (10,403)</u>
Liabilities			
Long-term debt:			
Bonds	¥ 609,000	¥ 602,307	¥ (6,692)
Loans from banks	1,104,552	1,092,929	(11,623)
Lease deposits received	307,593	291,248	(16,344)
Total liabilities	<u>¥ 2,021,146</u>	<u>¥ 1,986,485</u>	<u>¥ (34,661)</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (continued)

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

	<i>Millions of yen</i>		
	2022		
	Carrying value	Fair value	Difference
Assets			
Trade notes and accounts receivables	¥ 176,993	¥	¥
Allowance for doubtful accounts	(3,056)		
	<u>173,937</u>	<u>173,633</u>	<u>(304)</u>
Marketable and investment securities:			
Held-to-maturity debt securities	2,304	2,324	20
Other securities	187,544	187,544	-
Lease deposits	251,053		
Allowance for doubtful accounts	(200)		
	<u>250,853</u>	<u>244,579</u>	<u>(6,273)</u>
Total assets	<u>¥ 614,640</u>	<u>¥ 608,082</u>	<u>¥ (6,557)</u>
Liabilities			
Long-term debt:			
Bonds	¥ 433,000	¥ 431,117	¥ (1,882)
Loans from banks	838,086	839,207	1,120
Lease deposits received	296,500	286,377	(10,123)
Total liabilities	<u>¥ 1,567,587</u>	<u>¥ 1,556,701</u>	<u>¥ (10,885)</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (continued)

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

	<i>Thousands of U.S. dollars</i>		
	2023		
	Carrying value	Fair value	Difference
Assets			
Trade notes and accounts receivables	\$ 1,453,351	\$	\$
Allowance for doubtful accounts	(9,293)		
	<u>1,444,050</u>	<u>1,439,631</u>	<u>(4,418)</u>
Marketable and investment securities:			
Held-to-maturity debt securities	13,697	13,779	82
Other securities	1,305,744	1,305,744	-
Lease deposits	1,921,530	1,847,959	(73,571)
Total assets	<u>\$ 4,685,037</u>	<u>\$ 4,607,121</u>	<u>\$ (77,907)</u>
Liabilities			
Long-term debt:			
Bonds	\$ 4,560,772	\$ 4,510,649	\$ (50,116)
Loans from banks	8,271,938	8,184,894	(87,044)
Lease deposits received	2,303,549	2,181,142	(122,399)
Total liabilities	<u>\$ 15,136,269</u>	<u>\$ 14,876,694</u>	<u>\$ (259,574)</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (continued)

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

Notes: 1) The carrying value of investments in securities without a quoted market price and investments in limited liability partnership and others are shown in the following table, and these are not included in “Marketable and investment securities”.

	Carrying amount		
	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Investments in securities without a quoted market price (*1)	¥ 33,201	¥ 31,839	\$ 248,640
Investments in limited liability partnership and others (*2)	13,017	14,674	97,483

(*1) Investments in securities without a quoted market price include unlisted stocks and others are not subject to disclosure of fair value in accordance with Paragraph 5 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020).

(*2) Investments in limited liability partnership and others are mainly investments in partnership investments in anonymous associations and others. These are not subject to disclosure of fair value in accordance with Paragraph 24-16 of the “Implementation Guidance on Accounting Standard for Measurement of Fair Value” (ASBJ Guidance No. 31, June 17, 2021).

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (continued)

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

Notes: 2) Redemption schedule for receivables and marketable and investment securities with maturities as of March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>			
	2023			
	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	¥ 358,086	¥ –	¥ –	¥ –
Trade notes and accounts receivables	173,546	8,827	6,042	5,649
Marketable and investment securities:				
Held-to-maturity debt securities	1,125	703	1	10
Other securities with contractual maturities (*)	3,192	6,406	–	120
Lease deposits	24,389	84,040	48,683	101,603
Total	¥ 560,340	¥ 99,977	¥ 54,727	¥ 107,383

	<i>Millions of yen</i>			
	2022			
	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	¥ 337,632	¥ –	¥ –	¥ –
Trade notes and accounts receivables	155,761	8,918	5,187	7,126
Marketable and investment securities:				
Held-to-maturity debt securities	485	1,828	–	10
Other securities with contractual maturities (*)	2,192	9,406	–	120
Lease deposits	24,628	76,888	49,907	102,525
Total	¥ 520,700	¥ 97,040	¥ 55,094	¥ 109,782

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (continued)

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

	<i>Thousands of U.S. dollars</i>			
	2023			
	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	\$ 2,681,689	\$ –	\$ –	\$ –
Trade notes and accounts receivables	1,299,677	66,104	45,248	42,305
Marketable and investment securities:				
Held-to-maturity debt securities	8,425	5,264	7	74
Other securities with contractual maturities (*)	23,904	47,974	–	898
Lease deposits	182,648	629,371	364,584	760,900
Total	\$ 4,196,360	\$ 748,723	\$ 409,847	\$ 804,186

(*) Other securities with contractual maturities do not include perpetual subordinated bonds with no redemption date.

Notes: 3) The redemption schedule for bonds and bank loans is presented in Note 8 “Short-Term Bank Loans and Long-Term Debt.”

(4) Breakdown by level of fair values of financial instruments

Fair values of financial instruments are categorized into three levels as described below on the basis of the observability and the materiality of the inputs used in the fair value measurement.

Level 1: Fair values measured using (unadjusted) quoted prices of identical assets or liabilities in active markets

Level 2: Fair values measured using inputs other than inputs included within Level 1 that are observable, either directly or indirectly

Level 3: Fair values measured using unobservable valuation inputs

When several inputs that have significant impact on fair value measurement are used, the fair value is categorized into the lowest hierarchy level for fair value measurement among those in which each of the inputs belongs.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosure (continued)

(4) Breakdown by level of fair values of financial instruments (continued)

1) Financial assets and liabilities at fair value on the consolidated balance sheets

For the years ended March 31, 2023 and 2022

	<i>Millions of yen</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Stocks	¥ 138,818	¥ –	¥ –	¥ 138,818
Preferred fund certificates	–	–	19,989	19,989
Bonds	–	–	10,398	10,398
Investment trusts	–	112	–	112
Total	¥ 138,818	¥ 112	¥ 30,387	¥ 169,318
	<i>Millions of yen</i>			
	2022			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Stocks	¥ 151,463	¥ –	¥ –	¥ 151,463
Preferred fund certificates	–	–	21,363	21,363
Bonds	–	–	14,718	14,718
Total	¥ 151,463	¥ –	¥ 36,081	¥ 187,544
	<i>Thousands of U.S. dollars</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Stocks	\$ 1,039,601	\$ –	\$ –	\$ 1,039,601
Preferred fund certificates	–	–	149,696	149,696
Bonds	–	–	77,870	77,870
Investment trusts	–	838	–	838
Total	\$ 1,039,601	\$ 838	\$ 227,566	\$ 1,268,014

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosure (continued)

(4) Breakdown by level of fair values of financial instruments (continued)

1) Financial assets and liabilities at fair value on the consolidated balance sheets (continued)

Notes: Investment trusts in the amount of ¥5,037 million (\$37,721 thousand), of which net asset values are considered as fair values in accordance with Paragraph 24-9 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 31, June 17, 2021), are not included in “Investment trusts” in the table above.

2) Financial assets and liabilities which are not stated at fair value on the consolidated balance sheet

For the years ended March 31, 2023 and 2022

	<i>Millions of yen</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Assets				
Trade notes and accounts receivables	¥ –	¥ 192,234	¥ –	¥ 192,234
Marketable and investment securities:				
Held-to-maturity debt securities	1,840	–	–	1,840
Lease deposits	–	246,758	–	246,758
Total assets	¥ 1,840	¥ 438,992	¥ –	¥ 440,833
Liabilities				
Long-term debt:				
Bonds	¥ –	¥ 602,307	¥ –	¥ 602,307
Loans from banks	–	1,073,734	19,194	1,092,929
Lease deposits received	–	275,656	15,591	291,248
Total liabilities	¥ –	¥ 1,951,698	¥ 34,786	¥ 1,986,485

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosure (continued)

(4) Breakdown by level of fair values of financial instruments (continued)

2) Financial assets and liabilities which are not stated at fair value on the consolidated balance sheet (continued)

	<i>Millions of yen</i>			
	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Trade notes and accounts receivables	¥ –	¥ 173,633	¥ –	¥ 173,633
Marketable and investment securities:				
Held-to-maturity debt securities	2,324	–	–	2,324
Lease deposits	–	244,579	–	244,579
Total assets	¥ 2,324	¥ 418,213	¥ –	¥ 420,538
Liabilities				
Long-term debt:				
Bonds	¥ –	¥ 431,117	¥ –	¥ 431,117
Loans from banks	–	822,301	16,905	839,207
Lease deposits received	–	269,717	16,659	286,377
Total liabilities	¥ –	¥ 1,523,136	¥ 33,565	¥ 1,556,701

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosure (continued)

(4) Breakdown by level of fair values of financial instruments (continued)

2) Financial assets and liabilities which are not stated at fair value on the consolidated balance sheet (continued)

For the year ended March 31, 2023

	<i>Thousands of U.S. dollars</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Assets				
Trade notes and accounts receivables	\$ –	\$ 1,439,631	\$ –	\$ 1,439,631
Marketable and investment securities:				
Held-to-maturity debt securities	13,779	–	–	13,779
Lease deposits	–	1,847,959	–	1,847,959
Total assets	\$ 13,779	\$ 3,287,590	\$ –	\$ 3,301,377
Liabilities				
Long-term debt:				
Bonds	\$ –	\$ 4,510,649	\$ –	\$ 4,510,649
Loans from banks	–	8,041,144	143,742	8,184,894
Lease deposits received	–	2,064,375	116,760	2,181,142
Total liabilities	\$ –	\$ 14,616,176	\$ 260,510	\$ 14,876,694

Note: Description of the valuation techniques and inputs used in fair value measurement and supplemental information for securities and derivatives.

Assets

Trade notes and accounts receivable

The fair values of trade notes and accounts receivable are measured at present value calculated by maturity periods to collection using discount rates with credit risks, and are categorized as Level 2.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosure (continued)

(4) Breakdown by level of fair values of financial instruments (continued)

- 2) Financial assets and liabilities which are not stated at fair value on the consolidated balance sheet (continued)

Marketable and investment securities

Securities for which unadjusted quoted market prices in active markets are available, such as listed stocks and government bonds, are categorized into Level 1. For preferred investments, the fair value is measured based on the book value net assets reflecting the fair value of real estate held by the investee, and for bonds without a quoted market price, the fair value is measured based on the price calculated by the option pricing method. These items are categorized as Level 3 because the impact of unobservable inputs on fair value is significant. For investment trusts without a quoted market price, if there is no material restriction on cancellation or purchase from market participants to require consideration for risk, the fair value is measured based on the net asset value and is categorized as Level 2. 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 discount rates with credit risks and is categorized as Level 2.

Liabilities

Bonds

The fair value of bonds is measured at the value calculating by prices and yield information published by industry associations and others, and is categorized as Level 2.

Loans from banks

The carrying values of long-term loans from banks with floating rates (other than those accounted by “Exceptional treatment” described in 1. Summary of Significant Accounting Policies, q. Derivative financial instruments) approximate fair value because they reflect the market interest rates in a timely manner.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosure (continued)

(4) Breakdown by level of fair values of financial instruments (continued)

2) Financial assets and liabilities which are not stated at fair value on the consolidated balance sheet (continued)

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 rates 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 discounting the total amounts of principal and interest payments related to the debt at the Group's assumed corporate discount rates corresponding to loan periods.

If the impact of unobservable inputs is significant, the fair value is categorized as Level 3, otherwise the fair value is categorized as Level 2.

Lease deposits received

The fair value of lease deposits received is measured at present value calculated by maturity periods to payment and discount rate with credit risks

If the impact of unobservable inputs is significant, the fair value is categorized as Level 3, otherwise the fair value is categorized as Level 2.

Derivatives

The information regarding the fair value for derivatives is included in Note 27 "Derivatives".

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Derivatives

Derivative transactions to which hedge accounting was applied as of March 31, 2023 and 2022 were as follows:

		<i>Millions of yen</i>			
		2023		2022	
	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	¥ 25,670	¥ 17,670	¥ 25,760 ¥ 25,447
Interest rate and currency swaps:					
	Fixed rate payment in yen, floating rate receipt in U.S. dollars	Long-term debt – loans from banks	16,128	–	26,128 16,128
		<i>Thousands of U.S. dollars</i>			
		2023			
	Hedged item	Contract amount	Contract amount due after one year		
Interest rate swaps:					
	Fixed rate payment, floating rate receipt	Long-term debt – loans from banks	\$ 192,241	\$ 132,329	
Interest rate and currency swaps:					
	Fixed rate payment in yen, floating rate receipt in U.S. dollars	Long-term debt – loans from banks	120,781	–	

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 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 26 “Financial Instruments and Related Disclosure” are included in those of the hedged items (i.e., long-term debt).

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

28. Supplemental Cash Flow Information

Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2023 and 2022 are reconciled to cash and bank deposits in the consolidated balance sheets as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Cash and bank deposits	¥ 358,086	¥ 337,632	\$ 2,681,689
Time deposits with maturities of more than three months	(11,932)	(11,381)	(89,358)
Cash and cash equivalents	<u>¥ 346,154</u>	<u>¥ 326,250</u>	<u>\$ 2,592,331</u>

Year Ended March 31, 2022

Breakdown of assets and liabilities at the start of consolidation of CastleRock Communities LLC. (hereinafter a “newly consolidated subsidiary”) in connection with the acquisition of investments in capital of a newly consolidated subsidiary and the relationship between purchase cost and expenditures for purchase of investment in a newly consolidated subsidiary were as follows:

	<i>Millions of yen</i>
	<u>2022</u>
Current assets	¥ 34,919
Fixed assets	30
Goodwill	24,851
Current liabilities	(3,783)
Long-term liabilities	(6,460)
Non-controlling interests	<u>(5,149)</u>
Purchase cost of investments in capital of a newly consolidated subsidiary	44,408
Cash and cash equivalents of a newly consolidated subsidiary	<u>(1,237)</u>
Purchase of investment in subsidiary resulting in change in scope of consolidation	<u>¥ 43,171</u>

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

29. Business Combination

(Finalization of Provisional Accounting Treatment concerning Business Combination)

The business combination with CastleRock Communities LLC, which took place on September 3, 2021 (September 2, 2021, U.S. Central Standard Time), was provisionally accounted for in the previous year and finalized in the year ended March 31, 2023.

As a result of the finalization of the provisional accounting treatment, the amount of goodwill has changed from a provisional ¥24,851 million (\$186,107 thousand) to ¥15,511 million (\$116,161 thousand), which is a decrease in the amount of ¥9,339 million (\$69,939 thousand). In addition, real estate for sale, intangible assets, deferred tax liabilities and non-controlling interests increased by ¥4,715 million (\$35,310 thousand), ¥11,276 million (\$84,445 thousand), ¥4,317 million (\$32,329 thousand) and ¥2,334 million (\$17,479 thousand), respectively.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition

(Changes in presentation of the reportable segments)

Effective from the year ended March 31, 2023, the Group has changed the presentation of the reportable segments in accordance with the “7th Medium-Term Management Plan” announced on May 13, 2022. The Existing Homes segment has been abolished and the Environment and Energy segment, which was previously included in “Other”, has been reclassified as a reportable segment.

Furthermore, information on the reportable segments for the year ended March 31, 2022 has been restated to reflect the changes.

- Information on disaggregated revenue arising from contracts with customers is as of March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>							
	2023							
	Reportable segment							Total
Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other (*1)		
Ordered contract transactions	¥ 318,246	¥ 371,818	¥ 44,147	¥ 405,462	¥ 737,830	¥ 49,433	¥ 73	¥ 1,927,012
Real estate sales transactions	534,936	125,591	331,470	172,046	117,231	-	-	1,281,276
Other related business transactions (*2)	1,969	84,572	61,236	204,660	83,107	91,078	54,753	581,377
Revenue from contracts with customers	<u>¥ 855,151</u>	<u>¥ 581,983</u>	<u>¥ 436,853</u>	<u>¥ 782,169</u>	<u>¥ 938,169</u>	<u>¥ 140,512</u>	<u>¥ 54,826</u>	<u>¥ 3,789,666</u>
Other revenue (*3)	¥ 47,950	¥ 561,879	¥ 38,777	¥ 300,981	¥ 163,795	¥ 2,874	¥ 2,273	¥ 1,118,532
Sales to third parties	903,101	1,143,863	475,631	1,083,151	1,101,964	143,386	57,100	4,908,199

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

1. Information on disaggregated revenue arising from contracts with customers is as of March 31, 2023 and 2022 was as follows: (continued)

	<i>Millions of yen</i>							
	2022							
	Reportable segment							Other (*1)
Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy			
Ordered contract transactions	¥ 357,754	¥ 377,229	¥ 38,364	¥ 429,849	¥ 653,932	¥ 51,334	¥ 494	¥ 1,908,959
Real estate sales transactions	369,652	73,097	251,198	125,445	171,912	-	-	991,306
Other related business transactions (*2)	1,952	71,665	59,356	170,279	75,440	74,328	35,788	488,811
Revenue from contracts with customers	<u>¥ 729,359</u>	<u>¥ 521,993</u>	<u>¥ 348,920</u>	<u>¥ 725,573</u>	<u>¥ 901,285</u>	<u>¥ 125,663</u>	<u>¥ 36,282</u>	<u>¥ 3,389,078</u>
Other revenue (*3)	¥ 48,296	¥ 527,936	¥ 24,189	¥ 297,909	¥ 147,523	¥ 892	¥ 3,709	¥ 1,050,458
Sales to third parties	777,656	1,049,930	373,109	1,023,483	1,048,809	126,555	39,991	4,439,536

	<i>Thousands of U.S. dollars</i>							
	2023							
	Reportable segment							Other (*1)
Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy			
Ordered contract transactions	\$ 2,383,329	\$ 2,784,527	\$ 330,614	\$ 3,036,486	\$ 5,525,574	\$ 370,201	\$ 546	\$ 14,431,303
Real estate sales transactions	4,006,110	940,545	2,482,363	1,288,444	877,937	-	-	9,595,416
Other related business transactions (*2)	14,745	633,355	458,593	1,532,689	622,384	682,078	410,042	4,353,905
Revenue from contracts with customers	<u>\$ 6,404,186</u>	<u>\$ 4,358,443</u>	<u>\$ 3,271,571</u>	<u>\$ 5,857,627</u>	<u>\$ 7,025,904</u>	<u>\$ 1,052,287</u>	<u>\$ 410,589</u>	<u>\$ 28,380,633</u>
Other revenue (*3)	\$ 359,095	\$ 4,207,885	\$ 290,399	\$ 2,254,032	\$ 1,226,653	\$ 21,523	\$ 17,022	\$ 8,376,634
Sales to third parties	6,763,281	8,566,337	3,561,978	8,111,667	8,252,557	1,073,811	427,619	36,757,275

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

1. Information on disaggregated revenue arising from contracts with customers is as of March 31, 2023 and 2022 was as follows: (continued)

Notes: (*1) “Other” includes resort hotel business and others.

(*2) “Other related business transactions” includes real estate management transactions, electric power retail business, home center business, logistics service business, and hotel business.

(*3) “Other revenue” includes lease income recognized based on “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13) and revenue from sales of real estate recognized based on “Practical Guidelines on Accounting by Transferors for Derecognition of Real Estate Securitized by means of Special-Purpose Companies” (JICPA Accounting Practice Committee Statement No. 15).

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

2. Information providing a basis for understanding revenue arising from contracts with customers

The Group operates in the business consisting of ordered housing construction and the construction of commercial and office buildings, and sales of real estate developed by the Group and other related business that are relevant to these businesses. Revenues from these businesses are recorded based on contracts with customers.

(1) Ordered contract transactions

Description of main transaction of each reportable segment is as follows:

Reportable segment	Description of main transaction
Single-family houses	Ordered contracts of single-family houses
Rental housing	Ordered contracts of rental housing
Condominiums	Large-scale repair work for condominiums
Commercial facilities	Sales of ordered contracts for stores, commercial complexes, and others
Business and corporate facilities	Sales of ordered contracts for logistics and manufacturing facilities and medical and nursing care facilities
Environment and energy	Sales of ordered contracts for power plants for renewable energy

With respect to ordered contract transactions, the Group concludes construction contracts with customers (general consumers or companies) and has an obligation to perform construction works based on the construction contracts.

The Group determines that the performance obligations are satisfied over a certain period of time and recognizes revenues based on the progress of fulfillment of performance obligations because the value of the property increases, and the customer comes to control the property according to the progress of construction works.

The progress is estimated using the input method based on cost (percentage of cost incurred to total construction costs) because costs incurred relate to and are recorded generally in proportion to the progress of fulfillment of performance obligations.

With respect to construction contracts for which the progress cannot be reasonably estimated but the costs incurred in fulfilling the performance obligation are expected to be recovered, revenue is recognized on a cost recovery method until such time when the progress of fulfillment of performance obligation can be reasonably estimated.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

2. Information providing a basis for understanding revenue arising from contracts with customers (continued)

(1) Ordered contract transactions (continued)

The consideration for transactions is normally paid in full by the time of transfer of the real estate based on contract terms and therefore no significant financing component are included in receivables arising from contracts with customers. There are no significant variable considerations that could change the amount of the consideration.

(2) Real estate sales transactions

Description of main transaction of each reportable segment is as follows:

<u>Reportable segment</u>	<u>Description of main transaction</u>
Single-family houses	Sales of single-family houses
Rental housing	Sales of rental housing
Condominiums	Sales of condominiums
Commercial facilities	Sales of ordered contracts for stores, commercial complexes, and others
Business and corporate facilities	Sales of ordered contracts for logistics and manufacturing facilities and medical and nursing care facilities

With respect to real estate transactions, the Group concludes real estate sales contracts with customers (general consumers, companies and investors) and has an obligation to transfer properties developed or purchased by the Group.

Since legal ownership, physical possession, and significant risks and rewards are transferred to the customer at the time of transfer of the properties, performance obligation is fulfilled at the time the properties are transferred, and therefore revenues are recognized at the time of transfer of properties to the customers.

The consideration for transactions is normally paid in full by the time of transfer of the properties and therefore no significant financing components are included in the amount of consideration for transactions. There are no significant variable considerations that could change the amount of the consideration.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

2. Information providing a basis for understanding revenue arising from contracts with customers (continued)

(3) “Other” related business transactions

A description of main transactions in “Other” related business transaction is as follows. The consideration for transactions is normally paid in full within one month after the fulfillment of performance obligations and therefore no significant financing components are included. In addition, there are no significant variable considerations that could change the amount of the consideration.

① Real estate management transactions

With respect to real estate management transactions, the Group concludes management service consignment contracts with customers, and has an obligation to provide renovation services and general facility management services (administrative management services, cleaning services, security services, facility management services and others) for rental housing, condominiums, commercial facilities, and business and corporate facilities. Depending on the nature of the performance obligation related to these services, performance obligations are satisfied at a point of time or over a certain period of time and revenues are recognized.

② Electric power retail business

With respect to electric power retail business, the Group concludes supply and demand contracts with customers, and has an obligation to supply electric power. For such contracts, the Group recognizes revenue when electricity is supplied to customers. Revenues are calculated based on actual amount of electricity used collected on the meter reading date, and the revenues from the meter reading date to the date of fiscal year end are recorded on an estimation basis based on the amount of electricity used and unit prices.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

3. Information for understanding the amounts of revenue in the next year

(1) Balances of contract assets and contract liabilities

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Receivables arising from contracts with customers (balance at the beginning of the year)	¥ 158,357	¥ 183,112	\$ 1,185,928
Receivables arising from contracts with customers (balance at the end of the year)	173,500	158,357	1,299,333
Contract assets (balance at the beginning of the year)	230,436	224,552	1,725,724
Contract assets (balance at the end of the year)	260,274	230,436	1,949,179
Contract liabilities (balance at the beginning of the year)	289,436	260,977	2,167,572
Contract liabilities (balance at the end of the year)	275,393	289,436	2,062,405

Contract assets relate to the rights of the Group in respect of construction contracts to consideration for which revenues are recognized based on the progress of the performance obligation but unbilled as of March 31, 2023 and 2022.

Contract assets are reclassified as receivables arising from contracts with customers when the rights of the Group to the consideration become unconditional.

Consideration related to construction contracts is billed and received in full by the time the relevant properties are transferred.

Contract liabilities relate to the advances received on construction projects in progress from customers and advances received as deposits from customers on real estate sales contracts. Contract liabilities are reversed when revenues are recognized.

The revenues recognized during the years ended March 31, 2023 and 2022 that were included in the balance of contract liabilities at the beginning of the years ended March 31, 2023 and 2022 were ¥ 232,319 million (\$ 1,739,826 thousand) and ¥ 145,056 million, respectively.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

3. Information for understanding the amounts of revenue in the next year (continued)

(1) Balances of contract assets and contract liabilities (continued)

There were no significant changes in the balances of contract assets and liabilities during the years ended March 31, 2023 and 2022 and no significant matters regarding revenues recognized during the years ended March 31, 2023 and 2022 for the performance obligations fulfilled in prior fiscal years.

Notes: Balances of receivables arising from contracts with customers, contract assets and contract liabilities

Receivables arising from contracts with customers and contract assets in Trade notes and accounts receivable are as follows.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Notes receivable	¥ 3,756	¥ 3,199	\$ 28,128
Electronically recorded monetary claims	7,980	5,345	59,761
Accounts receivable	161,763	149,812	1,211,435
Contract assets	260,274	230,436	1,949,179
Total	¥ 433,775	¥ 388,794	\$ 3,248,520

Contract liabilities in advances received and advances received on construction projects in progress are as follows.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Advances received	¥ 92,119	¥ 151,459	\$ 689,874
Advances received on construction projects in progress	183,273	137,977	1,372,523
Total	¥ 275,393	¥ 289,436	\$ 2,062,405

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

3. Information for understanding the amounts of revenue in the next year (continued)

(2) Transaction price allocated to the remaining performance obligations

The total transaction prices allocated to the remaining performance obligation are as follows. These performance obligations are mainly related to ordered contract transactions and real estate sales transactions.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2023	2022	2023
Single-family houses	¥ 260,700	¥ 290,391	\$ 1,952,370
Rental housing	119,943	177,190	898,247
Condominiums	154,245	147,672	1,155,133
Commercial facilities	230,342	207,086	1,725,020
Business and corporate facilities	965,100	862,974	7,227,589
Environment and energy	14,594	32,126	109,293
Total	¥ 1,744,926	¥ 1,717,441	\$ 13,067,670

With respect to Single-family houses, Rental housing, and Condominiums, approximately 90% of revenues are expected to be recognized within one year after the end of the year ended March 31, 2023, and the remaining approximately 10% of revenues are expected to be recognized in more than one year and within two years after the end of the year ended March 31, 2023.

With respect to Commercial facilities and Environment and energy, approximately 80% of revenues are expected to be recognized within one year after the end of the year ended March 31, 2023, and the remaining approximately 20% of revenues are expected to be recognized in more than one year and within three years after the end of the year ended March 31, 2023.

With respect to Business and corporate facilities, approximately 60% of revenues are expected to be recognized within one year after the end of the year ended March 31, 2023, approximately 30% of revenues are expected to be recognized in more than one year and within three years after the end of the year ended March 31, 2023 and remaining approximately 10% of revenues are expected to be recognized thereafter.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Revenue Recognition (continued)

3. Information for understanding the amounts of revenue in the next year (continued)

(2) Transaction price allocated to the remaining performance obligations (continued)

With respect to Single-family houses and Rental housing, revenues are expected to be recognized within one year after the end of the year ended March 31, 2022.

With respect to Condominiums and Commercial facilities, approximately 80% of revenues are expected to be recognized within one year after the end of the year ended March 31, 2022, and the remaining approximately 20% of revenues are expected to be recognized in more than one year and within three years after the end of the year ended March 31, 2022.

With respect to Business and corporate facilities, approximately 60% of revenues are expected to be recognized within one year after the end of the year ended March 31, 2022, approximately 30% of revenues are expected to be recognized in more than one year and within three years after the end of the year ended March 31, 2022 and remaining approximately 10% of revenues are expected to be recognized thereafter.

With respect to Environment and energy, approximately 70% of revenues are expected to be recognized within one year after the end of the year ended March 31, 2022, and the remaining approximately 30% of revenues are expected to be recognized in more than one year and within two years after the end of the year ended March 31, 2022.

With respect to notes to transaction prices allocated to remaining performance obligations for other related business, the practical expedient is applied and contracts with an initially expected contract term of one year or less are not included in the notes.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Segment Information

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and evaluated regularly by the Company's management 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 six core businesses as reportable segments; Single-Family Houses Business, Rental Housing Business, Condominiums Business, Commercial Facilities Business, Business and Corporate Facilities Business and Environment and energy. 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 Commercial Facilities Business consists of development, construction, management and operation of commercial facilities. The Business and Corporate Facilities Business consists of development, construction, management and operation of logistics, manufacturing facilities and medical and nursing care facilities. The Environment and energy consist of development and construction of renewable energy power plants, renewable energy generation, and electricity retailing.

(Changes in presentation of the reportable segment)

Effective from year ended March 31, 2023, the Group has changed the presentation of the reportable segments in accordance with the "7th Medium-Term Management Plan" announced on May 13, 2022. The Existing Homes segment has been abolished and the Environment and Energy segment, which was previously included in "Other", has been reclassified as a reportable segment.

Furthermore, reportable segment information for the year ended March 31, 2022 has been restated to reflect the changes.

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)

31. Segment Information (continued)

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

<i>Millions of yen</i>							
2023							
Reportable segments							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Sub-total
Sales:							
Sales to third parties	¥ 903,101	¥ 1,143,863	¥ 475,631	¥ 1,083,151	¥ 1,101,964	¥ 143,386	¥ 4,851,098
Intersegment sales and transfers	6,974	5,560	8,750	9,016	28,265	45,224	103,793
Total	¥ 910,076	¥ 1,149,424	¥ 484,382	¥ 1,092,167	¥ 1,130,230	¥ 188,611	¥ 4,954,891
Segment profit	¥ 46,666	¥ 109,710	¥ 40,879	¥ 132,984	¥ 99,630	¥ 6,285	¥ 436,156
Segment assets	866,782	563,554	702,674	1,547,036	1,865,499	97,517	5,643,064
Other:							
Depreciation	15,201	11,415	3,194	54,820	22,118	3,048	109,798
Investments in affiliates accounted for by the equity method	1,439	-	2,472	12	17,259	913	22,098
Increase in property, plant and equipment and intangible assets	36,759	23,980	8,988	151,009	289,527	2,227	512,493

<i>Millions of yen</i>				
2023				
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	¥ 57,100	¥ 4,908,199	¥ -	¥ 4,908,199
Intersegment sales and transfers	24,748	128,541	(128,541)	-
Total	¥ 81,849	¥ 5,036,740	¥ (128,541)	¥ 4,908,199
Segment profit	¥ 5,497	¥ 441,654	¥ 23,716	¥ 465,370
Segment assets	154,188	5,797,253	344,814	6,142,067
Other:				
Depreciation	1,730	111,528	1,935	113,464
Investments in affiliates accounted for by the equity method	3,628	25,726	-	25,726
Increase in property, plant and equipment and intangible assets	1,427	513,920	4,222	518,143

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Segment Information (continued)

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

<i>Millions of yen</i>							
2022							
Reportable segments							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Sub-total
Sales:							
Sales to third parties	¥ 777,656	¥ 1,049,930	¥ 373,109	¥ 1,023,483	¥ 1,048,809	¥ 126,555	¥ 4,399,544
Intersegment sales and transfers	7,231	2,628	6,832	15,092	30,444	34,446	96,676
Total	<u>¥ 784,887</u>	<u>¥ 1,052,558</u>	<u>¥ 379,942</u>	<u>¥ 1,038,576</u>	<u>¥ 1,079,253</u>	<u>¥ 161,002</u>	<u>¥ 4,496,220</u>
Segment profit	¥ 38,365	¥ 96,641	¥ 9,752	¥ 124,151	¥ 125,531	¥ 5,270	¥ 399,713
Segment assets	718,037	447,516	775,994	1,425,896	1,633,062	117,815	5,118,321
Other:							
Depreciation	10,312	10,619	2,794	53,357	15,987	3,591	96,662
Investments in affiliates accounted for by the equity method	3,069	48	17,453	12	13,104	980	34,670
Increase in property, plant and equipment and intangible assets	20,689	29,283	12,048	131,257	220,301	4,670	418,252

<i>Millions of yen</i>				
2022				
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	¥ 39,991	¥ 4,439,536	¥ –	¥ 4,439,536
Intersegment sales and transfers	23,054	119,731	(119,731)	–
Total	<u>¥ 63,046</u>	<u>¥ 4,559,267</u>	<u>¥ (119,731)</u>	<u>¥ 4,439,536</u>
Segment profit	¥ (5,922)	¥ 393,790	¥ (10,534)	¥ 383,256
Segment assets	136,213	5,254,535	267,127	5,521,662
Other:				
Depreciation	1,872	98,534	1,793	100,328
Investments in affiliates accounted for by the equity method	3,362	38,032	–	38,032
Increase in property, plant and equipment and intangible assets	1,109	419,361	6,445	425,807

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Segment Information (continued)

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

<i>Thousands of U.S. dollars</i>							
2023							
Reportable segments							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Sub-total
Sales:							
Sales to third parties	\$ 6,763,281	\$ 8,566,337	\$ 3,561,978	\$ 8,111,667	\$ 8,252,557	\$ 1,073,811	\$ 36,329,648
Intersegment sales and transfers	52,227	41,638	65,528	67,520	211,675	338,680	777,300
Total	\$ 6,815,517	\$ 8,607,983	\$ 3,627,514	\$ 8,179,188	\$ 8,464,240	\$ 1,412,499	\$ 37,106,949
Segment profit	\$ 349,479	\$ 821,613	\$ 306,140	\$ 995,911	\$ 746,124	\$ 47,068	\$ 3,266,352
Segment assets	6,491,290	4,220,429	5,262,293	11,585,681	13,970,635	730,300	42,260,645
Other:							
Depreciation	113,839	85,486	23,919	410,544	165,640	22,826	822,272
Investments in affiliates accounted for by the equity method	10,776	–	18,512	89	129,251	6,837	165,490
Increase in property, plant and equipment and intangible assets	275,286	179,585	67,310	1,130,899	2,168,254	16,677	3,838,036

<i>Thousands of U.S. dollars</i>				
2023				
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	\$ 427,619	\$36,757,275	\$ –	\$ 36,757,275
Intersegment sales and transfers	185,336	962,637	(962,637)	–
Total	\$ 612,963	\$37,719,913	\$ (962,637)	\$ 36,757,275
Segment profit	\$ 41,166	\$ 3,307,526	\$ 177,608	\$ 3,485,134
Segment assets	1,154,706	43,415,359	2,582,296	45,997,655
Other:				
Depreciation	12,955	835,228	14,491	849,726
Investments in affiliates accounted for by the equity method	27,169	192,660	–	192,660
Increase in property, plant and equipment and intangible assets	10,686	3,848,723	31,618	3,880,348

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Segment Information (continued)

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

Notes: 1) "Other" includes resort hotel business and others.

2) Adjustments and eliminations for segment profit (loss) of ¥23,716 million (\$177,608 thousand) and ¥(10,534) million include an elimination of intersegment transactions of ¥(1,374) million (\$10,289 thousand) and ¥306 million, the amortization of goodwill and others of ¥831 million (\$6,223 thousand) and ¥954 million, and the corporate profit (expenses) not allocated to each business segment of ¥24,258 million (\$181,667 thousand) and ¥(11,795) million for the years ended March 31, 2023 and 2022, respectively. Corporate profit mainly consists of the amortization of actuarial gain for employees' retirement benefits (a decrease in operating expenses), general and administrative expenses and experiment and research expenses not attributable to any reportable business segments.

Adjustments and eliminations for segment assets of ¥344,814 million (\$2,582,296 thousand) and ¥267,127 million include intersegment eliminations of ¥20,194 million (\$151,231 thousand) and ¥62,196 million, and the corporate assets of ¥365,009 million (\$2,733,535 thousand) and ¥329,323 million for the years ended March 31, 2023 and 2022, 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 ¥1,935 million (\$14,491 thousand) and ¥1,793 million include intersegment eliminations of ¥532 million (\$3,984 thousand) and ¥514 million, and the depreciation attributable to corporate assets of ¥2,468 million (\$18,482 thousand) and ¥2,308 million for the years ended March 31, 2023 and 2022, respectively.

Adjustments and eliminations for increase in property, plant and equipment and other assets of ¥4,222 million (\$31,618 thousand) and ¥6,445 million include intersegment adjustments of ¥856 million (\$6,410 thousand) and ¥223 million, and the headquarters' capital investments in properties and equipment of ¥3,366 million (\$25,207 thousand) and ¥6,222 million for the years ended March 31, 2023 and 2022, 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)

31. Segment Information (continued)

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

Impairment losses

		<i>Millions of yen</i>							
		2023							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other	Adjustments and eliminations	Consolidated
Impairment losses	¥ 1,204	¥ 786	¥ 2,029	¥ 6,211	¥ 715	¥ 149	¥ 73	¥ 100	¥ 11,271

		<i>Millions of yen</i>							
		2022							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other	Adjustments and eliminations	Consolidated
Impairment losses	¥ 389	¥ 461	¥ 5,331	¥ 6,231	¥ 507	¥ 6	¥ 11,181	¥ 38	¥ 24,147

		<i>Thousands of U.S. dollars</i>							
		2023							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other	Adjustments and eliminations	Consolidated
Impairment losses	\$ 9,016	\$ 5,886	\$ 15,195	\$ 46,513	\$ 5,354	\$ 1,115	\$ 546	\$ 748	\$ 84,407

Note: Adjustments and eliminations for impairment loss of ¥100 million (\$748 thousand) and ¥38 million represent the impairment loss for corporate assets that are not allocated to each business segment for the years ended March 31, 2023 and 2022, respectively.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Segment Information (continued)

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

Amortization of goodwill

		<i>Millions of yen</i>							
		2023							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 2,178	¥ 69	¥ 655	¥ 772	¥ 2,519	¥ (490)	¥ 19	¥ –	¥ 5,724
Balance as of March 31, 2023	40,874	983	8,153	6,820	30,666	(2,173)	9,142	–	94,467

		<i>Millions of yen</i>							
		2022							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 1,600	¥ 64	¥ 1,013	¥ 771	¥ 2,593	¥ (490)	¥ 19	¥ –	¥ 5,573
Balance as of March 31, 2022	47,638	980	9,166	7,593	30,949	(2,663)	229	–	93,895

		<i>Thousands of U.S. dollars</i>							
		2023							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other	Adjustments and eliminations	Consolidated
Amortization	\$ 16,310	\$ 516	\$ 4,905	\$ 5,781	\$ 18,864	\$ (3,669)	\$ 142	\$ –	\$ 42,866
Balance as of March 31, 2023	306,103	7,361	61,057	51,074	229,656	(16,273)	68,464	–	707,458

Gain on negative goodwill was nil for the years ended March 31, 2023 and 2022.

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)

31. Segment Information (continued)

5. Information by geographic segment

(Sales)

Geographical information on net sales is as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2023	2023
Japan	¥ 4,238,922	\$ 31,745,090
Overseas	669,276	5,012,177
Total	<u>¥ 4,908,199</u>	<u>\$ 36,757,275</u>

Notes: 1) Net sales are categorized based on the region in which business activities are conducted.

2) Geographical information on net sales for the year ended March 31, 2022 is omitted because net 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)

32. 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, 2023 and 2022 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, 2023
Keisuke Shimonishi	-	-	Director and Managing Executive Officer	0.0% owned by the related party	House construction	House construction	¥ 36	Advances received on construction projects in progress (Note 1)	¥ 1
								Other current liabilities	¥ 0
Yukiko Yabu and her relatives	-	-	Outside Director	0.0% owned by the related party	Sales of condominium	Sales of condominium	¥ 91	-	¥ -

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, 2022
Keiichi Yoshii	-	-	Representative Director of the Company	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 2)	¥ 45	-	¥ -
Takeshi Kosokabe	-	-	Representative Director of the Company	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 2)	¥ 60	-	¥ -
Hirotsugu Otomo	-	-	Director and Managing Executive Officer	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 2)	¥ 30	-	¥ -
Kazuhito Dekura	-	-	Director and Managing Executive Officer	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 2)	¥ 30	-	¥ -
Keisuke Shimonishi	-	-	Director and Managing Executive Officer	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 2)	¥ 30	-	¥ -
Yoshinori Ariyoshi	-	-	Director and Managing Executive Officer	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 2)	¥ 30	-	¥ -

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

32. 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, 2023
Keisuke Shimonishi	-	-	Director and Managing Executive Officer	0.0% owned by the related party	House construction	House construction	\$ 269	Advances received on construction projects in progress (Note 1)	\$ 7
								Other current liabilities	\$ 0
Yukiko Yabu and her relatives	-	-	Outside Director	0.0% owned by the related party	Sales of condominium	Sales of condominium	\$ 681	-	\$ -

Notes: 1) The balance of the advances received on construction projects in progress as of March 31, 2023 is calculated as the receipt amount from customers on construction projects less trade notes and accounts receivable and others.

2) The exercise of stock acquisition rights (2016 Stock Option) in the year ended March 31, 2022 is stated. The transaction amounts are calculated by multiplying the exercised number of shares by the exercise price.

3) Business transactions with related parties except exercise of the acquisition rights 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)

33. Subsequent Events

1. Dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2023, was approved at a shareholders' meeting of the Company held on June 29, 2023:

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 29, 2023	Common stock	¥ 46,120	\$ 345,390	¥ 70	\$ 0.52	March 31, 2023	June 30, 2023

2. Cancellation of Treasury Stock

At the meeting of the Board of Directors held on May 12, 2023, the Company resolved to cancel its treasury stock under the provisions of Article 178 of the Companies Act, and canceled treasury stock as follows.

1. Reason for the cancellation of treasury stock

For part of shareholders return policy under the 7th Medium-Term Management Plan announced on May 13, 2022

2. Method of cancellation

Reduction from capital surplus and retained earnings

3. Type of shares to be cancelled

Common shares of Daiwa House Industry Co., Ltd.

4. Total number of shares to be cancelled

7,000,000 shares
(1.06% of total shares outstanding before cancellation (excluding treasury stock))

5. Date of cancellation

May 31, 2023

6. Total shares outstanding after cancellation

659,290,951 shares

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

33. Subsequent Events (continued)

3. Acquisition of Treasury Stock

At the meeting of the Board of Directors held on May 12, 2023, the Company resolved to acquire its treasury stock pursuant to the provisions of Article 156 of the Companies Act, as applied pursuant to Article 165, paragraph (3) of the Companies Act, and as follows.

1. Reason for the acquisition of treasury stock

For part of shareholders return policy under the 7th Medium-Term Management Plan announced on May 13, 2022

2. Type of shares to be acquired

Common stock of the Company

3. Total number of shares to be acquired

Up to 10,000,000 shares

4. Total acquisition price

Up to ¥35,000 million (\$262,113 thousand)

5. Period of acquisition

From June 1, 2023 to March 29, 2024

6. Method of acquisition

Open market purchase on the Tokyo Stock Exchange

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

33. Subsequent Events (continued)

4. Establishment of and capital contribution to a significant subsidiary

At the meeting of the Board of Directors held on June 29, 2023, the Company resolved a capital contribution into a wholly owned Australian subsidiary that will develop new real estate business opportunities in Melbourne, Australia. The summary of the capital contribution is as follows:

1. Purpose of capital contribution

The Company decided to invest in the development of new real estate business opportunities in Australia via the newly established wholly owned subsidiary located in North Sydney, New South Wales, Australia.

2. Outline of the subsidiary

(1) Company name	DH MQW Pty Ltd
(2) Location	North Sydney, New South Wales, Australia
(3) Business description	Acquisition, operation and sales of real estate
(4) Capital stock	Before capital contribution: 1 Australian dollar (¥0 million (\$0 thousand)) After capital contribution: 250.5 million Australian dollars (¥22,467 million (\$168,254 thousand))
(5) Date of establishment	June 23, 2023
(6) Major shareholder and shareholding ratio	Daiwa House Australia Pty Ltd (wholly owned subsidiary of the Company) and 100%

3. Schedule

The capital contribution is expected to be completed around June 2025.