

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company (the Company having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares (including all information in relation to the applicable laws of Japan) which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in this Offering Circular are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect, and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

No person has been authorised to give any information or to make any representation not contained in this Offering Circular, and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of the Company, the Trustee (as defined in the Conditions) or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained in this Offering Circular is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Joint Lead Managers, the Trustee, the Principal Agent, the Custodian, the Registrar, the Custodian's Agent or the Calculation Agent (each as defined in the Conditions), to subscribe for, or purchase, any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offer and sale of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Principal Agent, the Custodian, the Registrar, the Custodian's Agent or the Calculation Agent, accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made on their behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Principal Agent, the Custodian, the Registrar, the Custodian's Agent and the Calculation Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area, the United Kingdom, Singapore, Hong Kong and to persons connected therewith. See "Subscription and Sale".

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). See "Subscription and Sale".

There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

UK PRODUCT GOVERNANCE—*Solely for the purposes of the manufacturers' product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional*

clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS—The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “Prospectus Regulation”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK INVESTORS—The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (iii) not a qualified investor as defined in the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “UK PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time, the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore (“MAS”) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

DISCLOSURE OF DEMAND AND ALLOCATION: Each prospective purchaser who places an order for the Bonds consents to the disclosure by the Joint Lead Managers to the Company of the prospective purchase's identity, the details of such order and the actual amount purchased, if any.

STABILISATION AND OVER-ALLOTMENT

IN CONNECTION WITH THE ISSUE OF THE BONDS, NOMURA INTERNATIONAL PLC (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY

TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Circular, unless otherwise specified or the context requires, references to the “Company” or the “Issuer” are to DAIWA HOUSE INDUSTRY CO., LTD., and references to the “Group” are to the Company or, as the context may require, the Company, its consolidated subsidiaries and affiliates accounted for by the equity method, taken as a whole.

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the “Companies Act”), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words “issue”, “issued”, “issuance” and “issuable” shall be construed accordingly, except where the context otherwise requires. In addition, references to the word “acquire” used in connection with the Shares shall be read as including both of the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2) and references to “delivery” used in connection with the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system of Japan Securities Depository Center, Inc. (“JASDEC”).

The Company’s fiscal year-end is 31 March of each year. The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain respects from accounting principles generally accepted in certain other countries, including International Financial Reporting Standards (“IFRS”). Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and IFRS or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein.

In this Offering Circular, except as otherwise indicated, references to “yen” and “¥” are to Japanese yen.

In this Offering Circular, unless otherwise specified or the context requires, where information is presented in millions of yen or billions of yen and amounts of less than one million or one billion have been truncated, and percentages of less than one per cent, one-tenth of one per cent or one-hundredth of one per cent have been rounded up or down. In some cases, figures presented in tables in this Offering Circular may not total due to rounding or truncating.

Unless otherwise stated or the context requires, the description of the Company’s business and financial information relating to the Company contained herein are given on a consolidated basis.

FORWARD-LOOKING STATEMENTS

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as “may”, “might”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “project”, “believe” or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company’s current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company’s or the Group’s actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company’s expectations include those risks identified in “Investment Considerations” and “Recent Business” and elsewhere in this Offering Circular, as well as other matters not yet known to the Company or not currently considered material by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company’s behalf are qualified in their entirety by these cautionary statements.

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SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Shares or the Bonds, see “Investment Considerations”.

DAIWA HOUSE INDUSTRY CO., LTD.

The Group is a major construction, property management and property development group that operates a variety of businesses in Japan and 25 countries and regions overseas. For most of the Group’s businesses, several of its group companies cooperate to work together to offer complementary services in order to create synergies.

The Group’s operations are organised into the following seven businesses:

- *Single-family houses business:* the Group engages in the construction of custom-built houses in accordance with orders from its customers and the sales of built-for-sale houses;
- *Rental housing business:* the Group engages in the rental housing development, construction, management, operation and real estate agency services;
- *Condominiums business:* the Group engages in the development, sale and management of condominiums;
- *Commercial facilities business:* the Group engages in the development, construction, management and operation of commercial facilities;
- *Business and corporate facilities business:* the Group engages in the development, construction, management and operation of logistics, manufacturing facilities and medical and nursing care facilities;
- *Environment and energy business:* the Group engages in the development and construction of renewable energy power plants, renewable energy generation and electricity retailing; and
- *Other businesses:* in addition to the above businesses, the Group operates golf courses, fee-based homes for the elderly/assisted-living residential facilities for seniors, credit card and retail loan services, insurance agencies and other businesses.

For the fiscal year ended 31 March 2023, the Group’s net sales, operating income and profit attributable to owners of the parent amounted to ¥4,908,199 million, ¥465,370 million and ¥308,399 million, respectively. As of the six months ended 30 September 2023, the Group’s net sales, operating income and profit attributable to owners of the parent amounted to ¥2,544,827 million, ¥191,163 million and ¥154,488 million, respectively. As of 30 September 2023, the Company had 441 consolidated subsidiaries and 55 affiliates accounted for by the equity method.

The Shares are listed on the Prime Market of the Tokyo Stock Exchange with the stock code 1925. The Company’s registered office is located at 3-5, Umeda 3-chome, Kita-ku, Osaka 530-8241, Japan.

THE OFFERING

Bond Offering:

Issuer	DAIWA HOUSE INDUSTRY CO., LTD.
Securities Offered	2029 Bonds: ¥100,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2029 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i>). 2030 Bonds: ¥100,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2030 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i>).
Issue Price per Bond	2029 Bonds: 100.0 per cent 2030 Bonds: 100.0 per cent
Offer Price per Bond	2029 Bonds: 102.5 per cent 2030 Bonds: 102.5 per cent
Active Bookrunners and Joint Lead Managers	Nomura International plc Morgan Stanley & Co. International plc SMBC Nikko Capital Markets Limited
Passive Bookrunners and Joint Lead Managers	Daiwa Capital Markets Europe Limited Mizuho International plc
Closing Date	On or about 29 January 2024
Delivery	It is expected that a Global Certificate in respect of each Series of Bonds will be deposited with, and registered in the name of, or of a nominee for, a common depository for each of Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	Each Series of Bonds will be issued in registered form and evidenced on issue by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See “Summary of Provisions relating to the Bonds while in Global Form”.
Listing	Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Bonds on the Official List of the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 150 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
Lock-up	In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to, (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, Shares or any other capital stock of the Company, (ii) enter into any derivative transaction or any other transaction that transfers, in whole or in part,

directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale, (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depository receipt facility or (iv) publicly announce any intention to do any of the above, in each case, for a period beginning on the date of the Subscription Agreement (as defined in “Subscription and Sale”) and ending on the date 180 calendar days after the Closing Date without the prior written consent of Nomura International plc, Morgan Stanley & Co. International plc and SMBC Nikko Capital Markets Limited (on behalf of the Joint Lead Managers), other than (a) the issue and sale by the Company of the Bonds (or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights by the Company), (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights issued and outstanding as at the date hereof and referred to in the Offering Circular, (c) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder’s holding, when added to the Shares held by such holder, constitute one full unit of Shares, (d) the issue of Shares by the Company as a result of any stock split, (e) the grant and issue of stock options or stock acquisition rights exercisable for Shares to its and the Group’s directors, officers, audit and supervisory board members or employees pursuant to the Company’s stock option plans, (f) the issue or transfer of restricted stocks by the Company to its and the Group’s directors, officers, audit and supervisory board members or employees pursuant to the Company’s restricted stock compensation system (g) the sale by the Company of Shares held by unidentified shareholders and (h) any other issue or sale of Shares required by applicable Japanese laws and regulations. See “Subscription and Sale”.

Use of Proceeds The net proceeds from the issue of the Bonds are estimated to be approximately ¥200 billion after deducting expenses. The Company intends to apply the net proceeds as follows:

- approximately ¥120 billion towards part of the investment in real estate development under the 7th Medium-Term Management Plan; and
- approximately ¥80 billion towards the repurchase of Shares (as further described below).

To the extent that the Company repurchases any Shares prior to Closing Date in respect of the Bonds using cash reserves and borrowings, the Company intends to use net proceeds from the offering of the Bonds to replenish such cash reserves or to repay such borrowings. As the amount for which the Company is able to repurchase is dependent on, among other things, market conditions, to the extent that any such proceeds remain after the implementation of such repurchase, such proceeds may be used towards investments in the Group’s real estate developments. See “Use of Proceeds” and “Information Concerning the Shares—Proposed Share Repurchase by the Company”.

Proposed Repurchase of Shares by the Company Concurrently with the offering of the Bonds, the Company announced on 11 January 2024 that:

- (i) the Company intends to repurchase up to 20,000,000 Shares (approximately 3.04 per cent of the issued Shares (excluding

treasury stock) as of 31 December 2023) at a maximum cost of ¥80 billion from the market in the period from and including 12 January 2024 to and including 28 June 2024; and

- (ii) to implement the abovementioned share repurchase plan, the Company intends to repurchase Shares up to a value of approximately ¥80 billion through the ToSTNeT-3 system at 8:45 a.m. (Tokyo time) on 12 January 2024 at the closing price of the Shares on the Tokyo Stock Exchange on 11 January 2024. The result of such repurchase will be announced in Japan on 12 January 2024. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is entirely dependent on the volume of Shares offered by investors at a certain price and at a certain time, there can be no assurance that such repurchase will be executed in full or at all. To the extent any Shares remain to be repurchased (within the maximum cost of ¥80 billion and the maximum number of 20,000,000 Shares) after the repurchase through the ToSTNeT-3 system on 12 January 2024, the Company may repurchase further Shares on the auction market, at the market prices prevailing at the relevant time until 28 June 2024.

There can however be no assurance that any such repurchase will be proposed by the Company as currently intended or, if proposed by the Company, executed in full, or at all. See “Information Concerning the Shares—Proposed Share Repurchase by the Company”.

Selling Restrictions The Bonds are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on the offer and sale of the Bonds and the Shares, see “Subscription and Sale”.

Bond Terms:

Form and Denomination The Bonds are issued in registered form in the denomination of ¥10,000,000.

Initial Conversion Price 2029 Bonds: ¥5,353 per Share, subject to adjustment in certain circumstances.
2030 Bonds: ¥5,260 per Share, subject to adjustment in certain circumstances.

Coupon 2029 Bonds: Zero.
2030 Bonds: Zero.

Exercise of Stock Acquisition Rights ... Subject to and upon compliance with the provisions of Condition 5 of the Conditions for the relevant Series of Bonds, a Bondholder may exercise the Stock Acquisition Right at any time during the period from, and including, 13 February 2024 to, and including, the close of business (at the place where the Bond is deposited for the exercise of the Stock Acquisition Right) on 16 March 2029, in the case of the 2029 Bonds, and 15 March 2030, in the case of the 2030 Bonds (except for the period from, and including, 1 January 2029, in the case of the 2029 Bonds, and 1 January 2030, in the case of the 2030 Bonds, to, and including, the Elected Redemption Date (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds) (if an Acquisition Notice is given pursuant to Condition 7.2 of the Conditions of the relevant Series of Bonds, subject to Condition 7.2.4)), to acquire fully-paid and non-assessable Shares.

Conditions to the Exercise of Stock

Acquisition Rights (i) subject to the Conditions of the relevant Series of Bonds, a Bondholder may exercise its Stock Acquisition Rights during any

particular calendar quarter prior to (and including) 31 March 2028, in the case of the 2029 Bonds, and 31 March 2029, in the case of the 2030 Bonds, only if, as at the last Trading Day of the immediately preceding calendar quarter (in the case of the 2029 Bonds, from the calendar quarter ending on 31 December 2023 up to, and including, the calendar quarter ending on 31 December 2027, as the case may be, and in the case of the 2030 Bonds, from the calendar quarter ending on 31 December 2023 up to, and including, the calendar quarter ending on 31 December 2028, as the case may be), the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 150 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter (or, in the case of the calendar quarter ending on 31 December 2023, the initial Conversion Price); and

- (ii) subject to the Conditions of the relevant Series of Bonds, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter from (and including) 1 April 2028, in the case of the 2029 Bonds, and 1 April 2029, in the case of the 2030 Bonds, but prior to (and including) 31 December 2028, in the case of the 2029 Bonds, and 31 December 2029, in the case of the 2030 Bonds, only if, as at the last Trading Day of the immediately preceding calendar quarter (in the case of the 2029 Bonds, from the calendar quarter ending on 31 March 2028 up to, and including, the calendar quarter ending on 30 September 2028, as the case may be, and in the case of the 2030 Bonds, from the calendar quarter ending on 31 March 2029 up to, and including, the calendar quarter ending on 30 September 2029, as the case may be), the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter,

in each case as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds, subject to adjustment in the manner provided in Condition 5.2 of the Conditions for the relevant Series of Bonds.

If the relevant condition set out in (i) or (ii) above is satisfied, then a Bondholder may (subject to the Conditions of the relevant Series of Bonds) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of (i) above, in the case of the calendar quarter commencing on 1 January 2024, on and after 13 February 2024) until the end of such calendar quarter, provided the relevant Deposit Date (as defined in Condition 5.9.4 of the Conditions for the relevant Series of Bonds) falls during the Exercise Period (as defined in Condition 5.1.4 of the Conditions for the relevant Series of Bonds).

The above conditions to the exercise of the Stock Acquisition Rights shall not be applicable (i) during any period in which (a) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, "JCR") is BBB-(or equivalent if the rating category is changed) or lower, a long-term issuer rating is no longer assigned to the Company by JCR, or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn, or (b) the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, "R&I") is BBB-(or equivalent if the rating category is changed) or lower, an issuer rating is no longer assigned to the Company by R&I, or the issuer rating assigned to the Company by R&I has been suspended or withdrawn; (ii) if a notice

of redemption is given pursuant to Condition 7.3, 7.4 (except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed), 7.5, 7.6 or 7.7 of the Conditions for the relevant Series of Bonds; or (iii) if the Company is required to give notice of certain Corporate Events to the Bondholders. See Condition 5 of the Conditions for the relevant Series of Bonds.

In addition, where a Parity Event has occurred pursuant to Condition 5.1.9 of the Conditions for the relevant Series of Bonds, the above conditions to the exercise of the Stock Acquisition Rights shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of such Parity Event. See Condition 5.1.9 of the Conditions for the relevant Series of Bonds.

For the avoidance of doubt, during the period from and including 1 January 2029, in the case of the 2029 Bonds, and 1 January 2030, in the case of the 2030 Bonds, to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 16 March 2029, in the case of the 2029 Bonds, and 15 March 2030, in the case of the 2030 Bonds, the conditions to the exercise of the Stock Acquisition Rights set forth above shall not be applicable.

Status The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2 of the Conditions for the relevant Series of Bonds) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 of the Conditions for the relevant Series of Bonds and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

Negative Pledge So long as any of the Bonds of any Series remains outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2 of the Conditions for the relevant Series of Bonds) unless the same security or such other security or guarantee as provided in Condition 2 of the Conditions for the relevant Series of Bonds is accorded to the relevant Series of Bonds.

Redemption at Maturity Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent of their principal amount on 30 March 2029, in the case of the 2029 Bonds, and 29 March 2030, in the case of the 2030 Bonds.

Acquisition by the Company of Bonds At any time during the period from, and including, 1 April 2028 to, and including, 31 December 2028, in the case of the 2029 Bonds, and at any time during the period from, and including, 1 April 2029 to, and including, 31 December 2029, in the case of the 2030 Bonds, the Company may, but shall not be bound to, give an Acquisition Notice to the Bondholders, in which event the Company shall, subject to the provisions of Condition 7.2 of the Conditions for the relevant Series of Bonds, acquire each Bond on the Acquisition Option Date specified on

the Acquisition Notice from those Bondholders which deliver a duly completed Acquisition Election Notice on or before the date falling 14 calendar days prior to the Acquisition Option Date. As consideration for each Bond so acquired, the Company will (i) pay an amount equal to 100 per cent of the principal amount and (ii) issue and deliver any Acquisition Shares (as defined in Condition 7.2.1 of the Conditions for the relevant Series of Bonds), in each case to each such Bondholder.

Bonds in respect of which a duly completed Acquisition Election Notice has not been received on or prior to the Acquisition Election Date will be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date.

See Condition 7.2 of the Conditions for the relevant Series of Bonds.

Early Redemption—Reduced

Outstanding Amounts The Company may, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the relevant Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds (which notice shall be irrevocable), redeem all, but not some only, of the relevant Series of Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the relevant Series of Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as of the date of issue thereof. See Condition 7.3 of the Conditions for the relevant Series of Bonds.

Early Redemption—Taxation

Reasons If the Company satisfies the Trustee, immediately prior to giving the notice to the relevant Bondholders, that (i) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 January 2024, the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9 of the Conditions for the relevant Series of Bonds) in accordance with Condition 9 and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior irrevocable notice to the relevant Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds redeem all, but not some only, of the relevant Series of Bonds then outstanding at 100 per cent of their principal amount.

If, however, the outstanding principal amount of the relevant Series of Bonds at the time of such notice of redemption is 10 per cent or more of the aggregate principal amount of the relevant Series of Bonds as of the date of issue thereof, each holders of such Bonds will have the right to elect that its Bonds should not be redeemed and that, in respect of payments on such Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.4 of the Conditions of the relevant Series of Bonds.

Early Redemption—Corporate

Events In the case of a Corporate Event, the Company shall give notice to the Bondholders in accordance with Condition 19 of the Conditions of the relevant Series of Bonds of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 of the Conditions for the relevant Series of Bonds shall apply.

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds to redeem all, but not some only, of the then outstanding Bonds at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out in Condition 7.5 of the Conditions for the relevant Series of Bonds and in accordance with the provisions of Condition 7.5 of the Conditions for the relevant Series of Bonds on the Corporate Event Redemption Date (as defined in Condition 7.5 of the Conditions for the relevant Series of Bonds) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3 of the Conditions for the relevant Series of Bonds) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given by the Company as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

- it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1 of the Conditions for the relevant Series of Bonds;
- it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1 of the Conditions for the relevant Series of Bonds;
- despite the Company using its best endeavours pursuant to Condition 6.4.2 of the Conditions for the relevant Series of Bonds, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2 of the Conditions for the relevant Series of Bonds) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1 of the Conditions for the relevant Series of Bonds), and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director of the Company stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.5 of the Conditions for the relevant Series of Bonds.

Early Redemption—Delisting of the

Shares In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in Conditions 7.6.1 of the Conditions for the relevant Series of Bonds) where, inter alia, the Company expresses its opinion to support such offer, the Company or the

Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds), and the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to the relevant Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined by reference to the table set out in Condition 7.5 of the Conditions for the relevant Series of Bonds (subject to the provisions of Condition 7.6 of the Conditions for the relevant Series of Bonds). See Condition 7.6 of the Conditions for the relevant Series of Bonds.

Early Redemption—Squeezeout

Redemption Upon the occurrence of a Squeezeout Event (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds), the Company shall give notice to the Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined by reference to the table set out in Condition 7.5 of the Conditions for the relevant Series of Bonds (subject to the provisions of Condition 7.7 of the Conditions for the relevant Series of Bonds). See Condition 7.7 of the Conditions for the relevant Series of Bonds.

Cross Default The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies).

See Condition 10 of the Conditions for the relevant Series of Bonds.

Taxation All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9 of the Conditions for the relevant Series of Bonds.

Governing Law English law

Jurisdiction English courts

International Securities Identification

Number (“ISIN”) 2029 Bonds: XS2743016193

2030 Bonds: XS2743016607

Common Code 2029 Bonds: 274301619

2030 Bonds: 274301660

Legal Entity Identifier (LEI) for the

Company 353800K9WXR9XRZJZI46

Trustee and Custodian The Law Debenture Trust Corporation p.l.c.

Principal Agent, Registrar and

Calculation Agent Mizuho Trust & Banking (Luxembourg) S.A.

Custodian’s Agent in Japan Mizuho Bank, Ltd.

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set out in this Offering Circular, the following factors. All of these factors are contingencies which may or may not occur and the Company is not in a position to express a view on the likelihood of any such contingency occurring.

Considerations Relating to the Group and its Business

Japan's general economic environment

Most of the businesses that the Group engages in are significantly affected by general economic conditions. Because the Group conducts its businesses mainly in Japan, future downturns in Japan's general economic conditions could have a material adverse effect on its financial condition and results of operations. Economic factors that could impact the Group's financial condition and results of operations include the following:

- a rise in interest rates could affect the ability of the Group's potential customers to finance real estate projects, which could in turn negatively impact the domestic housing demand.
- a rise in unemployment or a decline in wage levels could dampen demand from prospective home buyers and existing home owners that are considering renovations.
- low consumer confidence and consumer spending could impact sales at several of the Group's businesses negatively. For example, many of the owners and tenants of the commercial and logistics facilities that the Group builds or manages rely on consumer spending to successfully operate their businesses, and their inability to continue to do so could negatively impact the number of new orders for construction of such facilities or the occupancy rates at the commercial and logistics facilities that the Group leases or manages. In addition, rent levels of some of the Group's tenants in the commercial facilities that the Group leases or manages correlate with the tenants' sales which in turn are affected generally by consumer spending levels.
- a decrease in housing demand could impact the number of orders the Group receives and the sales that the Group makes in its single-family houses business, rental housing business and condominiums business, as well as the levels of occupancy rates in the rental housing units that the Group leases or manages. Housing demand is also affected by fluctuation of rent, the price of land and raw materials.

Adverse changes in these economic factors could have a material adverse effect on the Group's results of operations in some or all the regions of Japan in which the Group operates its businesses.

Laws and regulations

The businesses the Group engages in are subject to various laws and regulations in Japan and overseas.

The Group's businesses are subject to the Construction Business Act of Japan (Act No. 100 of 1949, as amended) (the "Construction Business Act"), which regulates construction work and which requires construction business operators to obtain permission from the Minister of Land, Infrastructure, Transport and Tourism, the relevant Governor or the Director of the relevant Regional Development Bureau. Violations of the Construction Business Act could result in the Group's permission being suspended in part or in whole or revoked, which could materially impact its ability to continue its operations in its businesses. In December 2019, the Company announced that some of its employees had taken operation and management engineer skills qualifications ("the Qualifications") tests and acquired the Qualifications while lacking the prescribed work experience, and some employees with off-specification work experience criteria had been assigned as on-site engineers. In November 2021, the Director of Kinki Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism rendered instructions and business suspension penalties to the Company under the Construction Business Act for this incident. Pursuant to the business suspension penalties, the Company's businesses relating to private sector projects under the electrical construction business and relating to private sector projects under the plumbing business were suspended for 22 days from 2 December 2021 to 23 December 2021. Although the Group strives to comply with applicable laws, it is possible that members of the Group may be found to have operated in breach of the Construction Business Act, for past or future actions, which may result in the Group's permission being suspended, in part or in whole, or revoked.

Further, compliance with the Construction Business Act may limit the operations of the Group's businesses. For example, under the Construction Business Act, for projects that require construction work above a certain scale to be undertaken, the Group is generally required to have a qualified employee on site as a full-time construction manager who meets certain requirements. The current scarcity of experienced construction managers in Japan could require the Group to delay the commencement of construction for some projects or require the Group to be selective in engaging in new projects and may hurt its ability to grow or maintain its businesses in periods of large demand for its various real estate-related businesses.

The Group is also subject to the Building Lots and Buildings Transaction Business Act of Japan (Act No. 176 of 1952, as amended) (the “Building Lots and Buildings Transaction Business Act”), which regulates the sale and purchase and the agency and brokerage of sale, purchase and leasing of buildings and building lots and which requires a license from the Minister of Land, Infrastructure, Transport and Tourism, the relevant Governor or the Director of the relevant Regional Development Bureau. Violations of the Building Lots and Buildings Transaction Business Act could result in the Group’s licenses being revoked or suspended, which could materially impact its ability to continue its operations in these businesses.

The Group’s businesses are also subject to the Building Standard Act of Japan (Act No. 201 of 1950, as amended) (the “Building Standard Act”), which subjects the Group’s building operations to extensive regulation and supervision regarding methods of construction, as well as safety matters. For example, pursuant to the Building Standard Act, the buildings that the Group constructs may be subject to building confirmation and inspections by the building officials of the local government of the area of the construction or a designated private inspection body. Violations of the Building Standard Act and other building construction regulations could result in the suspension of the construction, orders for the demolition or the reconstruction of a building or orders limiting use of the building to only certain conforming parts of the building.

In addition to the above, the Group’s real estate operations are subject to several other national and local regulations concerning matters such as zoning, public bidding procedures, environmental restrictions and health and safety compliance, and the Group is required to obtain numerous governmental permits and approvals.

The Group engages in a wide range of other business operations including hotels, logistics, insurance agencies and credit cards, and it is subject to the application of laws and regulations specifically regulating respective industries (see “Business—Regulations”).

The Group is also subject to other laws and regulations that affect the operation of its businesses and local laws and regulations in the other jurisdictions in which it operates its businesses outside Japan. While the Group trains all its employees to ensure that it comply with all applicable laws and regulations, violations of such laws and regulations, that can be caused by various reasons such as malfunctioning internal control of the subsidiaries and employee misconduct, could result in significant regulatory sanctions against the Group, including the suspension or revocation of the Group’s governmental permits and approvals affecting all or a part of the relevant operations for a definite or an indefinite period, which could have a negative impact on the Group’s reputation and materially affect its results of operations, such as a loss of profits due to a business suspension order.

Changes in applicable laws and regulations could result in reduced flexibility in conducting the Group’s business and increased compliance costs or may have other adverse effects on its business, financial condition and results of operations.

Overseas business

The Group engages in and is expanding its overseas business in 25 countries and regions, including the United States, China, Australia and countries in South East Asia, South Asia and Europe. For the fiscal year ended 31 March 2023, net sales from the Group’s overseas business was ¥669.2 billion, constituting approximately 13.7 per cent of the Group’s total net sales. Dependence on overseas sales and management of international operations exposes the Group to a number of additional risks, which may include some or all of the following:

- rapid inflation;
- foreign exchange fluctuations;
- interest rate fluctuations;
- uncertainty in the political and economic situation, including prolonged impact of Russia’s invasion of Ukraine, trade tensions between the United States and China, political tensions between mainland China and Taiwan and the armed conflict involving Hamas and Israel;
- delays in or the impossibility of business execution or bill collection due to foreign currency restrictions (including overseas remittance restrictions);
- unexpected changes in or imposition of new legislative or regulatory or governmental or administrative licensing requirements due to deteriorating diplomatic relations with Japan and other factors;
- unexpected changes to jurisdiction-specific or cross-border tax regulations;
- unexpected suspension or restriction in production or service by the Group’s suppliers or service providers;

- difficulties associated with hirings and managing international operations;
- global or regional economic slowdown in the relevant industries in foreign markets;
- war, civil unrest, terrorist incidents and epidemics;
- different levels of protection for intellectual property rights in some countries; and
- various risks based on external factors specific to international transactions, such as policy changes aimed at tightening the real estate business and other changes in legislation that reduce purchasing power.

While the Group endeavours to collect and share information within the Group to prevent and avoid such risks, any occurrence of such risk may adversely affect its results of operations and financial condition, including a decrease in its net sales and profitability or downward adjustment to its business forecasts.

Changes in policies of the Japanese government that affect housing demand

Demand in the Japanese housing market is affected by housing-related policies of the Japanese government, which currently include low interest rate policies that encourage banks to provide aggressively discounted mortgage rates, preferential tax treatment in connection with housing loans and the availability of publicly sponsored long-term mortgage products. If the Japanese government's current housing-related policies were to be changed or discontinued, demand for housing may decrease significantly and the Group's financial condition and results of operations may be materially and adversely affected.

Dependence on third parties

The Group depends on third parties in various aspects of its businesses. The Group consigns part of its operations including the provision of products and services and manufacturing of raw materials used for products to third-party business operators that possess particular technological expertise. The supply of products, parts and materials from such third parties may be disrupted or suspended due to rising materials prices, tight supply of materials or delivery delays stemming from global events such as the occurrence of geopolitical risks or pandemics. Furthermore, in the businesses that require construction, the Group depends on third-party contractors for the execution of the construction phase of the projects the Group undertakes. While the Group makes efforts to ensure that the services performed by such third-party contractors are of a high standard, as primary responsibility to the customer rests with the Group, there can be no assurance that the contractors' work will meet such standards or that the contractors will otherwise be able to perform or complete their work in accordance with the construction schedule or at all. There may also be a risk of supply disruptions due to bankruptcy of suppliers.

Increases in the price of raw materials, labour, fuel, electricity and other operating expense items

Various costs related to the Group's businesses are subject to price fluctuations that are generally outside of the Group's control. In the Group's real estate businesses, including the single-family houses business, the rental housing business, the condominiums business, the commercial facilities business, the business and corporate facilities business and the environment and energy business, the cost of building materials (such as steel and wood) and labour constitutes a relatively large portion of operating expenses and has historically been subject to significant fluctuations related to changes in demand, which in turn are driven by the level of domestic construction activity. The price of building materials that are imported may also be negatively affected by the weakening of the yen and result in increased building materials costs. For instance, recent developments, such as the prolonged impact of Russia's invasion of Ukraine, the surge in reconstruction demand following the large earthquake that struck southeastern Turkey and northern Syria and the freezing of supply chains cantering around China amid tensions between mainland China and Taiwan, may lead to tight supplies of building materials, which could in turn result in an increase in the price of building materials. If the Group is unable to pass on the increased costs to its customers, its financial condition and results of operations could be materially and adversely affected. Particularly in the case of large projects which require a relatively long time to complete, it may be difficult to recoup increases in related costs that were not anticipated at the beginning of the project, and the Group is not always able to realise the profits that were originally anticipated. In particular, if raw material and other material prices, energy prices or labour costs rise sharply due to extreme weather conditions worldwide, fluctuations in foreign exchange markets, the impact of geopolitical risks or a shortage of workers involved in manufacturing, there is a risk that the additional costs cannot be passed on to selling prices, leading to higher manufacturing and distribution costs.

In addition, increases in fuel and electricity costs negatively impact the Group's businesses. Fuel costs have been at high levels in recent years, and the recent weakening of the yen is exacerbating the increase to the Group's costs. Electricity costs have also been increasing in recent years due mainly to the increase in fuel prices.

Intense competition in the construction and real estate businesses

The Group is subject to significant competition in the construction and real estate businesses that it operates, in particular in its single-family houses business, rental housing business and condominiums business, most of which have relatively low barriers to entry. The Group's competitors may have greater name recognition, expertise, experience, financial and other resources, economies of scale and more extensive business networks than the Group does. Due to low fertility rates and other factors, Japan's total population has been declining since 2005 and such trend is expected to continue, which makes those markets more competitive. The competitive market has also led to various consolidations of real estate development companies.

In the Group's single-family houses business, the Group competes with other large domestic home building companies that offer similar types of single-family houses in the same regions of Japan and target the same customers as the Group does. Although the Group tries to differentiate its single-family houses by offering attractive designs, features and services and solid construction quality at a competitive price, comparable or more attractive products, similar features and services and comparable or better construction quality may also be available at similar prices or lower from these competitors. In addition to these large domestic home building companies, the single-family home building market has relatively low barriers to entry and the Group may face competition from new domestic or regional real estate developers.

In the Group's rental housing business, the Group is subject to intense competition from similar large domestic rental housing building and management companies. Some of these competitors may have expertise in certain types of rental housing units in which the Group has less experience. In addition, the Group may be unable to target its sales and marketing activities as efficiently as its competitors due to a weaker sales force depending on the regions in which it operates.

In the Group's condominiums business, the Group faces competition from large domestic real estate developers with significant condominiums operations. These real estate developers may have larger resources than the Group has and the Group may not be able to compete effectively against them in developing new condominiums and securing potential buyers. Due to their size, network and greater resources, large domestic competitors may also be able to initiate larger-scale and more successful sales and marketing campaigns, which the Group may not be able to match.

In the Group's commercial facilities business, the Group competes against domestic property developers and general contractors, which may have greater financial and other resources and better existing commercial relationships than the Group has, and may therefore be in a better position to develop their business than the Group is.

In the Group's business and corporate facilities business, the Group faces competition from general contractors and logistics developers as well as domestic real estate development companies that engage in the logistics properties business. In the Group's medical care facilities operations, the Group's competitors include domestic real estate developers that also engage in the development of medical care facilities. These competitors may have greater financial and other resources as well as expertise in specific areas than the Group has, and the Group may not be able to compete effectively if such competition continues or intensifies further.

In addition, in several of the Group's businesses in which it acquires land as part of its property developments, the Group is subject to competition in the purchase of suitable parcels of land, such as land on which the Group builds built-for-sale single-family houses, condominiums, commercial facilities and logistics facilities. Increased competition for attractive parcels of land in areas in which the Group plans to develop its properties could make its acquisition of such parcels of land more expensive or could result in its inability to purchase them at all.

Securing human resources including skilled construction workers

In order to maintain the sustainable growth of the Group's business, the Group must continue to attract, employ and retain skilled professionals. The Group may be unable to successfully recruit, train and develop new hires, due to the declining birthrate, aging population, changes in the Japanese labour market or other factors outside of the Group's control. In particular, while many skilled construction workers are required in the Group's construction business, the number of construction industry employees in Japan is gradually decreasing and the transfer of skills to the next generation may become difficult due to an aging of the pool of skilled construction workers. Furthermore, if the Group experiences unforeseen increases in employee departures, the Group may lose valuable know-how or other organisational resources, which could harm its ability to compete effectively. Additionally, unforeseen costs in connection with increased competition for talented personnel, increased employment regulation, or issues related to workplace health and safety arising from improper labour management may negatively affect the Group's financial condition and results of operations. In particular, the construction industry in Japan currently faces the "2024 problem", which refers to the expected changes to the working time of construction workers resulting from the amendments to the Labour Standards Act of Japan (Act No. 49 of 1947, as amended) set to take effect in April 2024, under which overtime hours generally cannot exceed 45 hours per month and 360 hours per year even if the labour management

agreement between an employer and certain labour unions or representatives of employees (the so-called “36 agreement”) is in place. The Group plans to address the “2024 problem” by improving productivity through measures such as the introduction of digital transformation (DX). However, if such measures do not prove effective, the Group may be forced to further expand its workforce and bear increased labour costs.

Real property and other fixed assets held by the Group

Through the operation of the Group’s various businesses, the Group holds a significant amount of real property and other fixed assets. As of 31 March 2023, land and buildings and structures (after deducting accumulated depreciation) as fixed assets constituted 28.3 per cent of the Group’s total assets, consisting mostly of buildings and land related to the Group’s various businesses. The Group’s real property assets and other fixed assets subject the Group to risks related to the volatility of the price of real property and rent and occupancy levels. A decrease in the price of real property or rent or occupancy levels may require the Group to reduce the carrying amount of the assets affected based on fixed asset impairment accounting, and the Group may be required to recognise impairment losses in future periods. The Group has incurred significant impairment losses in the past, mostly relating to buildings and structures, machinery and equipment, land and furniture and fixtures. The Group incurred ¥21,065 million, ¥24,147 million and ¥11,271 million of impairment losses in the fiscal years ended 31 March 2021, 2022 and 2023, respectively. In addition, if the Group decides to sell any of its real property or other fixed assets in the future due to underperformance or other reasons, the Group could incur significant losses upon such sale.

Property development risks

The Group engages in property development projects on land that the Group purchases and owns with the intention to sell the developed property upon, or soon after, the completion of the project. The property development projects that the Group undertakes across its various businesses typically require substantial capital expenditure at several stages of the projects, including the land acquisition, development and construction stages, and it may take months or years before positive cash flows can be generated by sales or leases of the properties. The time and cost required to complete a property development until it can be sold or leased may increase substantially due to many factors outside of the Group’s control, including increases in the cost of building materials, equipment, technical skills and labour, changes in demand for the Group’s property developments, adverse weather conditions, natural disasters, labour disputes, accidents, changes in government regulations or policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities, discovery of underground obstructions, archaeological finds or soil pollution and other unforeseeable problems and circumstances. Any of these factors could lead to a delay in, or the failure of, the completion of a property development and result in cost substantially exceeding those originally budgeted or otherwise prevent the Group from making the anticipated return on its investments in the development project. Delays in the completion, sale or lease of a property could also result in the Group’s holding properties in inventory longer than the Group had expected, which combined with adverse market conditions could require the Group to recognise inventory impairment losses. Failure to complete a property development according to its original plan may also have an adverse effect on the Group’s reputation and could give rise to potential liabilities. In addition, if the demand for properties developed by the Group does not meet anticipated levels, the Group may find it necessary to adjust pricing strategies, offering reductions to attract buyers, which may result in the actual revenue generated from the property being lower than originally projected.

A rise in interest rates or a change in the Group’s credit ratings

The Group uses external short-term and long-term debt financing, including loans from financial institutions and offerings of corporate bonds in order to operate and develop the Group’s businesses. As of 31 March 2023, the Group had ¥1,849,481 million of interest-bearing debt (being the sum of short-term bank loans, current portion of long-term debt (excluding lease obligation), interest-bearing debt included in other current liabilities (excluding lease obligation) and long-term debt (excluding lease obligation)). A rise in interest rates could affect the Group’s ability to obtain necessary financing on favourable terms and could hinder the Group’s operations, reduce its net sales and limit its future growth. The applicable interest rates on the Group’s interest-bearing debt are also determined, in part, by its credit ratings. Credit ratings are subject to revision, suspension or withdrawal by rating organisations at any time. In the event the Group’s ratings suffer a significant downgrade due to the deterioration of its financial condition or results of operations or for any other reason, the Group’s cost of funds, as well as its ability to raise funds, could be negatively impacted.

Retirement allowance expenses

The Group has established a corporate pension plan and one-off retirement payment plan as defined benefit plans and a defined contribution pension plan as a defined contribution plan. In the case of the defined benefit plans, volatility in financial markets such as stock markets and currency markets could lead to a large increase or decrease in retirement benefit obligations as a result of fluctuation in the discount rate or other base rate or a large gain or loss on the management of pension assets, and retirement benefit expense could fluctuate significantly.

In addition, since the Group fully amortises actuarial gains and losses for employees' retirement benefits in the fiscal year of occurrence, volatility in the pension asset management environment or fluctuation in the base rate used to calculate retirement benefit obligations could have a significant impact on the Group's results of operations in the fiscal year in which such events occur.

Lower occupancy rates and rent levels

The Group's sales in its rental housing business, commercial facilities business and corporate facilities business depend on occupancy rates and rent levels at the properties that the Group leases or manages. An economic downturn, increased competition or other factors outside of the Group's control could impact the Group's ability to secure new tenants or keep existing tenants in the way the Group has originally anticipated or planned. The Group's inability to secure new tenants once existing tenants have vacated a property may lead to extended periods of time during which occupancy levels are reduced. In addition, continued or increased competition and lower occupancy rates could result in a reduction of rent levels, which could have a material adverse effect on the Group's financial condition and results of operations. In the Group's rental housing business, the Group often enters into a master lease agreement with the owner for a term of two to 30 years (usually ten years), which shields the owner from the risk of non-occupancy (but not declines in market rent levels). In addition, the Group also typically assumes the risk of declines in market rent levels for two year periods under the master lease agreement as rents on the master leases are adjustable based on market levels every two years except for certain limited circumstances (see "Business – Operations – Rental housing business").

Personal or confidential information, system disruptions and security breaches

The Group regularly handles a database of personal and confidential information collected through its operations of various businesses, including the personal and confidential information that the Group collects through its sales and marketing activities in its single-family houses business, rental housing business and condominiums business, the issuance of credit cards, the issuance of memberships in the various clubs the Group offers to its customers in its different businesses, the hotel registers at its resort hotels and urban hotels and various membership services in the case of its fitness club and golf course operations. While the Group takes every effort, to manage and protect confidential information, including by the implementation of policies and the training of the Group's employees in all its group companies, a leakage of confidential information could significantly harm the Group's reputation, damage the value of the Group's brand and result in claims for damages, regulatory actions and the incurrence of significant expenses, which may impact the Group's results of operations negatively.

In addition, the Group depends on key information systems and services to accurately and efficiently transact business, interface with customers, provide information to management and prepare financial reports, among other activities. The Group has put in place security systems, back-up procedures and disaster recovery measures to securely store customer information as well as the Group's proprietary information. Despite these efforts, the Group's systems may be disrupted by events such as earthquakes and other natural disasters, terrorist attacks, software, equipment or telecommunications failure, processing errors, computer viruses, cyberattacks and other security breaches, supplier defaults, or other events leading to the leaking of customer or confidential information. Security, back-up and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures.

Natural or man-made disasters

The Group operates its various businesses, including at its offices, factories and research and development facilities, in Japan and overseas in locations that are subject to the risk of natural disasters, such as earthquakes, typhoons, tsunamis and volcanic eruptions or man-made disasters, such as fire, industrial accidents, riots or terrorism. Should a natural or man-made disaster occur, the Group's employees could suffer injuries, the Group's operations could be disrupted or its properties or equipment could be directly and severely damaged. A natural or man-made disaster could also disrupt or interrupt the Group's group-wide information network and its distribution supply chain, which could require significant expenses to remedy in order to resume its operations. The Group may also be required to provide support to its customers whose properties have been damaged or to provide support to the society at large, which may require significant additional expenses.

In particular, Japan is earthquake-prone and has historically experienced numerous large earthquakes that resulted in extensive property damage. Because some of the land on which the Group's various developments are located is reclaimed land, such developments are subject to an increased risk of soil liquefaction, which can be triggered by an earthquake. Although the Group conducts assessments of the reclaimed land, the assessments may not be sufficient to detect the extent of any risk of liquefaction in the event of an earthquake. Typhoons also frequently hit various regions of Japan, and the Group has experienced various disruptions to its business and physical damage resulting from typhoons in the past. Even if the Group's facilities do not incur physical damage, the loss or limits to the use of utilities, such as electricity supplies could disrupt the Group's businesses. The Group's insurance against damage or liability caused by typhoons and other natural disasters may not be sufficient to cover repair costs, and the Group maintains limited or no insurance coverage relating to earthquakes and no business interruption insurance.

Epidemics

The Group owns and operates facilities where people gather, such as sales offices, factories, construction sites and commercial facilities. In the event of a large-scale epidemic of an infectious disease causing serious health problems, the Group may have to suspend its sales activities and operations of construction sites in order to prevent the spread of infections. Furthermore, a deterioration in the real estate market resulting from such an epidemic could also adversely affect the acquisition, development and other operations relating to real estate assets. Especially in the hotel business and the sports club operation business, the results of operations could be adversely affected due to lower occupancy rates and lower average spending by customers.

Management plan

In May 2022, the Group announced its 7th Medium-Term Management Plan (see “Business – Strategy”). Under this five-year management plan, the Group seeks to achieve certain quantitative and qualitative targets, which were set by gathering, collating and analysing information deemed appropriate at the time of such target-setting. These targets may involve estimates and assumptions or be based on a certain statistical confidence level. In addition, some of these targets may be alternative financial measures which may be different from any other measure of performance calculated based on the Group’s financial statements, and may not be useful to all investors in making their investment decisions. The successful implementation of the Group’s management plan is subject to changes in the operating environment and other factors. There can be no assurance that the management plan will be implemented successfully or that the Group will achieve or will not revise the quantitative or the qualitative targets set out in its plan.

Acquisitions and alliances

In order to enhance its corporate value from a long-term perspective, the Group intends to identify markets with high growth potential both domestically and internationally, and to consider various measures such as mergers and acquisitions and strategic alliances. The Group will proactively seek opportunities to expand its business domains and develop business opportunities, either independently or in cooperation with business partners, and make strategic investments. However, there can be no guarantee that such mergers and acquisitions or alliances will contribute to the expansion of earnings or increase in corporate value.

In the event of mergers or acquisitions, one-time expenses will be incurred during the integration process, but there is a possibility that the integration will not produce the expected results, and accordingly, the Group may not be able to recover the expenses or the investment required for the study or integration. There is also a possibility that the planned effects of alliances may not be realised due to changes in the domestic and overseas economic environment. In addition, the Group may face problems in securing core human resources for promoting alliances, and integrating and developing acquired businesses, which could lead to a lack of personnel for regular business operations and result in a decline in sales activities.

Warranty claims

In order to increase the Group’s customers’ satisfaction in the businesses in which the Group develops and sells homes, the Group provides new home buyers and other customers with a long-term warranty. In the Group’s single-family houses business and rental housing business, for example, depending on the product, the warranty typically covers defects in the structure of a house and the waterproof properties of the roof and the walls for a period of a maximum of 30 years for single-family houses and rental housing units. These warranties can be extended if maintenance work on the house is performed. If during the warranty period construction defects in the structure, walls, roof or other parts of the house are found, the Group may need to incur significant expenses to remedy the defects. A construction defect that results from defective building materials or from unsatisfactory construction methods and which occurs in several of the houses the Group has sold could result in multiple warranty claims requiring the Group to incur unforeseen expenses. Although the Group records a provision for product warranties in order to prepare for potential breach of warranty payments, the amount that the Group provides for may not be adequate to cover unexpected large warranty claims. A large-scale construction defect and multiple warranty claims could also significantly harm the Group’s reputation, damage the value of the Group’s brand and result in claims for damages and regulatory actions, which may impact the Group’s results of operations negatively.

The occurrence of accidents or the discovery of environmental contamination

The Group operates factories that process building materials into parts used in the construction of single-family houses, rental housing buildings, condominiums, commercial facilities and business and corporate facilities, and also actively participates in the construction of buildings for these businesses. The Group is subject to extensive health and safety laws and regulations and seeks to ensure that all its operations are undertaken in a safe environment. An accident at one of the Group’s factories or on one of its construction sites could result in damage to or destruction of property and equipment or personal injury or death, which may not be covered by the Group’s insurance or for which its insurance coverage may be inadequate. An accident could also result in legal liability, regulatory sanctions or damage to the Group’s reputation, and the Group’s financial condition or results of operations could be adversely affected as a result.

The Group owns real property mainly as part of its single-family houses business, condominiums business, commercial facilities business, business and corporate facilities business, environment and energy business and other businesses, and in the management of its properties the Group conducts an environmental assessment of properties where the prior use of properties merit it. The Group conducts environmental assessments to discover hazardous or toxic substances in the soil, groundwater and buildings. However, there can be no assurance that these assessments are adequate to fully uncover the problems of the type they are intended to identify, which are often hidden or impossible to detect without special expertise and equipment.

Under the Soil Contamination Countermeasures Act of Japan (Act No. 53 of 2002, as amended) (“Soil Contamination Countermeasures Act”), an owner of land is required to conduct soil contamination assessments in a variety of circumstances, including when the relevant governor determines that soil contamination is likely to exist after receiving notice of a plan to transform land over a specified size or where a governor determines that human health is likely to be harmed due to soil contamination. In the event contamination is discovered and is deemed likely to harm human health, a governor may order the current owner of the land to take remedial actions, in principle, whether or not the current owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of hazardous or toxic substances, or the failure to properly remediate the contamination, may adversely affect the Group’s ability to sell, lease or develop the real property or borrow using the real property as collateral. If hazardous or toxic substances are discovered on any of the Group’s properties, those properties could fall in value, and the Group might be required to incur substantial costs to remediate the underlying hazard and discharge the related environmental liabilities. If actual harm to human health resulted from the presence of such substances, the Group could be liable for damages which may not be covered by the Group’s insurance or for which its insurance coverage may be inadequate, and this could result in legal liability, regulatory sanctions or damage to the Group’s reputation. As a result, the Group’s business, financial condition or results of operations could be materially and adversely affected.

Litigation and other legal proceedings

Due to the nature of the Group’s businesses, the Group is subject to the risk of litigation from third parties in connection with claims such as breach of contract, personal injury, labour issues and environmental pollution in the ordinary course of business. In the event of an adverse judgment or out-of-court settlement, the Group’s financial condition and results of operations could be adversely affected.

Internal controls

In accordance with the FIEA, as a publicly listed company in Japan, the Company is required to evaluate the effectiveness of the Group’s internal controls over financial reporting as of the end of its fiscal year and have its evaluation audited by its independent auditor. If any material weaknesses in the Group’s internal control over financial reporting are found, the Company’s ability to prepare reliable financial reports on a timely basis could be adversely affected, and the Company may be required to provide appropriate disclosures and implement costly and time-consuming remedial measures. The Group’s internal controls over financial reporting may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud.

Considerations Relating to Financial Information

Differences in Japanese GAAP and financial reporting standards in other jurisdictions

The Company’s consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain material respects from IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions. The Company’s consolidated financial statements may therefore differ from those prepared for companies outside Japan. This Offering Circular does not include a reconciliation of the Company’s financial statements to IFRS or to any other generally accepted accounting principles or reporting standards. It is likely that such reconciliation would identify material quantitative differences between Japanese GAAP and IFRS or between Japanese GAAP and such other generally accepted accounting principles or reporting standards.

Unaudited Financial Information

This Offering Circular contains unaudited quarterly consolidated financial information as of and for the six months ended 30 September 2023, which are not required to be, and have not been, audited by the Company’s independent auditor. The unaudited quarterly consolidated financial statements as of and for the six months ended 30 September 2023 have been prepared in accordance with Japanese GAAP and has been reviewed by the Company’s independent auditor in accordance with quarterly review standards generally accepted in Japan. The unaudited quarterly financial statements contained in this Offering Circular are not wholly comparable with the annual financial statements contained in this Offering Circular and should not be compared.

Considerations Relating to the Bonds and the Shares

The Company intends to repurchase its Shares

On 11 January 2024, the Company's Board of Directors authorised the repurchase of up to 20,000,000 Shares (approximately 3.04 per cent of the issued Shares, excluding treasury stock as of 31 December 2023) at a maximum cost of ¥80 billion from the market, such repurchase to be made at any time in the period from and including 12 January 2024 to and including 28 June 2024. The Company has decided to repurchase such Shares to improve capital efficiency and to ensure the smooth execution of financing through mitigating the potential short-term impact of the issuance of the Bonds on the market supply and demand of Shares.

As part of its repurchase plan, the Company intends to repurchase up to approximately ¥80 billion worth of Shares at 8:45 a.m. (Tokyo time) on 12 January 2024 at the closing price of the Shares on the Tokyo Stock Exchange on 11 January 2024 through the ToSTNeT-3 system. The amount of Shares which the Company is able to repurchase through the ToSTNeT-3 system is dependent on the amount of Shares market participants offer to sell at the relevant price at the relevant time. The result of such repurchase will be announced in Japan on 12 January 2024.

To the extent any Shares remain to be repurchased (within the maximum cost of ¥80 billion and the maximum number of 20,000,000 Shares) after the above-mentioned repurchase through the ToSTNeT-3 system, the Company may repurchase further Shares (on the auction market (at the market prices prevailing at the relevant time) or otherwise), until 28 June 2024. However, there can be no assurance that any such repurchase will be proposed or effected.

The Company does not undertake to review or revise this Offering Circular to reflect any repurchases of Shares (or lack thereof) as referred to above. See "Information Concerning the Shares—Proposed Share Repurchase by the Company".

Even if the Company is able to successfully repurchase its Shares as originally planned, it will result in decreased shareholders' equity and the replacement of cash with debt. Although the Company believes such changes will not adversely affect its creditworthiness, there can be no assurance that rating agencies, banks, other financial institutions or investors will view any share repurchase similarly, which may adversely impact credit rating, financing, share price or investor relations.

There are limitations on the timing of exercise of Stock Acquisition Rights that will impact Bondholders' rights

Under the current handling rules and practices of JASDEC, it will take a minimum of three business days for Shares to be delivered to a Bondholder after the Stock Acquisition Date (as defined in Condition 5.9.4 of the Conditions for the relevant Series of Bonds). The Stock Acquisition Rights may not be exercised during any such period in which the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note, in particular, that exercise of Stock Acquisition Rights will be restricted during the period surrounding any record date in respect of Shares set by the Company (as of the date of this Offering Circular, 31 March and 30 September in each year).

No cash amounts will be payable in respect of Shares that constitute less than one full unit

The rights of holders of Shares not constituting one whole unit are limited under the Company's Articles of Incorporation, and may not be tradable on the stock exchange on which they are listed. Currently, the Company's Articles of Incorporation provide that one unit comprises 100 Shares. Since the introduction of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including the regulations promulgated thereunder, the "Book-Entry Act"), making it possible for listed shares of Japanese companies comprising less than one full unit to be delivered through the JASDEC book-entry transfer system, JASDEC's guidance requires that stock acquisition rights issued by Japanese companies should be structured such that shares that constitute less than one full unit are delivered to the account of the exercising holder, instead of being automatically sold back to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not receive cash amounts in respect of Shares that constitute less than one full unit.

Shares that constitute less than one full unit may not be traded on the stock exchange on which they are listed. Accordingly, a holder of Shares that constitutes less than one full unit will need to request the Company to purchase such Shares in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company's Articles of Incorporation and the Company's Share Handling Regulations if they would like the Company to do so; alternatively, such holders may require the Company to sell sufficient number of Shares in order to make its holding a full unit in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company's Articles of Incorporation and the Company's Share Handling Regulations. See "Description of the Shares and Certain Regulations—Unit Share System".

Limitations on Anti-Dilution Protection

The Conversion Price at which the Stock Acquisition Rights for the Bonds may be exercised will be adjusted upon certain events having a dilutive impact on the Shares, to the extent described in the Conditions for the relevant Series of Bonds. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

The trading price of the Bonds will be affected by fluctuations in the trading price of the Shares

The trading price of the Bonds is expected to be affected by fluctuations in the trading price of the Shares and it is impossible to predict whether the trading price of the Shares will rise or fall. Any decline in the trading price of the Shares will have an adverse effect on the trading price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of financial results.

A trading market for the Bonds may not develop

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, there can be no assurance that the Bonds will not trade at prices lower than the initial Offer Price.

The Bonds are unsecured

The Bonds do not benefit from any security and the Bondholders' claims will rank behind any secured creditors in the event of the Company's liquidation or bankruptcy.

Because of daily price range limitations under Japanese stock exchange rules, investors may not be able to sell their Shares at a particular price on any particular trading day, or at all

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell Shares received upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds at a price above or below the relevant daily limit may not be able to sell his or her Shares at such price on a particular trading day, or at all.

Future changes to Japanese law relating to Stock Acquisition Rights and the Shares may have a mandatory effect under Japanese law

Future changes to provisions relating to Stock Acquisition Rights and/or the Shares may have a mandatory effect under Japanese law. Condition 15.2 of the Conditions for the relevant Series of Bonds provides for amendments to be made to the Conditions for the relevant Series of Bonds relating to the Stock Acquisition Rights where those amendments become necessary in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

The rights of shareholders under Japanese law may be different from those that apply to companies incorporated in other jurisdictions

The corporate affairs of the Company are governed by, and in accordance with, the Company's Articles of Incorporation, the Company's Share Handling Regulations and the Company's Regulations of the Board of Directors and other related regulations thereunder, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, Directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Bondholders who acquire Shares upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds may have more difficulty in asserting their rights as a shareholder than they would as a shareholder of a corporation organised in other jurisdictions.

The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances (including giving notice to the Company pursuant to Condition 10 of the Conditions for the relevant Series of Bonds and taking enforcement steps as contemplated in Condition 16 of the Conditions for the relevant Series of Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be

obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

Acquisition Option

Under Condition 7.2 of the Conditions for the relevant Series of Bonds, at any time during the period from, and including, 1 April 2028 to, and including, 31 December 2028 (in the case of the 2029 Bonds) or from, and including, 1 April 2029 to, and including, 31 December 2029 (in the case of the 2030 Bonds), the Company may, but shall not be bound to, give an Acquisition Notice (as defined in the Conditions for the relevant Series of Bonds) to acquire each Bond at a consideration of 100 per cent of the principal amount in cash plus any Acquisition Shares calculated in accordance with the provisions of Condition 7.2.1 of the Conditions for the relevant Series of Bonds, provided that any Bondholder who wishes its Bonds to be so acquired must deliver a duly completed Acquisition Election Notice (as defined in the Conditions for the relevant Series of Bonds) on or before the date falling 14 calendar days prior to the Acquisition Option Date (as defined in the Conditions for the relevant Series of Bonds). In accordance with Condition 7.2.3 of the Conditions for the relevant Series of Bonds, any Bonds in respect of which a duly completed Acquisition Election Notice has not been delivered prior to such deadline will be redeemed at 100 per cent of their outstanding principal amount on the Elected Redemption Date (as defined in the Conditions for the relevant Series of Bonds), which amount may be lower in economic value than what the Bondholder would have been able to receive had it delivered a duly completed Acquisition Election Notice prior to the relevant deadline. Investors shall also note that pursuant to Condition 5.1.4(b) of the Conditions for the relevant Series of Bonds, if an Acquisition Notice is given pursuant to Condition 7.2 of the Conditions for the relevant Series of Bonds, the Stock Acquisition Rights may not be exercised during the period from, and including, 1 January 2029, in the case of the 2029 Bonds, and 1 January 2030, in the case of the 2030 Bonds, to, and including, the Elected Redemption Date.

Considerations Relating to Forward-Looking Statements

Statements in this Offering Circular with respect to the Group's plans, strategies and beliefs, as well as other statements that are not historical facts are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, the impact of general economic and market conditions in the markets where the Group operates, the level of demand for the Group's products and services, the level of competition, and the Group's ability to adapt itself to market, industry and general economic, political and business conditions.

TERMS AND CONDITIONS OF THE 2029 BONDS

The following terms and conditions of the 2029 Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the 2029 Bonds.

The ¥100,000,000,000 Zero Coupon Convertible Bonds due 2029 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by DAIWA HOUSE INDUSTRY CO., LTD. (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated 29 January 2024 made between the Company and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include its successors as trustee and any other trustee appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 and a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the “Shares”) as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 29 January 2024 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the “Principal Agent”), as calculation agent (the “Calculation Agent”) and as registrar (the “Registrar”) and the other agents referred to therein are available for inspection by Bondholders by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or electronically upon request to the Trustee, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the “Agents” shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1 Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights

1.1 Form, Denomination and Issue Price

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 100 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a “Certificate”) will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the “Register”) of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 Title

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a “Bondholder” and (in relation to a Bond) “holder” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the “Global Certificate”) deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 Status

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 Transfers of Bonds

1.4.1 *The Register:* The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, acquisitions and redemptions of the Bonds and exercise of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the Registrar or the relevant Agent (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form" of this Offering Circular.

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within three Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer:* No Bondholder may require the transfer of a Bond to be registered:

- (i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.2.3, 7.5, 7.6 or 7.7;
- (ii) with respect to any Bond for which Condition 7.2.2 applies, during the period from and including the Acquisition Determination Date (as defined in Condition 3.1) or, if earlier, the time at which an Acquisition Election Notice (as defined in Condition 3.1) in respect of such Bond has been given pursuant to Condition 7.2, up to but excluding the Acquisition Option Date (as defined in Condition 3.1);

- (iii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4 in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn); or
- (iv) after a notice of redemption has been given pursuant to Condition 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4).

1.5 Relationship between Bonds and Stock Acquisition Rights

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and
- (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3 Definitions and Construction of References

3.1 Definitions

In these Conditions (unless the context otherwise requires):

"3-Month Deposit Rate" means, as of any specified time on any date, the rate per annum as of such specified time on such date as shown on Bloomberg page JYDRC Curncy (setting "Bid", and using the pricing source "CMPL") (or any successor page, setting or pricing source), or, if no such rate is available as of the specified time on such day (for the purposes of this definition, the "Original Date"), the 3-Month Deposit Rate on the Original Date shall be the 3-Month Deposit Rate, determined as aforesaid, as of the specified time on the immediately preceding day on which the same can be so determined, provided however that if such immediately preceding day falls prior to the fifth day before the Original Date, or if the 3-Month Deposit Rate cannot be determined as aforesaid (including without limitation because such Bloomberg page (or any successor) has ceased to exist), the 3-Month Deposit Rate as of the specified time on the Original Date shall be determined in such other manner as determined in good faith to be appropriate by an Independent Financial Adviser. If the 3-Month Deposit Rate determined as aforesaid shall be less than zero, then the 3-Month Deposit Rate shall be deemed to be zero.

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

“Acquisition Determination Date” has the meaning provided in Condition 7.2.1;

“Acquisition Election Notice” has the meaning provided in Condition 7.2.2;

“Acquisition Notice” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period” means the period from, and including, 1 April 2028 to, and including, 31 December 2028;

“Acquisition Option Date” has the meaning provided in Condition 7.2.1;

“Acquisition Share Value” has the meaning provided in Condition 7.2.1;

“Acquisition Shares” has the meaning provided in Condition 7.2.1;

“Additional Amounts” has the meaning provided in Condition 9;

“Additional Shares” has the meaning provided in Condition 5.3;

“Annual Fiscal Period” means a period commencing on 1 April and ending on the following 31 March; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, “Annual Fiscal Period” shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Articles of Incorporation” means the articles of incorporation of the Company from time to time in effect;

“Asset Transfer Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the “Asset Transferee”), pursuant to the terms of which the Company’s obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

“Asset Transferee” has the meaning provided in the definition of Asset Transfer Event;

“Auditors” means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company to act as such and promptly notified in writing to the Trustee by the Company;

“Authorised Officer” means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

“Average VWAP per Share” has the meaning provided in Condition 7.2.1;

“Bankruptcy Act” means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

“Base Dividend” has the meaning provided in Condition 5.2.4;

“Bid Price” has the meaning provided in Condition 5.1.9;

“Board of Directors” of a company means the board of directors of that company within the meaning of the Companies Act; provided that, if any individual director is authorised by such board of directors to make the relevant decision in accordance with the Companies Act and such company’s articles of incorporation and other internal regulations, any reference to the Board of Directors of such company shall be deemed to mean such director, and any reference to the relevant resolution or approval at a meeting of such Board of Directors shall be deemed to mean the relevant decision of such director;

“Bondholder” and “holder” have the meaning provided in Condition 1.2;

“Bonds without Acquisition Election Notice” has the meaning provided in Condition 7.2.3;

“Book-Entry Act” means the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

“BVAL Price” has the meaning provided in Condition 5.1.9;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.3;

“Closed Period” has the meaning provided in Condition 7.10;

“Closing Date” means 29 January 2024;

“Closing Parity Value” has the meaning provided in Condition 5.1.9;

“Closing Price” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

“Companies Act” means the Companies Act of Japan (Act No. 86 of 2005, as amended);

“Company Notification Date” has the meaning provided in Condition 5.1.9;

“Company’s Territory” has the meaning provided in Condition 12.2;

“Consolidated Financial Statements” means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared as aforesaid;

“Consolidated Subsidiary” means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

“Controlling Shareholder” means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

“Corporate Event Effective Date” has the meaning provided in Condition 6.3;

“Corporate Event Redemption Date” has the meaning provided in Condition 7.5;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.5;

“Corporate Reorganisation Act” means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

“Corporate Split Counterparty” has the meaning provided in the definition of Corporate Split Event;

“Corporate Split Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company’s obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the “Corporate Split Counterparty”);

“Current Market Price per Share” has the meaning provided in Condition 5.2.9;

“Custodian” means The Law Debenture Trust Corporation p.l.c. at its specified office at Eighth Floor, 100 Bishopsgate, London EC2N 4AG United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

“Custodian’s Agent” means Mizuho Bank, Ltd. at its specified office at 15-1, Konan 2-chome, Minato-ku, Tokyo 108-6009, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

“Delisting Redemption Date” has the meaning provided in Condition 7.6.1;

“Deposit Date” has the meaning provided in Condition 5.9.4;

“Deposit Time” has the meaning provided in Condition 5.9.4;

“Dividend Adjustment Amount” has the meaning provided in Condition 7.2.1;

“Due Date” has the meaning provided in Condition 9;

“Elected Redemption Date” has the meaning provided in Condition 7.2.3;

“Ex-Dividend Date” has the meaning provided in Condition 7.2.1;

“Exercise Period” has the meaning provided in Condition 5.1.4;

“Extraordinary Dividend” has the meaning provided in Condition 5.2.4;

“Extraordinary Resolution” means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

“FATCA withholding” has the meaning provided in Condition 9;

“Financial Instruments and Exchange Act” means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

“Fiscal Period” means, as the context may require, (i) a period commencing on 1 April and ending on the following 31 March; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Holding Company” has the meaning provided in the definition of Holding Company Event;

“Holding Company Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the “Holding Company”) by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

“Independent Financial Adviser” means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and approved in writing by the Trustee;

“JCR” has the meanings provided in Condition 5.1.6;

“Last Day Conversion Price” has the meaning provided in Condition 7.2.1;

“Leading Institution” means the meaning provided in Condition 5.1.9;

“Listing” has the meaning provided in Condition 6.4.2;

“Merged Company” means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

“Merger Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

“New Obligor” has the meaning provided in Condition 6.1;

“New Obligor Current Market Price per Share” has the meaning provided in Condition 6.5.3;

“New Stock Acquisition Rights” has the meaning provided in Condition 12.2;

“New Territory” has the meaning provided in Condition 12.2;

“Non-unit Shares” has the meaning provided in Condition 5.1.2;

“Notification Date” has the meaning provided in Condition 5.1.9;

“Number of Deliverable Shares” has the meaning provided in Condition 6.5.3;

“Number of Held Shares” has the meaning provided in Condition 6.5.3;

“Offeror” has the meaning provided in Condition 7.6.1;

“Parity Event” has the meaning provided in Condition 5.1.9;

“Parity Notification Event” has the meaning provided in Condition 5.1.9;

“Payment Business Day” has the meaning provided in Condition 8.3;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Quote for the Bonds” has the meaning provided in Condition 5.1.9;

“R&I” has the meaning provided in Condition 5.1.6;

“Record Date” means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the “Record Date” shall be construed as a reference to the date of any event in question coming into effect;

“Reference Parity” has the meanings provided in Conditions 7.5, 7.6 and 7.7;

“Reference Period” has the meaning provided in Condition 5.1.9;

“Register” has the meaning provided in Condition 1.1;

“Registered Account” has the meaning provided in Condition 8.1;

“Relevant Debt” has the meaning provided in Condition 2;

“Relevant GAAP” means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or its successor) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or its successor));

“Relevant Number of Shares” has the meaning provided in Condition 5.2.4;

“Relevant Period” has the meaning provided in Condition 5.2.15;

“Relevant Securities” has the meaning provided in Condition 5.2.8;

“Relevant Stock Exchange” means Tokyo Stock Exchange, Inc. (or its successor) or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on Tokyo Stock Exchange, Inc. (or its successor), the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

“Relevant VWAP Period” has the meaning provided in Condition 7.2.1;

“Representative Director” means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” means (i) any Record Date and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

“Shareholder Determination Date Restriction Period” means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date);

“Squeezeout Effective Date” has the meaning provided in Condition 7.7.1;

“Squeezeout Event” means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, for the purpose of, including but not limited to, making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder’s wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing;

“Squeezeout Redemption Date” has the meaning provided in Condition 7.7.1;

“Stock Acquisition Date” has the meaning provided in Condition 5.9.4;

“Stock Split” means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

“Subsidiary” means a company, more than 50 per cent of the outstanding shareholders’ voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or

more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, “voting rights” means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

“Tax Redemption Date” has the meaning provided in Condition 7.4;

“Tax Redemption Notice” has the meaning provided in Condition 7.4;

“Tokyo Business Day” has the meaning provided in Condition 5.1.4;

“Trading Day” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day, other than a Saturday or Sunday, on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

“Transfer Business Day” has the meaning provided in Condition 1.4.3;

“VWAP” has the meaning provided in Condition 7.2.1; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

3.2 Construction of Certain References

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2), and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Incorporated. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4 Default Interest

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum as being equal to the 3-Month Deposit Rate as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5 Exercise of Stock Acquisition Rights

5.1 Conversion Price, Exercise Period, Shares Issuable and Procedure

5.1.1 *Exercise of Stock Acquisition Rights and Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as at the Stock Acquisition Date as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond.

5.1.2 *Number of Shares:* The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares not constituting a unit (*tangen*) of Shares (“Non-unit Shares”) or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As at the date of this Offering Circular, the Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution. The Articles of Incorporation currently provide that a holder of Shares constituting less than one unit may also request the Company to sell the number of Shares which, when added to the Shares held by such holder, shall constitute one full unit.

5.1.3 *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥5,353 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period:* Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 13 February 2024 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 16 March 2029, or:

- (i) if the relevant Bond shall have been acquired by the Company pursuant to Condition 7.2 and cancelled pursuant to Condition 7.2.1, then up to the time when such Bond is so cancelled;
- (ii) if the relevant Bond shall have been called for redemption pursuant to Condition 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);
- (iii) if the relevant Bonds shall become due to be redeemed pursuant to Condition 7.2.3, 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;
- (iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.8 and cancelled by the Company pursuant to Condition 7.9, then up to the time when such Bond is so cancelled; or

- (v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

- (a) in no event shall the Stock Acquisition Rights be exercised after 16 March 2029;
- (b) in the case of an acquisition pursuant to Condition 7.2 (where an Acquisition Notice is duly given by the Company), the Stock Acquisition Rights may not be exercised during the period from and including 1 January 2029 to and including the Elected Redemption Date, subject to Condition 7.2.4;
- (c) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.6 and 7.7); and
- (d) the Stock Acquisition Rights may not be exercised where the relevant Stock Acquisition Date (or the next following Tokyo Business Day, if the Stock Acquisition Date would not be a Tokyo Business Day) would fall on a date within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(d) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Trustee in writing and to the Bondholders in accordance with Condition 19.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of the determination and period referred to in Condition 5.1.4(c) above at least 30 days prior to the commencement of such period.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of each such Shareholder Determination Date Restriction Period at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

As at the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 31 March 2024, it is anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 27 March 2024 to (and including) 1 April 2024.

The term “Tokyo Business Day” means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the “Exercise Period” (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

5.1.5 *Condition to Conversion:*

- (i) Subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter prior to (and including) 31 March 2028, only if, as at the last Trading Day of the immediately preceding calendar quarter (from the calendar quarter ending on 31 December 2023 up to, and including, the calendar quarter ending on 31 December

2027, as the case may be), the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 150 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter (or, in the case of the calendar quarter ending on 31 December 2023, the initial Conversion Price); and

- (ii) Subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter from (and including) 1 April 2028 but prior to (and including) 31 December 2028, only if, as at the last Trading Day of the immediately preceding calendar quarter (from the calendar quarter ending on 31 March 2028 up to, and including, the calendar quarter ending on 30 September 2028, as the case may be), the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter,

in each case as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2.

If the relevant condition as set out in (i) or (ii) above is satisfied, then a Bondholder may (subject to the Conditions) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of (i) above, in the case of the calendar quarter commencing on 1 January 2024, on and after 13 February 2024) until the end of such calendar quarter, provided the relevant Deposit Date falls during the Exercise Period.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable (A) during any period that Condition 5.1.6, 5.1.7 and/or 5.1.8 apply, and/or (B) where a Parity Event has occurred pursuant to Condition 5.1.9, during the period of 15 consecutive Tokyo Business Days commencing on (and including) the first Tokyo Business Day immediately following the Company Notification Date in respect of such Parity Event.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable during the period from, and including, 1 January 2029 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 16 March 2029.

Further, for the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7, 5.1.8 or 5.1.9, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

5.1.6 *Conditions to Conversion—Rating Requirements:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which:

- (i) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, “JCR”) is BBB- (or equivalent if the rating category is changed) or lower, a long-term issuer rating is no longer assigned to the Company by JCR, or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn; or
- (ii) the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, “R&I”) is BBB- (or equivalent if the rating category is changed) or lower, an issuer rating is no longer assigned to the Company by R&I, or the issuer rating assigned to the Company by R&I has been suspended or withdrawn.

Upon the occurrence of any of the events set out in (i) or (ii) above, the Company shall forthwith give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

5.1.7 *Conditions to Conversion—Redemption Events:* If a notice of redemption is given pursuant to Condition 7.3, 7.4, 7.5, 7.6 or 7.7, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.4.

5.1.8 *Conditions to Conversion—Corporate Events:* Subject to the suspension by the Company as referred to in Condition 5.1.4(c), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.

5.1.9 *Conditions to Conversion—Parity Event:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of a Parity Event. Whether or not a Parity Event has occurred for the purposes of these Conditions shall be determined by the Calculation Agent in accordance with the provisions of this Condition 5.1.9.

Any Bondholder shall be entitled to give notice (each, a “Parity Notification Event Notice”) to the Company in writing, with a copy to the Calculation Agent, in each case in accordance with this Condition 5.1.9, if and to the extent that a Parity Notification Event has occurred, provided that such notice shall be accompanied by reasonable supporting evidence (such evidence to be accepted in the opinion of the Company in its absolute discretion) regarding the occurrence of such Parity Notification Event. If any Parity Notification Event Notice is received after 4:00 p.m. in the place of the specified office of the Calculation Agent, such Parity Notification Event Notice shall be deemed for all purposes of these Conditions to have been provided on the date which is the immediately following Business Day in the place of the specified office of the Calculation Agent.

A Parity Notification Event Notice shall include a certification by or on behalf of the relevant Bondholder that it holds at least one Bond and evidence of such holding to the satisfaction of the Company, on which certification the Company and the Calculation Agent shall be able to rely, in the absence of manifest error, without further investigation. If a Parity Notification Event Notice is delivered in accordance with the foregoing, neither the Company nor the Calculation Agent shall be entitled or required to demand any further information from such person.

Each Parity Notification Event Notice to be given by a Bondholder to the Company shall be delivered to the Company by electronic mail only to dh.finance.dept@daiwahouse.jp, and shall simultaneously be copied to the Calculation Agent by electronic mail only to agencyparity@mizuho.lu, or in each case to such other electronic mail address as may be notified to Bondholders in accordance with Condition 19. Any Parity Notification Event Notice shall be deemed to be received by the Company or the Calculation Agent, as the case may be, only if received by the relevant party in legible form.

At any time when the relevant Bonds are evidenced by the Global Certificate, a Parity Notification Event Notice may be given by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond. Parity Notification Event Notices shall be submitted by electronic mail in accordance with this Condition 5.1.9 rather than through the Euroclear or Clearstream, Luxembourg systems.

The date on which any Parity Notification Event Notice is provided (or deemed to be so provided) to the Company and the Calculation Agent in accordance with the foregoing shall be the “Notification Date” in respect of such Parity Notification Event Notice. Once a Parity Notification Event Notice has been provided (or deemed to be so provided) on a Notification Date (such Parity Notification Event Notice being, for the purposes of this paragraph, the “earlier Parity Notification Event Notice”), any subsequent Parity Notification Event Notice that is provided (or deemed to be provided) on or prior to the Company Notification Date in respect of the earlier Parity Notification Event Notice shall be disregarded, and no Notification Date shall occur in respect of that subsequent Parity Notification Event Notice.

The following shall apply in respect of each Notification Date which is deemed to occur under this Condition 5.1.9:

- (a) no later than the second Business Day in Luxembourg and Tokyo immediately following the Notification Date, the Company shall give notice of the receipt of the relevant Parity Notification Event Notice, the relevant Notification Date and the expected Reference Period to the Bondholders in accordance with Condition 19 and to the Trustee;
- (b) the Calculation Agent shall determine whether or not a Parity Event has occurred in respect of the relevant Reference Period and shall notify the Company of such determination by no later than the second Business Day in Luxembourg and Tokyo immediately following (1) the last Business Day in Tokyo of the Reference Period if the Parity Event shall be deemed to have occurred in such Reference Period, or (2) the first day in the relevant Reference Period

on which none of the events set out in the definition of Parity Event has occurred (and therefore it is determined that no Parity Event has occurred in respect of the relevant Reference Period); and

- (c) the Company will give notice of such Calculation Agent's determination to the Bondholders in accordance with Condition 19 and the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the date on which the Calculation Agent notifies the Company of the determination set out in paragraph (b) above (the date on which notice is given by the Company in accordance with this paragraph (c) being referred herein to as the "Company Notification Date").

None of the Company, the Calculation Agent, the Trustee, the Agents, the Registrar, the Custodian or the Custodian's Agent will be required to monitor any BVAL Price or Quotes for the Bonds or to take any steps or to perform any related calculations to verify whether a Parity Notification Event or Parity Event has occurred, and they shall not be liable to the Bondholders or any other person for not doing so, save (in the case of the Company and the Calculation Agent only and only as expressly provided in this Condition 5.1.9) where a Notification Date has occurred pursuant to this Condition 5.1.9.

In these Conditions:

"Bid Price" means, in respect of any day, the bid price per ¥10,000,000 in principal amount of the Bonds quoted by a Leading Institution for the purchase by that Leading Institution of a minimum principal amount of the Bonds equal to ¥10,000,000 on such day;

"BVAL Price" means, in respect of any day, the price of the Bonds as derived from the Bloomberg page: XS2743016193 Corp HP (setting "BVAL" or any successor setting) provided by Bloomberg (or any successor service) as the bid price of the Bonds as at 4:00 p.m. (New York time) on such date, multiplied by 100,000, as determined by (i) the Calculation Agent, in the case of the determination of a Parity Event, or (ii) the relevant Bondholder, in the case of the determination of a Parity Notification Event;

"Closing Parity Value" means, in respect of any day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$CPV = N \times CP$$

where

CPV = the Closing Parity Value.

N = ¥10,000,000 divided by the Conversion Price in effect on such day (for the avoidance of doubt, without taking into account Retroactive Adjustments, if any); and

CP = the Closing Price of the Shares on such day (or if such day is not a Trading Day, the most recent Trading Day prior thereto);

"Leading Institution" means any bank or financial institution which is a leading, internationally recognised market maker in trading exchangeable and/or convertible bonds;

A "Parity Event" shall be deemed to have occurred on the last day of any Reference Period, where the Calculation Agent determines that, in respect of each of the five Tokyo Business Days comprised in such Reference Period, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (for any reason, including but not limited to by reason of the temporary unavailability of the relevant page or setting, or the permanent cessation of the provision of such price by the relevant provider), the Quote for the Bonds in respect of such Tokyo Business Day is less than 97 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (iii) neither the BVAL Price nor Quote for the Bonds is available in respect of such Tokyo Business Day;

A “Parity Notification Event” shall occur if, on each Tokyo Business Day during any period of five consecutive Tokyo Business Days ending no earlier than the fifth Business Day in Luxembourg and Tokyo immediately before the relevant Notification Date, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (provided that it is not necessary for the relevant Bondholder to provide any evidence that such BVAL Price was so unavailable), such other reasonable evidence to show that the price of the Bonds (indicated as a percentage and multiplied by 100,000) as at 4:00 p.m. New York time on such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day is available;

“Quote for the Bonds” means, in respect of any Tokyo Business Day and in respect of Bid Prices as at or around 4:00 p.m. (Tokyo time) on such Tokyo Business Day, the Bid Price so provided by a Leading Institution selected by the Company (in its absolute discretion) as informed by the Company to the Calculation Agent, provided that where no Bid Price is provided to the Company in respect of such Tokyo Business Day, it shall be deemed that no Quote for the Bonds is available in respect of such Tokyo Business Day; and

“Reference Period” means, in respect of any Notification Date, the period of five consecutive Tokyo Business Days commencing on the third Business Day in Luxembourg and Tokyo immediately following such Notification Date.

References in these Conditions to any Bloomberg page means the relevant page on the Bloomberg terminal (or, if not available from Bloomberg, any successor information service provider thereto determined by the Company in its absolute discretion).

- 5.1.10** *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights:* Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 Adjustments of the Conversion Price

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

- 5.2.1** *Stock Split and Consolidation of Shares:* if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

- (i) the Record Date for the allotment, grant, issue or offer of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or

- (ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or
- (iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or
- (iv) the date of grant, issue, transfer or offer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item “n” of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Shares:* if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired

by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to All, or a Class of, Shareholders of Assets (including Extraordinary Dividends):*

if the Company shall distribute to the holders of Shares (i) evidence of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or

otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being “distribution of surplus” within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.

fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidence of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares in respect of such Extraordinary Dividend.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

“Extraordinary Dividend” means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period:

“Base Dividend” means: ¥261,520

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥140.

“Relevant Number of Shares” means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were such Bond, and only such Bond, to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities:* if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds and bonds with stock acquisition rights due 2030 issued by the Company on the Closing Date, or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.6 *Issue to Non-shareholders of Shares:* if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*) or which becomes a subsidiary of the Company by a share delivery (*kabushiki-kofu*), in proportion to their shareholding in such corporation immediately prior to such merger, exchange or delivery or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling non-shareholders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant, issue or offer of such rights or warrants.

n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant, issue or offer of such rights or warrants;

5.2.8 *Combined Adjustment:* if the Company shall grant, issue, transfer or offer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue, transfer or offer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the “relevant date”) is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price

pursuant thereto (all such securities being hereafter referred to as “Relevant Securities”), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of “n2” below to the extent that such Shares are then issued and outstanding.

n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.

n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.

n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.

v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue, transfer or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue, transfer or offer which is the relevant date.

5.2.9 *Current Market Price per Share:* for the purpose of these Conditions, “Current Market Price per Share” on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as at which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with

reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

- (i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;
- (ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;
- (iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue, transfer or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);
- (iv) in the case of the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and
- (v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant

currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

- 5.2.11** *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;
- 5.2.12** *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;
- 5.2.13** *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination;
- 5.2.14** *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- 5.2.15** *Adjustment during the Relevant Period or the Reference Period*: for the purposes of Conditions 5.1.5 and 5.1.9, if the Conversion Price in effect on the last Trading Day of the period of 20 consecutive Trading Days referred to in Condition 5.1.5 (the “Relevant Period”) or the Reference Period reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period or the Reference Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period or the Reference Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment. For the avoidance of doubt, if the Closing Price of the Shares for any Trading Day within the Relevant Period or the Reference Period reflects (by reason of having become ex-rights or otherwise) an event which gives rise to an adjustment to the Conversion Price pursuant to this Condition 5.2 becoming effective immediately after the end of the Relevant Period or the Reference Period, then such Closing Price shall be appropriately adjusted to be such price prior to such event having been so reflected, for the purposes of Conditions 5.1.5 and 5.1.9.

5.3 Retroactive Adjustments

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a “Retroactive Adjustment”), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares (“Additional Shares”) as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as at the said Stock

Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the “Stock Acquisition Date” shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 Limitation on Reduction of Conversion Price

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 Employee Share Schemes

No adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, officers, audit and supervisory board members or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees’ or executives’ share or option scheme.

5.6 Minimum Adjustments

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least one yen provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 Calculations

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen. None of the Trustee, the Principal Agent, the Registrar, the Custodian, the Custodian’s Agent, the Calculation Agent or any other Agents shall be under any duty or responsibility to any Bondholder or any other person to determine, calculate or verify the adjusted Conversion Price or whether any adjustment is required to be made, and none of them will be responsible to Bondholders or any other person for any loss arising from any failure to do so or any erroneous calculation.

5.8 Notification of Adjustments

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian, the Custodian’s Agent and the Calculation Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 Procedure for Conversion

5.9.1 *Conversion Notice:* To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian’s Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in

the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent:* As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until the relevant Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made. Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights (which for the avoidance of doubt does not include the exercising Bondholder's own costs and expenses for holding such Shares) and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of the relevant Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

5.9.4 *Deposit Date and Stock Acquisition Date:*

- (i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit Time falls is hereinafter referred to as the "Deposit Date" applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;
- (ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate therefor will become effective, at 11:59 p.m. (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan

on which such time in London falls, is herein referred to as the “Stock Acquisition Date” applicable to such Bond);

- (iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and
- (iv) If deposit of the Conversion Notice is made on a day which is not a Business Day or after 4:00 p.m. in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such Business Day.

At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its time of deposit. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder’s account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.

5.9.5 *Delivery of Shares:* The Company shall procure that the relevant Agent shall, with effect as at the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law or regulation (including any administrative order or guidelines issued by any relevant authority) or the Articles of Incorporation or the share handling regulations of the Company:

- (i) as soon as practicable and in any event within 14 days after the Stock Acquisition Date, in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian’s Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purposes of such transfer); and
- (ii) as soon as practicable, the Company shall deliver to the Custodian’s Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian’s Agent shall, according to the request made in the relevant Conversion Notice as soon as practicable, and in any event within 21 days after the Stock Acquisition Date, despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than Shares) required to be delivered upon exercise (unless the Company fails to make delivery thereof to the Custodian’s Agent as aforesaid) and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital:* With effect as at the Stock Acquisition Date, one-half of the “maximum capital and other increase amount”, as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6 Certain Corporate Events

6.1 Corporate Events

In the case of a proposal for:

- (i) any Merger Event; or
- (ii) any Asset Transfer Event; or
- (iii) any Corporate Split Event; or
- (iv) any Holding Company Event; or
- (v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a “Corporate Event”) pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a “New Obligor”),

the following provisions of this Condition 6 shall apply.

6.2 Notice of Proposal

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 Notice of Passing of Resolution

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company’s proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its “Corporate Event Effective Date”.

6.4 Transfer of Obligations Following a Corporate Event

6.4.1 *Transfer:* If a Corporate Event occurs and

- (i) it is legally possible under then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;
- (ii) a practical structure for such substitution and grant has been or can be established; and

- (iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing:* In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as “Listing”) on the relevant Corporate Event Effective Date.

6.4.3 *Condition:* The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

6.5 New Stock Acquisition Rights

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted:* The number of the New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by the New Obligor by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

- (i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the “Number of Deliverable Shares”) receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the “Number of Held Shares”) which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or
- (ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall, upon its exercise

immediately after the Corporate Event Effective Date, receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the “New Obligor Current Market Price per Share” means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

- 6.5.4** *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof:* Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;
- 6.5.5** *Exercise Period of the New Stock Acquisition Rights:* The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;
- 6.5.6** *Other Conditions for the Exercise of the New Stock Acquisition Rights:* No New Stock Acquisition Right may be exercised in part, and the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.9;
- 6.5.7** *Acquisition at the Option of the New Obligor:* The New Stock Acquisition Rights together with the Bonds may be acquired by the New Obligor substantially in the same manner as described in Condition 7.2;
- 6.5.8** *Amount of Stated Capital and Additional Paid-in Capital:* As at the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and
- 6.5.9** *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 No Statutory Put Rights

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 Subsequent Corporate Events

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7 Redemption, Acquisition, Purchase and Cancellation

7.1 Final Maturity

Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on 30 March 2029. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 Acquisition at the Option of the Company

7.2.1 *Acquisition Notice:* At any time during the Acquisition Notice Period, and subject to the Shares being listed on the Relevant Stock Exchange, the Company may, but shall not be bound to, give notice (the “Acquisition Notice”) to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), to acquire from those Bondholders which deliver a duly completed Acquisition Election Notice, on or after the date of the Acquisition Notice, and on or before 23 February 2029 (the “Acquisition Determination Date”) pursuant to Condition 7.2.2, the Bonds which are the subject of such Acquisition Election Notice outstanding on 9 March 2029 (the “Acquisition Option Date”). Upon giving such notice, all such Bonds which are the subject of a duly completed Acquisition Election Notice shall be deemed to be so acquired by the Company on the Acquisition Option Date. Each Bondholder which delivers a duly completed Acquisition Election Notice, by accepting or acquiring any Bond, agrees that the relevant Bond shall be so acquired by the Company on the Acquisition Option Date.

Subject to Conditions 7.2.2, 7.2.3 and 7.2.4, the Company shall, as consideration for each Bond (including the Stock Acquisition Rights) acquired by the Company:

- (i) pay in the same manner as provided in Condition 8, an amount equal to 100 per cent of the principal amount of the Bonds on the Acquisition Option Date in cash; and
- (ii) issue and deliver the Acquisition Shares in accordance with Condition 7.2.2, if any, registered in the name of the Custodian or its nominee, with effect as of the Acquisition Option Date,

in each case, to the Bondholders which have delivered a duly completed Acquisition Election Notice.

Any expenses or taxes incurred in connection with the acquisition of the Bonds by the Company and the delivery of the Acquisition Shares pursuant to this Condition 7.2 shall be borne by the Company.

Bonds that have been so acquired by the Company shall be cancelled upon acquisition in accordance with these Conditions, and all Certificates in respect of Bonds so cancelled shall be promptly forwarded to the Principal Agent for cancellation.

In these Conditions:

“Acquisition Shares” means such number of Shares per Bond, if positive, calculated in accordance with the formula below:

$$\text{Acquisition Shares} = \frac{\text{The amount by which the Acquisition Share Value exceeds the principal amount of each Bond}}{\text{Average VWAP per Share}}$$

provided that:

- (i) fractions of a Share shall be disregarded and no adjustment or cash payment will be made in respect thereof; and
- (ii) if during the period from but excluding the last day of the Relevant VWAP Period to but excluding the Acquisition Option Date any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the Acquisition Option Date) to the Conversion Price under the provisions of Condition 5.2, the Acquisition Shares, as determined above, shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained).

“Acquisition Share Value” means the yen amount per Bond calculated in accordance with the formula below:

$$\frac{\text{Principal Amount of the Bond}}{\text{Last Day Conversion Price}} \times \text{Average VWAP per Share}$$

“Average VWAP per Share” means the average of the Volume Weighted Average Prices (“VWAP”) of the Shares reported by the Relevant Stock Exchange on each of the Trading Days during the Relevant VWAP Period, provided that:

- (i) if an Ex-Dividend Date falls, or will fall, within the period from but excluding the first day of the Relevant VWAP Period to and including the Acquisition Option Date, the Average VWAP per Share used as the denominator in the formula for calculating the Acquisition Shares (as set out in the definition of “Acquisition Shares”) shall be adjusted by subtracting the Dividend Adjustment Amount from the VWAP of the Shares on each Trading Day during the period from and including the first day of the Relevant VWAP Period to and including the earlier of (x) the Trading Day immediately prior to the Ex-Dividend Date and (y) the last day of the Relevant VWAP Period;
- (ii) if an Ex-Dividend Date falls within the period from and including the third Tokyo Business Day after the date of the Acquisition Notice to and including the last day of the Relevant VWAP Period, the Average VWAP per Share for the purpose of calculating the Acquisition Share Value (as set out in the definition of “Acquisition Share Value”) shall be adjusted by adding the Dividend Adjustment Amount to the VWAP of the Shares reported by the Relevant Stock Exchange in yen on each Trading Day during the period from and including the later of (x) the Ex-Dividend Date and (y) the first day of the Relevant VWAP Period, to and including the last day of the Relevant VWAP Period;
- (iii) if on any Trading Day within the Relevant VWAP Period, VWAP of the Shares is not reported by, nor otherwise available from, the Relevant Stock Exchange, or VWAP reported by the Relevant Stock Exchange is manifestly incorrect, the average trading prices of the Shares using a volume weighted method on the Relevant Stock Exchange on such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company in its sole discretion (acting in a commercially reasonable manner) shall be deemed to be the VWAP on such Trading Day (but subject to adjustment pursuant to (a) and/or (b) above, if required); and
- (iv) if during the Relevant VWAP Period any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the last day of the Relevant VWAP Period) to the Conversion Price under the provisions of Condition 5.2, the Average VWAP per Share as determined above shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained) in order to compensate for the effect of such event.

The Company shall give notice to the Bondholders in accordance with Condition 19 of the Average VWAP per Share as soon as reasonably practicable upon determination thereof.

As a consequence of the adjustments identified in (i) and (ii) above, the Average VWAP per Share for the purposes of calculating the Acquisition Shares may differ from the Average VWAP per Share used for the purposes of calculating the Acquisition Share Value.

“Dividend Adjustment Amount” for the purposes of the calculation of an adjustment to the Average VWAP per Share means the amount determined by the Company as of the last day of the Relevant VWAP Period, which shall be:

- (i) the expected cash dividend per Share most recently publicly announced by the Company with respect to the Record Date relating to the relevant Ex-Dividend Date; or
- (ii) if no public announcement has been made as to an expected cash dividend per Share as set out in (i) above, the actual cash dividend per Share in respect of the corresponding Record Date one year prior to the relevant Record Date; or

- (iii) if, in the opinion of the Company, neither the expected nor the actual cash dividend as set out in (i) or (ii) above (as the case may be) provides a reasonable basis for adjustment of the Average VWAP per Share, the amount determined by the Company in its discretion as being appropriate and fair to give effect to the impact of the Ex-Dividend Date on the relevant VWAP.

For the purposes of this Condition 7.2.1, a “dividend” means a “distribution of surplus”, within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

“Ex-Dividend Date” means the Tokyo Business Day immediately prior to any Record Date for a dividend declared or to be declared by the Company (provided that if such Record Date falls on a date that is not a Tokyo Business Day, then the Ex-Dividend Date means the second Tokyo Business Day immediately prior to such Record Date); provided further that if, in the opinion of the Company, there has been a change to the mandatory provisions of Japanese law, regulation or practice which affects the timing or application of ex-dividend dates, the definition of Ex-Dividend Date may be amended by the Company, and/or the Company may make such other changes to this Condition 7.2.1 as it shall consider appropriate and fair, in each case, to the extent permitted by applicable law and to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders, and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

“Last Day Conversion Price” means the Conversion Price in effect on the last day of the Relevant VWAP Period.

“Relevant VWAP Period” means the 20 consecutive Trading Days beginning on, and including, the 30th Trading Day prior to the Acquisition Option Date.

All calculations with respect to the Acquisition Share Value and the Average VWAP per Share shall be made to the nearest one-tenth of a yen, with five one-hundredths or more of a yen to be considered a full tenth.

- 7.2.2** Acquisition Election Notice: In order to elect to have its Bonds acquired by the Company and to obtain delivery of the Acquisition Shares (if any) pursuant to this Condition 7.2, the electing Bondholder must deliver to the specified office of an Agent, on or after the date of the Acquisition Notice and no later than the Acquisition Determination Date, a duly completed election notice substantially in the form set out in the Agency Agreement (an “Acquisition Election Notice”, a copy of which may be obtained from the specified office of any Agent) with respect to all, but not part, of the Bonds held by such Bondholder, together with the relevant Certificates for the relevant Bonds held by it and to which the Acquisition Election Notice relates. An Acquisition Election Notice shall be irrevocable once delivered.

At any time when the relevant Bonds are evidenced by the Global Certificate, the Bondholder shall, in lieu of depositing the Acquisition Election Notice in the manner aforesaid, transmit the Acquisition Election Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto.

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including but not limited to any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company, delivery of the Acquisition Shares by or on behalf of the Company pursuant to this Condition 7.2 will be made on or as soon as practicable after the Acquisition Option Date in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent will transfer the relevant Acquisition Shares to or to the order of the relevant Bondholders at such account maintained with an Account Management Institution in Japan as specified in the relevant Acquisition Election Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian’s Agent as aforesaid or such instruction given by the relevant Bondholder in the relevant Acquisition Election Notice is inaccurate, incomplete or insufficient for the purposes of such transfer). The provisions of Condition 5.1.10 shall apply with any necessary changes to the Acquisition Shares with references to the Stock Acquisition Date therein being construed as references to the Acquisition Option Date.

Any determination as to whether an Acquisition Election Notice has been properly completed and delivered as provided in these Conditions shall be made by the Principal Agent in its sole discretion and shall be conclusive and binding on the relevant Bondholders, the Company and the Trustee.

An Acquisition Election Notice may be delivered by a holder with respect to one or more Bonds. To the extent that an Acquisition Election Notice is delivered with respect to more than one Bond, the number of Acquisition Shares to be delivered pursuant to this Condition 7.2 shall be calculated on the basis of the aggregate number of Bonds referred to in such Acquisition Election Notice.

7.2.3 *Bonds in Respect of Which an Acquisition Election Notice was Not Delivered:* If, on the day immediately following the Acquisition Determination Date, there are any Bonds in respect of which a duly completed Acquisition Election Notice has not been received by an Agent on or prior to the Acquisition Determination Date (“Bonds without Acquisition Election Notice”), such Bonds without Acquisition Election Notice shall be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date (the “Elected Redemption Date”), and payment in respect thereof shall be made in accordance with Condition 8.

7.2.4 *Acquisition Notice Void:* Notwithstanding the provisions of Condition 7.2.1, if the Shares are not listed on the Relevant Stock Exchange on the Acquisition Option Date, the Acquisition Notice shall be treated as null and void and the relevant Bonds will be redeemed, subject as provided herein, for cash in accordance with the provisions of Condition 7 other than this Condition 7.2 and payment in respect thereof shall be made in accordance with Condition 8.

If the Company becomes aware, after the Acquisition Notice having been given, that the Shares will not be listed on the Relevant Stock Exchange on the Acquisition Option Date (other than in the circumstances set out in Condition 7.6 in which case the provisions of Condition 7.6 shall apply), the Company shall give notice of the nullification of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon becoming so aware, provided that failure to give such notice shall not invalidate such nullification.

7.2.5 *Exercise of Stock Acquisition Rights:* The Company’s right to acquire the Bonds in the manner set forth in this Condition 7.2 does not affect a Bondholder’s right to exercise its Stock Acquisition Rights hereunder during the Exercise Period. For the avoidance of doubt, in the case of an acquisition pursuant to this Condition 7.2 (where an Acquisition Notice is duly given by the Company), the Stock Acquisition Rights may not be exercised during the period from and including 1 January 2029 to and including the Elected Redemption Date, subject to Condition 7.2.4.

7.3 Redemption at the Option of the Company upon Reduced Outstanding Amounts

The Company may, but shall not be bound to, having given not less than 30 nor more than 60 days’ prior notice (the “Clean-up Redemption Notice”) to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof.

7.4 Redemption for Taxation Reasons

The Company may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days’ prior notice (the “Tax Redemption Notice”) to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the “Tax Redemption Date”), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice that (i) it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 January 2024 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or Authorised Officer stating that the obligation

referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate without further investigation as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as at the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.5 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate without further investigation as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to 16 March 2029, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)									
	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00
29 January 2024	97.54	100.09	103.72	108.53	114.55	121.81	130.30	140.00	150.00	160.00
29 January 2025	97.65	99.99	103.49	108.23	114.27	121.60	130.22	140.00	150.00	160.00
29 January 2026	97.86	99.92	103.20	107.85	113.90	121.34	130.11	140.00	150.00	160.00
29 January 2027	98.17	99.79	102.73	107.22	113.31	120.95	130.01	140.00	150.00	160.00
29 January 2028	98.67	99.58	101.85	106.02	112.26	120.37	130.00	140.00	150.00	160.00
29 January 2029	99.76	99.76	99.95	102.48	110.07	120.00	130.00	140.00	150.00	160.00
16 March 2029	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00

“Reference Parity” means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and
- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
 - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or
 - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

- (x) if the Reference Parity falls between two numbers in the first row of the above table and/or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;
- (y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and
- (z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is less than 100.00 per cent, the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is more than 160.00 per cent, the Corporate Event Redemption Price shall be 160.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 17 March 2029 to (and excluding) 30 March 2029, the Corporate Event Redemption Price shall be 100.00 per cent.

7.6 Redemption on Delisting of the Shares

7.6.1 *Offers and Redemption:* If (i) any offer is made by a party or parties (the “Offeror”) other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares, (ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act, (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition), and (iv) the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume, without being required to take any action and without liability to any person, until it has written notice to the contrary that the Offeror has not so acquired any Shares.

7.6.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.6.3 *Offer Followed by Corporate Event or Squeezeout Event:* Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company’s obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.6.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.6.1 without being subject to the provisions of this Condition 7.6.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.6.4 *Irrevocable Notice:* Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.5 *Notice to Bondholders:* Upon the occurrence of:

- (a) any of the events set out in (i) through (iv) of Condition 7.6.1; or
- (b) any of the events set out in Condition 7.6.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

7.7 Squeezeout Redemption

7.7.1 *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be; provided however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

7.7.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the amount of cash which the holder of a Share would receive in exchange for Shares following the Squeezeout Event, divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.8 Purchase of Bonds by the Company

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.9 Cancellation

All Bonds which are redeemed or acquired or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

7.10 Notice of Redemption or Acquisition

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(a) or within 15 days following the last day of a Closed Period.

7.11 Priorities among Redemption and Acquisition Provisions

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.2.4 and 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

If the Company becomes obliged to redeem the Bonds pursuant to both Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

8 Payments

8.1 Method of Payment

Payments in respect of principal, default interest (if any) and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date for payment thereof, by transfer to its Registered Account. All payments are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

"Registered Account" means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date of payment.

8.2 Agents

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to (in respect of the Principal Agent, the Registrar and any other Agent only) the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar, the Calculation Agent or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) a Calculation Agent. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar, the Calculation Agent or any other Agent will be given to the Bondholders in accordance with Condition 19.

8.3 Payments on Payment Business Days

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. "Payment Business Day" means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

9 Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

- (i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or the receipt of payment in respect of any Bond; or
- (ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting such Certificate for payment as at the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds in accordance with and subject to Condition 7.4.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service ("FATCA withholding"). Further, the Company will have no obligation to otherwise indemnify for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

As used herein, the "Due Date" for any payment means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable at their principal amount together with accrued interest (if any) to the date of payment on the occurrence of any of the following events:

- 10.1** *Non-Payment*: the Company defaults in the payment of principal of any of the Bonds under Condition 7.4 as and when the same shall become due and payable, and such default is not remedied within seven days; or

- 10.2** *Breach of Obligations*: the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay principal in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or
- 10.3** *Cross Default on Indebtedness*: the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (on demand or otherwise) (or at the expiration of any applicable grace period as originally provided); or
- 10.4** *Cross Default on Guarantee/Indemnity*: the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or
- 10.5** *Initiation of Insolvency Proceedings*: proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- 10.6** *Decree of Insolvency/Dissolution*: a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or
- 10.7** *Resolution for Dissolution*: a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:
- 10.7.1** (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation, or, (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.7.2** if the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or
- 10.8** *Institution of Insolvency Proceedings*: the Company or any Principal Subsidiary institutes proceedings seeking adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable

law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or

10.9 *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

10.10 *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business, or (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.2 the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Condition 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee, in forming any opinion or in making any determination under or required or contemplated by this Condition 10, may exercise any or all of the rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law and may also seek instructions or directions from the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than yen may be translated into yen at the spot rate for the sale of relevant currency against the purchase of yen quoted by any leading bank selected in its sole discretion by the Trustee on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with premium, if any, and default interest) as provided in the Trust Deed.

11 Undertakings

11.1 Undertakings with Respect to the Stock Acquisition Rights

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

- 11.1.2** *Transfers:* not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;
- 11.1.3** *Fiscal Year and Record Date:* give notice to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its fiscal year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;
- 11.1.4** *Listing:* use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that, (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan, and (ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.5, 7.6 or 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1, or (z) proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing after the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);
- 11.1.5** *Other Securities:* procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);
- 11.1.6** *Capital:* not create or issue any class of share capital other than Shares, without giving notice to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;
- 11.1.7** *Limitation on Reduction of Conversion Price:* not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;
- 11.1.8** *Corporate Event:* if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to

the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and

11.1.9 Consents: obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 Charges

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the Registrar, the other Agents, the Custodian, the Custodian's Agent and the Calculation Agent (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities pursuant to Condition 5.9.5 following such deposit.

12 Substitution

12.1 Substitution other than under a Corporate Event

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate and (ii) satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

When determining pursuant to these Conditions whether an event or circumstance is materially prejudicial to the interests of Bondholders, the Trustee may obtain such directions from Bondholders and/or expert advice as it considers appropriate and rely thereon without responsibility or liability to the Bondholders or any person for delay occasioned by so doing.

Further conditions to such substitution are set out in the Trust Deed.

12.2 Substitution under a Corporate Event

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

- (i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New

Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director of the Company that, as at the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);
- (iv) a Representative Director of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);
- (v) the Company shall have certified (by a certificate of a Representative Director) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 Release of Obligations

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

12.4 Deemed Amendment

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

- (i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13 Prescription

Claims in respect of the Bonds will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14 Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Meetings of Bondholders; Modification and Waiver

15.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, inter alia, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders. A meeting of Bondholders may be held electronically in accordance with the procedures set out in the Trust Deed.

15.2 Modification and Waiver

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds or determine that any Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and shall be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.2, 7.5 and/or 7.7 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such

supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 Authority to the Trustee

To the fullest extent permitted by applicable law, by acquiring a Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16 Enforcement

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within a reasonable time following such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

17 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors or the Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a monetary cap or otherwise; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18 Independent Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

19 Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20 Contracts (Rights of Third Parties) Act 1999

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21 Governing Law and Submission to Jurisdiction

21.1 Governing Law

The Trust Deed, the Agency Agreement and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (“Proceedings”) may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 Agent for Service of Process

The Company has irrevocably appointed Cogency Global (UK) Limited as its agent in England to receive service of process in any Proceedings in England. If for any reason Cogency Global (UK) Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

TERMS AND CONDITIONS OF THE 2030 BONDS

The following terms and conditions of the 2030 Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the 2030 Bonds.

The ¥100,000,000,000 Zero Coupon Convertible Bonds due 2030 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by DAIWA HOUSE INDUSTRY CO., LTD. (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated 29 January 2024 made between the Company and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include its successors as trustee and any other trustee appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 and a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the “Shares”) as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 29 January 2024 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the “Principal Agent”), as calculation agent (the “Calculation Agent”) and as registrar (the “Registrar”) and the other agents referred to therein are available for inspection by Bondholders by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or electronically upon request to the Trustee, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the “Agents” shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1 Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights

1.1 Form, Denomination and Issue Price

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 100 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a “Certificate”) will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the “Register”) of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 Title

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a “Bondholder” and (in relation to a Bond) “holder” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the “Global Certificate”) deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 Status

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 Transfers of Bonds

1.4.1 *The Register:* The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, acquisitions and redemptions of the Bonds and exercise of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the Registrar or the relevant Agent (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form" of this Offering Circular.

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within three Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer:* No Bondholder may require the transfer of a Bond to be registered:

- (i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.2.3, 7.5, 7.6 or 7.7;
- (ii) with respect to any Bond for which Condition 7.2.2 applies, during the period from and including the Acquisition Determination Date (as defined in Condition 3.1) or, if earlier, the time at which an Acquisition Election Notice (as defined in Condition 3.1) in respect of such Bond has been given pursuant to Condition 7.2, up to but excluding the Acquisition Option Date (as defined in Condition 3.1);

- (iii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4 in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn); or
- (iv) after a notice of redemption has been given pursuant to Condition 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4).

1.5 Relationship between Bonds and Stock Acquisition Rights

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and
- (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3 Definitions and Construction of References

3.1 Definitions

In these Conditions (unless the context otherwise requires):

"3-Month Deposit Rate" means, as of any specified time on any date, the rate per annum as of such specified time on such date as shown on Bloomberg page JYDRC Curncy (setting "Bid", and using the pricing source "CMPL") (or any successor page, setting or pricing source), or, if no such rate is available as of the specified time on such day (for the purposes of this definition, the "Original Date"), the 3-Month Deposit Rate on the Original Date shall be the 3-Month Deposit Rate, determined as aforesaid, as of the specified time on the immediately preceding day on which the same can be so determined, provided however that if such immediately preceding day falls prior to the fifth day before the Original Date, or if the 3-Month Deposit Rate cannot be determined as aforesaid (including without limitation because such Bloomberg page (or any successor) has ceased to exist), the 3-Month Deposit Rate as of the specified time on the Original Date shall be determined in such other manner as determined in good faith to be appropriate by an Independent Financial Adviser. If the 3-Month Deposit Rate determined as aforesaid shall be less than zero, then the 3-Month Deposit Rate shall be deemed to be zero.

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

“Acquisition Determination Date” has the meaning provided in Condition 7.2.1;

“Acquisition Election Notice” has the meaning provided in Condition 7.2.2;

“Acquisition Notice” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period” means the period from, and including, 1 April 2029 to, and including, 31 December 2029;

“Acquisition Option Date” has the meaning provided in Condition 7.2.1;

“Acquisition Share Value” has the meaning provided in Condition 7.2.1;

“Acquisition Shares” has the meaning provided in Condition 7.2.1;

“Additional Amounts” has the meaning provided in Condition 9;

“Additional Shares” has the meaning provided in Condition 5.3;

“Annual Fiscal Period” means a period commencing on 1 April and ending on the following 31 March; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, “Annual Fiscal Period” shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Articles of Incorporation” means the articles of incorporation of the Company from time to time in effect;

“Asset Transfer Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the “Asset Transferee”), pursuant to the terms of which the Company’s obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

“Asset Transferee” has the meaning provided in the definition of Asset Transfer Event;

“Auditors” means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company to act as such and promptly notified in writing to the Trustee by the Company;

“Authorised Officer” means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

“Average VWAP per Share” has the meaning provided in Condition 7.2.1;

“Bankruptcy Act” means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

“Base Dividend” has the meaning provided in Condition 5.2.4;

“Bid Price” has the meaning provided in Condition 5.1.9;

“Board of Directors” of a company means the board of directors of that company within the meaning of the Companies Act; provided that, if any individual director is authorised by such board of directors to make the relevant decision in accordance with the Companies Act and such company’s articles of incorporation and other internal regulations, any reference to the Board of Directors of such company shall be deemed to mean such director, and any reference to the relevant resolution or approval at a meeting of such Board of Directors shall be deemed to mean the relevant decision of such director;

“Bondholder” and “holder” have the meaning provided in Condition 1.2;

“Bonds without Acquisition Election Notice” has the meaning provided in Condition 7.2.3;

“Book-Entry Act” means the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

“BVAL Price” has the meaning provided in Condition 5.1.9;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.3;

“Closed Period” has the meaning provided in Condition 7.10;

“Closing Date” means 29 January 2024;

“Closing Parity Value” has the meaning provided in Condition 5.1.9;

“Closing Price” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

“Companies Act” means the Companies Act of Japan (Act No. 86 of 2005, as amended);

“Company Notification Date” has the meaning provided in Condition 5.1.9;

“Company’s Territory” has the meaning provided in Condition 12.2;

“Consolidated Financial Statements” means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared as aforesaid;

“Consolidated Subsidiary” means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

“Controlling Shareholder” means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

“Corporate Event Effective Date” has the meaning provided in Condition 6.3;

“Corporate Event Redemption Date” has the meaning provided in Condition 7.5;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.5;

“Corporate Reorganisation Act” means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

“Corporate Split Counterparty” has the meaning provided in the definition of Corporate Split Event;

“Corporate Split Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company’s obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the “Corporate Split Counterparty”);

“Current Market Price per Share” has the meaning provided in Condition 5.2.9;

“Custodian” means The Law Debenture Trust Corporation p.l.c. at its specified office at Eighth Floor, 100 Bishopsgate, London EC2N 4AG United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

“Custodian’s Agent” means Mizuho Bank, Ltd. at its specified office at 15-1, Konan 2-chome, Minato-ku, Tokyo 108-6009, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

“Delisting Redemption Date” has the meaning provided in Condition 7.6.1;

“Deposit Date” has the meaning provided in Condition 5.9.4;

“Deposit Time” has the meaning provided in Condition 5.9.4;

“Dividend Adjustment Amount” has the meaning provided in Condition 7.2.1;

“Due Date” has the meaning provided in Condition 9;

“Elected Redemption Date” has the meaning provided in Condition 7.2.3;

“Ex-Dividend Date” has the meaning provided in Condition 7.2.1;

“Exercise Period” has the meaning provided in Condition 5.1.4;

“Extraordinary Dividend” has the meaning provided in Condition 5.2.4;

“Extraordinary Resolution” means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

“FATCA withholding” has the meaning provided in Condition 9;

“Financial Instruments and Exchange Act” means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

“Fiscal Period” means, as the context may require, (i) a period commencing on 1 April and ending on the following 31 March; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Holding Company” has the meaning provided in the definition of Holding Company Event;

“Holding Company Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the “Holding Company”) by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

“Independent Financial Adviser” means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and approved in writing by the Trustee;

“JCR” has the meanings provided in Condition 5.1.6;

“Last Day Conversion Price” has the meaning provided in Condition 7.2.1;

“Leading Institution” means the meaning provided in Condition 5.1.9;

“Listing” has the meaning provided in Condition 6.4.2;

“Merged Company” means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

“Merger Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

“New Obligor” has the meaning provided in Condition 6.1;

“New Obligor Current Market Price per Share” has the meaning provided in Condition 6.5.3;

“New Stock Acquisition Rights” has the meaning provided in Condition 12.2;

“New Territory” has the meaning provided in Condition 12.2;

“Non-unit Shares” has the meaning provided in Condition 5.1.2;

“Notification Date” has the meaning provided in Condition 5.1.9;

“Number of Deliverable Shares” has the meaning provided in Condition 6.5.3;

“Number of Held Shares” has the meaning provided in Condition 6.5.3;

“Offeror” has the meaning provided in Condition 7.6.1;

“Parity Event” has the meaning provided in Condition 5.1.9;

“Parity Notification Event” has the meaning provided in Condition 5.1.9;

“Payment Business Day” has the meaning provided in Condition 8.3;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Quote for the Bonds” has the meaning provided in Condition 5.1.9;

“R&I” has the meaning provided in Condition 5.1.6;

“Record Date” means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the “Record Date” shall be construed as a reference to the date of any event in question coming into effect;

“Reference Parity” has the meanings provided in Conditions 7.5, 7.6 and 7.7;

“Reference Period” has the meaning provided in Condition 5.1.9;

“Register” has the meaning provided in Condition 1.1;

“Registered Account” has the meaning provided in Condition 8.1;

“Relevant Debt” has the meaning provided in Condition 2;

“Relevant GAAP” means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or its successor) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or its successor));

“Relevant Number of Shares” has the meaning provided in Condition 5.2.4;

“Relevant Period” has the meaning provided in Condition 5.2.15;

“Relevant Securities” has the meaning provided in Condition 5.2.8;

“Relevant Stock Exchange” means Tokyo Stock Exchange, Inc. (or its successor) or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on Tokyo Stock Exchange, Inc. (or its successor), the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

“Relevant VWAP Period” has the meaning provided in Condition 7.2.1;

“Representative Director” means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” means (i) any Record Date and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

“Shareholder Determination Date Restriction Period” means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date);

“Squeezeout Effective Date” has the meaning provided in Condition 7.7.1;

“Squeezeout Event” means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, for the purpose of, including but not limited to, making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder’s wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing;

“Squeezeout Redemption Date” has the meaning provided in Condition 7.7.1;

“Stock Acquisition Date” has the meaning provided in Condition 5.9.4;

“Stock Split” means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

“Subsidiary” means a company, more than 50 per cent of the outstanding shareholders’ voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or

more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, “voting rights” means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

“Tax Redemption Date” has the meaning provided in Condition 7.4;

“Tax Redemption Notice” has the meaning provided in Condition 7.4;

“Tokyo Business Day” has the meaning provided in Condition 5.1.4;

“Trading Day” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day, other than a Saturday or Sunday, on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

“Transfer Business Day” has the meaning provided in Condition 1.4.3;

“VWAP” has the meaning provided in Condition 7.2.1; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

3.2 Construction of Certain References

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2), and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Incorporated. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4 Default Interest

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum as being equal to the 3-Month Deposit Rate as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5 Exercise of Stock Acquisition Rights

5.1 Conversion Price, Exercise Period, Shares Issuable and Procedure

5.1.1 *Exercise of Stock Acquisition Rights and Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition

Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as at the Stock Acquisition Date as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond.

- 5.1.2** *Number of Shares:* The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares not constituting a unit (*tangen*) of Shares (“Non-unit Shares”) or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As at the date of this Offering Circular, the Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution. The Articles of Incorporation currently provide that a holder of Shares constituting less than one unit may also request the Company to sell the number of Shares which, when added to the Shares held by such holder, shall constitute one full unit.

- 5.1.3** *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥5,260 per Share, subject to adjustment in the manner provided in Condition 5.2.

- 5.1.4** *Exercise Period:* Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 13 February 2024 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 15 March 2030, or:

- (i) if the relevant Bond shall have been acquired by the Company pursuant to Condition 7.2 and cancelled pursuant to Condition 7.2.1, then up to the time when such Bond is so cancelled;
- (ii) if the relevant Bond shall have been called for redemption pursuant to Condition 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);
- (iii) if the relevant Bonds shall become due to be redeemed pursuant to Condition 7.2.3, 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;
- (iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.8 and cancelled by the Company pursuant to Condition 7.9, then up to the time when such Bond is so cancelled; or
- (v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

- (a) in no event shall the Stock Acquisition Rights be exercised after 15 March 2030;
- (b) in the case of an acquisition pursuant to Condition 7.2 (where an Acquisition Notice is duly given by the Company), the Stock Acquisition Rights may not be exercised during the period from and including 1 January 2030 to and including the Elected Redemption Date, subject to Condition 7.2.4;
- (c) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.6 and 7.7); and
- (d) the Stock Acquisition Rights may not be exercised where the relevant Stock Acquisition Date (or the next following Tokyo Business Day, if the Stock Acquisition Date would not be a Tokyo Business Day) would fall on a date within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(d) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Trustee in writing and to the Bondholders in accordance with Condition 19.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of the determination and period referred to in Condition 5.1.4(c) above at least 30 days prior to the commencement of such period.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of each such Shareholder Determination Date Restriction Period at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

As at the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 31 March 2024, it is anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 27 March 2024 to (and including) 1 April 2024.

The term “Tokyo Business Day” means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the “Exercise Period” (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

5.1.5 *Condition to Conversion:*

- (i) Subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter prior to (and including) 31 March 2029, only if, as at the last Trading Day of the immediately preceding calendar quarter (from the calendar quarter ending on 31 December 2023 up to, and including, the calendar quarter ending on 31 December 2028, as the case may be), the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 150 per cent (rounded down to the nearest yen) of the

Conversion Price in effect on the last Trading Day of such calendar quarter (or, in the case of the calendar quarter ending on 31 December 2023, the initial Conversion Price); and

- (ii) Subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter from (and including) 1 April 2029 but prior to (and including) 31 December 2029, only if, as at the last Trading Day of the immediately preceding calendar quarter (from the calendar quarter ending on 31 March 2029 up to, and including, the calendar quarter ending on 30 September 2029, as the case may be), the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter,

in each case as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2.

If the relevant condition as set out in (i) or (ii) above is satisfied, then a Bondholder may (subject to the Conditions) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of (i) above, in the case of the calendar quarter commencing on 1 January 2024, on and after 13 February 2024) until the end of such calendar quarter, provided the relevant Deposit Date falls during the Exercise Period.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable (A) during any period that Condition 5.1.6, 5.1.7 and/or 5.1.8 apply, and/or (B) where a Parity Event has occurred pursuant to Condition 5.1.9, during the period of 15 consecutive Tokyo Business Days commencing on (and including) the first Tokyo Business Day immediately following the Company Notification Date in respect of such Parity Event.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable during the period from, and including, 1 January 2030 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 15 March 2030.

Further, for the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7, 5.1.8 or 5.1.9, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

5.1.6 *Conditions to Conversion - Rating Requirements:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which:

- (i) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, "JCR") is BBB- (or equivalent if the rating category is changed) or lower, a long-term issuer rating is no longer assigned to the Company by JCR, or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn; or
- (ii) the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, "R&I") is BBB- (or equivalent if the rating category is changed) or lower, an issuer rating is no longer assigned to the Company by R&I, or the issuer rating assigned to the Company by R&I has been suspended or withdrawn.

Upon the occurrence of any of the events set out in (i) or (ii) above, the Company shall forthwith give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

5.1.7 *Conditions to Conversion - Redemption Events:* If a notice of redemption is given pursuant to Condition 7.3, 7.4, 7.5, 7.6 or 7.7, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.4.

5.1.8 *Conditions to Conversion – Corporate Events:* Subject to the suspension by the Company as referred to in Condition 5.1.4(c), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.

5.1.9 *Conditions to Conversion – Parity Event:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of a Parity Event. Whether or not a Parity Event has occurred for the purposes of these Conditions shall be determined by the Calculation Agent in accordance with the provisions of this Condition 5.1.9.

Any Bondholder shall be entitled to give notice (each, a “Parity Notification Event Notice”) to the Company in writing, with a copy to the Calculation Agent, in each case in accordance with this Condition 5.1.9, if and to the extent that a Parity Notification Event has occurred, provided that such notice shall be accompanied by reasonable supporting evidence (such evidence to be accepted in the opinion of the Company in its absolute discretion) regarding the occurrence of such Parity Notification Event. If any Parity Notification Event Notice is received after 4:00 p.m. in the place of the specified office of the Calculation Agent, such Parity Notification Event Notice shall be deemed for all purposes of these Conditions to have been provided on the date which is the immediately following Business Day in the place of the specified office of the Calculation Agent.

A Parity Notification Event Notice shall include a certification by or on behalf of the relevant Bondholder that it holds at least one Bond and evidence of such holding to the satisfaction of the Company, on which certification the Company and the Calculation Agent shall be able to rely, in the absence of manifest error, without further investigation. If a Parity Notification Event Notice is delivered in accordance with the foregoing, neither the Company nor the Calculation Agent shall be entitled or required to demand any further information from such person.

Each Parity Notification Event Notice to be given by a Bondholder to the Company shall be delivered to the Company by electronic mail only to dh.finance.dept@daiwahouse.jp, and shall simultaneously be copied to the Calculation Agent by electronic mail only to agencyparity@mizuho.lu, or in each case to such other electronic mail address as may be notified to Bondholders in accordance with Condition 19. Any Parity Notification Event Notice shall be deemed to be received by the Company or the Calculation Agent, as the case may be, only if received by the relevant party in legible form.

At any time when the relevant Bonds are evidenced by the Global Certificate, a Parity Notification Event Notice may be given by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond. Parity Notification Event Notices shall be submitted by electronic mail in accordance with this Condition 5.1.9 rather than through the Euroclear or Clearstream, Luxembourg systems.

The date on which any Parity Notification Event Notice is provided (or deemed to be so provided) to the Company and the Calculation Agent in accordance with the foregoing shall be the “Notification Date” in respect of such Parity Notification Event Notice. Once a Parity Notification Event Notice has been provided (or deemed to be so provided) on a Notification Date (such Parity Notification Event Notice being, for the purposes of this paragraph, the “earlier Parity Notification Event Notice”), any subsequent Parity Notification Event Notice that is provided (or deemed to be provided) on or prior to the Company Notification Date in respect of the earlier Parity Notification Event Notice shall be disregarded, and no Notification Date shall occur in respect of that subsequent Parity Notification Event Notice.

The following shall apply in respect of each Notification Date which is deemed to occur under this Condition 5.1.9:

- (a) no later than the second Business Day in Luxembourg and Tokyo immediately following the Notification Date, the Company shall give notice of the receipt of the relevant Parity Notification Event Notice, the relevant Notification Date and the expected Reference Period to the Bondholders in accordance with Condition 19 and to the Trustee;
- (b) the Calculation Agent shall determine whether or not a Parity Event has occurred in respect of the relevant Reference Period and shall notify the Company of such determination by no later than the second Business Day in Luxembourg and Tokyo immediately following (1) the last Business Day in Tokyo of the Reference Period if the Parity Event shall be deemed to have occurred in such Reference Period, or (2) the first day in the relevant Reference Period on which none of the events set out in the definition of Parity Event has occurred (and

therefore it is determined that no Parity Event has occurred in respect of the relevant Reference Period); and

- (c) the Company will give notice of such Calculation Agent's determination to the Bondholders in accordance with Condition 19 and the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the date on which the Calculation Agent notifies the Company of the determination set out in paragraph (b) above (the date on which notice is given by the Company in accordance with this paragraph (c) being referred herein to as the "Company Notification Date").

None of the Company, the Calculation Agent, the Trustee, the Agents, the Registrar, the Custodian or the Custodian's Agent will be required to monitor any BVAL Price or Quotes for the Bonds or to take any steps or to perform any related calculations to verify whether a Parity Notification Event or Parity Event has occurred, and they shall not be liable to the Bondholders or any other person for not doing so, save (in the case of the Company and the Calculation Agent only and only as expressly provided in this Condition 5.1.9) where a Notification Date has occurred pursuant to this Condition 5.1.9.

In these Conditions:

"Bid Price" means, in respect of any day, the bid price per ¥10,000,000 in principal amount of the Bonds quoted by a Leading Institution for the purchase by that Leading Institution of a minimum principal amount of the Bonds equal to ¥10,000,000 on such day;

"BVAL Price" means, in respect of any day, the price of the Bonds as derived from the Bloomberg page: XS2743016607 Corp HP (setting "BVAL" or any successor setting) provided by Bloomberg (or any successor service) as the bid price of the Bonds as at 4:00 p.m. (New York time) on such date, multiplied by 100,000, as determined by (i) the Calculation Agent, in the case of the determination of a Parity Event, or (ii) the relevant Bondholder, in the case of the determination of a Parity Notification Event;

"Closing Parity Value" means, in respect of any day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$CPV = N \times CP$$

where

CPV = the Closing Parity Value.

N = ¥10,000,000 divided by the Conversion Price in effect on such day (for the avoidance of doubt, without taking into account Retroactive Adjustments, if any); and

CP = the Closing Price of the Shares on such day (or if such day is not a Trading Day, the most recent Trading Day prior thereto);

"Leading Institution" means any bank or financial institution which is a leading, internationally recognised market maker in trading exchangeable and/or convertible bonds;

A "Parity Event" shall be deemed to have occurred on the last day of any Reference Period, where the Calculation Agent determines that, in respect of each of the five Tokyo Business Days comprised in such Reference Period, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (for any reason, including but not limited to by reason of the temporary unavailability of the relevant page or setting, or the permanent cessation of the provision of such price by the relevant provider), the Quote for the Bonds in respect of such Tokyo Business Day is less than 97 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (iii) neither the BVAL Price nor Quote for the Bonds is available in respect of such Tokyo Business Day;

A “Parity Notification Event” shall occur if, on each Tokyo Business Day during any period of five consecutive Tokyo Business Days ending no earlier than the fifth Business Day in Luxembourg and Tokyo immediately before the relevant Notification Date, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (provided that it is not necessary for the relevant Bondholder to provide any evidence that such BVAL Price was so unavailable), such other reasonable evidence to show that the price of the Bonds (indicated as a percentage and multiplied by 100,000) as at 4:00 p.m. New York time on such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day is available;

“Quote for the Bonds” means, in respect of any Tokyo Business Day and in respect of Bid Prices as at or around 4:00 p.m. (Tokyo time) on such Tokyo Business Day, the Bid Price so provided by a Leading Institution selected by the Company (in its absolute discretion) as informed by the Company to the Calculation Agent, provided that where no Bid Price is provided to the Company in respect of such Tokyo Business Day, it shall be deemed that no Quote for the Bonds is available in respect of such Tokyo Business Day; and

“Reference Period” means, in respect of any Notification Date, the period of five consecutive Tokyo Business Days commencing on the third Business Day in Luxembourg and Tokyo immediately following such Notification Date.

References in these Conditions to any Bloomberg page means the relevant page on the Bloomberg terminal (or, if not available from Bloomberg, any successor information service provider thereto determined by the Company in its absolute discretion).

- 5.1.10** *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights:* Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 Adjustments of the Conversion Price

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

- 5.2.1** *Stock Split and Consolidation of Shares:* if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

- (i) the Record Date for the allotment, grant, issue or offer of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or
- (ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or
- (iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or
- (iv) the date of grant, issue, transfer or offer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item “n” of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Shares:* if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.
- n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to All, or a Class of, Shareholders of Assets (including Extraordinary Dividends):*

if the Company shall distribute to the holders of Shares (i) evidence of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being “distribution of surplus” within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.

fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidence of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares in respect of such Extraordinary Dividend.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

“Extraordinary Dividend” means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period:

“Base Dividend” means: ¥266,140

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥140.

“Relevant Number of Shares” means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were such Bond, and only such Bond, to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities:* if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds and bonds with stock acquisition rights due 2029 issued by the Company on the Closing Date, or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.
- n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.6 *Issue to Non-shareholders of Shares:* if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder’s holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*) or which becomes a subsidiary of the Company by a share delivery (*kabushiki-kofu*), in proportion to their shareholding in such corporation immediately prior to such merger, exchange or delivery or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation’s business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.
- n = the number of Shares being issued or transferred as aforesaid.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling non-shareholders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant, issue or offer of such rights or warrants.
- n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant, issue or offer of such rights or warrants;

5.2.8 *Combined Adjustment:* if the Company shall grant, issue, transfer or offer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue, transfer or offer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the “relevant date”) is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price

pursuant thereto (all such securities being hereafter referred to as “Relevant Securities”), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of “n2” below to the extent that such Shares are then issued and outstanding.
- n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.
- n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.
- n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.
- v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue, transfer or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue, transfer or offer which is the relevant date.

5.2.9 *Current Market Price per Share:* for the purpose of these Conditions, “Current Market Price per Share” on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as at which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share:* for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

- (i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;
- (ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;
- (iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue, transfer or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);
- (iv) in the case of the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and
- (v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at

such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

- 5.2.11** *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;
- 5.2.12** *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;
- 5.2.13** *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination;
- 5.2.14** *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- 5.2.15** *Adjustment during the Relevant Period or the Reference Period*: for the purposes of Conditions 5.1.5 and 5.1.9, if the Conversion Price in effect on the last Trading Day of the period of 20 consecutive Trading Days referred to in Condition 5.1.5 (the “Relevant Period”) or the Reference Period reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period or the Reference Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period or the Reference Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment. For the avoidance of doubt, if the Closing Price of the Shares for any Trading Day within the Relevant Period or the Reference Period reflects (by reason of having become ex-rights or otherwise) an event which gives rise to an adjustment to the Conversion Price pursuant to this Condition 5.2 becoming effective immediately after the end of the Relevant Period or the Reference Period, then such Closing Price shall be appropriately adjusted to be such price prior to such event having been so reflected, for the purposes of Conditions 5.1.5 and 5.1.9.

5.3 Retroactive Adjustments

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a “Retroactive Adjustment”), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares (“Additional Shares”) as is equal to the excess of the number of Shares which would have been acquired upon exercise of

such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as at the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the “Stock Acquisition Date” shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 Limitation on Reduction of Conversion Price

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 Employee Share Schemes

No adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, officers, audit and supervisory board members or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees' or executives' share or option scheme.

5.6 Minimum Adjustments

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least one yen provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 Calculations

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen. None of the Trustee, the Principal Agent, the Registrar, the Custodian, the Custodian's Agent, the Calculation Agent or any other Agents shall be under any duty or responsibility to any Bondholder or any other person to determine, calculate or verify the adjusted Conversion Price or whether any adjustment is required to be made, and none of them will be responsible to Bondholders or any other person for any loss arising from any failure to do so or any erroneous calculation.

5.8 Notification of Adjustments

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian, the Custodian's Agent and the Calculation Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 Procedure for Conversion

5.9.1 *Conversion Notice:* To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition

19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent:* As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until the relevant Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made. Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights (which for the avoidance of doubt does not include the exercising Bondholder's own costs and expenses for holding such Shares) and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of the relevant Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

5.9.4 *Deposit Date and Stock Acquisition Date:*

- (i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit Time falls is hereinafter referred to as the "Deposit Date" applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;
- (ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate therefor will become effective, at 11:59 p.m. (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond);

- (iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and
- (iv) If deposit of the Conversion Notice is made on a day which is not a Business Day or after 4:00 p.m. in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such Business Day.

At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its time of deposit. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.

5.9.5 *Delivery of Shares:* The Company shall procure that the relevant Agent shall, with effect as at the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law or regulation (including any administrative order or guidelines issued by any relevant authority) or the Articles of Incorporation or the share handling regulations of the Company:

- (i) as soon as practicable and in any event within 14 days after the Stock Acquisition Date, in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution), and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purposes of such transfer); and
- (ii) as soon as practicable, the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice as soon as practicable, and in any event within 21 days after the Stock Acquisition Date, despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than Shares) required to be delivered upon exercise (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid) and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital:* With effect as at the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article

17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6 Certain Corporate Events

6.1 Corporate Events

In the case of a proposal for:

- (i) any Merger Event; or
- (ii) any Asset Transfer Event; or
- (iii) any Corporate Split Event; or
- (iv) any Holding Company Event; or
- (v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a “Corporate Event”) pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a “New Obligor”),

the following provisions of this Condition 6 shall apply.

6.2 Notice of Proposal

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 Notice of Passing of Resolution

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company’s proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its “Corporate Event Effective Date”.

6.4 Transfer of Obligations Following a Corporate Event

6.4.1 *Transfer:* If a Corporate Event occurs and

- (i) it is legally possible under then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;
- (ii) a practical structure for such substitution and grant has been or can be established; and
- (iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed

and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

- 6.4.2** *Listing:* In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as “Listing”) on the relevant Corporate Event Effective Date.
- 6.4.3** *Condition:* The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

6.5 New Stock Acquisition Rights

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

- 6.5.1** *Number of the New Stock Acquisition Rights to be Granted:* The number of the New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;
- 6.5.2** *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;
- 6.5.3** *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by the New Obligor by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and
- (i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the “Number of Deliverable Shares”) receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the “Number of Held Shares”) which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or
 - (ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall, upon its exercise immediately after the Corporate Event Effective Date, receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the “New Obligor Current Market Price per Share” means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

- 6.5.4** *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof:* Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;
- 6.5.5** *Exercise Period of the New Stock Acquisition Rights:* The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;
- 6.5.6** *Other Conditions for the Exercise of the New Stock Acquisition Rights:* No New Stock Acquisition Right may be exercised in part, and the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.9;
- 6.5.7** *Acquisition at the Option of the New Obligor:* The New Stock Acquisition Rights together with the Bonds may be acquired by the New Obligor substantially in the same manner as described in Condition 7.2;
- 6.5.8** *Amount of Stated Capital and Additional Paid-in Capital:* As at the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and
- 6.5.9** *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 No Statutory Put Rights

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 Subsequent Corporate Events

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7 Redemption, Acquisition, Purchase and Cancellation

7.1 Final Maturity

Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on 29 March 2030. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 Acquisition at the Option of the Company

7.2.1 *Acquisition Notice:* At any time during the Acquisition Notice Period, and subject to the Shares being listed on the Relevant Stock Exchange, the Company may, but shall not be bound to, give notice (the “Acquisition Notice”) to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), to acquire from those Bondholders which deliver a duly completed Acquisition Election Notice, on or after the date of the Acquisition Notice, and on or before 22 February 2030 (the “Acquisition Determination Date”) pursuant to Condition 7.2.2, the Bonds which are the subject of such Acquisition Election Notice outstanding on 8 March 2030 (the “Acquisition Option Date”). Upon giving such notice, all such Bonds which are the subject of a duly completed Acquisition Election Notice shall be deemed to be so acquired by the Company on the Acquisition Option Date. Each Bondholder which delivers a duly completed Acquisition Election Notice, by accepting or acquiring any Bond, agrees that the relevant Bond shall be so acquired by the Company on the Acquisition Option Date.

Subject to Conditions 7.2.2, 7.2.3 and 7.2.4, the Company shall, as consideration for each Bond (including the Stock Acquisition Rights) acquired by the Company:

- (i) pay in the same manner as provided in Condition 8, an amount equal to 100 per cent of the principal amount of the Bonds on the Acquisition Option Date in cash; and
- (ii) issue and deliver the Acquisition Shares in accordance with Condition 7.2.2, if any, registered in the name of the Custodian or its nominee, with effect as of the Acquisition Option Date,

in each case, to the Bondholders which have delivered a duly completed Acquisition Election Notice.

Any expenses or taxes incurred in connection with the acquisition of the Bonds by the Company and the delivery of the Acquisition Shares pursuant to this Condition 7.2 shall be borne by the Company.

Bonds that have been so acquired by the Company shall be cancelled upon acquisition in accordance with these Conditions, and all Certificates in respect of Bonds so cancelled shall be promptly forwarded to the Principal Agent for cancellation.

In these Conditions:

“Acquisition Shares” means such number of Shares per Bond, if positive, calculated in accordance with the formula below:

$$\text{Acquisition Shares} = \frac{\text{The amount by which the Acquisition Share Value exceeds the principal amount of each Bond}}{\text{Average VWAP per Share}}$$

provided that:

- (i) fractions of a Share shall be disregarded and no adjustment or cash payment will be made in respect thereof; and
- (ii) if during the period from but excluding the last day of the Relevant VWAP Period to but excluding the Acquisition Option Date any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the Acquisition Option Date) to the Conversion Price under the provisions of Condition 5.2, the Acquisition Shares, as determined above, shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained).

“Acquisition Share Value” means the yen amount per Bond calculated in accordance with the formula below:

$$\frac{\text{Principal Amount of the Bond}}{\text{Last Day Conversion Price}} \times \text{Average VWAP per Share}$$

“Average VWAP per Share” means the average of the Volume Weighted Average Prices (“VWAP”) of the Shares reported by the Relevant Stock Exchange on each of the Trading Days during the Relevant VWAP Period, provided that:

- (i) if an Ex-Dividend Date falls, or will fall, within the period from but excluding the first day of the Relevant VWAP Period to and including the Acquisition Option Date, the Average VWAP per Share used as the denominator in the formula for calculating the Acquisition Shares (as set out in the definition of “Acquisition Shares”) shall be adjusted by subtracting the Dividend Adjustment Amount from the VWAP of the Shares on each Trading Day during the period from and including the first day of the Relevant VWAP Period to and including the earlier of (x) the Trading Day immediately prior to the Ex-Dividend Date and (y) the last day of the Relevant VWAP Period;
- (ii) if an Ex-Dividend Date falls within the period from and including the third Tokyo Business Day after the date of the Acquisition Notice to and including the last day of the Relevant VWAP Period, the Average VWAP per Share for the purpose of calculating the Acquisition Share Value (as set out in the definition of “Acquisition Share Value”) shall be adjusted by adding the Dividend Adjustment Amount to the VWAP of the Shares reported by the Relevant Stock Exchange in yen on each Trading Day during the period from and including the later of (x) the Ex-Dividend Date and (y) the first day of the Relevant VWAP Period, to and including the last day of the Relevant VWAP Period;
- (iii) if on any Trading Day within the Relevant VWAP Period, VWAP of the Shares is not reported by, nor otherwise available from, the Relevant Stock Exchange, or VWAP reported by the Relevant Stock Exchange is manifestly incorrect, the average trading prices of the Shares using a volume weighted method on the Relevant Stock Exchange on such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company in its sole discretion (acting in a commercially reasonable manner) shall be deemed to be the VWAP on such Trading Day (but subject to adjustment pursuant to (a) and/or (b) above, if required); and
- (iv) if during the Relevant VWAP Period any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the last day of the Relevant VWAP Period) to the Conversion Price under the provisions of Condition 5.2, the Average VWAP per Share as determined above shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained) in order to compensate for the effect of such event.

The Company shall give notice to the Bondholders in accordance with Condition 19 of the Average VWAP per Share as soon as reasonably practicable upon determination thereof.

As a consequence of the adjustments identified in (i) and (ii) above, the Average VWAP per Share for the purposes of calculating the Acquisition Shares may differ from the Average VWAP per Share used for the purposes of calculating the Acquisition Share Value.

“Dividend Adjustment Amount” for the purposes of the calculation of an adjustment to the Average VWAP per Share means the amount determined by the Company as of the last day of the Relevant VWAP Period, which shall be:

- (i) the expected cash dividend per Share most recently publicly announced by the Company with respect to the Record Date relating to the relevant Ex-Dividend Date; or
- (ii) if no public announcement has been made as to an expected cash dividend per Share as set out in (i) above, the actual cash dividend per Share in respect of the corresponding Record Date one year prior to the relevant Record Date; or
- (iii) if, in the opinion of the Company, neither the expected nor the actual cash dividend as set out in (i) or (ii) above (as the case may be) provides a reasonable basis for adjustment of the Average VWAP per Share, the amount determined by the Company in its sole discretion as being appropriate and fair to give effect to the impact of the Ex-Dividend Date on the relevant VWAP.

For the purposes of this Condition 7.2.1, a “dividend” means a “distribution of surplus”, within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

“Ex-Dividend Date” means the Tokyo Business Day immediately prior to any Record Date for a dividend declared or to be declared by the Company (provided that if such Record Date falls on a date that is not a Tokyo Business Day, then the Ex-Dividend Date means the second Tokyo Business Day immediately prior to such Record Date); provided further that if, in the opinion of the Company, there has been a change to the mandatory provisions of Japanese law, regulation or practice which affects the timing or application of ex-dividend dates, the definition of Ex-Dividend Date may be amended by the Company, and/or the Company may make such other changes to this Condition 7.2.1 as it shall consider appropriate and fair, in each case, to the extent permitted by applicable law and to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders, and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

“Last Day Conversion Price” means the Conversion Price in effect on the last day of the Relevant VWAP Period.

“Relevant VWAP Period” means the 20 consecutive Trading Days beginning on, and including, the 30th Trading Day prior to the Acquisition Option Date.

All calculations with respect to the Acquisition Share Value and the Average VWAP per Share shall be made to the nearest one-tenth of a yen, with five one-hundredths or more of a yen to be considered a full tenth.

- 7.2.2** Acquisition Election Notice: In order to elect to have its Bonds acquired by the Company and to obtain delivery of the Acquisition Shares (if any) pursuant to this Condition 7.2, the electing Bondholder must deliver to the specified office of an Agent, on or after the date of the Acquisition Notice and no later than the Acquisition Determination Date, a duly completed election notice substantially in the form set out in the Agency Agreement (an “Acquisition Election Notice”, a copy of which may be obtained from the specified office of any Agent) with respect to all, but not part, of the Bonds held by such Bondholder, together with the relevant Certificates for the relevant Bonds held by it and to which the Acquisition Election Notice relates. An Acquisition Election Notice shall be irrevocable once delivered.

At any time when the relevant Bonds are evidenced by the Global Certificate, the Bondholder shall, in lieu of depositing the Acquisition Election Notice in the manner aforesaid, transmit the Acquisition Election Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto.

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including but not limited to any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company, delivery of the Acquisition Shares by or on behalf of the Company pursuant to this Condition 7.2 will be made on or as soon as practicable after the Acquisition Option Date in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent will transfer the relevant Acquisition Shares to or to the order of the relevant Bondholders at such account maintained with an Account Management Institution in Japan as specified in the relevant Acquisition Election Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian’s Agent as aforesaid or such instruction given by the relevant Bondholder in the relevant Acquisition Election Notice is inaccurate, incomplete or insufficient for the purposes of such transfer). The provisions of Condition 5.1.10 shall apply with any necessary changes to the Acquisition Shares with references to the Stock Acquisition Date therein being construed as references to the Acquisition Option Date.

Any determination as to whether an Acquisition Election Notice has been properly completed and delivered as provided in these Conditions shall be made by the Principal Agent in its sole discretion and shall be conclusive and binding on the relevant Bondholders, the Company and the Trustee.

An Acquisition Election Notice may be delivered by a holder with respect to one or more Bonds. To the extent that an Acquisition Election Notice is delivered with respect to more than one Bond, the

number of Acquisition Shares to be delivered pursuant to this Condition 7.2 shall be calculated on the basis of the aggregate number of Bonds referred to in such Acquisition Election Notice.

- 7.2.3** *Bonds in Respect of Which an Acquisition Election Notice was Not Delivered:* If, on the day immediately following the Acquisition Determination Date, there are any Bonds in respect of which a duly completed Acquisition Election Notice has not been received by an Agent on or prior to the Acquisition Determination Date (“Bonds without Acquisition Election Notice”), such Bonds without Acquisition Election Notice shall be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date (the “Elected Redemption Date”), and payment in respect thereof shall be made in accordance with Condition 8.
- 7.2.4** *Acquisition Notice Void:* Notwithstanding the provisions of Condition 7.2.1, if the Shares are not listed on the Relevant Stock Exchange on the Acquisition Option Date, the Acquisition Notice shall be treated as null and void and the relevant Bonds will be redeemed, subject as provided herein, for cash in accordance with the provisions of Condition 7 other than this Condition 7.2 and payment in respect thereof shall be made in accordance with Condition 8.

If the Company becomes aware, after the Acquisition Notice having been given, that the Shares will not be listed on the Relevant Stock Exchange on the Acquisition Option Date (other than in the circumstances set out in Condition 7.6 in which case the provisions of Condition 7.6 shall apply), the Company shall give notice of the nullification of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon becoming so aware, provided that failure to give such notice shall not invalidate such nullification.

- 7.2.5** *Exercise of Stock Acquisition Rights:* The Company’s right to acquire the Bonds in the manner set forth in this Condition 7.2 does not affect a Bondholder’s right to exercise its Stock Acquisition Rights hereunder during the Exercise Period. For the avoidance of doubt, in the case of an acquisition pursuant to this Condition 7.2 (where an Acquisition Notice is duly given by the Company), the Stock Acquisition Rights may not be exercised during the period from and including 1 January 2030 to and including the Elected Redemption Date, subject to Condition 7.2.4.

7.3 Redemption at the Option of the Company upon Reduced Outstanding Amounts

The Company may, but shall not be bound to, having given not less than 30 nor more than 60 days’ prior notice (the “Clean-up Redemption Notice”) to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof.

7.4 Redemption for Taxation Reasons

The Company may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days’ prior notice (the “Tax Redemption Notice”) to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the “Tax Redemption Date”), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice that (i) it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 January 2024 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or Authorised Officer stating that the obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate without further investigation as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the

giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as at the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.5 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate without further investigation as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to 15 March 2030, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)									
	<u>70.00</u>	<u>80.00</u>	<u>90.00</u>	<u>100.00</u>	<u>110.00</u>	<u>120.00</u>	<u>130.00</u>	<u>140.00</u>	<u>150.00</u>	<u>160.00</u>
29 January 2024	96.47	99.28	103.15	108.15	114.32	121.69	130.26	140.00	150.00	160.00
29 January 2025	96.65	99.31	103.06	108.01	114.18	121.58	130.22	140.00	150.00	160.00
29 January 2026	96.94	99.38	102.98	107.84	114.00	121.44	130.16	140.00	150.00	160.00
29 January 2027	97.30	99.44	102.81	107.55	113.70	121.23	130.09	140.00	150.00	160.00
29 January 2028	97.75	99.43	102.45	107.02	113.19	120.89	130.00	140.00	150.00	160.00
29 January 2029	98.41	99.35	101.67	105.91	112.21	120.35	130.00	140.00	150.00	160.00
29 January 2030	99.72	99.72	99.90	102.44	110.06	120.00	130.00	140.00	150.00	160.00
15 March 2030	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00

“Reference Parity” means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and
- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
 - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or
 - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

- (x) if the Reference Parity falls between two numbers in the first row of the above table and/or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;
- (y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and
- (z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is less than 100.00 per cent, the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is more than 160.00 per cent, the Corporate Event Redemption Price shall be 160.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 16 March 2030 to (and excluding) 29 March 2030, the Corporate Event Redemption Price shall be 100.00 per cent.

7.6 Redemption on Delisting of the Shares

7.6.1 *Offers and Redemption:* If (i) any offer is made by a party or parties (the “Offeror”) other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares, (ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act, (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition), and (iv) the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume, without being required to take any action and without liability to any person, until it has written notice to the contrary that the Offeror has not so acquired any Shares.

7.6.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.6.3 *Offer Followed by Corporate Event or Squeezeout Event:* Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company’s obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.6.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.6.1 without being subject to the provisions of this Condition 7.6.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.6.4 *Irrevocable Notice:* Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.5 *Notice to Bondholders:* Upon the occurrence of:

- (a) any of the events set out in (i) through (iv) of Condition 7.6.1; or
- (b) any of the events set out in Condition 7.6.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

7.7 Squeezeout Redemption

7.7.1 *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be; provided however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

7.7.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the amount of cash which the holder of a Share would receive in exchange for Shares following the Squeezeout Event, divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.8 Purchase of Bonds by the Company

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.9 Cancellation

All Bonds which are redeemed or acquired or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

7.10 Notice of Redemption or Acquisition

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(a) or within 15 days following the last day of a Closed Period.

7.11 Priorities among Redemption and Acquisition Provisions

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.2.4 and 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

If the Company becomes obliged to redeem the Bonds pursuant to both Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

8 Payments

8.1 Method of Payment

Payments in respect of principal, default interest (if any) and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date for payment thereof, by transfer to its Registered Account. All payments are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

"Registered Account" means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date of payment.

8.2 Agents

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to (in respect of the Principal Agent, the Registrar and any other Agent only) the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar, the Calculation Agent or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) a Calculation Agent. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar, the Calculation Agent or any other Agent will be given to the Bondholders in accordance with Condition 19.

8.3 Payments on Payment Business Days

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. "Payment Business Day" means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

9 Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

- (i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or the receipt of payment in respect of any Bond; or
- (ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting such Certificate for payment as at the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds in accordance with and subject to Condition 7.4.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service ("FATCA withholding"). Further, the Company will have no obligation to otherwise indemnify for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

As used herein, the "Due Date" for any payment means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable at their principal amount together with accrued interest (if any) to the date of payment on the occurrence of any of the following events:

- 10.1** *Non-Payment*: the Company defaults in the payment of principal of any of the Bonds under Condition 7.4 as and when the same shall become due and payable, and such default is not remedied within seven days; or

- 10.2** *Breach of Obligations:* the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay principal in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or
- 10.3** *Cross Default on Indebtedness:* the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (on demand or otherwise) (or at the expiration of any applicable grace period as originally provided); or
- 10.4** *Cross Default on Guarantee/Indemnity:* the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or
- 10.5** *Initiation of Insolvency Proceedings:* proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- 10.6** *Decree of Insolvency/Dissolution:* a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or
- 10.7** *Resolution for Dissolution:* a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:
- 10.7.1** (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation, or, (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.7.2** if the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or
- 10.8** *Institution of Insolvency Proceedings:* the Company or any Principal Subsidiary institutes proceedings seeking adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any

such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or

10.9 *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

10.10 *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business, or (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.2 the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Condition 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee, in forming any opinion or in making any determination under or required or contemplated by this Condition 10, may exercise any or all of the rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law and may also seek instructions or directions from the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than yen may be translated into yen at the spot rate for the sale of relevant currency against the purchase of yen quoted by any leading bank selected in its sole discretion by the Trustee on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with premium, if any, and default interest) as provided in the Trust Deed.

11 Undertakings

11.1 Undertakings with Respect to the Stock Acquisition Rights

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

- 11.1.2** *Transfers*: not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;
- 11.1.3** *Fiscal Year and Record Date*: give notice to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its fiscal year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;
- 11.1.4** *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that, (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan, and (ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.5, 7.6 or 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1, or (z) proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyū*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing after the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);
- 11.1.5** *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);
- 11.1.6** *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;
- 11.1.7** *Limitation on Reduction of Conversion Price*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;
- 11.1.8** *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to

the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and

11.1.9 Consents: obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 Charges

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the Registrar, the other Agents, the Custodian, the Custodian's Agent and the Calculation Agent (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities pursuant to Condition 5.9.5 following such deposit.

12 Substitution

12.1 Substitution other than under a Corporate Event

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate and (ii) satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

When determining pursuant to these Conditions whether an event or circumstance is materially prejudicial to the interests of Bondholders, the Trustee may obtain such directions from Bondholders and/or expert advice as it considers appropriate and rely thereon without responsibility or liability to the Bondholders or any person for delay occasioned by so doing.

Further conditions to such substitution are set out in the Trust Deed.

12.2 Substitution under a Corporate Event

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

- (i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New

Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director of the Company that, as at the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);
- (iv) a Representative Director of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);
- (v) the Company shall have certified (by a certificate of a Representative Director) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 Release of Obligations

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

12.4 Deemed Amendment

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

- (i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13 Prescription

Claims in respect of the Bonds will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14 Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Meetings of Bondholders; Modification and Waiver

15.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, inter alia, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders. A meeting of Bondholders may be held electronically in accordance with the procedures set out in the Trust Deed.

15.2 Modification and Waiver

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds or determine that any Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and shall be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.2, 7.5 and/or 7.7 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such

supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 Authority to the Trustee

To the fullest extent permitted by applicable law, by acquiring a Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16 Enforcement

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within a reasonable time following such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

17 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors or the Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a monetary cap or otherwise; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18 Independent Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

19 Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20 Contracts (Rights of Third Parties) Act 1999

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21 Governing Law and Submission to Jurisdiction

21.1 Governing Law

The Trust Deed, the Agency Agreement and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (“Proceedings”) may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 Agent for Service of Process

The Company has irrevocably appointed Cogency Global (UK) Limited as its agent in England to receive service of process in any Proceedings in England. If for any reason Cogency Global (UK) Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Trust Deed and the Global Certificates contain provisions which apply to the Bonds in respect of which the Global Certificates are issued, some of which modify the effect of the Conditions of the 2029 Bonds and the 2030 Bonds set out in this Offering Circular. Terms defined in the Conditions of the 2029 Bonds and the 2030 Bonds have the same meanings in the paragraphs below. The following is a summary of those provisions.

Notices

So long as any Series of Bonds are evidenced by a Global Certificate and such Global Certificate is registered in the name of a nominee on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system as shall have been approved in writing by the Trustee (the “Alternative Clearing System”), notices required to be given to the Bondholders of such Series of Bonds shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System for communication by it to the entitled accountholders in substitution for publication and mailing as required by the Conditions of the 2029 Bonds or the 2030 Bonds, as the case may be. Such notices shall be deemed to have been given in accordance with the Conditions of the 2029 Bonds or the 2030 Bonds, as the case may be, on the date of delivery to Euroclear or Clearstream, Luxembourg or such Alternative Clearing System.

Meetings

The registered holder of the Bonds of any Series of Bonds (or any proxy or representative appointed by it) in respect of which a Global Certificate is issued shall (unless such Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders of such Series of Bonds and, at any such meeting, as having one vote in respect of each such Bond in respect of which such Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to such Bonds in respect of which such Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders of such Series of Bonds on appropriate proof of his identity.

Exercise of Stock Acquisition Rights

Subject to the requirements of Euroclear or Clearstream, Luxembourg or Alternative Clearing System, the Stock Acquisition Right incorporated in a Bond in respect of which a Global Certificate is issued may be exercised by the transmission in electronic form to any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bond and otherwise in accordance with the procedures of Euroclear or Clearstream, Luxembourg or Alternative Clearing System. Deposit of such Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of such Global Certificate.

Parity Event

A Parity Notification Event Notice may be given to the Company by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond and evidence of such holding to the satisfaction of the Company. Parity Notification Event Notices should be submitted in accordance with Condition 5.1.9 of the Conditions for the relevant Series of Bonds rather than through the systems of Euroclear, Clearstream, Luxembourg or Alternative Clearing System.

Payments

Payments of principal and premium (if any) and any other amount in respect of any Series of Bonds evidenced by a Global Certificate shall be made against presentation of, or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, such Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the relevant Bondholders of such Series of Bonds for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register on the close of business on the Clearing System Business Day immediately prior to the date of payment, where “Clearing System Business Day” means Monday to Friday inclusive, except 25 December and 1 January.

So long as a Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, a “Payment Business Day” for the purposes of Condition 8.3 of the Conditions for the relevant Series of Bonds shall be any day on which dealings in foreign currency may be carried out in Tokyo.

Transfers

Transfers of interests in any Series of Bonds in respect of which a Global Certificate is issued shall be effected through the records of Euroclear or Clearstream, Luxembourg (or an Alternative Clearing System) and their respective

participants in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg or Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

Prescription

Claims in respect of any Series of Bonds in respect of which a Global Certificate is issued shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions for the relevant Series of Bonds) in respect of such Series of Bonds.

Trustee's Powers

Notwithstanding anything contained in the Trust Deed, in considering the interests of Bondholders of any Series of Bonds evidenced by a Global Certificate while such Global Certificate is registered in the name of a nominee for any one or more of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of such clearing system or its operator as to the identity of its accountholders (either individually or by category) with entitlements to such Series of Bonds in respect of which such Global Certificate is issued and may consider such interests (and treat such accountholders) as if such accountholders were the holders of such Series of Bonds in respect of which such Global Certificate is issued.

Cancellation

Cancellation of any Bond in respect of which the Global Certificate is issued pursuant to the Conditions of the 2029 Bonds or the 2030 Bonds, as the case may be, will be effected by a reduction in the principal amount of the Bonds in the Register of such Series of Bonds and the endorsement (for information only) of such Global Certificate by the Principal Agent.

Early Redemption or Acquisition by the Company

The options and obligations of the Company to redeem or acquire any Series of Bonds prior to maturity provided for in any of Conditions 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 of the Conditions for the relevant Series of Bonds shall be exercised or performed by the Company giving notice to the Bondholders within the time limits set out therein and containing the information required of the Company in accordance with the relevant Condition.

If the Company exercises its option to acquire Bonds under Condition 7.2 of the Conditions for the relevant Series of Bonds, subject to the requirements of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, an Acquisition Election Notice may be duly completed by, or on behalf of, an accountholder in such system with an entitlement to the relevant Bonds as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems. Deposit of the Global Certificate with an Agent shall not be required.

Election of Bondholders

The election of the Bondholders of any Series of Bonds provided for in Condition 7.4 of the Conditions for the relevant Series of Bonds may be exercised by the holder of the Bonds evidenced by a Global Certificate by giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and within the time limits relating thereto set out in the relevant Condition and otherwise in accordance with the procedures of the relevant clearing system in the form acceptable thereto from time to time.

Electronic Consent

While a Global Certificate is registered in the name of any nominee, or a nominee for any common depository for, a clearing system, then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of any Series of Bonds of not less than 90 per cent in nominal amount of such Bonds then outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes, take effect as an extraordinary resolution passed at a meeting of Bondholders of such Series of Bonds duly convened and held, and shall be binding on all Bondholders of such Series of Bonds whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, subject to certain requirements set out in the Trust Deed, the Company and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Trustee, as the case may be, (i) by accountholders in the relevant clearing system with entitlements to such Bonds evidenced by such Global Certificate or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to be approximately ¥200 billion after deducting expenses. The Company intends to apply the net proceeds as follows:

- approximately ¥120 billion towards part of the investment in real estate development under the 7th Medium-Term Management Plan; and
- approximately ¥80 billion towards the repurchase of Shares (as further described in “Information Concerning the Shares—Proposed Share Repurchase by the Company”).

To the extent that the Company repurchases any Shares prior to Closing Date in respect of the Bonds using cash reserves and borrowings, the Company intends to use net proceeds from the offering of the Bonds to replenish such cash reserves or to repay such borrowings. As the amount for which the Company is able to repurchase is dependent on, among other things, market conditions, to the extent that any such proceeds remain after the implementation of such repurchase, such proceeds may be used towards investments in the Group’s real estate developments.

INFORMATION CONCERNING THE SHARES

Authorised and Issued Share Capital

As of the date of this Offering Circular, the Company had an authorised share capital of 1,900,000,000 Shares. As of 30 September 2023, 659,351,820 Shares were issued and outstanding. The following table shows recent changes in issued share capital as of the dates indicated:

Period/Date	Description	Changes in number of Shares	Total number of issued and outstanding Shares
26 August 2022	Issue of Restricted Stocks under the Performance-linked Restricted Stock Compensation System	90,870	666,329,075
30 September 2022	Cancellation of treasury stock	38,124	666,290,951
31 May 2023	Cancellation of treasury stock	7,000,000	659,290,951
28 August 2023	Issue of Restricted Stocks under the Subsequent Delivery-type Restricted Stock Compensation System and Performance-linked Restricted Stock Compensation System	60,869	659,351,820

There has been no change in the Company's issued share capital since 30 September 2023.

Japanese Stock Market and Price Range of the Shares

In 1961, the Company listed its shares on the Osaka Securities Exchange, and shortly thereafter on the Tokyo Stock Exchange and the Nagoya Stock Exchange. The Company moved its listing to the Tokyo Stock Exchange's Prime Market following revision to the Tokyo Stock Exchange's market segments from 4 April 2022. The following table sets forth, for the periods indicated, (i) the highs and lows of the reported trading sales prices of the Shares on the Tokyo Stock Exchange, (ii) the highs and lows of the daily closing Nikkei Stock Average, an index of 225 selected stocks listed on the Prime Market of the Tokyo Stock Exchange, (iii) the highs and lows of the daily closing TSE Prime Market Index, an index of the market value of all Japanese stocks listed on the Prime Market of the Tokyo Stock Exchange and (iv) the highs and lows of the daily closing Tokyo Stock Price Index (TOPIX), an index of the market value of all Japanese stocks listed on the Prime Market of the Tokyo Stock Exchange:

Calendar period	Price per Share		Nikkei Stock Average		TSE Prime Market Index		TOPIX	
	High	Low	High	Low	High	Low	High	Low
	(Yen)				(Points)			
2018	4,594	3,119	24,270.62	19,155.74	—	—	1,911.07	1,415.55
2019	3,819	2,840.5	24,066.12	19,561.96	—	—	1,747.20	1,471.16
2020	3,647	2,230.5	27,568.15	16,552.83	—	—	1,819.18	1,236.34
2021	3,900	2,911.0	30,670.10	27,013.25	—	—	2,118.87	1,791.22
2022:								
1st quarter	3,477	3,037	29,332.16	24,717.53	—	—	2,039.27	1,758.89
2nd quarter	3,239	2,946.0	28,246.53	25,748.72	1,013.53	935.78	1,969.98	1,818.94
3rd quarter	3,320	2,914.0	29,222.77	25,935.62	1,032.75	944.64	2,006.99	1,835.94
4th quarter	3,250	2,907.5	28,383.09	26,093.67	1,038.78	950.61	2,018.80	1,847.58
2023:								
1st quarter	3,255	2,933.0	28,623.15	25,716.86	1,065.73	961.23	2,071.09	1,868.15
2nd quarter	3,885	3,080	33,706.08	27,472.63	1,183.76	1,009.17	2,300.36	1,961.28
3rd quarter	4,259	3,612	33,753.33	31,450.76	1,250.79	1,143.20	2,430.30	2,221.48
4th quarter	4,416	3,854	33,681.24	30,526.88	1,230.61	1,141.87	2,391.05	2,218.89
2024:								
1st quarter (up to 11 January)	4,682	4,260	35,049.86	33,288.29	1,277.62	1,223.93	2,482.87	2,378.79

On 11 January 2024, the last reported closing price of the Shares on the Tokyo Stock Exchange was ¥4,655 per Share and the Nikkei Stock Average, the TSE Prime Market Index and TOPIX closed at ¥35,049.86, 1,277.62 and 2,482.87, respectively.

Dividends

Year-end dividends may be recommended by the Company's Board of Directors and approved by shareholders at the ordinary general meeting of shareholders customarily held in June of each year. If a year-end dividend is approved at the meeting, year-end dividend payments are made promptly thereafter to shareholders and pledgees of record as of 31 March of the relevant year. In addition to year-end dividends, the Company may, by resolution of its Board of Directors and subject to certain restrictions, make interim dividend payments in the form of cash distributions from its funds available for dividends to shareholders and pledgees of record as of 30 September of each year. The Company may also make dividends other than those described above with the approval of its shareholders at a general meeting of shareholders and subject to certain restrictions. The payment of dividends will also be subject to other factors, including legal restrictions with respect to the payment of dividends. See "Description of the Shares and Certain Regulations—Distributions of Surplus".

The Company's basic policy on shareholder returns is to increase shareholder value by returning profits to shareholders through business activities, as well as investing funds in growth investments such as property development investment, overseas business expansion, M&A, research and development and production facilities, in order to maximise corporate value over the medium to long term and increasing net profit per share.

The following table sets forth the dividends paid by the Company for each of the periods shown:

Record Date	Dividend per Share
	<i>(Yen)</i>
30 September 2018	50.00
31 March 2019	64.00
30 September 2019	55.00
31 March 2020	60.00
30 September 2020	50.00
31 March 2021	66.00
30 September 2021	55.00
31 March 2022	71.00
30 September 2022	60.00
31 March 2023	70.00
30 September 2023	63.00

Principal Shareholders and Other Information

As of 30 September 2023, the Company had 74,197 shareholders of record. The table below shows information about the ownership of Shares as of 30 September 2023 by the Company's ten largest shareholders, as appearing on the register of shareholders.

Shareholder	Number of Shares held	Percentage of total Shares in issue
	<i>(Thousand Shares)</i>	<i>(Per cent)</i>
The Master Trust Bank of Japan, Ltd. (Trust Account) ⁽¹⁾	107,735	16.39%
Custody Bank of Japan, Ltd. (Trust Account) ⁽¹⁾	45,766	6.96
Sumitomo Mitsui Banking Corporation	14,505	2.20
Daiwa House Industry Employee Shareholders Association	14,380	2.18
STATE STREET BANK WEST CLIENT – TREATY 505234	12,068	1.83
Nippon Life Insurance Company	11,944	1.81
SSBTC CLIENT OMNIBUS ACCOUNT	9,850	1.49
JPMorgan Securities Japan Co., Ltd.	9,143	1.39
JP MORGAN CHASE BANK 385781	8,780	1.33
MUFG Bank, Ltd.	8,531	1.29
Total	242,707	36.93%

Notes:

- (1) Shares held by The Master Trust Bank of Japan, Ltd. and Custody Bank of Japan, Ltd. are held in trust for the benefit of their representative trust beneficiaries.
- (2) The above table excludes treasury stock.
- (3) The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than 5 per cent of the total shares of a company that is listed on any Japanese stock exchange to file a report concerning such shareholdings with the Director of the relevant Local Finance Bureau of the Ministry of Finance, and also require such person to file an amendment concerning any subsequent changes of 1 per cent or more of the total issued shares in such substantial shareholdings or any change in material matters set out in reports previously filed (see “Description of the Shares and Certain Regulations—Reporting of Substantial Shareholdings”).

As of the date of this Offering Circular, the Company is aware of the following reports in relation to which the Company was unable to confirm beneficial ownership as of 30 September 2023:

- according to a report of change in substantial holding filed on 21 July 2023 under the FIEA, as of 14 July 2023, the following shareholders held the Shares of the Company’s common stock as shown below, which is not reflected in the table above;

Shareholder	Number of Shares held on record (Thousand Shares)	Percentage of outstanding Shares
Sumitomo Mitsui Trust Bank, Limited	7,200	1.09%
Sumitomo Mitsui Trust Asset Management Co., Ltd.	20,123	3.05%
Nikko Asset Management Co., Ltd.	15,559	2.36%

- according to a report of change in substantial holding filed on 16 October 2023 under the FIEA, as of 9 October 2023, the following shareholders held the Shares of the Company’s common stock as shown below, which is not reflected in the table above;

Shareholder	Number of Shares held on record (Thousand Shares)	Percentage of outstanding Shares
MUFG Bank, Ltd.	8,531	1.29%
Mitsubishi UFJ Trust and Banking Corporation	17,393	2.64%
Mitsubishi UFJ Asset Management Co., Ltd.	7,168	1.09%
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1,468	0.22%
MUFG Securities EMEA plc	120	0.02%

- according to a report of change in substantial holding filed on 5 December 2023 under the FIEA, as of 30 November 2023, the following shareholders held the Shares of the Company’s common stock as shown below, which is not reflected in the table above;

Shareholder	Number of Shares held on record (Thousand Shares)	Percentage of outstanding Shares
BlackRock Japan Co., Ltd.	12,874	1.95%
Aperio Group, LLC	2,399	0.36%
BlackRock Investment Management LLC	715	0.11%
BlackRock Investment Management (Australia) Limited	747	0.11%
BlackRock (Netherlands) BV	1,232	0.19%
BlackRock Fund Managers Limited	2,431	0.37%
BlackRock Asset Management Ireland Limited	5,677	0.86%
BlackRock Fund Advisors	12,640	1.92%
BlackRock Institutional Trust Company, N.A.	8,619	1.31%
BlackRock Investment Management (UK) Limited	762	0.12%

The ownership distribution of the Shares by category of shareholders of record as of 31 March 2023 (being the most recent date as of which the information is available) was as follows:

	Number of Shares held⁽¹⁾	Percentage of total Shares in issue
	<i>(Unit Shares)</i>	<i>(Per cent)</i>
Government and municipal bodies	—	—%
Japanese financial institutions	2,872,823	43.16
Japanese financial instruments business operators	428,377	6.44
Other Japanese corporations	500,252	7.52
Japanese individual investors and others ⁽²⁾	935,780	14.06
Foreign corporations and individual investors	1,919,279	28.83
Total	<u>6,656,511</u>	<u>100.00%</u>

Notes:

- (1) 100 Shares constitute one unit of Shares. See “Description of the Shares and Certain Regulations – Unit Share System”.
- (2) As of 31 March 2023, the Company held 7,419,650 Shares in treasury stock, of which 74,196 units of Shares were included in “Japanese individual investors and others” and 50 Shares were included in Shares not amounting to one unit of Shares.
- (3) The above table does not include 639,851 Shares not amounting to one unit of Shares.

As of 31 March 2023, the Company’s Directors together directly held 274 thousand Shares, representing 0.04 per cent of total Shares in issue at that date.

Proposed Share Repurchase by the Company

Concurrently with the offering of the Bonds, the Company announced on 11 January 2024 that its Board of Directors authorised the repurchase of up to 20,000,000 Shares (approximately 3.04 per cent of the issued Shares (excluding treasury stock) as of 31 December 2023) at a maximum cost of ¥80 billion from the market in the period from and including 12 January 2024 to and including 28 June 2024. The Company has decided to repurchase such Shares to improve capital efficiency and to ensure the smooth execution of financing through mitigating the potential short-term impact of the issuance of the Bonds on the market supply and demand of Shares.

The Company has also announced that for executing the abovementioned share repurchase plan, it intends to repurchase Shares up to a value of approximately ¥80 billion through the ToSTNeT-3 system at 8:45 a.m. (Tokyo time) on 12 January 2024 at the closing price of the Shares on the Tokyo Stock Exchange on 11 January 2024. The result of such repurchase will be announced in Japan on 12 January 2024. The Company is aware that certain shareholders intend to collectively sell approximately 5,003,700 Shares through the ToSTNeT-3 system as of 12 January 2024, although the number of Shares sold by existing shareholders may be more or less than this amount and the Company has no control over any such action. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is entirely dependent on the volume of Shares offered by investors at a certain price and at a certain time, there can be no assurance that such repurchase will be executed in full or at all.

The Tokyo Stock Exchange Trading Network System, or “ToSTNeT”, is a trading system which has fully computerised the trading process from order input to execution. ToSTNeT-3 is an off-market hour trading system specifically for use for the buy-back by issuers of their own shares and provides investors with the means of executing their sell orders at the Tokyo Stock Exchange’s prior-day closing prices at 8:45 a.m. (Tokyo time). If the number of shares for the aggregated sell orders exceeds the buy-back order, the sell orders will in principle be executed proportionally based on the number of shares at each sell order.

To the extent any Shares remain to be repurchased (within the maximum cost of ¥80 billion and the maximum number of 20,000,000 Shares) after the abovementioned repurchase through the ToSTNeT-3 system, the Company may repurchase further Shares on the auction market, at the market prices prevailing at the relevant time until 28 June 2024. There can however be no assurance that any such repurchase will be proposed by the Company as currently intended or, if proposed by the Company, executed in full, or at all.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the unaudited consolidated capitalisation and indebtedness of the Group as of 30 September 2023, and as adjusted to give effect to the issue of the Bonds:

	As of 30 September 2023	
	Actual	As adjusted
	<i>(Millions of yen)</i>	
Short-term debt:		
Short-term bank loans	¥ 242,539	¥ 242,539
Current portion of loans from banks	121,902	121,902
Total short-term debt	364,441	364,441
Long-term debt:		
Loans from banks	1,011,194	1,011,194
Bonds	659,000	659,000
The Bonds now being issued ⁽¹⁾	—	200,000
Total long-term debt	1,670,194	1,870,194
Net Assets		
Shareholders' equity:		
Common stock:		
Authorised: 1,900,000,000 Shares		
Issued: 659,351,820 Shares	161,957	161,957
Capital surplus	302,024	302,024
Retained earnings	1,801,227	1,801,227
Treasury stock: 2,219,273 Shares	(7,838)	(7,838)
Total shareholders' equity	2,257,371	2,257,371
Accumulated other comprehensive income:		
Unrealised gain on securities	48,982	48,982
Deferred loss on hedging instruments	(841)	(841)
Land revaluation reserve	9,450	9,450
Foreign currency translation adjustments	103,239	103,239
Total accumulated other comprehensive income	160,831	160,831
Non-controlling interests	98,314	98,314
Total net assets	2,516,516	2,516,516
Total capitalisation and indebtedness⁽²⁾	¥4,551,151	¥4,751,151

Notes:

- (1) For illustrative purposes only, the aggregate principal amount of the Bonds being offered has been presented as an indebtedness above.
- (2) Total capitalisation and indebtedness is the sum of total short-term debt, total long-term debt and total net assets.
- (3) Save as disclosed above, there has been no material change in the capitalisation and indebtedness since 30 September 2023.

SELECTED FINANCIAL AND OTHER DATA

The table below sets forth selected consolidated financial data of the Company as of and for each of the fiscal years ended 31 March 2021, 2022 and 2023, derived from the Company's audited consolidated financial statements and other consolidated financial data. The table below also sets forth selected consolidated financial data of the Company as of 30 September 2022 and 2023 and for the six months ended 30 September 2022 and 2023, derived from the Company's unaudited quarterly consolidated financial statements and other consolidated financial data.

	Year ended/as of 31 March			Six months ended/ as of 30 September	
	2021	2022	2023	2022	2023
<i>(Millions of yen, except otherwise indicated)</i>					
Statement of income data:					
Net sales	¥4,126,769	¥4,439,536	¥4,908,199	¥2,261,329	¥2,544,827
Cost of sales	3,299,886	3,574,853	3,953,004	1,843,231	2,072,857
Gross profit	826,883	864,682	955,194	418,097	471,969
Selling, general and administrative expenses	469,761	481,425	489,824	263,458	280,806
Operating income	357,121	383,256	465,370	154,639	191,163
Other income (expenses) ⁽¹⁾	(45,911)	(29,956)	(24,874)	3,368	40,113
Profit before income taxes	311,210	353,300	440,496	158,007	231,276
Profit	201,336	228,958	315,677	108,746	154,491
Profit attributable to owners of the parent	195,076	225,272	308,399	105,994	154,488
Balance sheet data:					
Total assets	¥5,053,052	¥5,521,662	¥6,142,067	¥5,980,120	¥6,336,366
Total liabilities	3,159,548	3,410,277	3,753,153	3,727,635	3,819,849
Total net assets	1,893,504	2,111,385	2,388,914	2,252,484	2,516,516
Statement of cash flows data:					
Net cash provided by (used in) operating activities	¥ 430,314	¥ 336,436	¥ 230,298	¥ (53,076)	¥ 91,327
Net cash used in investing activities	(389,980)	(467,423)	(505,181)	(273,011)	(116,417)
Net cash provided by financial activities	102,731	24,427	287,452	283,414	68,980
Other financial data:					
Operating income margin (per cent) ⁽²⁾	8.7%	8.6%	9.5%	6.8%	7.5%
Capital expenditures ⁽³⁾	372,904	425,807	518,143	295,654	171,229
Research and development costs	10,209	9,503	10,427	5,069	5,473
Interest-bearing debt ⁽⁴⁾	1,274,886	1,425,407	1,849,481	1,817,837	2,037,536
Debt-equity (D/E) ratio (times) ⁽⁵⁾	0.59	0.61	0.72	0.75	0.75
Return on assets (ROA) (per cent) ⁽⁶⁾	4.0%	4.3%	5.3%	—	—
Return on equity (ROE) (per cent) ⁽⁷⁾	11.0%	11.7%	14.3%	—	—

Notes:

- (1) Other income (expenses): profit before income taxes – operating income
- (2) Operating income margin: operating income ÷ net sales
- (3) Capital expenditures: increase in property, plant and equipment and intangible assets
- (4) Interest-bearing debt: short-term bank loans + current portion of long-term debt (excluding lease obligation) + interest-bearing debt included in other current liabilities (excluding lease obligation) + long-term debt (excluding lease obligation)
- (5) Debt-equity (D/E) ratio: interest-bearing debt ÷ (total net assets – non-controlling interests—stock acquisition rights (calculated by taking into account the equity credit of 50 percent employed in establishing the Company's credit rating for the ¥150 billion of publicly offered hybrid bonds (subordinated bonds) issued in September 2019 and ¥100 billion of hybrid loans (subordinated loans) procured in October 2020))
- (6) Return on assets (ROA): profit attributable to owners of the parent ÷ the average of total assets at the beginning of the fiscal year and at the end of the fiscal year. Total assets as of 31 March 2020 were ¥4,627,388 million.
- (7) Return on equity (ROE): profit attributable to owners of the parent ÷ the average of the sum of total shareholders' equity and total accumulated other comprehensive income at the beginning of the fiscal year and at the end of the fiscal year. The total shareholders' equity and total accumulated other comprehensive income as of 31 March 2020 were ¥1,678,671 million and ¥48,323 million, respectively.

RECENT BUSINESS

The following discussion should be read together with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Company as of and for each of the years ended 31 March 2022 and 2023 and the unaudited quarterly consolidated financial statements of the Company as of 30 September 2023 and for the six months ended 30 September 2023, in each case included elsewhere in this offering circular. The following discussion should also be read in conjunction with “Presentation of Financial and Other Information”.

Consolidated Results for the six months ended 30 September 2023 compared to the six months ended 30 September 2022

Overview

For the six months ended 30 September 2023, the Japanese economy saw normalisation of socio-economic activities following the downgrading of the legal status of COVID-19 in May 2023 and a recovery in inbound demand against the backdrop of a weaker yen, and an increase in personal consumption and corporate capital investment. However, the situation still required close monitoring due to the rise in resource prices and the impact of foreign exchange rate fluctuation, as well as continued monetary tightening policies due to global inflation pressures.

The number of new constructions starts in the domestic housing market decreased in all categories, including built-for-sale houses, rental housing and owner-occupied houses. In the general construction market, total floor area of new construction starts also decreased.

In such business environment, the Group promoted various high-value-added proposals and measures, such as expanding its overseas business and stock business and improving customer experience through digital transformation (DX), in order to realise a sustainable growth model according to its 7th Medium-Term Management Plan.

Results

Net sales

Net sales for the six months ended 30 September 2023 increased by ¥283,498 million, or 12.5 per cent, to ¥2,544,827 million, compared to ¥2,261,329 million for the six months ended 30 September 2022, primarily due to the steady sales of logistic facilities which were being developed, the recovery of the hotel operation which had been heavily affected by COVID-19 and the strong sales of single-family homes in the U.S.

Cost of sales

Cost of sales for the six months ended 30 September 2023 increased by ¥229,626 million, or 12.5 per cent, to ¥2,072,857 million, compared to ¥1,843,231 million for the six months ended 30 September 2022, primarily due to the increase in material prices and labour costs.

Gross profit

Gross profit for the six months ended 30 September 2023 increased by ¥53,872 million, or 12.9 per cent, to ¥471,969 million, compared to ¥418,097 million for the six months ended 30 September 2022.

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 September 2023 increased by ¥17,348 million, or 6.6 per cent, to ¥280,806 million, compared to ¥263,458 million for the six months ended 30 September 2022, primarily due to the rise in labour costs.

Operating income

Operating income for the six months ended 30 September 2023 increased by ¥36,524 million, or 23.6 per cent, to ¥191,163 million, compared to ¥154,639 million for the six months ended 30 September 2022, primarily due to increased profits from the sale of development properties and in the hotel and sports club operations.

Other income (expenses)

Other income for the six months ended 30 September 2023 increased by ¥36,745 million, or 1,091.0 per cent, to ¥40,113 million, compared to ¥3,368 million for the six months ended 30 September 2022.

Profit before income taxes

As a result of the above, profit before income taxes for the six months ended 30 September 2023 increased by ¥73,269 million, or 46.4 per cent, to ¥231,276 million, compared to ¥158,007 million for the six months ended 30 September 2022.

Profit

As a result of the above, profit for the six months ended 30 September 2023 increased by ¥45,745 million, or 42.1 per cent to ¥154,491 million, compared to ¥108,746 million for the six months ended 30 September 2022.

Profit attributable to owners of the parent

Profit attributable to owners of the parent for the six months ended 30 September 2023 increased by ¥48,494 million, or 45.8 per cent, to ¥154,488 million, compared to ¥105,994 million for the six months ended 30 September 2022.

Operating Result by Segment

Effective from the year ending 31 March 2024, the Group has changed the categorisation of Daiwa House Modular Europe B.V., a subsidiary of the Company, from the single-family houses business to the rental housing business due to a change in its management structure. Information for the six months ended 30 September 2022 in the below discussions has been reclassified using the new reportable segments.

Single-family houses business

In the single-family houses business, the Group provided high-quality housing with high energy-saving and resilience features and have proposed lifestyles that enrich the lives of its customers.

In the domestic housing business, the Group promoted the sales of “xevo Σ ” (a steel-framed housing product) and “Skye” (a three- four- or five-storied house), and worked to improve the ZEH (net Zero Energy House) sales rate as well as selling the “xevo GranWood” housing product and the “Wood Residence Ma-Re” (the most luxurious housing product) and worked towards achieving decarbonisation and meeting diverse customer needs. In April 2023, the Group launched the “Yasuragu Ie” which includes the “Oto no Jiyu-ku”, a comfortable soundproof room in its designs. In addition, the Group received an award for its “Sound Free Zone” designs from “KIDS DESIGN AWARD” established by a special non-profit organisation which promotes products, services and designs that tackles social issues related to children and child rearing. In regard to the custom-built houses and built-for-sale houses, it sought to provide solutions to customers while also proposing new value to address changes in society.

Furthermore, in anticipation of the arrival of a stock-oriented society, the Group is focusing on the revitalisation and circulation of existing buildings. In particular, the Group is tackling social issues such as local revitalisation and the problem of vacant housing in the housing estates it developed in the past and are working with residents on the “regeneration and recultivation of communities” that will lead to sustainable development.

In the United States, the Group is expanding its business with three groups, Stanley Martin Holdings, LLC, CastleRock Communities LLC and Trumark Companies, LLC. While mortgage interest rates and housing prices have remained high, demand for new homes has been solid and the Group is seeing a rebound due to low stock levels in used homes.

As a result, net sales of the single-family houses business for the six months ended 30 September 2023 amounted to ¥442,768 million (an increase of 5.9 per cent from the same period in the previous fiscal year), while operating income for the six months ended 30 September 2023 was ¥14,222 million (a decrease of 29.8 per cent from the same period in the previous fiscal year) (each before intersegment eliminations).

Rental housing business

In the rental housing business, the Group has been proposing and supporting rental housing management that leads to the maximisation of the asset value for owners by providing sustainable value from three perspectives: residents, the global environment and the city. In addition, the Group has reduced its environmental impact and made efforts to spread energy-saving and energy-creation compatible ZEH-M properties.

The number of units under management is increasing and the occupancy rate remains high, partly due to the supply of high-quality, comfortable rental housing “D-Room”, which is chosen by a wide range of tenants, as well as the strengthening of the renovation business. In addition, in order to streamline operations across the real estate industry, the Group has established a new company, Real Estate Information Management Organization., Ltd. in June 2023 together with Daito Kentaku Partners Co., Ltd. (and later also ZENRIN CO., LTD.).

Overseas, in Australia, which is expected to have a strong population growth after the U.S., the Group began developing leased housing “Melbourne Quarter West Project” to solve housing shortages. In addition, in the U.S., the Group focused on improving occupancy and profitability so that it can sell without delay when the market recovers, while keeping an eye on real estate market conditions such as interest rate trends.

As a result, net sales of the rental housing business for the six months ended 30 September 2023 amounted to ¥609,277 million (an increase of 5.1 per cent compared to the same period in the previous fiscal year), and operating income for the six months ended 30 September 2023 amounted to ¥60,172 million (an increase of 13.1 per cent compared to the same period in the previous fiscal year) (each before intersegment eliminations).

Condominiums business

In the condominiums business, the Group sought to provide basic housing performance essential for a long housing life, comfort, safety and a management structure, drawing on the Group's knowhow as a home builder to meet the diverse lifestyle needs of potential residents. The Company is also striving to create high added-value condominiums which, in addition to asset value for the customer, also consider the environment and society and aim to contribute to local communities.

Sales progressed well for "PREMIST Akishima MoriPark Residence", which went on sale in September 2023, the first residential project in the Akishima MoriPark area in Tokyo, with a diverse collection of commercial and sport facilities, hotels and other attractions. Also, sales of "PREMIST Chiba Park", which also went on sale in September 2023, progressed steadily, as it is located within walking distance of Chiba station and adjacent to Chiba Park, a vast site of approximately 16 hectare, and has been highly rated for its convenience of living and the greenery it offers.

Daiwa Life Next Co., Ltd. launched "Flat Car Sharing", a new car share service on a fixed monthly fee basis, available exclusively to residents of the condominiums the Group manages. By introducing "parking lot sub-leasing", in which vacant parking spaces are leased to people who are not residents together with the "Flat Car Sharing" service, the Group intends to support more convenient and comfortable living for its residents while improving the income and expenditure of the condominium management association.

Overseas, in addition to China which is the Group's main development area, the Group has newly participated in a condominium project in London.

As a result, net sales of the condominiums business for the six months ended 30 September 2023 amounted to ¥217,820 million (an increase of 25.1 per cent compared to the same period in the previous fiscal year), and operating income for the six months ended 30 September 2023 amounted to ¥16,697 million (an increase of 84.1 per cent compared to the same period in the previous fiscal year) (each before intersegment eliminations).

Commercial facilities business

In the commercial facilities business, the Group offered various plans that meet the needs of tenant corporations, taking advantage of their business strategies and the characteristics of each region. In particular, the Group strengthened its efforts in the field of large-scale properties and in built-for-sale business in which it sells to investors properties for which the Group has acquired land, planned development, designed and constructed, and conducted leasing-out to tenants.

In urban hotels operation, the number of hotels and rooms operated by Daiwa House Realty Mgt. Co., Ltd. increased to 75 hotels in Japan and 16,176 rooms as of 30 September 2023 and the average occupancy rate in the three months from 1 July 2023 was approximately 88 per cent, showing steady performance.

In the fitness club operation, Sports Club NAS Co., Ltd. has worked to improve profitability by strengthening promotions, together with cost reductions through a review of its membership fees and shop operations to improve operational efficiency.

Overseas, in California, USA, in addition to the "TRADE" commercial facility, which is now in operation, the Group acquired "Village Center", and has maintained a consistently high occupancy rate by promoting the occupancy of Japanese-affiliated tenants.

As a result, net sales of the commercial facilities business for the six months ended 30 September 2023 amounted to ¥581,916 million (an increase of 10.6 per cent compared to the same period in the previous fiscal year), and operating income for the six months ended 30 September 2023 amounted to ¥71,822 million (an increase of 14.8 per cent compared to the same period in the previous fiscal year) (each before intersegment eliminations).

Business and corporate facilities business

In the business and corporate facilities business, the Group worked to enhance its business by constructing a variety of facilities to suit the differing business needs of the Group's corporate customers, and by providing total support services that enable customers to utilise their assets most effectively.

Regarding logistics facilities, symbolising its nationwide development, construction of "DPL Sapporo Minami III" (Hokkaido, Japan) was completed in August 2023 and "DPL Shin-Yokohama III" (Kanagawa, Japan) and "DPL Takatsuki" (Osaka, Japan) was completed in September 2023. In addition, the Group began development of "DPL Chiba Yotsukaido II" (Chiba, Japan) which spans approximately 330 thousand square metres and "DPL Shinonome" (Tokyo, Japan), an urban facility in a good location in the heart of Tokyo, and continued to develop projects to meet its tenant's needs by utilising the Group's strengths in leasing, even in a changing market environment.

In the area of management support business for offices, factories and other locations, contracting orders from industrial parks developed by the Group remained strong, with 50 parks with 106 plots and an area of approximately 2.6 million square metres as of 30 September 2023. Daiwa House Property Management Co Ltd, which mainly manages and operates logistics facilities developed by the Company, signed new property management contracts for three logistics facilities, including DPL Shin-Yokohama III, which was completed in September 2023, bringing the cumulative number of buildings under management to 244 and the cumulative area under management to approximately 9.8 million square metres.

For Daiwa LogiTech Inc., which operates a logistics service business for the Group, IT-related investment continued to increase in line with progress in DX of client companies and the number of consultations related to logistics DX, including the introduction of systems related to logistics automation equipment and consulting related to logistics base networks, increased. In addition, in the logistics business the number of shipments by major clients has remained steady amid slight slowdown in the pace of expansion of the EC market for retailers.

Overseas, the Group focused on improving occupancy rates and profitability in the ASEAN region, with the aim of maximising revenues from the sale of properties and shares in the logistics and warehousing businesses the Group has been developing.

As a result, net sales of the business and corporate facilities business for the six months ended 30 September 2023 amounted to ¥643,445 million (an increase of 29.6 per cent compared to the same period in the previous fiscal year), while operating income for the six months ended 30 September 2023 came to ¥57,299 million (an increase of 48.7 per cent compared to the same period in the previous fiscal year) (each before intersegment eliminations).

Environment and energy business

In the environment and energy business, amid the current acceleration of transition toward decarbonisation and the growing demand for renewable energy, the Group promoted three businesses, the EPC business (design and construction of power plants for renewable energy), the PPS business (electric power retail business) and the IPP business (electric power generation business).

In the EPC business, as part of the termination of Japan's FIT programme (the feed-in tariff scheme for renewable energy), the Group focused on expanding its two PPA-related businesses: off-site PPAs (Power Purchase Agreement), which supply renewable energy to a purchaser far from a solar power generation facility, and on-site PPAs, which supply solar power directly from a solar generation facility installed on a roof or on adjacent area. In September 2023, "DREAM Solar Ishikawa Hakui Horikae Shinmachi", the Group's first ground-mounted solar power generation facility for off-site PPAs, began its operation. Demand for renewable energy is steadily increasing and the Group intends to continue to develop large-scale solar power generation facilities and focus the EPC business as one of its core businesses in the future.

In the PPS business, the business environment remained difficult, with electricity purchase prices rising due to the prolonged war between Russia and Ukraine and rising resource prices caused by the weakening of the yen, but profitability improved as a result of stable spot prices in the wholesale electricity market, together with efforts to propose new pricing systems and control supply volumes in line with purchases. Although the business environment remains unclear in the power industry, the Group will continue to work to take measures to reduce business risks and stabilise the PPS business.

In the IPP business, the Group engages in the operation of wind power generation and hydroelectric power generation, as well as solar power generation, which is its main business, at 498 locations nationwide in Japan. Going forward, as part of efforts to facilitate one of its main aims set out in the 7th Medium-Term Management Plan, the Group is accelerating, on a group-wide basis, its initiative to achieve carbon neutrality by decarbonising all constructed facilities and further expand the use of renewable energy.

As a result, net sales of the environment and energy business for the six months ended 30 September 2023 amounted to ¥73,587 million (a decrease of 15.8 per cent compared to the same period in the previous fiscal year), while operating income for the six months ended 30 September 2023 came to ¥6,344 million (an increase of 169.4 per cent compared to the same period in the previous fiscal year) (each before intersegment eliminations).

Consolidated Results for the fiscal year ended 31 March 2023 compared to fiscal year ended 31 March 2022

Overview

In the fiscal year ended 31 March 2023, the impact of COVID-19 on the Japanese economy continued to weaken and economic activity continued to normalise. However, the situation remained uncertain, reflecting the impact of rising raw material and energy resource prices and the disruption of supply chains due in large part to the war in

Ukraine, the impact of the fluctuating financial and capital markets and other factors. The deterioration of consumer confidence due to higher prices may slow the recovery of the economy, despite the improvement of corporate earnings, the recovery in capital investment and employment and the moderate recovery in consumer spending. Therefore, the situation continues to require close attention.

The number of new constructions starts in the domestic housing market increased from the previous fiscal year for built-for-sale houses and rental housing, however, decreased for owner-occupied houses, resulting in a slight from the previous fiscal year decrease in the overall figure. In the general construction market, the total floor area of new construction starts recorded from the previous fiscal year decreased in the category of offices, resulting in a slight from the previous fiscal year decrease in the overall figure.

Amid this operating environment, the Group has pushed forward various measures to realise a sustainable growth model, including further progress of overseas business, promotion of multi-use redevelopment projects to revitalise local communities, and initiatives to achieve carbon neutrality, under the three management policies: Evolve revenue model, optimise management efficiency and strengthen management base in the 7th Medium-Term Management Plan.

Results

Net sales

Net sales for the fiscal year ended 31 March 2023 increased by ¥468,663 million, or 10.6 per cent, to ¥4,908,199 million, compared to ¥4,439,536 million for the fiscal year ended 31 March 2022, primarily due to the increase in sales in the single-family houses business in the U.S. and in the condominiums business in China, as well as the recovery of the hotel and sports club operations which were heavily affected by COVID-19.

Cost of sales

Cost of sales for the fiscal year ended 31 March 2023 increased by ¥378,151 million, or 10.6 per cent, to ¥3,953,004 million, compared to ¥3,574,853 million for the fiscal year ended 31 March 2022, primarily due to the increase in material prices and labour costs.

Gross profit

As a result of the above, Gross profit for the fiscal year ended 31 March 2023 increased by ¥90,512 million, or 10.5 per cent, to ¥955,194 million, compared to ¥864,682 million for the fiscal year ended 31 March 2022.

Selling, general and administrative expenses

Selling, general and administrative expenses for the fiscal year ended 31 March 2023 increased by ¥8,399 million, or 1.7 per cent, to ¥489,824 million, compared to ¥481,425 million for the fiscal year ended 31 March 2022, primarily due to the increase in labour costs.

Operating income

As a result of the above, operating income for the fiscal year ended 31 March 2023 increased by ¥82,114 million, or 21.4 per cent, to ¥465,370 million, compared to ¥383,256 million for the fiscal year ended 31 March 2022.

Other income (expenses)

Other expenses for the fiscal year ended 31 March 2023 decreased by ¥5,082 million, or 17.0 per cent, to ¥24,874 million, compared to ¥29,956 million for the fiscal year ended 31 March 2022.

Profit before income taxes

Profit before income taxes for the fiscal year ended 31 March 2023 increased by ¥87,196 million, or 24.7 per cent, to ¥440,496 million, compared to ¥353,300 million for the fiscal year ended 31 March 2022.

Profit

As a result of the above, profit for the fiscal year ended 31 March 2023 increased by ¥86,719 million, or 37.9 per cent to ¥315,677 million, compared to ¥228,958 million for the fiscal year ended 31 March 2022.

Profit attributable to owners of the parent

Profit attributable to owners of the parent for the fiscal year ended 31 March 2023 increased by ¥83,127 million, or 36.9 per cent, to ¥308,399 million, compared to ¥225,272 million for the fiscal year ended 31 March 2022.

Operating Result by Segment

Effective from the year ended 31 March 2023, the Group has changed the presentation of its reportable segments in accordance with the 7th Medium-Term Management Plan whereby the existing homes segment has been

abolished and the environment and energy segment, which was previously included in the other segment, has been reclassified as a reportable segment. Information for the year ended 31 March 2022 in the below discussions has been reclassified using the new reportable segments.

Single-family houses business

In the single-family houses business, the Group stayed close to the life of each customer and pursued community-based business expansion based on the Group's business mission "Create 'lasting happiness' through housing" and a business vision "LiveStyle Design—Transforming home from a place to return to a place to 'live'—."

In the domestic housing business, the Group took advantage of its extensive product line-up primarily consisting of the mainstay "xevo Σ" (a steel-framed housing product), the "xevo GranWood" (a wooden housing product), "Skye" (a three- four- or five-storied house), "Lifegenic" (which enables the user design houses online) and the "Wood Residence Ma-Re" (the most luxurious housing product). In addition, regarding custom-built houses and built-for-sale houses, it sought to provide solutions to customer issues while also proposing new value to address changes in society by proposing the Group's unique telework style and "Kaji Share House" that helps facilitate sharing of household chores among family members.

From January 2023, the Group worked to leverage digital technologies to strengthen its proposal-making capabilities, and it launched new initiatives, such as 3D plans when making initial proposals and the introduction of "LiveStyle Diagnosis" communication tool online. It also developed the industry's first single-family house specific delivery box equipped with an intercom with 24-hour security camera functionality to provide products that improve security and address social issues.

Overseas, the Group has been expanding the single-family houses business in the "smile zone" which encompasses the eastern, southern and western United States, where housing demand is expected grow due to a rise in employment. During the second half of fiscal year ended 31 March 2023, the growth in orders received slowed due to a series of interest rate increases. Nevertheless, given solid demand, the Group continued to engage in sales activities without resorting to price adjustments. With housing loan interest rates apparently reaching a plateau, orders received have been trending toward a recovery recently.

As a result, net sales of the single-family houses business for the fiscal year ended 31 March 2023 amounted to ¥910,076 million (an increase of 15.9 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥46,666 million (an increase of 21.6 per cent from the previous fiscal year) (each before intersegment eliminations).

Rental housing business

In the rental housing business, the Group has been proposing and supporting rental housing management that leads to the maximisation of the asset value for owners through the provision of homes of choice for residents where they may want to continue living in for a long time. In the course of initiatives promoting eco-friendly rental housings that support energy saving and energy generation, the Group sought to popularise and promote ZEH-M (net Zero Energy House Mansion) properties by launching the "TORISIA" rental housing product that offers higher thermal insulation performance in October 2022.

Daiwa Living Co., Ltd. offered properties with specifications that meet residents' needs, such as the introduction of internet access and home delivery boxes to the properties it manages as standard fixtures, in response to changing lifestyles. By doing this, it succeeded in maintaining high occupancy rates while also increasing the number of units under management regarding properties built by the Group.

Daiwa House Chintai Reform Co., Ltd. worked to strengthen relationships with the owners of rental housings constructed by the Company by conducting building inspections and diagnoses periodically, while also continuing to promote work to extend warranty periods and submit renovation proposals.

In addition, the Company, Daiwa Living Co., Ltd. and Daiwa House Chintai Reform Co., Ltd. jointly established the "Daiwa House Group D-Room Regional Symbiosis Fund" for the creation of a new circular business model centred on "D-Room", with a view toward addressing social issues that have become increasingly diverse and complicated in recent years such as poverty, the aging of the population and the low birth rate. The first round of donations was made in March 2023 to 10 organisations selected by the fund in recognition of their support for and contribution to the safety and security of communities, efforts to preserve regional events and cultures, and the raising of children mainly by single-parent families.

Overseas, in the United States where the Group is operating its rental housing development business, the "Rockville Town Center" rental housing developed in the State of Maryland was sold quickly due to favourable evaluations of its profitability. Although the market for revenue-generating properties, where the interest rates that have

been increasing on and off have been affecting the financing activities of many buyers such as institutional investors, continues to require close monitoring, the Group will continue to focus on improving occupancy rates and profitability of leasing, while keeping a close eye on the market trends when the best time is to sell the properties it developed.

As a result, net sales of the rental housing business for the fiscal year ended 31 March 2023 amounted to ¥1,149,424 million (an increase of 9.2 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥109,710 million (an increase of 13.5 per cent from the previous fiscal year) (each before intersegment eliminations).

Condominiums business

In the condominiums business, the Group sought to provide basic housing performance essential for a long housing life, comfort, safety and a management structure, drawing on the Group's knowhow as a home builder to meet the diverse lifestyle needs of potential residents. The Group is also striving to create high added-value condominiums which, in addition to asset value for the customer, also consider the environment and society and aim to contribute to local communities.

At "PREMIST Honkugenuma" (Kanagawa, Japan), steady progress is being made in sales which started in March 2023, reflecting high evaluations for its quiet location and well-developed living environment which features convenient facilities for daily life and education facilities located within a 10-minute walk, as well as excellent convenience in terms of access to major cities.

Cosmos Initia Co., Ltd. succeeded in selling all units of the "Initia Machida" (Tokyo, Japan), reflecting steady progress in sales due to high evaluations of the location's open atmosphere which faces roads on three sides in a sun-flooded environment, as well as convenient access. Specifically, it is a four-minute walk from Machida Station on the JR Yokohama Line. It is convenient in residents' daily lives because of the nearby shopping facilities and streets.

With a view toward enhancing corporate clients' competitiveness in recruitment through excellent welfare programs, Daiwa LifeNext Co., Ltd. offers the "L-Place Series" of high-quality residential facilities for companies (company dormitories) in 61 locations nationwide in Japan to address a range of issues, such as demand for company dormitories and company-owned housing, a lack of communication partly due to an increase in the number people working from home, and the risk of employees being out of contact when they are in poor health. In March 2023, it newly opened "L-Place Kiyosumi Shirakawa" (Tokyo, Japan).

As a result, net sales of the condominiums business for the fiscal year ended 31 March 2023 amounted to ¥484,382 million (an increase of 27.5 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥40,879 million (an increase of 319.2 per cent from the previous fiscal year) (each before intersegment eliminations).

Commercial facilities business

In the commercial facilities business, the Group offered various plans that meet the needs of tenant corporations, taking advantage of their business strategies and the characteristics of each region. In particular, the Group strengthened its efforts in the field of large-scale properties and in built-for-sale business in which it sells to investors properties for which the Group has acquired land, planned development, designed and constructed, and conducted leasing-out to tenants.

In urban hotels operation, against the backdrop of strong and robust demand from visitors to Japan, the earnings of Daiwa House Realty Mgt. Co., Ltd. are expected to increase to a level that is higher than before the COVID-19 pandemic in line with the recovery of inbound tourism-related demand, which is also aided by the lifting of immigration restrictions for foreign tourists implemented in October 2022 and the yen's depreciation. The average occupancy rate of the Daiwa Roynet Hotels from January to March 2023 improved to 85.1 per cent, showing steady performance.

In the fitness club operation, Sports Club NAS Co., Ltd. saw memberships recovering to pre-COVID-19 levels. However, tough business conditions continue due to the impact of the recent increase in utilities expenses, so it continued to improve efficiency by reviewing operations and took measures to reduce costs.

As a result, net sales of the commercial facilities business for the fiscal year ended 31 March 2023 amounted to ¥1,092,167 million (an increase of 5.2 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥132,984 million (an increase of 7.1 per cent from the previous fiscal year) (each before intersegment eliminations).

Business and corporate facilities business

In the business and corporate facilities business, the Group worked to enhance its business scope by constructing a variety of facilities to suit the differing business needs of the Group's corporate customers, and by providing total support services that enable customers to utilise their assets most effectively.

Regarding logistics facilities, “DPL Urayasu IV” (Chiba, Japan) began operating at full capacity immediately after its completion. As this indicates, the Group steadily moved forward with development. It started construction of “DPL Niigata Makigata Higashi,” the first multi-tenant logistics facility to be built in Niigata, Japan. Leveraging bases in regional areas, the Group’s strength, it has accelerated the development of logistics warehouses in regional areas targeting manufacturing industry, productions of which are returning to the domestic locations. In the fiscal year ended 31 March 2023, the Group commenced the construction of new logistics facilities in 41 locations nationwide in Japan and leveraged its extensive experience and expertise to support customers’ logistics strategies.

Daiwa House Property Management Co., Ltd., a company that mainly manages and operates logistics facilities developed by the Group, concluded new property management agreements for 30 logistics facilities including “DPL Sakado II” (Saitama Prefecture) that was completed in January 2023, increasing the number of facilities and the area under management to 238 facilities and approximately 9.38 million square metres.

Daiwa Logistics Co., Ltd. completed the construction of the “Hiroshima Kan-on Logistics Center” in January 2023 and the “Marugame Logistics Center” (Kagawa, Japan) in March 2023. By enhancing its logistic infrastructure, it has been actively implementing logistics centre-based 3PL (third party logistics) operations.

Fujita Corporation received orders for large-scale construction projects such as cleaning plants (reconstruction), logistics warehouses and university facilities, as well as complex facilities/production facilities in an urban area redevelopment project, and orders in its civil engineering business including an order related to energy business. Reflecting these orders, the amount of orders received remained solid. In addition, Fujita Corporation’s net sales increased significantly from the previous fiscal year, reflecting steady progress in carryover construction at the beginning of the fiscal year and an increase in the sales of development properties.

Overseas, progress was made in the easing of regulations regarding measures to prevent COVID-19 infections in Southeast Asian countries. However, the logistics warehouse business that the Group is promoting in Indonesia, Vietnam, Malaysia and Thailand was negatively affected because the depreciation of the yen made Japanese companies less willing to continue making capital investments.

As a result, net sales of the business and corporate facilities business for the fiscal year ended 31 March 2023 amounted to ¥1,130,230 million (an increase of 4.7 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥99,630 million (a decrease of 20.6 per cent from the previous fiscal year) (each before intersegment eliminations).

Environment and energy business

In the environment and energy business, amid the current acceleration of transition toward decarbonisation and the growing demand for renewable energy, the Group promoted three businesses, the EPC business (design and construction of power plants for renewable energy), the PPS business (electric power retail business) and the IPP business (electric power generation business).

To facilitate initiatives in the EPC business with the termination of Japan’s FIT program (the feed-in tariff scheme for renewable energy), the Group is working to expand two PPA-related businesses, on-site PPA (Power Purchase Agreement) with the goal of supplying renewable energy directly from a solar power generation facility installed on a roof or in an adjacent area and off-site PPA with the goal of supplying renewable energy to a purchaser far from a solar power generation facility.

In the PPS business, the business environment continues to be difficult, reflecting surging power purchase prices due to the prolonged war in Ukraine and rising resource prices attributable to the depreciation of the yen. The Group has been working to improve profitability through a range of measures such as the elimination of an upper limit on fuel adjustment expenses for low-voltage power, the launch of market-linked plans regarding high-voltage power, the supply of power according to the amount of power procured and the reduction of the ratio of procurement from the wholesale power market.

In the IPP business, the Group engages in the operation of wind power generation and hydroelectric power generation, as well as solar power generation, which is its main business, at 480 locations nationwide in Japan. Going forward, as part of efforts to facilitate the three management policies set out in the 7th Medium-Term Management Plan, the Group is accelerating, on a group-wide basis, its initiative installing solar power generation equipment on the roofs of all newly constructed facilities in principle.

As a result, net sales of the environment and energy business for the fiscal year ended 31 March 2023 amounted to ¥188,611 million (an increase of 17.1 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥6,285 million (an increase of 19.3 per cent from the previous fiscal year) (each before intersegment eliminations).

Other businesses

On 26 January 2023, the Group acquired the right to manage Hibikinada Thermal Power Station Co., Ltd. and made it a group company. The Group included “realise carbon neutrality” as a theme in the 7th Medium-Term Management Plan, its five-year plan started in the fiscal year ended 31 March 2023. As a part of its efforts, it established the goal of increasing the supply of renewable energy. It aims to provide society as a whole with clean energy by directly operating renewable energy supply facilities. In doing so, the Group acquired the Hibikinada thermal power station with a rated output of 112 MW to more actively increase the number of directly operated facilities. The Hibikinada thermal power station which the Group operates has been generating power through the co-firing of coal and biomass fuel (wood pellet).

As a result, net sales of the other businesses for the fiscal year ended 31 March 2023 amounted to ¥81,849 million (an increase of 29.8 per cent from the previous fiscal year), while operating income for the fiscal year ended 31 March 2023 came to ¥5,497 million (compared to ¥5,922 million in operating loss in the previous fiscal year) (each before intersegment eliminations).

Consolidated Balance Sheet as of 30 September 2023 compared to Consolidated Balance Sheet as of 31 March 2023

Total assets as of 30 September 2023 increased by ¥194,299 million, or 3.2 per cent, to ¥6,336,366 million, compared to ¥6,142,067 million as of 31 March 2023, primarily due to an increase in inventory assets accompanying the acquisition of real estate for sale in Single-Family Houses Business and Rental Housing Business.

Total liabilities as of 30 September 2023 increased by ¥66,696 million, or 1.8 per cent, to ¥3,819,849 million, compared to ¥3,753,153 million as of 31 March 2023, primarily due to bank borrowings, as well as the issuance of bonds, to raise funds for the acquisition of real estate for sale, real estate for investment and other purposes.

Total net assets as of 30 September 2023 increased by ¥127,602 million, or 5.3 per cent, to ¥2,516,516 million, compared to ¥2,388,914 million as of 31 March 2023, primarily due to the recording of a profit attributable to owners of the parent in the amount of ¥154,488 million and the increase in foreign currency translation adjustment due to the impact of the yen depreciation, despite the payment of dividends to shareholders in the amount of ¥46,120 million.

Consolidated Balance Sheet as of 31 March 2023 compared to Consolidated Balance Sheet as of 31 March 2022

Total assets as of 31 March 2023 increased by ¥620,405 million, or 11.2 per cent, to ¥6,142,067 million, compared to ¥5,521,662 million as of 31 March 2022, primarily due to an increase in inventory assets accompanying the acquisition of real estate for sale in Single-Family Houses Business and an increase in property, plant and equipment accompanying the acquisition of real estate for investment.

Total liabilities as of 31 March 2023 increased by ¥342,876 million, or 10.1 per cent, to ¥3,753,153 million, compared to ¥3,410,277 million as of 31 March 2022, primarily due to bank borrowings, as well as the issuance of bonds, to raise funds for the acquisition of real estate for sale and investment and other purposes.

Total net assets as of 31 March 2023 increased by ¥277,529 million, or 13.1 per cent, to ¥2,388,914 million, compared to ¥2,111,385 million as of 31 March 2022, primarily due to the posting of profit attributable to owners of the parent in the amount of ¥308,399 million and the increase in foreign currency translation adjustment due to the impact of the yen depreciation and other factors, despite the payment of dividends to shareholders in the amount of ¥86,089 million.

Liquidity and Capital Resources

Cash Flows for the six months ended 30 September 2023 compared to the Cash Flows for the six months ended 30 September 2022

Net cash provided by operating activities amounted to ¥91,327 million for the six months ended 30 September 2023, compared to net cash used in operating activities of ¥53,076 million for the six months ended 30 September 2022. This was mainly due to the posting of ¥231,276 million in profit before income taxes, despite the payment of income taxes and trade payables.

Net cash used in investing activities amounted to ¥116,417 million for the six months ended 30 September 2023 (a decrease of ¥156,594 million or 57.4 per cent, from the previous fiscal year). This was mainly due to the inflow of cash from the acquisition of property, plant and equipment, including large-scale logistics and commercial facilities, despite the sale of shares in affiliated companies and investment securities.

Net cash provided by financing activities amounted to ¥68,980 million for the six months ended 30 September 2023 (a decrease of ¥214,434 million or 75.7 per cent, from the previous fiscal year). This was mainly due to the financing of inventories and investment properties through borrowings and the issue of bonds, despite the payment of shareholders' dividends for the same period in the previous fiscal year.

Cash Flows for the fiscal year ended 31 March 2023 compared to the Cash Flows for the fiscal year ended 31 March 2022

Net cash provided by operating activities amounted to ¥230,298 million (a decrease of ¥106,138 million, or 31.5 per cent, from the previous fiscal year). This was mainly due to the posting of ¥440,496 million in profit before income taxes, despite the acquisition of inventory assets and the payment of income taxes.

Net cash used in investing activities amounted to ¥505,181 million (an increase of ¥37,758 million or 8.1 per cent, from the previous fiscal year). This was mainly due to the result of the acquisition of property, plant and equipment, including large-scale logistics facilities and commercial facilities, among other factors.

Net cash provided by financing activities amounted to ¥287,452 million (a significant increase of ¥263,025 million, from the previous fiscal year). This was mainly due to bank borrowings, as well as the issuance of bonds, to raise funds for the acquisition of inventory assets and real estate for investment and other purposes, despite the payment of dividends.

Funding

The Group's raise necessary funds in accordance with management plans mainly by bank borrowings and issuance of corporate bonds.

As of 31 March 2023 and 30 September 2023, the Group's short-term bank loans amounted to ¥133,028 million and ¥242,539 million, respectively, and the Group's loans from banks amounted ¥945,507 million and ¥1,011,194 million, respectively, as of the same date.

Capital Expenditures

The following table gives information with respect to the Group's capital expenditures on a consolidated basis for the periods indicated.

	Fiscal year ended 31 March		
	2021	2022	2023
	<i>(Millions of yen)</i>		
Capital expenditures ⁽¹⁾	¥372,904	¥425,807	¥518,143

Note:

(1) Capital expenditures = Increase in property, plant and equipment and intangible assets.

The Group's capital expenditures are generally funded by internally generated funds and borrowings from financial institutions. The Group's capital expenditures for the three fiscal years ended 31 March 2021, 2022 and 2023 was for the purposes of acquiring properties for development into commercial and business premises as well as strengthen its leasing business.

BUSINESS

Overview

The Group is a major construction, property management and property development group that operates a variety of businesses in Japan and 25 countries and regions overseas. For most of the Group's businesses, several of its group companies cooperate to work together to offer complementary services in order to create synergies.

The Group's operations are organised into the following seven businesses:

- *Single-family houses business:* the Group engages in the construction of custom-built houses in accordance with orders from its customers and the sales of built-for-sale houses;
- *Rental housing business:* the Group engages in the rental housing development, construction, management, operation and real estate agency services;
- *Condominiums business:* the Group engages in the development, sale and management of condominiums;
- *Commercial facilities business:* the Group engages in the development, construction, management and operation of commercial facilities;
- *Business and corporate facilities business:* the Group engages in the development, construction, management and operation of logistics, manufacturing facilities and medical and nursing care facilities;
- *Environment and energy business:* the Group engages in the development and construction of renewable energy power plants, renewable energy generation and electricity retailing; and
- *Other businesses:* in addition to the above businesses, the Group operates golf courses, fee-based homes for the elderly/assisted-living residential facilities for seniors, credit card and retail loan services, insurance agencies and other businesses.

For the fiscal year ended 31 March 2023, the Group's net sales, operating income and profit attributable to owners of the parent amounted to ¥4,908,199 million, ¥465,370 million and ¥308,399 million, respectively. As of the six months ended 30 September 2023, the Group's net sales, operating income and profit attributable to owners of the parent amounted to ¥2,544,827 million, ¥191,163 million and ¥154,488 million, respectively. As of 30 September 2023, the Company had 441 consolidated subsidiaries and 55 affiliates accounted for by the equity method.

The Shares are listed on the Prime Market of the Tokyo Stock Exchange with the stock code 1925. The Company's registered office is located at 3-5, Umeda 3-chome, Kita-ku, Osaka 530-8241, Japan.

History

The Group was established in 1955 in Osaka, Japan by its founder Nobuo Ishibashi. Nobuo Ishibashi led the development of the Group's first product, the "Pipe House", a house with a structural framework made of steel pipes. The "Pipe House" was shortly followed by the "Midget House" in 1959, a pre-fabricated house that was developed to solve the increasing demand for child's study room during the "baby boom" era around the beginning of the second half of the 20th century.

In 1961, Daiwa Danchi Co., Ltd., the first private-sector housing developer in Japan, was incorporated (later being merged with the Company in 2001). Although it is now common, Daiwa Danchi Co., Ltd. has developed such as large housing complex called "Neopolis", which is a pioneer of house-for-sale business. In 1961, DAIWA HOUSE INDUSTRY CO., LTD. listed its shares on the Osaka Securities Exchange, and shortly thereafter on the Tokyo Stock Exchange and the Nagoya Stock Exchange.

In the 1960s the Group established Japan's first pre-fabricated home factory in Osaka and began selling pre-fabricated homes all across Japan. By the 1980s the Group made its Rental housing division independent and expanded nationwide. In the early 1980s the Group was the first Japanese housing builder to export pre-fabricated homes to China. The Group's growth continued throughout the 1990s.

In 2001, the Group became the first prefabricated Japanese housing manufacturer to commercialise detached seismic isolation homes. In 2006, the Group established Daiwa House REIT Management Co., Ltd., Daiwa House Insurance Co., Ltd. and Daiwa House Financial Co., Ltd.. In addition, in 2006, the Group changed its method of building homes, and it implemented this method to its new brand of "xevo" homes. In 2007, former Daiwa House REIT Investment Corporation, for which Daiwa House Industry Co., Ltd. acts as sponsor, was incorporated and it

completed its initial public offering in 2012, and the Group entered the wind power generation business with facilities at Sadamisaki Peninsula in Ehime Prefecture. In addition in 2008, the Group formed a capital alliance with Odakyu Construction Co., Ltd. (subsequently merged with Fujita Corporation in 2015). In 2008, the Group acquired shares in Morimoto Asset Management Co., Ltd. (currently, Daiwa House Asset Management Co., Ltd.), which was in turn the asset management company for BLife Investment Corporation (later Daiwa House Residential Investment Corporation). In addition, in 2016, Daiwa House Residential Investment Corporation merged with the former Daiwa House REIT Investment Corporation in an absorption-type merger with Daiwa House Residential Investment Corporation as the surviving corporation, and changed its corporate name to Daiwa House REIT Investment Corporation.

In 2011, the Group developed the “SMAx Eco ORIGINAL”, a product fitted with lithium ion storage batteries, the first such housing in Japan. In 2014, the Group launched “xevo Σ”, the Group’s top-of-the-line single-family home product at that time. In the early 2010s the Group continued its growth by acquiring all of the issued and outstanding shares of Fujita Corporation, a construction company, and subscribing for newly issued shares of Cosmos Initia Co., Ltd., a condominiums and single-family housing developer, which resulted in our 64.17 per cent ownership of Cosmos Initia.

Under the 7th Medium-Term Management Plan, the Group is pursuing growth of profits coexisting with capital efficiency toward maximising corporate value by completing a sustainable growth model (see —“Strategy”). In July 2023, the Company sold all shares in Daiwa Resort Co., Ltd. and all loan receivables it holds against Daiwa Resort Co., Ltd. to Godo Kaisha Ebisu Resort, for which Japan Hotel REIT Advisors Co., Ltd. serves as asset manager. In October 2023, the Company entered into an agreement with Tokyu Re Design Corporation to acquire all shares in TRD Homes Co., Ltd., a company that engages the housing renovation and new construction business owned by Tokyu Re Design Corporation.

The Group further expanded its business in the United States through acquisition of shares in Stanley-Martin Communities, LLC (currently, Stanley Martin Holdings, LLC) in 2017, Trumark Companies, LLC in 2020 and CastleRock Communities LLC in 2021. The Group also acquired shares of Rawson Group Pty Ltd. in Australia in 2018 and Flexbuild Holding B.V. (currently, Daiwa House Modular Europe B.V.) in the Netherlands in 2021. Stanley Martin Holdings, LLC further expanded its business by acquiring businesses from Frontdoor Communities, LLC, Essex Homes Southeast, Inc., and Avex Homes, LLC in 2018, 2020, and 2021, respectively. In October 2023, Trumark Companies, LLC acquired single-family housing business primarily in the central region of California from JP Holdings, LLC (commonly known as Wathen Castanos Homes). The Group expanded its business in the ASEAN region and incorporated Daiwa House Logistics Trust, whose investment focus is logistics and industrial real estate assets in Asia, in particular, within Japan as well as in the ASEAN region, and completed the initial public offering in Singapore in 2021.

Since the change in the market segmentation by the Tokyo Stock Exchange in April 2022, the Shares have been listed on the Prime Market of the Tokyo Stock Exchange.

Strategy

Purpose and Materiality

Toward the society the Group aspires to in 2055, the centennial of the Group’s founding, the Group defined its purpose (“Hopes for the Future”) as “Creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where we live together in harmony embracing the Joys of Life”.

To realise the Group’s purpose, based on the Group’s recognition of the opportunities and risks that will arrive with the megatrends of around 2030, the Group has formulated the materiality (priority issues) for which it should endeavour as follows:

- *Globalisation*: developing community-based businesses aimed at solving social issues overseas;
- *Local community regeneration*: revitalising local communities through businesses for solving social issues by promoting “Livness Town Projects” in Japan;
- *Circular economy and carbon neutrality*: implementing environmental management geared toward circularity and regeneration;
- *Digital transformation*: maximising the use of digital technologies for lifestyle innovation;
- *Diversity, equity and inclusion (DE&I)*: fostering organisational culture that welcomes diverse values and uses them in value creation; and
- *Governance*: achieving corporate governance to create the future.

7th Medium-Term Management Plan

Taking into account the Group's purpose and materiality, in May 2022, the Group announced its 7th Medium-Term Management Plan covering five fiscal years ending 31 March 2027. Under the 7th Medium-Term Management Plan, toward realising a sustainable growth model, the Group is implementing the following three management policies and working on eight focal themes under the management policies.

Evolving revenue model

To complete a sustainable growth model that maximises both business value and social value, the Group is working on the following three focal themes toward evolving its revenue model for developing its businesses.

(i) Accelerating growth of community-based overseas business

With "STAY & EXPAND" as a watchword, the Group develops community-based overseas businesses in 25 countries and regions. The Group focuses on its housing business in the United States and its condominiums business in China. With respect to its housing business in the United States, through its three core group companies in the United States (being Stanley Martin Holdings, LLC, CastleRock Communities LLC and Trumark Companies, LLC), the Group aims to steadily supply quality housing with values in the eastern, southern and western parts of the nation ("smile zone") where stable market growth is expected due to demographics and industrial hubs in these areas. With respect to its condominiums business in China, the Group aims to conduct development investments having a good understanding of demand in the Yangtze delta area, aiming to widely offer Japanese quality especially in terms of services. In the ASEAN region, the Group continues to support the overseas operations of many Japanese clients with whom the Group has built trust relationships in Japan and develops infrastructures and increase employment in developing countries with various projects. In the Europe region, the Group expands its business into the European housing market with modular construction enabling rapid supply of quality homes. In the U.K., the Group recently has decided to invest in condominium development opportunity in London aiming to relieve the housing shortage problem in the U.K.

(ii) Expanding a circular value chain from the perspective of local communities/customers

In Japan, through a circular value chain, the Group's business model that increases the value of living infrastructure on an ongoing basis with a cycle of construction and development ("Create"), operation and management ("Foster") and renovation and redevelopment ("Revitalise"), the Group aims to contribute to developing and revitalising local communities by expanding development that gives residents the Joys of Life from three perspectives: developing next-generation infrastructure (such as advanced logistics facilities and data centres) and creating jobs, redeveloping and raising the value of aged facilities (such as public wholesale markets and neighbourhood shopping centres) and promoting complex redevelopment centring on regional mid-tier cities. The Group aims to expand the sale of Livness business which is the collective name for "renovation, brokerage, purchase and resale, and other business", and increase the number of Livness Town Projects to ten locations from eight locations.

(iii) Realising carbon neutrality by making all buildings carbon-free

The Group continues efforts to reduce CO₂ emissions in each of the stages of business activities, the usage of buildings sold and supply chains. The Group's aim to establish a system where the more buildings the Group builds, the more renewable energy is generated thereby accelerating decarbonisation of a society and contributing to the realisation of carbon neutrality.

Toward achieving carbon neutrality by 2050, the Group is aiming to reduce CO₂ emissions by at least 40 per cent (compared to the fiscal year ended 31 March 2016) across its entire value chain, and to make all new buildings the Group offers net-Zero Energy Houses (ZEHs) or net-Zero Energy Buildings (ZEBs) (the houses or buildings aiming to reduce the annual primary energy consumption balance to zero through the use of a highly insulated envelope, the installation of energy-saving equipment and the use of photovoltaics) installing solar power generation systems on the roofs of all new buildings the Group builds as a matter of principle, each by 2030.

Optimising management efficiency

The Group will actively invest in growing fields and pursue growth of profits coexisting with capital efficiency toward maximising corporate value by completing a sustainable growth model.

(i) Strengthening cost competitiveness and building a system for stable supply

The Group aims to consolidate and integrate the functions of its purchasing organisations and business processes and systems, and to reform the entire purchasing workflow, in order to achieve cost competitiveness fully leveraging the industry-leading economies of scale. The Group also aims to reinforce in-house production systems and to build a more robust system for stable supply.

(ii) *Achieving growth of profits coexisting with capital efficiency through portfolio optimisation*

To optimise business portfolios, the Group will intensively invest in its business and corporate facilities, commercial facilities and single-family houses (overseas) businesses, while boosting cash-generating ability of its rental housing and environment and energy businesses. Businesses of concern with growth potential and capital efficiency are positioned as reconstruction businesses subject to restructuring or reorganisation. In addition, to improve capital efficiency, the Group works to enhance real estate management and reduce inefficient assets.

Strengthening management base

In order to strengthen the Group's management base, which supports development of its businesses, the Group tackles focal themes of digital transformation, increasing the value of its human capital and enhancing governance. This will lead to the generation of future cash flows.

(i) *Digital transformation*

Digital transformation (DX) is positioned as a backbone of all management policies. Based on this concept, the Group digitalises its value chain and back office and catalyses open innovation to foster new value creation businesses and reform business models. Specific initiatives include strengthening the Group's technology base, evolving supply chains and increasing customer experience value. To promote these initiatives, the Group is also working to build a data integration platform, further evolve DX in construction and resolve industry-wide issues through industrialisation of construction powered by DX.

(ii) *Increasing the value of the Group's human capital*

The Group's human capital strategy promotes human resource development and organisational capacity enhancement to advance growth and diversity of individuals. With the employee motivation rate as a key performance indicator (KPI), the Group will maximise motivation of entire workforce and strive to further increase the value of the Group's human capital.

(iii) *Enhance governance*

For further enhancing the governance system restructured under the previous medium-term management plan, the Group aims to establish a strategic governance system primarily designed to underpin the Group's overseas growth and real estate development, thereby realising the Group's sustainable growth.

Operations

Single-family houses business

In the single-family houses business, the Group engages in the construction of custom-built houses in accordance with orders from its customers and the sales of built-for-sale houses. For the fiscal year ended 31 March 2023, the single-family houses business had net sales (before intersegment eliminations) of ¥910,076 million and accounted for 18.5 per cent of the consolidated net sales.

The following tables set forth certain operating data for the single-houses business for the periods indicated:

	Fiscal year ended 31 March		
	2021	2022	2023
		(Units)	
Sales of Single-family houses (Domestic)	7,019	6,760	5,762
Custom-built houses	5,178	5,164	4,191
Houses in housing development projects	1,841	1,596	1,571

Note:

(1) Non-consolidated data of the Company.

	Fiscal year ended 31 March		
	2021	2022	2023
	<i>(Millions of yen)</i>		
Average sales per unit			
Custom-built houses	39.6	41.0	45.1
Steel-frame	39.6	40.9	45.2
Wood-frame	41.0	43.0	44.4
Houses in housing development projects	23.1	24.2	24.6
Steel-frame	23.1	24.0	24.5
Wood-frame	22.7	28.3	29.9

Note:

(1) Non-consolidated data of the Company.

	Fiscal year ended 31 March		
	2021	2022	2023
	<i>(Units)</i>		
Sales of Single-family houses (Overseas)	4,184	4,857	6,332

Custom-built houses

The Group offers a comprehensive range of house building services that cover the planning stage, design, development and construction of single-family houses that are made-to-order in consultation with its customers and that respond to their lifestyle needs. The Group markets and sells different concepts of houses that target the varying needs of different types of customers, including houses for couples with children, houses for families who reside together with the couple's parents, houses that are designed to accommodate pets, or houses for property owners who specifically plan to lease the house to tenants. The Group offers several energy-saving and environmentally friendly features and options as well as houses with increased resistance to earthquakes. The Group is active at all stages of the development of a house and act as general contractor on all constructions. The Group uses third-party sub-contractors to perform the construction work on the houses that the Group develops. The Group's key products include the "xevo Σ" (a steel-framed housing product), the "xevo GranWood" (a wooden housing product), the "Skye" (a three- four- or five-storied house), the "Lifegenic" (which enables the user design houses online) and the "Wood Residence Ma-Re" (the most luxurious housing product).

Built-for-sale houses

The Group develops and sells built-for-sale single-family houses in various areas across Japan. Built-for-sale houses allow the Group's customers to visit and experience its single-family houses at the Group's model houses located across Japan before making a purchase decision. The Group's subdivision housing teams use their expertise in researching and selecting attractive plots of land that are both located in strategic geographical locations and appropriate for the target customers. The Group's built-for-sale single-family houses are built to fit in the existing environment and surrounding neighbourhoods while ensuring that a level of privacy for the Group's customers can be maintained by spacing each house appropriately from each other. The Group employs similar construction materials and technology to build its built-for-sale houses and seek to minimise the impact on the environment and enhance energy conservation through better insulation as well as increased resistance to earthquakes. The Group's built-for-sale houses also offer enhanced security features, such as improved door-lock systems and windows fitted with three-layered glass.

Overseas operations

For the fiscal year ended 31 March 2023, net sales of overseas operations accounted for 51.0 per cent of the total net sales of the single-family houses business (before intersegment eliminations). The Group operates its single-houses business mainly in the United States and Australia. In the United States, the Group operates in the eastern, southern and western parts of the nation ("smile zone") where stable market growth is expected due to demographics and industrial hubs in these areas. The Group offers a broad range of products that include detached houses, townhomes and townhome condominiums tailored to the location and market of the property. The three core group companies in the United States are Stanley Martin Holdings, LLC, which operates in the eastern US states of Virginia, Maryland, West Virginia, North Carolina, Georgia, South Carolina and Florida, Trumark Companies, LLC, which operates in the western US states of California and Colorado, and CastleRock Communities LLC, which operates in the southern US state of Texas and Arizona. In Australia, Rawson Group Pty Ltd. operates primarily in New South Wales and the Australian Capital Territory.

Rental housing business

In the rental housing business, the Group engages in the rental housing development, construction, management, operation and real estate agency services. The Group engages in the development, construction, sale and management of rental housing across Japan under its “D-Room” brand and “Royal Parks” brand of rental housing solutions. The Group offers rental housing solutions to land owners that wish to save tax and increase returns on their land and assist tenants seeking rental housing. For the fiscal year ended 31 March 2023, the rental housing business had net sales (before intersegment eliminations) of ¥1,149,424 million and accounted for 23.4 per cent of the consolidated net sales.

The following tables set forth certain operating data for the rental housing business for the periods indicated:

	Fiscal year ended 31 March		
	2021	2022	2023
		<i>(Units)</i>	
Sales of rental housing	29,488	31,202	32,224

Note:

(1) Non-consolidated data of the Company.

	Fiscal year ended 31 March		
	2021	2022	2023
		<i>(Millions of yen)</i>	
Average sales per unit			
Rental housing	12.4	12.0	12.7
Steel-frame (low-rise)	11.6	11.6	12.3
Steel-frame (high and mid-rise)	19.8	16.7	17.0

Note:

(1) Non-consolidated data of the Company.

	Fiscal year ended 31 March		
	2021	2022	2023
		<i>(Units, except otherwise indicated)</i>	
Rental housing units managed	611,874	630,555	649,891
Lump-sum contracted units (occupancy guarantee)	568,679	585,000	601,571
Occupancy rates	98.2%	98.2%	97.8%

Note:

(1) Sum of data for Daiwa Living Co., Ltd. and Daiwa House Real Estate Co., Ltd. Daiwa Living Management Co., Ltd. was integrated with Daiwa Living Co., Ltd. as the surviving company in January 2022. Nihon Jyutaku Ryutu Co., Ltd. changed the business name to Daiwa House Real Estate Co., Ltd. in January 2023.

Rental housing units

The Group’s rental housing units are marketed under its “TORISIA” and “GRACA” lines of apartment buildings under its “D-Room” brand. The design and style of the units vary with the geographic location, the surrounding environment, the neighbourhood and the type of tenants targeted for the project, allowing the Group to offer units that fit an urban or rural environment. The rental housing units that the Group sells offer a strong resistance to earthquakes and typhoons, an improved structure through the Group’s proprietary “Triple Combined System” and increased protection from fire due to the high-heat resistance of the materials used in the construction of the outside walls. Some of the rental housing units can be fitted with advanced anti-burglary security systems monitored by a third-party security firm and with other advanced security features, such as security gates, security video cameras and auto-lock systems on doors. The Group offers proprietary type of flooring boards that attenuate sounds produced by walking as they are heard on the floor below, thereby increasing the comfort of tenants. The Group also offers ZEH-M (net Zero Energy House Mansion) properties which aim to reduce the annual primary energy consumption balance to zero through the use of a highly insulated envelope, the installation of energy-saving equipment and the use of photovoltaics.

Rental housing construction and management

The Group assists land owners with all the aspects of the development of the rental housing units, from land investigation to design and construction until completion of the project. The Group's services to land owners from the planning stage until completion of the construction include the following:

- *Land investigation.* At the beginning of a new rental housing project, the Group conducts a necessary investigation of the land to determine constructability.
- *Market assessment.* In order to assist land owners with their investment decision, the Group undertakes a market assessment that takes into consideration the level of rent and rental deposits that can be obtained from prospective tenants.
- *Management plan.* The Group prepares a management plan for the rental housing unit that takes into account the income to be derived from the property over the long-term, taxation issues and the financing needs for the realisation of the project.
- *Construction plan.* The Group's team of construction specialists drafts a construction plan that fits the type of prospective tenants for the property, the financial condition of the land owner as well as any design and practical requirements.
- *Construction and completion.* The construction phase of the project is undertaken by third-party construction companies. The Group supervises the construction of the rental housing unit and, as construction progresses, the Group ensures that all aspects of the construction attain the Group's quality and security standards by undertaking several checks at different stages of construction.

Once completed, the rental housing unit is available for rent to prospective tenants and can be managed by the Group companies, typically pursuant to a master lease agreement with the owner for a term of two, 10, 20 or 30 years. The lease agreements that the Group enters into with owners typically provide that the Group pays a fixed amount of monthly rent to the owner regardless of occupancy rate for generally two years under which the Group assumes the risk of non-occupancy and declines in market rent levels during the guarantee period. Rent payable to land owners is generally renegotiated every two years by considering existing market conditions. As an exception within the two-year term, in the event of unexpected significant changes in market rental rates or inflation, the Group and the owner have the option to enter into negotiations for rent adjustments. Should both parties consent after the negotiations, the rent payable to the owner can be modified to reflect these changes. As part of the master lease agreement, the Group provides property management services and undertake small-scale maintenance and reparations. The costs of more important maintenance or reparation are borne by the owner. The Group also manages rental housing units for which the Group does not act as master lessee and receive a management fee from the owners.

Real estate services for tenants

The Group's rental housing business includes real estate services for prospective tenants of the rental housing units that the Group builds. The Group assists prospective tenants in their search for adequate rental housing and offer tailored search options through the Group's real estate offices across Japan or on its dedicated website.

Overseas operations

For the fiscal year ended 31 March 2023, net sales of overseas operations accounted for 2.6 per cent of the total net sales of the rental housing business (before intersegment eliminations). The Group develops rental housing in the United States and conducts rental business for houses and apartments utilising modular construction system in Europe.

Condominiums business

In the condominiums business, the Group engages in the development, sale and management of condominiums. The Group develops and sells condominium units to home buyers, with a focus on condominiums that offer environmentally friendly features. The Group also manages existing condominium units that were sold by the Group or third-party condominium developers. The Group's services also include the support of owners of the condominium units that the Group sold and the renovation of existing condominium buildings. For the fiscal year ended 31 March 2023, the condominiums business had net sales (before intersegment eliminations) of ¥484,382 million and accounted for 9.9 per cent of the consolidated net sales.

The following tables set forth certain operating data for the condominiums business for the periods indicated:

	Fiscal year ended 31 March		
	2021	2022	2023
	<i>(Millions of yen, except otherwise indicated)</i>		
Number of unit sold (units)	2,484	2,796	2,576
Sales amount	122,207	140,059	148,302
Average sales per unit	48.8	49.0	56.2
Floor space (m ²)	175,509	191,947	180,951
Average floor space per unit (m ²)	70.7	68.7	70.2

Note:

(1) Non-consolidated data of the Company.

	Fiscal year ended 31 March		
	2021	2022	2023
	<i>(Units)</i>		
Number of managed units	376,168	377,747	379,849
Number of managed buildings entrusted by House Owners Associations	6,727	6,734	6,757

Note:

(1) Sum of data for Daiwa LifeNext Co., Ltd. and Global Community Co., Ltd.

The Group's Condominiums

The Group develops and sells condominiums, including under the “PREMIST” brand. The Group’s condominiums are constructed on land that the Group has acquired. The brand focuses on the convenience of the location of the condominium for owners, the superior facilities offered and the construction techniques that the Group uses. At the time of purchase of a condominium unit, the Group hands a file named “D’ File” to the buyer that contains various records and information regarding the condominium, such as contact information for service companies, a summary of the property as well as other relevant information which may be used when the owner wishes to sell, lease or renovate the unit.

The Group applies its knowledge and skills in environmentally friendly construction techniques and materials when the Group develops new condominiums. The Group aims to adopt ZEH-M specifications for all buildings construction started in the fiscal year ending 31 March 2024 or later.

Management of Condominiums

The Group provides management services at the condominium buildings in which the units the Group sold are located and those constructed and sold by third parties. The management services encompass from day-to-day maintenance of the buildings, repair work and security services to the long-term planning of building repair.

Renovations of Existing Condominium Buildings

A portion of the Group’s condominiums business consists of the provision of renovation services for existing condominium buildings. The Group conducts sales and marketing activities targeting the owners’ association and the administrative board of the condominiums and offer opportunities to evaluate the need and scope of potential renovations until a decision is formally taken. The scope of the renovations to be undertaken is decided based on the needs of the customer and the budget allocated to the renovations. Depending on the type and scope of renovation work to be performed, the Group may also undertake the work with other third-party companies as a joint venture as necessary.

Overseas operations

For the fiscal year ended 31 March 2023, net sales of overseas operations accounted for 20.1 per cent of the total net sales of the condominiums business (before intersegment eliminations). In China, the Group provides a one-stop business covering from land selection through development to management of condominiums and after-sale service mainly in the Yangtze delta area. The Group is also developing condominiums in Southeast Asian countries, New York and in London.

Commercial facilities business

In the commercial facilities business, the Group engages in the development, construction, management and operation of commercial facilities. For the fiscal year ended 31 March 2023, the commercial facilities business had net sales (before intersegment eliminations) of ¥1,092,167 million and accounted for 22.3 per cent of the consolidated net sales.

The following tables set forth certain operating data for the commercial facilities business for the periods indicated:

	Fiscal year ended 31 March		
	2021 ⁽¹⁾	2022 ⁽²⁾	2023 ⁽²⁾
Subleasing areas of commercial facilities:			
Total leasing floor space (m ²)	6,561,286	6,631,738	6,795,700
Leasing floor space occupied (m ²)	6,482,387	6,564,301	6,742,846
Tenants (units)	11,499	11,816	11,905
Occupancy rates ⁽³⁾	98.8%	99.0%	99.2%
Management of owned commercial facilities⁽⁴⁾:			
Total leasing floor space (m ²)	310,274	332,456	368,033
Leasing floor space occupied (m ²)	284,170	305,606	341,193
Tenants (units)	650	691	712
Occupancy rates ⁽³⁾	91.6%	91.9%	92.7%

Notes:

- (1) Sum of data for Daiwa Lease Co., Ltd., Daiwa Information Service Co., Ltd. and Daiwa Royal Co., Ltd. In October 2021, Daiwa Information Service Co., Ltd. merged with Daiwa Royal Co., Ltd. and the business name changed to Daiwa House Realty Mgt. Co., Ltd.
- (2) Sum of data for Daiwa Lease Co., Ltd. and Daiwa House Realty Mgt. Co., Ltd.
- (3) Occupancy rate is calculated by dividing leasing floor space occupied by total leasing floor space.
- (4) Non-consolidated data of the Company.

Roadside stores and facilities

A greater part of the Group's operations in the commercial facilities business consists of the development and construction of roadside stores and facilities for tenants that wish to build a commercial facility on land owned by a third-party land owner. There are also cases where our group provides master leases for roadside stores and commercial facilities that the Group has constructed. The Group's extensive experience in the development and construction of roadside stores and facilities for various types of tenants that include convenience stores, clothes retailers, consumer goods retailers, drugstores, restaurants, cafes and larger complex multi-tenant commercial facilities enables the Group to address efficiently the needs of new tenants and to compete effectively. The Group's experience and strong relationships and network with existing land owners allow the Group to respond to the needs of prospective tenants more efficiently. The Group provides marketing information to land owners based on the extensive regional information that the Group has collected and propose land use plans which the Group believes will both contribute to profitability and meet regional needs. The property concepts that the Group develops for its roadside stores and facilities are based on regional needs and seek to propose optimal tenant composition.

- *Strong tenant relationships and the LOC system*

The construction of roadside stores and facilities for customers is based on the Group's "Land Owner and Company" (the "LOC" system). Through the LOC system, the Group has supported many roadside store and facility openings by taking full advantage of the Group's relationships with a wide range of creditworthy tenants, leading to long-term and fixed-lease agreements. The Group's LOC system includes the proposal of a suitable business plan based on extensive know-how and detailed investigations that leverage the Group's nationwide information network, the collecting of information regarding land and store openings, and the total production system from building design to construction until completion. As of 31 March 2023, the Group had entered into transactions under the LOC system with over 4,300 companies as tenants.

- *Good location selection ability and wide network*

The Group has accumulated land information on a nationwide basis in Japan based on its track record of successful construction projects, and the Group has established a nationwide network of a wide range of creditworthy tenants. The Group seeks to promote the planning and development of retail properties with high tenant satisfaction by bringing together its extensive nationwide land information and tenant network.

Shopping centres

The Group develops and constructs shopping centres that the Group owns and at which the Group leases and manages commercial retail space to tenants. The shopping centres that the Group manages are either urban shopping centres located in cities or suburban shopping centres located on the outskirts or outside of cities. Urban shopping centres tend to be located close to public transport facilities and in proximity to popular commercial areas while suburban shopping centres are further away from public transport facilities.

Rents at the Group's shopping centres are fixed type or fluctuate type depending on the sales of tenants, and adopted in consideration of the suitability of facilities and tenants.

Urban hotels

As of 31 March 2023, the Group operated 80 Daiwa Roynet Hotels and 38 other hotels located in cities across Japan. Daiwa Roynet Hotels and OSAKA DAI-ICHI HOTEL are included in the commercial facilities business while La' gent Inn and La' gent Hotel are included in the rental housing business, and MIMARU and THE STAY OSAKA shinsaibashi are included in the condominiums business.

The Group's urban hotels are conveniently located in city centres and close to public transportation. The Group's urban hotels are primarily targeted at guests visiting a city for business purposes or for a short stay.

The following table shows certain operating data for Daiwa Roynet Hotels for the periods indicated:

	Fiscal year ended 31 March				
	2019	2020	2021	2022	2023
Occupancy rates	91.8%	87.4%	33.9%	55.7%	83.9%
Number of hotels	52	59	62	75	80
Number of rooms	11,226	12,543	13,115	15,918	16,902

Note:

- (1) Eight hotels of Daiwa Royal Hotel City are included from the fiscal year ended 31 March 2022 due to rebranding in October 2021.

Fitness clubs

As of 31 March 2023, the Group operated 67 fitness clubs under the brand Sports Club NAS, many of which were conveniently located next to shopping malls or popular shopping areas, as well as close to public transportation.

The following table shows certain operating data for Sports Club NAS for the periods indicated:

	Fiscal year ended 31 March				
	2019	2020	2021	2022	2023
Number of members	191,092	196,582	161,843	156,574	145,375
Number of sports clubs	69	71	71	71	67

Other businesses in Japan

In addition to the above, the Group operates home centres and parking and carsharing businesses in Japan.

Overseas operations

For the fiscal year ended 31 March 2023, net sales of overseas operations accounted for 0.1 per cent of the total net sales of the commercial facilities business (before intersegment eliminations). The Group engages in a real estate development business, which is a combined development project of a hotel and a condominium, and a construction contract business in Taiwan. In addition, the Group purchased existing commercial facilities in California in the fiscal year ended 31 March 2020 and have been supporting tenant companies in opening stores in North America. In July 2023, the Group acquired "Village Center", a Neighbourhood Shopping Centre (NSC) in Fountain Valley, California, and started its operation and management.

Business and corporate facilities business

In the business and corporate facilities business, the Group engages in the development, construction, management and operation of logistics, manufacturing facilities and medical and nursing care facilities. For the fiscal year ended 31 March 2023, the business and corporate facilities business had net sales (before intersegment eliminations) of ¥1,130,230 million and accounted for 23.0 per cent of the consolidated net sales.

The following table sets forth the composition of the received orders (in value terms) by facility type for the fiscal year ended 31 March 2023:

	Fiscal year ended 31 March 2023
	<i>(Per cent)</i>
Logistics facilities	32%
Factories	27%
Offices	13%
Condominiums	7%
Medical and nursing care facilities	7%
Others	15%

Note:

(1) Total for the Company and Fujita Corporation (Fujita Corporation only works on construction)

Construction of facilities for customers

The Group develops and constructs logistics facilities, offices, factories, data centres and medical and nursing care facilities for customers on land that is generally owned by third-party land owners. As in the Group's commercial facilities business, the Group possesses a good location selection ability and can make its customers benefit from the Group's wide network of land owners by offering the same range of services. The Group's extensive land and regional knowledge enables the Group to offer customers with a wide range of options for the location of the offices, medical and nursing care facilities, manufacturing facility or logistics facility that they wish to have constructed.

Logistics properties

The Group employs its "D-Project" proprietary business format, under which the Group meets all its customers' diverse needs from selection of prime-location sites through the design and construction of facilities, to service operation and building management.

The growth of online shopping and corporate globalisation are drastically changing logistics needs. In addition to good locations, companies have an increased need for larger, multi-functional facilities. By contracting to handle logistics for several shippers as part of a single-package service, the Group is able to optimally allocate and use physical resources such as logistics centres, systems and equipment, as well as technologies, offering all goods owners a logistics-sharing service that perfectly meets their needs.

The Group classifies logistics properties into the two categories of built-to-suit and multi-tenant type logistics properties. Built-to-suit logistics properties are customised to the tenant's needs, while maintaining general versatility to accommodate successor tenants in the future. Multi-tenant logistics properties are located on sites suitable to the logistics needs of various businesses and have optimal scale, grade and facilities for their respective site.

The following tables set forth certain operating data for the logistics facilities the Group has developed as of 31 March 2023:

		Fiscal year ended 31 March 2023
		<i>(Thousand m²)</i>
Developed area of logistics facility (accumulated):		
Hokkaido		306
Tohoku		534
Kanto		7,595
Hokushinetsu and Chubu		1,660
Kinki		1,444
Chugoku and Shikoku		500
Kyushu		754
Total		12,796
		Fiscal year ended 31 March 2023
		<i>(Thousand m²)</i>
Composition of development (accumulated):		
Build-to-suit type	Number of logistics facilities	252
	Floor areas	5,382
Multi-tenant type	Number of logistics facilities	113
	Floor areas	7,413
Total	Number of logistics facilities	365
	Floor areas	12,796

Note:

- (1) Floor areas have accumulated since the fiscal year ended 31 March 2004 in Build-to-suit type logistics, and since the fiscal year ended 31 March 2014 in Multi-tenant type logistics.

Offices and factories

The Group provides support services for customers seeking to build networks of offices, factories and other business properties. The Group utilises its extensive database on land prices and sites available for development to make land-use proposals covering initial surveys, planning, design, construction and post-completion maintenance. The Group offers land-use proposals for sites across Japan of various scale for buildings and other facilities for diverse kinds of purposes, including proposals for eco-friendly offices and factories, for the building of new corporate facilities or relocation of existing ones, and for the rebuilding or demolition of existing properties. With regard to food processing facilities, the Group offers a total-support service precisely tailored to the needs and scale of each corporate customer, starting from design of the initial business model and looking at the entire supply chain, from fresh food production through processing to marketing. The Group also engages in the redevelopment of wholesale markets into complex facilities led by a private sector.

Overseas operations

For the fiscal year ended 31 March 2023, net sales of overseas operations accounted for 6.7 per cent of the total net sales of the business and corporate facilities business (before intersegment eliminations). In Indonesia, the Group is working with local partner companies to develop industrial parks. In Vietnam, the Group has been involved in the development of an industrial park in the suburbs of Ho Chi Minh City in cooperation with partner companies. The Group also develops and operates logistics warehouses and rental factories. Fujita Corporation, a consolidated subsidiary of the Company, engages in contract work on the construction of factories in Southeast Asian countries, Mexico, Central and South America and other areas, mainly for clients in the Japanese automotive industry. Fujita Corporation also has a track record of over thirty years in the Chinese market, and has been involved in the construction of production plants for Japanese enterprises primarily in the automotive and electric appliance industries.

Environment and energy business

In the environment and energy business, the Group engages in the development and construction of renewable energy power plants, renewable energy generation and electricity retailing. For the fiscal year ended 31 March 2023,

the environment and energy business had net sales (before intersegment eliminations) of ¥188,611 million and accounted for 3.8 per cent of the consolidated net sales.

Leveraging the Group’s technological capabilities, proposal capabilities and comprehensive capabilities, the Group engages in the following three businesses: the EPC business (design and construction of renewable energy power plants) centred on the construction of solar power plants, the PPS business (electricity retail business) for corporations and individuals, and the IPP business (power generation business) centred on solar power generation.

The following table sets forth certain operating data for the Group’s renewable energy generation facilities in operation for the periods indicated:

		Fiscal year ended 31 March		
		2021	2022	2023
Solar power	Number of facilities	359	411	457
	Solar power generation capacity (MW)	400.4	535.8	582.9
Wind power	Number of facilities	15	19	20
	Wind power generation capacity (MW)	26.5	26.7	26.8
Water power	Number of facilities	3	3	3
	Water power generation capacity (MW)	2.7	2.7	2.6
Total	Number of facilities	377	433	480
	Generation capacity (MW)	429.6	565.2	612.3

Note:

- (1) Actual output is shown in “generation capacity” for the fiscal year ended 31 March 2021 while maximum output is shown therein for the fiscal years ended 31 March 2022 and 2023.

Other businesses

In the other businesses, the Group operates golf courses, fee-based homes for the elderly/assisted-living residential facilities for seniors, credit card and retail loan services, insurance agencies and other businesses. For the fiscal year ended 31 March 2023, the other businesses had net sales (before intersegment eliminations) of ¥81,849 million and accounted for 1.7 per cent of the consolidated net sales.

Construction Practices

In all the businesses in which construction is necessary as part of a project, the Group supervises all construction activities from the planning through the execution and the completion of the construction. The Group hires third-party sub-contractors for all the construction work and generally procures the raw materials necessary for the construction, except in the case of condominiums, for which the general contractor provides the raw materials. The Group follows the construction practices commonly used in Japan under which a general contractor obtains contracts through direct negotiation or competitive bidding, based on its own estimate of the cost of the project. Upon undertaking a project, the Group retains sub-contractors on a non-exclusive basis for various phases of the construction. Sub-contractors generally provide their own labour as well as general purpose machinery and equipment. Responsibility to the Group’s customers for all construction work rests in the first instance with the Group, and the sub-contractors are responsible to the Group for their work.

Research and Development

The Group conducts a wide range of research and development activities, from basic and applied research to the development of new technologies and products, and the application and verification of these new technologies in building and urban development. The Group coordinates closely with government agencies, domestic and foreign universities and companies in different industries. For the fiscal year ended 31 March 2023, the Group’s research and development costs were ¥10,427 million compared to ¥9,503 million for the fiscal year ended 31 March 2022.

Environmental Policy

The Group aims to realise a sustainable society as a group that co-creates value for individuals, communities, and people’s lifestyles and tries to make “zero” environmental impacts within the Group, globally and through supply chains.

The Group formulated the long-term environmental vision “Challenge ZERO 2055” in the fiscal year ended 31 March 2017, focusing on the year 2055, the centennial of the Group’s founding. The Group aims to realise a

sustainable society and try to create “zero” environmental impacts through three stages (procurement, business activities and products and services) with four environmental priority themes in mind (mitigating and adapting to climate change, harmony with the natural environment, closed-loop resource sourcing and conservation of aquatic environments, and prevention of chemical pollution). Among these themes, seven targets of particular importance are defined as “Challenge ZERO” in order to accelerate the Group initiatives with specific milestones for 2030.

Four environmental priority themes

Mitigating and adapting to climate change

The Group aims for zero greenhouse gas emissions throughout the product life cycle through uncompromising pursuit of energy saving and utilisation of renewable energy in order to achieve a decarbonised society. In addition, the Group devises measures to avoid and minimise the negative impacts of climate change, and strive for the operation of businesses that are highly tolerant of climate change risk to realise a safe and secure society.

Harmony with the natural environment (preservation of biodiversity)

In order to preserve and improve our natural capital, the Group shall prevent any net loss of biodiversity by ensuring zero deforestation through material procurement and by developing communities filled with greenery in harmony with the natural environment.

Closed-loop resource sourcing and conservation of aquatic environments (greater durability and waste reduction)

With the aim of contributing to the emergence of a society committed to recycling, the Group is pursuing the sustainable use of resources by extending the service life of houses and buildings and working toward zero emissions of waste, as well as the use of recycled materials. The Group also aims for sustainable utilisation of water through reducing water consumption, total recycling of resources, and conservation of aquatic environments throughout the Group’s supply chain.

Prevention of chemical pollution

The Group shall institute appropriate management of chemical substances throughout the life cycle of houses and buildings to minimise the risk of adverse impacts on the health of people and ecosystems.

Goals and milestones of seven “Challenge ZERO”

CO₂ in community development

Through turning newly constructed buildings into net zero energy buildings and by improving energy efficiency and energy-generation installation at existing buildings, as well as through supplying renewable energy, the Group aims to achieve carbon neutrality by 2050.

The Group identified the following milestones for 2030:

- reducing greenhouse gas (GHG) emissions (total) from newly constructed buildings in the habitation and usage stage by 63 per cent compared to the fiscal year ended 31 March 2016;
- turning all newly constructed houses and buildings into ZEH/ZEB in principle, while also promoting the development of carbon neutral towns with 100 per cent renewable energy by installing solar power generation systems in all buildings; and
- completing renovation of existing buildings to turn them into ZEH/ZEB by application, while also promoting carbon neutrality through renovations to improve energy efficiency or install energy-generation facilities, as well as the supply of renewable energy.

CO₂ in business activities

The Group aims to implement thorough energy-efficiency measures, turn newly built facilities into ZEBs, and utilise renewable energy to achieve carbon neutrality by 2050 in all facilities and all business processes.

The Group identified the following milestones for 2030:

- reducing GHG emissions (total) in all facilities and all business processes by 70 per cent compared to the fiscal year ended 31 March 2016;
- by further promoting energy saving for existing facilities and achieving ZEB for facilities to be newly constructed, doubling the groupwide energy efficiency (sales unit per consumed energy) from the levels of the fiscal year ended 31 March 2016; and
- working to expand renewable energy, attaining 100 per cent renewable energy for all the electricity used in the Group.

CO₂ in the supply chain

Through collaboration with suppliers, the Group aims to achieve carbon neutrality in the supply chain by 2050.

The Group identified the following milestone for 2030:

- by 2025, sharing with 90 per cent of the Group's principal suppliers the GHG reduction targets in line with the Paris Agreement and cooperating with them in the initiatives for energy efficiency and renewable energy in order for the principal suppliers to achieve the targets by 2030.

Deforestation

Through collaboration with suppliers, the Group aims to achieve zero deforestation arising from materials procurement at all segments by 2055.

The Group identified the following milestone for 2030:

- working with suppliers to eliminate from procurement at the Group's housing and construction businesses all timber that cannot be traced to legal harvest.

Harm to biodiversity

The Group aims to prevent any net loss of biodiversity by 2055 through sustainable business operation that takes into consideration the protection of biodiversity, and enhancement of the amount and quality of green space in housing, construction, and community development.

The Group identified the following milestones for 2030:

- in all housing- and building-related businesses, taking steps to enhance the amount and quality of green space that take into consideration the protection of biodiversity, aiming to create in aggregate at least 2 million square metres of biodiversity-conducive green spaces;
- completing biodiversity assessments of all owned or managed sites and undertake ongoing conservation work at all ecologically significant ones; and
- through reducing discarded plastics and other efforts, bringing to zero the impact associated with marine plastic waste problems.

Waste and reuse

The Group aims to use only recyclable or recycled materials at the Group's housing and construction businesses by 2055. Through extending the durability of the Group's buildings, the Group aims to minimise the volume of resources used and waste emissions.

The Group also aims to achieve zero waste emissions and total recycling of resources throughout supply chains across the Group.

The Group identified the following milestones for 2030:

- seeking to extend the durability and increase the variability of the Group's new buildings, as well as helping create a market for trading quality housing stock at fair valuations by promoting renovation and remodelling of existing buildings; and
- achieving zero waste emissions and total recycling of resources throughout supply chains at in all housing- and building-related businesses, as well as promoting the use of recyclable or recycled materials.

Water-associated risks

The Group aims for sustainable utilisation of water through reducing water consumption, total recycling of resources, and conservation of aquatic environments throughout supply chains across the Group by 2055.

The Group identified the following milestones for 2030:

- reducing water consumption (per unit of sales) by 45 per cent compared to the fiscal year ended 31 March 2013 at all sites and properties and in all processes; and
- completing water risk assessments in all housing- and building-related businesses in the Group's supply chains, and completing water risk countermeasures at all owned locations and high-risk supplier locations.

Competition

In the Group's single-family houses business, the Group competes with other large domestic home building companies that offer similar types of single-family houses in the same regions of Japan and target the same customers as the Group does. Although the Group tries to differentiate its single-family houses by offering attractive designs, features and services and solid construction quality at a competitive price, comparable or more attractive products, similar features and services and comparable or better construction quality may also be available at similar prices or lower from these competitors. In addition to these large domestic home building companies, the single-family home building market has relatively low barriers to entry and the Group may face competition from new domestic or regional real estate developers.

In the Group's rental housing business, the Group is subject to intense competition from similar large domestic rental housing building and management companies. Some of these competitors may have expertise in certain types of rental housing units in which the Group has less experience. In addition, the Group may be unable to target its sales and marketing activities as efficiently as its competitors due to a weaker sales force depending on the regions in which it operates.

In the Group's condominiums business, the Group faces competition from large domestic real estate developers with significant condominiums operations. These real estate developers may have larger resources than the Group has and the Group may not be able to compete effectively against them in developing new condominiums and securing potential buyers. Due to their size, network and greater resources, large domestic competitors may also be able to initiate larger-scale and more successful sales and marketing campaigns, which the Group may not be able to match.

In the Group's commercial facilities business, the Group competes against domestic property developers and general contractors, which may have greater financial and other resources and better existing commercial relationships than the Group has, and may therefore be in a better position to develop their business than the Group is.

In the Group's business and corporate facilities business, the Group faces competition from general contractors and logistics developers as well as domestic real estate development companies that engage in the logistics properties business. In the Group's medical care facilities operations, the Group's competitors include domestic real estate developers that also engage in the development of medical care facilities. These competitors may have greater financial and other resources as well as expertise in specific areas than the Group has, and the Group may not be able to compete effectively if such competition continues or intensifies further.

In addition, in several of the Group's businesses in which it acquires land as part of its property developments, the Group is subject to competition in the purchase of suitable parcels of land, such as land on which the Group builds built-for-sale single-family houses, condominiums, commercial facilities and logistics facilities.

Regulations

The Group's business activities, particularly in relation to the construction and sale of buildings and other real estate and the asset management business, are subject to various governmental regulations in Japan and the other countries in which it operates. These regulations include, among other things, the requirement to provide governmental approvals and to remain in compliance with certain standards in connection with construction and sale of the Group's products.

Construction of Buildings

Under the Construction Business Act, any person who intends to engage in the construction business must first obtain permission from the Minister of Land, Infrastructure, Transport and Tourism, the relevant Governor, or the Director of the relevant Regional Development Bureau, and comply with certain prescribed standards. Violations of the Construction Business Act could result in the Group being issued mandatory instructions or in the Group's permission being suspended in part or in whole for a period of up to one year, or revoked, by the Minister of Land, Infrastructure, Transport and Tourism, by the relevant Governor, or by the Director of the relevant Regional Development Bureau. For example, under the Construction Business Act, the Group is required to have a full-time engineer that meets certain requirements in each of its business offices. In addition, on projects that require construction work above a certain scale to be undertaken, the Group is generally required to have an employee of the Group to be on site as a full-time construction manager that meets certain requirements.

Licensed Architects

Under the Architects and Buildings Engineers Act of Japan (Act No. 202 of 1950, as amended), any person who intends to design certain buildings or administer building construction work must first obtain a license from the Minister of Land, Infrastructure, Transport and Tourism or the relevant Governor. Offices of such licensed architects are also required to be registered by the relevant Governor. The license and the registration may be revoked or suspended under certain circumstances.

Regulations Related to Buildings

The construction, repair and remodelling of buildings is generally subject to the Building Standard Act. Under this act, any entity that constructs, substantially repairs or remodels, whether by itself or through a third-party contractor, any building that is larger than a certain size or that is located in certain designated areas must obtain a certificate of prior confirmation for the planned construction, repair or remodelling as well as a certificate of completion thereof from an inspector appointed by the local authorities. Such certificates confirm that the building, repair or remodelling conforms to the standards prescribed by the Building Standard Act and relevant regulations. In addition, the local authorities may order the suspension of construction or the demolition, reconstruction, remodelling or repair of any building, or may prohibit or limit the use of any building if the building does not conform to the relevant building standards. Such standards include those relating to the use, height and structure of buildings, including the seismic design, the building-to-land area ratio, and fire prevention, security and sanitation requirements.

The relevant site may be subject to general restrictions under the City Planning Act of Japan (Act No. 100 of 1968, as amended), which designates areas where certain usage is not allowed. Any person who intends to perform development activities in specified designated areas must first obtain permission from the relevant Governor.

Sales and Leasing of Real Estate

Under the Building Lots and Buildings Transaction Business Act, any person who intends to engage in the business of the sale and purchase of buildings and building lots and the agency and brokerage of sale, purchase and leasing of buildings and building lots, referred to by this act as a real estate trader, must first obtain a license from the Minister of Land, Infrastructure, Transport and Tourism, the relevant Governor or the Director of the relevant Regional Development Bureau. The Minister of Land, Infrastructure, Transport and Tourism, the relevant Governor or the Director of the relevant Regional Development Bureau may revoke such license or suspend it, in whole or in part, for a period of up to one year if the real estate trader enters into a transaction that violates the Building Lots and Buildings Transaction Business Act or otherwise engages in substantially inappropriate conduct. This act also requires real estate traders to employ, or otherwise enlist the services of, a certain number of qualified and registered real estate transaction managers.

The Building Lots and Building Transaction Business Act imposes various obligations on real estate traders in connection with their business. For instance, real estate traders must ensure that their real estate transaction managers deliver to real estate purchasers and lessees documents setting forth important matters relating to the property and provide sufficient explanations to purchasers and lessees before entering into real estate contracts. In addition, the Building Lots and Building Transaction Business Act places limits on the size of deposits that may be collected from a purchaser and on liquidated damages payable to real estate traders and also provides restrictions on advertisements relating to the business of real estate traders.

Liability for Defects of Warranty and Non-Conformity to the Contract

In connection with the Group's construction and sale of buildings, pursuant to the Civil Code of Japan (Act No. 89 of 1896, as amended) (the "Civil Code") or other laws, the Group may be subject to potential liabilities for "defects" in relation to a contract for sale or work entered into on or before 31 March 2020, or for "non-conformity to the contract" in relation to a contract for sale or work entered into on or after 1 April 2020. On 1 April 2020, an amendment to the Civil Code came into force, and the Civil Code's provisions with respect to liability for defects of warranty were wholly amended, such that the concept of "defects" was replaced by the concept of "non-conformity to the contract", with clarification of liabilities arising from such non-conformity.

Under the Civil Code as amended above, if there is any non-conformity to the contract in the subject matter of a sale or the subject matter of work performed, the seller or the constructor of buildings or building lots is statutorily liable for non-conformity to the contract vis-à-vis the purchaser or the contractee. The seller or the constructor are subject to such liabilities for one year from the date on which the purchaser or the contractee becomes aware of the non-conformity to the contract with respect to kind or quality, and the purchaser or the contractee may request that the seller or the constructor (i) reduce the sale price or remuneration for performed work relating to the underlying sale or contract for work, (ii) restore conformity, or (iii) provide compensation in damages, including for lost profits. The Building Lots and Buildings Transaction Business Act generally prohibits real estate traders as the seller of the building and building lot to modify the liability unfavourably to the purchaser. In addition, the Housing Quality Assurance Act of Japan (Act No. 81 of 1999, as amended) imposes stricter liability against sellers of newly built houses and constructors of new houses, under which a seller and a constructor of a new house is statutorily liable for the non-conformity to the contract in the primary parts of the house for ten years from delivery of it under certain conditions, and any agreement which purports to modify these liabilities unfavourably to the purchaser or the contractee shall be void.

Management of J-REIT

The asset management company for the J-REIT must be registered as the relevant financial instruments business operator under the FIEA. The Financial Services Agency Commissioner may revoke such registration or suspend it, in whole or in part, for a period of up to six months under certain circumstances including the case that the financial instruments business operator violates detailed regulations set forth in the FIEA and relevant rules.

Real Estate Management

Under the Promotion of Adequate Management of Condominiums Act of Japan (Act No. 149 of 2000, as amended), any person who intends to engage in condominium management on behalf of a condominium association board must first register with the Minister of Land, Infrastructure, Transport and Tourism or the Director of the relevant Regional Development Bureau. The Minister of Land, Infrastructure, Transport and Tourism or the Director of the relevant Regional Development Bureau may revoke such registration or suspend it, in whole or in part, for up to one year under certain circumstances such as non-compliance with applicable laws and regulations or inappropriate management of condominiums. This act also requires such person to employ, or otherwise enlist the services of, a certain number of qualified and registered condominium managers.

Environmental Regulation

Under the Soil Contamination Countermeasures Act, if a local Governor finds that the level of pollution in a given area due to hazardous or toxic substances exceeds the standards prescribed by the Ministry of the Environment and that area is polluted to such an extent that it has caused or may cause harm to human health, the Governor must designate the area as a polluted area and the Governor may order the current owner of such land to remove or remediate hazardous or toxic substances on or under the land in accordance with a plan for the removal and remediation, in principle, whether or not the current owner knew of, or was responsible for, the presence of such hazardous or toxic substances.

Personal Information

The Personal Information Protection Act of Japan (Act No. 57 of 2003, as amended) and related guidelines impose various requirements on businesses, including the Group, that use databases containing personal information, such as appropriate custody of such information and restrictions on information-sharing with third parties. Non-compliance with any order issued by the Personal Information Protection Commission to take necessary measures to comply with the law could subject the Group to criminal and/or administrative sanctions.

Other Regulations

The Group's hotel business is also subject to various laws and regulations, including the Hotel Business Act of Japan (Act No. 138 of 1948, as amended).

The Group's logistics business is also subject to various laws and regulations, including the Motor Truck Transportation Business Act of Japan (Act No. 83 of 1989, as amended) and the Consigned Freight Forwarding Business Act of Japan (Act No. 82 of 1989, as amended).

The Group's general insurance agencies business and life insurance solicitation business are also subject to various laws and regulations, including the Insurance Business Act of Japan (Act No. 105 of 1995, as amended).

The Group's credit cards business is also subject to various laws and regulations, including the Installment Sales Act of Japan (Act No. 159 of 1961, as amended), the Money Lending Business Act of Japan (Act No. 32 of 1983, as amended), the Interest Rate Restriction Act of Japan (Act No. 100 of 1954, as amended), and the Act on Prevention of Transfer of Criminal Proceeds of Japan (Act No. 22 of 2007, as amended).

The Group is also subject to other corporate, commercial or other laws and regulations, including those relating to corporate governance and corrupt business practices.

Insurance

The Group has entered into a comprehensive corporate insurance policy to insure almost all of its fixed assets against damage caused by natural disasters. The Group is not insured against damage caused by earthquakes. The Group maintains a range of insurance policies which it believes are comparable to those of other companies with similar operations.

Intellectual Property

As of 31 March 2023, the Company had a total of 128 patents and utility models, 1,492 trademarks and 1,486 registered designs.

Legal Proceedings

The Group is from time to time involved in various legal proceedings during the ordinary course of its business. No member of the Group is currently involved in any governmental, legal or arbitral proceedings (including any proceedings that are pending or threatened) which could have a material effect on its business, results of operations or financial condition.

MANAGEMENT AND EMPLOYEES

Management

The Company's articles of incorporation provide for a Board of Directors consisting of not less than three members and provide for not less than three Audit & Supervisory Board Members. All Directors and Audit & Supervisory Board Members are elected by the Company's shareholders at a general meeting of shareholders. The term of office for Directors expires at the close of the ordinary general meeting of shareholders held relating to the last fiscal period to end within one year after such Director's election, and the term of office for Audit & Supervisory Board Members expires at the close of the ordinary general meetings of shareholders held relating to the last fiscal year to end within four years after such Audit & Supervisory Board Member's election, but Directors and Audit & Supervisory Board Members may serve any number of consecutive terms. The Company currently has 13 Directors, including five Outside Directors, and six Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members.

The Company has introduced an executive officer system in order to have a more revitalised board by separating decision making and supervision functions from execution function. Executive Officers are responsible for managing the Company's business operations. The Board of Directors oversees the Executive Officers and sets fundamental strategies. By its resolution, the Company's Board of Directors may elect, from among its members, a Chairman (*kaicho*), a Vice Chairman (*fuku kaicho*), a President (*shacho*), along with one or more Vice Presidents, Senior Managing Directors and Managing Directors. The Board of Directors also elects one or more Representative Directors from among its members. Each of the Representative Directors has the authority to represent the Company in conducting its affairs.

The Company has entered into a liability limitation agreement with each Outside Director and Audit & Supervisory Board Member which limits the maximum amount of their liability to the Company arising in connection with a failure to execute their duties in good faith and without gross negligence to the minimum amount stipulated by applicable laws and regulations.

The Audit & Supervisory Board Members are not required to be certified public accountants. The Audit & Supervisory Board Members may not at the same time be Directors, accounting advisors, managers or any other type of employees of the Company or any of the subsidiaries or corporate executive officers of any of the Company's subsidiaries, and at least one-half of them must be persons who satisfy the requirements for an Outside Audit & Supervisory Board Member under the Companies Act. Each Audit & Supervisory Board Member has a statutory duty to supervise the administration by the Directors of its affairs, to examine the financial statements and business reports to be submitted to the shareholders by a Representative Director and to prepare an audit report. They are obligated to participate in meetings of the Board of Directors and, if necessary, to express their opinion at such meetings, but are not entitled to vote.

The Audit & Supervisory Board Members form the Audit & Supervisory Board. The Audit & Supervisory Board has a statutory duty to prepare an audit report based on the audit reports issued by the individual Audit & Supervisory Board Members each year. An Audit & Supervisory Board Member may note his opinion in the audit report if the opinion expressed in his audit report is different from the opinion expressed in the audit report issued by the Company's Audit & Supervisory Board. The Audit & Supervisory Board must establish the audit principles, the method of examination by the Audit & Supervisory Board Members of the Company's affairs and financial position and any other matters relating to the performance of the Audit & Supervisory Board Members' duties. The Audit & Supervisory Board is required to elect from among its members at least one standing Audit & Supervisory Board Member.

The Company must appoint by a resolution of a general meeting of shareholders independent certified public accountants as an independent auditor, who has the statutory duties of auditing the financial statements to be submitted by a Representative Director to the general meetings of shareholders and preparing audit reports. Currently, the Company's independent auditor is Ernst & Young ShinNihon LLC.

The names and titles of the Directors and the Audit & Supervisory Board Members as of the date of this Offering Circular are as follows:

Name	Title
Keiichi Yoshii	Representative Director and President, CEO
Takeshi Kosokabe	Representative Director and Executive Vice President, CFO
Yoshiyuki Murata	Representative Director and Executive Vice President
Keisuke Shimonishi	Director and Senior Managing Executive Officer
Hirotsugu Otomo	Director and Managing Executive Officer
Kazuhito Dekura	Director and Managing Executive Officer
Yoshinori Ariyoshi	Director and Managing Executive Officer
Toshiya Nagase	Director and Managing Executive Officer
Yukiko Yabu	Outside Director
Yukinori Kuwano	Outside Director
Miwa Seki	Outside Director
Kazuhiro Yoshizawa	Outside Director
Yujiro Ito	Outside Director
Tomoyuki Nakazato	Audit & Supervisory Board Member
Tadatoshi Maeda	Audit & Supervisory Board Member
Yoshinori Hashimoto	Audit & Supervisory Board Member
Akihisa Watanabe	Outside Audit & Supervisory Board Member
Tatsuji Kishimoto	Outside Audit & Supervisory Board Member
Takashi Maruyama	Outside Audit & Supervisory Board Member

The names and titles of the Executive Officers as of the date of this Offering Circular are as follows:

Name	Title
Tatsuya Urakawa	Managing Executive Officer
Eiichi Shibata	Managing Executive Officer
Yuji Yamada	Managing Executive Officer
Tetsuya Tamura	Managing Executive Officer
Koji Harano	Managing Executive Officer
Yukikazu Kataoka	Managing Executive Officer
Moritaka Noumura	Managing Executive Officer
Junko Ishizaki	Managing Executive Officer
Nobuhito Ishibashi	Senior Executive Officer
Tetsuro Wada	Senior Executive Officer
Hiroshi Kono	Senior Executive Officer
Takafumi Nakao	Senior Executive Officer
Hirofumi Nakajima	Senior Executive Officer
Shigeaki Ochiai	Senior Executive Officer
Yuichi Sugiura	Senior Executive Officer
Ryuichi Oyaide	Senior Executive Officer
Katsuyuki Murai	Senior Executive Officer
Masafumi Sugimoto	Senior Executive Officer
Taro Kawamura	Operating Officer
Norio Togashi	Operating Officer
Masataka Kanai	Operating Officer
Yoshinori Iwabuchi	Operating Officer
Masatoshi Hatta	Operating Officer
Keisuke Izumoto	Operating Officer
Kenichi Yoshioka	Operating Officer

Name	Title
Katsunori Nobe	Operating Officer
Kazumi Suwa	Operating Officer
Ryuzo Matsuyama	Operating Officer
Masao Kita	Operating Officer
Keiichi Moteki	Operating Officer
Nobuhiko Watanabe	Operating Officer
Hideto Tamiya	Operating Officer
Tadahiro Takayoshi	Operating Officer
Kazuya Mukai	Operating Officer
Yoshimune Morizumi	Operating Officer
Akira Matsuba	Operating Officer
Tetsuo Hatta	Operating Officer
Akira Kitamura	Operating Officer
Eiji Saito	Operating Officer
Masao Noshi	Operating Officer
Masatoshi Sarashina	Operating Officer
Takehiro Uchiyama	Operating Officer
Masaaki Kikuchi	Operating Officer
Shingo Suzuki	Operating Officer
Akihiko Wada	Operating Officer
Toshiyuki Suminaga	Operating Officer
Toshiki Tanaka	Operating Officer
Shinichi Yamazaki	Operating Officer
Naoya Honda	Operating Officer
Noboru Higuchi	Operating Officer
Yoshimitsu Kojima	Operating Officer
Shinji Tanioku	Operating Officer
Takeshi Wakita	Operating Officer
Yoichi Shimoyama	Operating Officer

The Company's Directors may be contacted through its head office at 3-5, Umeda 3-chome, Kita-ku, Osaka 530-8241, Japan.

Executive Compensation

The aggregate remuneration paid to the Company's Directors (excluding Outside Directors) by the Company was ¥1,308 million for the fiscal year ended 31 March 2023. The aggregate remuneration paid to the Company's Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members) by the Company in their capacities as such was ¥132 million for the fiscal year ended 31 March 2023. The aggregate remuneration paid to the Company's Outside Directors and Outside Audit & Supervisory Board Members in their capacities as such was ¥111 million for the fiscal year ended 31 March 2023.

Restricted Stock Compensation

The Company has established a Restricted Stock Compensation System, for its Directors, except for Outside Directors ("Eligible Directors") and offered either as "post-issuance type" or as "performance-based remuneration". Outside Directors are paid only based on their basic compensation.

Restricted stock compensation with post-issuance type transfer restrictions is provided to encourage commitment to management with an awareness to the value of the Shares. Under this system Shares are delivered to Eligible Directors on the condition that they have held the position of Director continuously during each period from the date of the ordinary general meeting of shareholders for the respective year to the date of the ordinary general meeting of shareholders for the following year.

Performance-based remuneration of transfer-restricted stocks is provided to encourage commitment to ESG management. Under this system, the Shares are delivered in accordance with the degree of achievement of environment indices set forth by the Company under the Medium-Term Management Plan during each fiscal year.

The amount of restricted stock compensation is capped by the total annual restricted stock compensation determined by resolution of the 83rd ordinary general meeting of shareholders held on 29 June 2022. The total value of Shares allocated to Eligible Directors is capped at a total of ¥1,800 million per year (¥900 million each for the “restricted stock compensation with post-issuance type transfer restriction” and “performance-based remuneration of transfer-restricted stock”) and the total number of the Shares that can be delivered per year is capped at 580 thousand Shares (equivalent to less than 0.1 per cent of the total number of shares issued by the Company).

Each Eligible Director who is to be granted Shares under this system will be required to enter into a restricted stock allotment agreement that includes (i) the prohibition against transferring the restricted stocks to a third party, and (ii) a provision that allows for the free acquisition of the restricted stocks by the Company in the case of certain events.

As of 30 September 2023, the Company had granted 151,739 restricted stock under this system.

On 11 January 2024, the Company’s Board of Directors resolved to establish a Restricted Stock Compensation System for its Executive Officers who are not concurrently serving as its Directors (“Eligible Executive Officers”) and offer either as “post-issuance type” or as “performance-based remuneration”.

Restricted stock compensation with post-issuance type transfer restrictions is provided to encourage commitment to management with an awareness to the value of the Shares. Under this system Shares are delivered to Eligible Executive Officers on the condition that they have held the position of Executive Director not concurrently serving as Directors continuously during each fiscal year.

Performance-based remuneration of transfer-restricted stocks is provided to encourage commitment to ESG management. Under this system, the Shares are delivered in accordance with the degree of achievement of environment indices set forth by the Company under the Medium-Term Management Plan during each fiscal year.

Each Eligible Executive Officer who is to be granted Shares under this system will be required to enter into a restricted stock allotment agreement that includes (i) the prohibition against transferring the restricted stocks to a third party, and (ii) a provision that allows for the free acquisition of the restricted stocks by the Company in the case of certain events.

Shareholding Guideline

The Company recommends its Directors and Executive Officers of the Company and directors of the Group companies to own Shares such as through shareholder associations to encourage a sense of shared profit awareness with shareholders and behaviour respecting shareholder value. The Company has set up a shareholding guideline in which require Directors and Executive Officers of the Company and directors of the Group companies in principle to hold of certain number of Shares at the minimum within a certain time after appointment, in recognition of the important role they play in sustainable growth and greater corporate value over the medium and long term for the Company.

As of 30 September 2023, approximately 2,300 thousand Shares were being held by Directors and Executive Officers of the Company.

Employees

The total number of full-time employees of the Group as of 31 March 2023 was 49,768. The Company believes that its labour relations are good.

SUBSIDIARIES AND AFFILIATES

As of 31 March 2023, the Company had 432 consolidated subsidiaries, 54 affiliates accounted for by the equity method and one affiliate not accounted for by the equity method. The following table shows certain information with regard to the Group's principal consolidated subsidiaries and affiliates accounted for by the equity method as of 31 March 2023:

Name	Location	Business Segment	Issued Capital as of 31 March 2023	Percentage of voting rights owned, directly or indirectly, by the Group ⁽¹⁾
			<i>(Millions of yen, unless otherwise stated)</i>	<i>(Per cent)</i>
Consolidated subsidiaries:				
Stanley Martin Holdings, LLC.	Virginia, U.S.A.	Single-Family Houses	43,356	94.1 (94.1)
Trumark Companies, LLC.	California, U.S.A.	Single-Family Houses	15,803	80.0 (80.0)
CastleRock Communities LLC.	Texas, U.S.A.	Single-Family Houses	17,489	80.0 (80.0)
Daiwa House Reform Co., Ltd.	Osaka, Japan	Single-Family Houses	100	100.0
Daiwa House Real Estate Co., Ltd. ⁽³⁾	Osaka, Japan	Single-Family Houses	729	100.0
DesignArc Co., Ltd.	Osaka, Japan	Single-Family Houses	450	100.0
Daiwa Living Co., Ltd. ⁽⁴⁾	Tokyo, Japan	Rental Housing	100	100.0
North Clark LLC.	Delaware, U.S.A.	Rental Housing	14,794	100.0 (100.0)
Cosmos Initia Co., Ltd. ⁽⁵⁾	Tokyo, Japan	Condominiums	5,000	64.1 (0.9)
Daiwa House (Changzhou) Real Estate Development Co., Ltd.	Changzhou, China	Condominiums	14,403	100.0
Daiwa LifeNext Co., Ltd.	Tokyo, Japan	Condominiums	130	100.0
Daiwa House (Nantong) Real Estate Development.	Nantong, China	Condominiums	46,479	100.0
Jiuxin (Changzhou) Real Estate Development Co., Ltd.	Changzhou, China	Condominiums	28,659	100.0 (51.0)
Jiuxin (Suzhou) Real Estate Development Co., Ltd.	Suzhou, China	Condominiums	35,175	75.0 (75.0)
Daiwa Lease Co., Ltd.	Osaka, Japan	Commercial Facilities	21,768	100.0
Daiwa House Realty Mgt. Co., Ltd.	Tokyo, Japan	Commercial Facilities	200	100.0
Royal Home Center Co., Ltd.	Osaka, Japan	Commercial Facilities	100	100.0
Fujita Corporation.	Tokyo, Japan	Business and Corporate Facilities	14,002	100.0
Daiwa Logistics Co., Ltd.	Osaka, Japan	Business and Corporate Facilities	3,764	100.0
PT Daiwa House Indonesia.	Jakarta, Indonesia	Other Businesses	14,213	100.0 (25.0)
Daiwa House Malaysia Sdn. Bhd.	Johor, Malaysia	Other Businesses	11,040	100.0 (100.0)
DH Asia Investment Pte. Ltd.	Singapore	—	95,691	100.0
Daiwa House Australia Pty Ltd.	NSW, Australia	—	50,077	100.0 (100.0)
Daiwa House USA Holdings Inc.	Texas, U.S.A.	—	172,260	100.0
Daiwa House Texas Inc.	Texas, U.S.A.	—	45,229	100.0 (100.0)
Affiliates accounted for by the equity method:				
The Mortgage Corporation of Japan, Limited.	Tokyo, Japan	Other Businesses	1,000	26.0

Notes:

- (1) Each figure in “()” indicates a percentage of voting rights owned indirectly by the Group, included in the aggregate percentage of voting rights owned by the Group.
- (2) Of the above subsidiaries, the following companies are specified subsidiaries: CastleRock Communities LLC, Daiwa House (Nantong) Real Estate Development, Jiuxin (Changzhou)Real Estate Development Co., Ltd., Jiuxin (Suzhou) Real Estate Development Co.,Ltd., Daiwa Lease Co., Ltd., DH Asia Investment Pte. Ltd., Daiwa House Australia Pty Ltd, Daiwa House USA Holdings Inc., and Daiwa House Texas Inc.
- (3) Nihon Jyutaku Ryutu Co., Ltd. has changed its corporate name to Daiwa House Real Estate Co., Ltd. as of 1 January 2023.
- (4) Daiwa Living Co., Ltd. has sales (excluding internal sales between consolidated companies) accounting for more than 10% of consolidated sales.
- (5) Cosmos Initia Co., Ltd. has submitted annual securities reports. On 11 January 2024, the Company announced its intention to sell 8,480,000 shares of common stock of Cosmos Initia Co., Ltd. to KYORITSU MAINTENANCE CO., LTD. Following the sale of the shares, which is expected to complete towards the end of January 2024, the percentage of voting rights owned directly by the Company is expected to decrease to 38.25 per cent.

JAPANESE FOREIGN EXCHANGE REGULATIONS

General

The Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) and its related cabinet orders and ministerial ordinances (the “Foreign Exchange Regulations”), govern certain aspects, in particular, relating to the acquisition and holding of the Shares by “exchange non-residents” and by “foreign investors” (as these terms are defined below). However, in general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents for the purchase or sale of Shares outside Japan using currencies other than yen.

“Exchange residents” are defined in the Foreign Exchange Regulations as:

- (i) individuals who reside within Japan; or
- (ii) corporations whose principal offices are located within Japan.

“Exchange non-residents” are defined in the Foreign Exchange Regulations as:

- (i) individuals who do not reside in Japan; or
- (ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

“Foreign investors” are defined in the Foreign Exchange Regulations as:

- (i) individuals who are exchange non-residents;
- (ii) corporations or other entities that are organised under the laws of foreign countries or whose principal offices are located outside Japan (for this purpose, branches of such corporations or other entities located within Japan are included in this (ii)) (excluding partnerships falling within (iv));
- (iii) corporations of which 50 per cent or more of the total voting rights are held, directly or indirectly, by individuals and/or entities falling within (i) and/or (ii) above;
- (iv) partnerships engaging in investment activities formed under the Civil Code, investment limited partnerships formed under the Limited Partnership Act for Investment of Japan (Act No. 90 of 1998, as amended), or any similar partnerships under the laws of foreign countries, where either (a) 50 per cent or more of the total contributions to such entities are made by exchange non-residents or certain other foreign investors prescribed under the Foreign Exchange Regulations or (b) a majority of the managing partners or general partners of such partnerships are exchange non-residents or certain other foreign investors prescribed under the Foreign Exchange Regulations; or
- (v) corporations or other entities of which a majority of either (i) directors or other officers (including those who have the same degree or more control over such corporations or such other entities as directors or other officers) or (ii) directors or other officers (including those who have the same degree or more control over such corporations or such other entities as directors or other officers) having the power of representation are individuals who are exchange non-residents.

Acquisition of Shares

In general, the acquisition by an exchange non-resident of shares of a Japanese corporation from an exchange resident requires *post facto* reporting by the exchange resident to the Minister of Finance through the Bank of Japan. No such reporting requirement is imposed, however, if:

- (i) the aggregate purchase price of the relevant shares is ¥100 million or less;
- (ii) the acquisition is effected through any bank, financial instruments business operator or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or
- (iii) the acquisition constitutes an Inward Direct Investment described below.

Inward Direct Investment in Shares of Listed Corporations

If a foreign investor acquires shares or voting rights of a Japanese corporation that is listed on a Japanese stock exchange, such as the Shares, or that is traded on an over-the-counter market in Japan and, as a result of the acquisition,

the foreign investor, in combination with any of its existing holdings of the shares or voting rights, and any shares or voting rights managed by such foreign investor under discretionary investment management agreements (including those held or managed by certain related entities of such foreign investor), directly or indirectly holds 1 per cent or more of (i) the total issued shares or (ii) the total voting rights of the relevant corporation, then such acquisition constitutes an “inward direct investment” (the “Inward Direct Investment”).

Prior Notification

In general, any foreign investor intending to make an Inward Direct Investment by acquisition of shares or voting rights of a corporation is not subject to the prior notification requirement, unless any of businesses in which such corporation engages falls within any of the business sectors designated by the Foreign Exchange Regulations (*Shitei-Gyoshu*) (the “Designated Business Sectors”). The Company’s businesses currently do not fall within any of the Designated Business Sectors. Even if such corporation is not engaging in any of the Designated Business Sectors, however, the foreign investor must file a prior notification of the acquisition with the Minister of Finance and any other competent Ministers (the “Ministers”) in limited circumstances, such as where the foreign investor is in a country that is not listed on the exemption schedule under the Foreign Exchange Regulations. Upon filing of such prior notification, the Ministers may recommend a modification or abandonment of the proposed acquisition and, if such recommendation is not accepted, they may order the modification or abandonment of such acquisition.

Acquisitions of shares by foreign investors by way of stock split are not subject to the prior notification requirements.

Post Investment Reports

Under the Foreign Exchange Regulations, foreign investors conducting Inward Direct Investments may be required to submit post investment reports to the Ministers within 45 days from the transaction settlement date, even if such Inward Direct Investments are not subject to the prior notification requirements. For instance, with respect to the acquisition of shares or voting rights of corporations that are not engaging in Designated Business Sectors, a post investment report will generally be required when the ratio of the total number of shares or voting rights held directly or indirectly by foreign investors in combination with any of its existing holdings of the shares or voting rights and shares or voting rights managed by such foreign investor under discretionary investment management agreements (including those held or managed by certain related entities of such foreign investor) after the acquisition to the number of (i) the total issued shares or (ii) the total voting rights of the relevant corporation reaches 10 per cent or more.

Acquisitions of shares by foreign investors by way of stock split are not subject to the post investment report requirements.

Dividends and Proceeds from Sales of Shares

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of the Shares held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad. However, under the Foreign Exchange Regulations, certain procedures may be required for the transfer of funds out of Japan or may be prohibited, depending on the location of the recipient, the purpose of such fund transfer and other factors.

DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set out below is certain information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (*kabushiki kaisha*), and certain related legislation, all as currently in effect.

General

All issued Shares are fully-paid and non-assessable, and are in registered form.

The Shares are subject to the Japanese book-entry transfer system for listed shares of Japanese companies under the Book-Entry Act. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialised, and shareholders of listed shares must have accounts at account management institutions to hold their shares unless such shareholders have an account at JASDEC, the only institution that is designated by the relevant authorities as a clearing house which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. "Account management institutions" are financial instruments business operators (i.e., securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements under the rules of JASDEC (the "JASDEC rules") can open accounts directly at JASDEC. For the purpose of the description under "Description of the Shares and Certain Regulations", the Company assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Act, in order to assert against the Company shareholders' rights to which shareholders as at a given record date are entitled (such as the rights to vote at a general meeting of shareholders or receive dividends), a shareholder must have its name and address registered in the Company's register of shareholders, except in limited circumstances. Under the Japanese book-entry transfer system, such registration is generally made upon the Company's receipt of necessary information from JASDEC through an "all shareholders notice" (*sou-kabunushi tsuchi*). Shareholders are required to file their names and addresses with the Company, generally through the account management institution and JASDEC. On the other hand, in order to assert shareholders' rights to which shareholders are entitled regardless of record dates, such as minority shareholders' rights, including the right to propose a matter to be considered at a general meeting of shareholders but excluding shareholders' rights to request the Company to purchase or sell Shares constituting less than one unit upon a shareholder's request, JASDEC shall issue to the Company a notice of certain information (*kobetsukabunushi tsuchi*), which information includes the name and address of such shareholder. Under the Book-Entry Act, a shareholder must exercise its shareholder's right within four weeks after issue of the notice above.

Non-resident shareholders are also required to appoint a standing proxy in Japan or provide a mailing address in Japan and to file their standing proxy or a mailing address with the Company, generally through the account management institution and JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from the Company to non-resident shareholders are delivered to such standing proxies or mailing addresses.

The Company's transfer agent is Sumitomo Mitsui Trust Bank, Limited, located at 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

Distributions of Surplus

General

Under the Companies Act, distributions of cash or other assets by a joint stock corporation to its shareholders, including dividends take the form of distributions of Surplus (as defined in "—Restriction on Distributions of Surplus"). The Company may make distributions of Surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distributions of Surplus".

Distributions of Surplus are required in principle to be authorised by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) through (d) below are met:

- (a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of Surplus;

- (b) the Company appoints an independent auditor and forms an Audit & Supervisory Board under the Companies Act;
- (c) the normal term of office of each Director of the Company terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last fiscal year ending within the period of one year from the election of such Director; and
- (d) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

At present, the requirement described in (a) above is not met. Nevertheless the Company may make distributions of Surplus in cash as an interim dividend (the "interim dividend") to its shareholders by resolutions of the Board of Directors once per fiscal year under the Company's Articles of Incorporation and the Companies Act.

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as at 31 March of each year pursuant to a resolution of a general meeting of shareholders, and an interim dividend may be distributed to shareholders of record as at 30 September of each year pursuant to a resolution of the Board of Directors. The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

Distributions of Surplus may be made in cash or (except for interim dividends) in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors authorising a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders, grant a right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders. See "—Voting Rights" with respect to a "special resolution".

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the Shares generally goes ex-dividend on the business day immediately prior to the record date.

Restriction on Distributions of Surplus

When the Company makes a distribution of Surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed in accordance with an ordinance of the Ministry of Justice.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- "A" = the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company's non-consolidated balance sheet as at the end of the last fiscal year,
- "B" = (if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof,
- "C" = (if the Company has reduced its stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any),
- "D" = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any),
- "E" = (if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock,
- "F" = (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the total book value of the Surplus so distributed, and

“G” = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the “Distributable Amount”), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of the Company’s treasury stock;
- (b) the amount of consideration for the Company’s treasury stock disposed of by it after the end of the last fiscal year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the Company’s non-consolidated balance sheet as at the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with ordinances of the Ministry of Justice.

If the Company has become at its option a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), it will be required to further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of shareholders’ equity appearing on its non-consolidated balance sheet as at the end of the last fiscal year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders’ equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on its consolidated balance sheet as at the end of the last fiscal year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company’s treasury stock disposed of by it, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by the Audit & Supervisory Board Members and the independent auditor, as required by the Companies Act and ordinances of the Ministry of Justice.

Capital and Reserves

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by a resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve generally by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may reduce its stated capital generally by special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by resolution of a general meeting of shareholders.

Stock Splits

The Company may at any time split the issued Shares into a greater number of Shares by resolution of the Board of Directors. When a stock split is to be made, so long as the only class of the Company’s outstanding stock is its common stock, it may increase the number of authorised shares to the extent that the ratio of such increase in authorised shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying the record date therefor, not less than two weeks prior to such record date. Under the JASDEC rules relating to the Japanese book-entry transfer

system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of the Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be increased in accordance with the applicable ratio.

Consolidation of Shares

The Company may at any time consolidate the issued Shares into a smaller number of Shares by a special resolution of the general meeting of shareholders. When a consolidation is to be made, the Company must give public notice at least two weeks (or, in certain circumstances where any fractions of Shares are left as a result of consolidation, 20 days) prior to the effective date of the consolidation. The Company must disclose the reason for the consolidation at the general meeting of shareholders.

Under the Japanese book-entry transfer system, on the effective date of the consolidation, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be decreased in accordance with the applicable ratio.

Unit Share System

The Company's Articles of Incorporation provide that 100 Shares constitute one "unit". The Board of Directors is permitted to reduce the number of Shares that will constitute a unit or abolish the unit share system entirely by amending the Articles of Incorporation without approval by shareholders, while a special resolution of a general meeting of shareholders is required to increase the number of Shares that will constitute a unit. The number of Shares constituting a unit may not exceed the lesser of 1,000 and one-two hundredth of the total number of issued Shares.

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in "—Voting Rights". Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes.

Under the Japanese book-entry transfer system, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit and, accordingly, may not be sold on the Japanese stock exchanges, unless a different trading unit is designated by the relevant Japanese stock exchange.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Pursuant to the Company's Articles of Incorporation and Share Handling Regulations, any such holders may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute a full one unit. Under the Japanese book-entry transfer system, such requests must be made to the Company through the relevant account management institutions and JASDEC. Such purchase or sale of Shares will be effected, in general, at the last trading price of the Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter). The request of such purchase or sale may not be withdrawn without the Company's consent.

General Meetings of Shareholders

The ordinary general meeting of shareholders of the Company is held within three months from the end of March of each year pursuant to the Company's Articles of Incorporation. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. The place, time, purpose and certain other matters relating to the general meeting of shareholders, including the information contained in the reference materials, must be uploaded onto a website at least three weeks prior to the date set for the meeting, and notice of the URL of the website to be used and certain other matters relating to such meeting must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is 31 March of each year.

Any shareholder holding at least 300 voting rights or one per cent of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting (provided that the Company is able to limit the number of proposals with respect to the matters proposed by each shareholder to 10). If the Company's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened. The Company's Articles of Incorporation currently do not include any such provisions.

Voting Rights

A holder of Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Shares. However, in general, neither the Company nor any corporate or certain other entity, one-quarter or more of the

total voting rights of which are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of voting rights represented at the meeting. The Company's Articles of Incorporation provide that the quorum for election of its Directors and Audit & Supervisory Board Members is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of its Directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in principle, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a general meeting of shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include:

- (i) repurchase of Shares by the Company from a specific shareholder other than any of the Company's subsidiaries;
- (ii) consolidation of Shares;
- (iii) issuance or transfer of new Shares or existing Shares held by the Company as treasury stock to persons other than the shareholders at a "specially favourable" price;
- (iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favourable" conditions;
- (v) removal of any of the Company's Audit & Supervisory Board Members;
- (vi) exemption from a portion of liability of the Company's Directors, Audit & Supervisory Board Members or independent auditors;
- (vii) distribution of Surplus in kind with respect to which shareholders are not granted the right to require the Company to make distribution in cash instead of in kind;
- (viii) reduction of stated capital;
- (ix) any amendment to the Company's Articles of Incorporation (except for such amendments that may be made without the approval of shareholders under the Companies Act, such as (i) an increase of the number of authorised shares by the same ratio as that of a stock split, (ii) a reduction of the number of Shares per unit of Shares and (iii) termination of the unit share system);
- (x) transfer of the whole or a substantial part of the Company's business;
- (xi) transfer of the whole or a part of the Company's equity interests in any of the Company's subsidiaries which meets certain requirements;
- (xii) taking over of the whole of the business of another company;
- (xiii) dissolution or merger or consolidation;
- (xiv) corporate split;
- (xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or a share exchange (*kabushiki-kokan*); and
- (xvi) a partial share exchange (*kabushiki-kofu*) for the purpose of making another corporation a subsidiary.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) through (xvi) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act as are necessary to determine that its impact is immaterial.

Liquidation Rights

In the event of the Company's liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective numbers of Shares held by them.

Issue of Additional Shares and Pre-emptive Rights

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued, or existing Shares held by the Company as treasury stock may be sold, at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new Shares or sale of existing Shares held by the Company as treasury stock at a “specially favourable” price mentioned in “—Voting Rights”. The Board of Directors may, however, determine that shareholders be given subscription rights regarding a particular issuance of new Shares or sale of existing Shares held by the Company as treasury stock, in which case such rights must be given on uniform terms to all holders of Shares as at a record date of which not less than two weeks’ prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks’ prior notice of the date on which such rights expire.

In the case of an issuance of Shares or a sale of existing Shares held by the Company as treasury stock or an issuance of stock acquisition rights (*shinkabu yoyakuken*) whereby any subscriber (including its subsidiaries and other companies set forth in ordinances of the Ministry of Justice) will hold more than 50 per cent of the voting rights of all shareholders, and if shareholders who hold one-tenth or more of the voting rights of all shareholders object to such issuance or sale, an approval by a resolution of a general meeting of shareholders is generally required before the payment date pursuant to the Companies Act. In addition, in the case of an issuance of shares, a sale of existing shares held as treasury stock or an issuance of stock acquisition rights by a listed company such as the Company by way of an allotment to a third party which would dilute the outstanding voting shares by 25 per cent or more or cause change of the controlling shareholder, in addition to resolution of the Board of Directors, an approval by a resolution of a general meeting of shareholders or otherwise, or an affirmative opinion by a person independent of such company’s management is generally required pursuant to the rules of the Japanese stock exchanges.

Stock Acquisition Rights

The Company may issue stock acquisition rights. Holders of stock acquisition rights are entitled to acquire Shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under “specially favourable” conditions, as described in “—Voting Rights” or, in certain circumstances, may be required to obtain an approval of the shareholders or an affirmative opinion by an independent person as described above.

Record Date

As mentioned above, 31 March is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders, and 30 September is the record date for the payment of interim dividends.

In addition, by a resolution of the Board of Directors and after giving at least two weeks’ prior public notice, the Company may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to Shares.

Under the JASDEC rules relating to the Japanese book-entry transfer system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Shares, the numbers of Shares held by them and other relevant information as at such record date.

Acquisition by the Company of Shares

The Company may acquire Shares (i) from a specific shareholder other than any of the Company’s subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (ii) from any of the Company’s subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which the Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) and (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of the Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in “—Distributions of Surplus—Restriction on Distributions of Surplus”.

The Company may hold the Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Shares by a resolution of the Board of Directors.

Request by Controlling Shareholder to Sell All Shares

A shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as may be provided in the Company’s Articles of Incorporation) or more of the Company’s voting rights has the right to request, subject to approval by the Company’s Board of Directors, that the other shareholders and (if the controlling shareholder so determines) all holders of stock acquisition rights of the Company (in each case, other than the Company and, if the controlling shareholder so determines, the controlling shareholder’s wholly owned subsidiaries) sell to the controlling shareholder all Shares and all stock acquisition rights, as the case may be, held by them (*kabushiki tou uriwatashi seikyu*). If the approval is granted by resolution of the Company’s Board of Directors, the Company will be required to give public notice thereof to all holders and registered pledgees of Shares (and stock acquisition rights, as the case may be) not later than 20 days prior to the effective date of such sales, as proposed by the controlling shareholder.

Disposal of Shares by the Company

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails to arrive for five consecutive years or more at its address registered in the Company’s register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of Surplus on Shares continuously for five years or more at its address registered in the Company’s register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Reporting of Substantial Shareholdings

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than five per cent of the total issued shares of capital stock of a company that is listed on any Japanese stock exchange to file a report with the Director of the relevant Local Finance Bureau of the Ministry of Finance within five business days. With certain exceptions, a similar report must also be filed in respect of any subsequent change of one per cent or more in the holding or of any change in material matters set forth in any previously filed reports. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by the holder and such company’s total issued shares of capital stock. Any report so filed will be made available for public inspection. Reports are required to be filed through the EDINET system, which is an electronic disclosure system operated by the Financial Services Agency.

JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds who are non-resident individuals or non-Japanese corporations having no permanent establishment in Japan (“non-resident Holders”). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or tax treaties or arrangements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

Shares

Generally, a non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company. Stock splits are not subject to Japanese income tax.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20 per cent, subject to any applicable income tax treaty. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-resident individuals or non-Japanese corporations), except for any individual shareholder who holds 3 per cent or more of the total issued shares of the relevant Japanese corporation, the said 20 per cent withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent of the original applicable tax rate) will be added to the withholding tax rates until 31 December 2037. The withholding tax under Japanese tax law mentioned above may be exempted or reduced under an applicable tax treaty between Japan and the country of tax residence of a non-resident Holder.

Gains derived from the sale of Shares, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 11 January 2024 in respect of the Bonds (the “Subscription Agreement”) between the Company and Nomura International plc, Morgan Stanley & Co. International plc, SMBC Nikko Capital Markets Limited, Daiwa Capital Markets Europe Limited and Mizuho International plc (together, the “Joint Lead Managers”), the Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of each Series of Bonds as indicated in the table below at the issue price of 100.0 per cent of the principal amount of such Series of Bonds (the “Issue Price”), and to offer the Bonds at the offer price as stated on the cover page of this Offering Circular (the “Offer Price”).

	Principal Amount of the 2029 Bonds	Principal Amount of the 2030 Bonds
Joint Lead Managers		
Nomura International plc	¥ 44,000,000,000	¥ 44,000,000,000
Morgan Stanley & Co. International plc	27,000,000,000	27,000,000,000
SMBC Nikko Capital Markets Limited	13,000,000,000	13,000,000,000
Daiwa Capital Markets Europe Limited	9,000,000,000	9,000,000,000
Mizuho International plc	7,000,000,000	7,000,000,000
Total	¥100,000,000,000	¥100,000,000,000

No selling concession or combined management and underwriting commission will be payable by the Company in respect of the offering of the Bonds. The difference between the Issue Price and the Offer Price will be distributed among the Joint Lead Managers. The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue and offering of the Bonds.

Lock-up

In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to, (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, Shares or any other capital stock of the Company, (ii) enter into any derivative transaction or any other transaction that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale, (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company) in any depositary receipt facility or (iv) publicly announce any intention to do any of the above, in each case, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date without the prior written consent of Nomura International plc, Morgan Stanley & Co. International plc and SMBC Nikko Capital Markets Limited (on behalf of the Joint Lead Managers), other than (a) the issue and sale by the Company of the Bonds (or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights by the Company), (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights issued and outstanding as at the date hereof and referred to in the Offering Circular, (c) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder’s holding, when added to the Shares held by such holder, constitute one full unit of Shares, (d) the issue of Shares by the Company as a result of any stock split, (e) the grant and issue of stock options or stock acquisition rights exercisable for Shares to its and the Group’s directors, officers, audit and supervisory board members or employees pursuant to the Company’s stock option plans, (f) the issue or transfer of restricted stocks by the Company to its and the Group’s directors, officers, audit and supervisory board members or employees pursuant to the Company’s restricted stock compensation system (g) the sale by the Company of Shares held by unidentified shareholders and (h) any other issue or sale of Shares required by applicable Japanese laws and regulations.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to the

Company, the Bonds or the Shares where action for such purpose is required. Accordingly, neither the Bonds nor any Shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Neither the Company nor the Joint Lead Managers represents that the Bonds or the Shares may at any time lawfully be re-sold in compliance with any other applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assume any responsibility for facilitating such sales.

United States

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

In addition, each Joint Lead Manager has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (ii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Japan

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “Securities and Futures Ordinance”) and any rules made under the Securities and Futures Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (“C(WUMP)O”) or which do not constitute an offer to the public within the meaning of C(WUMP)O; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under the Securities and Futures Ordinance.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each Joint Lead Manager has represented and agreed that the Bonds have not been offered or sold, or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and neither this Offering Circular nor any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Any reference to the “SFA” is a reference to the Securities and Futures Act 2001 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Other relationships

In connection with the offering, the Joint Lead Managers may for their own account enter into asset swaps, credit derivatives or other derivatives relating to the Bonds and/or components of the Bonds and/or the Shares at the

same time as the offer and sale of the Bonds or in secondary market transactions including facilitating short sales of the Shares by investors who are allocated Bonds. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Bonds). As a result of such transactions, the Joint Lead Managers may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Joint Lead Managers or their affiliates have in the past provided, are currently providing and may in the future provide investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation.

In addition, certain affiliates of the Joint Lead Managers currently hold a certain number of Shares, and the Company may repurchase Shares from such affiliates of the Joint Lead Managers using the net proceeds from the issue of the Bonds.

GENERAL INFORMATION

- (1) The Company has obtained all necessary consents, approvals and authorisations in Japan in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company dated 11 January 2024.
- (2) The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Securities Identification Number (ISIN) and the Common Code for the 2029 Bonds are XS2743016193 and 274301619, respectively, and the ISIN and the Common Code for the 2030 Bonds are XS2743016607 and 274301660, respectively. The LEI of the Company is 353800K9WXR9XRZJZI46.
- (3) The Securities Identification Code for the Shares is 1925.
- (4) Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Bonds on the Official List of the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies) with a minimum of 150 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the relevant Global Certificate is exchanged for definitive certificates, the Company will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that such Global Certificate is exchanged for definitive certificates, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.
- (5) There has been no significant change in the financial or trading position of the Group and no material adverse change in the financial position or prospects of the Group since 31 March 2023.
- (6) There are no, nor have there been any, governmental, legal, arbitral, administrative or other proceedings involving the Company or any other member of the Group that had or may have had, during the 12 months immediately preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Company or Group and, so far as the Company is aware, there are no such proceedings pending or threatened.
- (7) Copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Trustee and the Agents during normal business hours, or electronically upon request to the Trustee, so long as any of the Bonds is outstanding.
- (8) The consolidated financial statements of the Company for each of the fiscal years ended 31 March 2023 and 2022 included in this Offering Circular have been audited by Ernst & Young ShinNihon LLC, an independent auditor, as stated in their reports appearing herein. The unaudited quarterly consolidated financial statements of the Company as of 30 September 2023 and for the six months ended 30 September 2023, included in this Offering Circular, have been reviewed by Ernst & Young ShinNihon LLC, an independent auditor, as stated in its report appearing herein.
- (9) Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a takeover of the Company.
- (10) The Trustee is entitled under the Trust Deed to rely without liability to Bondholders on any certificate or report prepared by the independent auditor or any independent financial advisor, whether or not addressed to it and whether or not the same are subject to any limitation on the liability, whether by reference to a monetary cap or otherwise.

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Note to the investors:

This Offering Circular does not represent “Other Information” as described in the independent auditor’s report.

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
<p>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, 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:</p> <p>Total construction revenue × progress (cost incurred ÷ total construction costs)</p> <p>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)*.</p>	<p>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 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**.</p> <p>** Construction progress standard abnormality detection tool</p> <p>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</p>

<p>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 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>construction revenue and detect unusual timing of costs.</p> <p>(1) Evaluation of internal controls</p> <p>We evaluated the design and the effectiveness of the following internal controls of the Group related to the estimates of total construction costs.</p> <ul style="list-style-type: none"> • 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 specification from customers. <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.
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	<ul style="list-style-type: none"> 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, 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><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.
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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

Description of Key Audit Matter	Auditor's Response
<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 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>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 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. 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>
	2023	2022	2023
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	3,251,988	2,692,794	24,353,987
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	2,828,998	2,711,934	21,186,235
Accumulated depreciation	(795,369)	(742,868)	(5,956,481)
Net property, plant and equipment	2,033,629	1,969,066	15,229,753
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	856,449	859,801	6,413,906
Total assets	¥6,142,067	¥5,521,662	\$45,997,655

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>
	2023	2022	2023
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 (<i>Notes 8 and 9</i>)	133,028	151,421	996,240
Current portion of long-term debt (<i>Notes 8, 9, 24 and 26</i>):			
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 (<i>Note 19</i>)	57,254	69,170	428,772
Advances received (<i>Note 30</i>)	142,950	199,824	1,070,545
Advances received on construction projects in progress (<i>Note 30</i>)	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 (<i>Note 11</i>)	4,130	3,140	30,929
Other current liabilities (<i>Note 9</i>)	215,166	228,229	1,611,368
Total current liabilities	1,526,847	1,444,592	11,434,486
Long-term liabilities:			
Long-term debt (<i>Notes 8, 9, 24 and 26</i>):			
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 (<i>Notes 9 and 26</i>)	307,593	296,500	2,303,549
Deferred tax liabilities on land revaluation	18,405	19,117	137,834
Liabilities for employees' retirement benefits (<i>Note 10</i>)	103,617	193,753	775,982
Asset retirement obligations (<i>Note 11</i>)	58,009	55,904	434,426
Other long-term liabilities	135,605	129,848	1,015,539
Total long-term liabilities	2,226,305	1,965,684	16,672,695
Commitments and contingencies (<i>Notes 24 and 25</i>)			
Net assets (<i>Notes 21, 22 and 33</i>):			
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	2,155,842	1,921,500	16,145,001
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	128,369	98,657	961,349
Non-controlling interests	104,701	91,227	784,100
Total net assets	2,388,914	2,111,385	17,890,466
Total liabilities and net assets	¥6,142,067	¥5,521,662	\$45,997,655

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>				
	Number of shares of common stock outstanding (<i>Note 21</i>)	Common stock	Capital surplus	Retained earnings	Treasury stock (<i>Note 21</i>)	Total shareholders' equity
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

	<i>Millions of yen</i>							
	Accumulated other comprehensive income				Total accumulated other comprehensive income	Stock acquisition rights (Note 22)	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, 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

	<i>Thousands of U.S. dollars (Note 3)</i>				
	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>
	2023	2022	2023
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	287,452	24,427	2,152,714
Effect of exchange rate changes on cash and cash equivalents	5,809	16,283	43,503
Net increase (decrease) in cash and cash equivalents	18,379	(90,276)	137,639
Cash and cash equivalents at the beginning of the year	326,250	416,321	2,443,271
Increase in cash and cash equivalents from a newly consolidated subsidiary	1,524	205	11,413
Cash and cash equivalents at the end of the year (Note 28)	¥ 346,154	¥ 326,250	\$ 2,592,331

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.

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

1. Summary of Significant Accounting Policies (continued)

c. Foreign currency translation (continued)

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.

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.

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.

1. Summary of Significant Accounting Policies (continued)

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.

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).

1. Summary of Significant Accounting Policies (continued)

m. Revenue recognition (continued)

(a) Revenue from contracts with customers (continued)

(1) Ordered contract transactions (continued)

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.

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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).

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

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.

(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

1. Summary of Significant Accounting Policies (continued)

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

(c) Valuation of fixed assets (continued)

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.

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.

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.

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)

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	Millions of yen		Thousands of U.S. dollars
		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”.

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.

2. Accounting Change (continued)

a. Change in accounting policies (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).”

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		
	Carrying value	Fair value	Difference
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

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)

Held-to-maturity debt securities (continued)

	<i>Millions of yen</i>		
	2022		
	Carrying value	Fair value	Difference
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

	<i>Thousands of U.S. dollars</i>		
	2023		
	Carrying value	Fair value	Difference
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	\$ 13,697	\$ 13,779	\$ 82

Other Securities

	<i>Millions of yen</i>		
	2023		
	Carrying value	Acquisition cost	Difference
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	¥ 174,356	¥ 93,357	¥ 80,998

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.

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)

Held-to-maturity debt securities (continued)

	<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	¥ 187,544	¥ 93,515	¥ 94,028

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.

	<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	\$ 1,305,744	\$ 699,146	\$ 606,590

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

	<i>Millions of yen</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
March 31, 2023			
Stock	¥ 3,759	¥ 1,662	¥ 217
	<i>Millions of yen</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
March 31, 2022			
Stock	¥ 3,313	¥ 1,538	¥ 880
Other	29	3	-
Total	¥ 3,343	¥ 1,542	¥ 880

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)

Held-to-maturity debt securities (continued)

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

(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

6. Inventories

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Inventories (continued)

Loss on devaluation of inventories included in cost of sales for the years ended March 31, 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.

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.

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Short-Term Bank Loans and Long-Term Debt (continued)

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 U.S. dollars</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:

<i>Years Ending March 31</i>	<i>Millions of yen</i>	<i>Thousands of 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

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	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

(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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Retirement Benefit Plans (continued)

(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)

(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:

	2023	2022
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	100%	100%

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:

	2023	2022
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.

(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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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>
	2023	2022	2023
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	¥ 3,935	¥ 2,167	\$ 29,469
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	¥ (223)	¥ (466)	\$ (1,670)

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Impairment Loss (continued)

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>Thousands of</i>	
			<i>Millions of yen</i>	<i>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

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	

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.

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Income Taxes (continued)

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

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:

	2023	2022
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	28.3%	35.2%

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

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Net Assets (continued)

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

4) Details of the decrease are as follows:

	<i>Thousands of shares</i>
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

Types of shares	<i>Thousands of shares</i>			Number of shares as of March 31, 2022
	Number of shares as of April 1, 2021	Increase	Decrease	
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:

	<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)

2) Details of the decrease are as follows:

	<i>Thousands of shares</i>
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.

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:

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

	<i>Thousands of shares</i>
	2022
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

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:

	Yen		U.S. dollars
	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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Amounts Per Share (continued)

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.

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	¥ 22,953	¥ 10	¥ 22,963

	<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	¥ 29,523	¥ 13	¥ 29,536

	<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	\$ 171,893	\$ 74	\$ 171,968

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Leases (continued)

Finance leases: (continued)

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

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

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

(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:

Years Ending March 31	<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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Leases (continued)

Finance leases: (continued)

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:

Years Ending March 31	Millions of yen	Thousands of U.S. dollars
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.

Operating Leases:

(Lessee)

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

Years Ending March 31	Millions of yen	Thousands of U.S. dollars
	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:

Years Ending March 31	Millions of yen	Thousands of U.S. dollars
	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 cancellation is included in the amount for 2025 and thereafter.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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".

(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.

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)

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)				
		192,824		192,234		(590)
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	¥	625,593	¥	615,189	¥	(10,403)
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	¥	2,021,146	¥	1,986,485	¥	(34,661)

	<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)				
		173,937		173,633		(304)
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)				
		250,853		244,579		(6,273)
Total assets	¥	614,640	¥	608,082	¥	(6,557)
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	¥	1,567,587	¥	1,556,701	¥	(10,885)

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)		
	1,444,050	1,439,631	(4,418)
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	\$ 4,685,037	\$ 4,607,121	\$ (77,907)
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	\$ 15,136,269	\$ 14,876,694	\$ (259,574)

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

	<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.”

26. Financial Instruments and Related Disclosures (continued)

(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.

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

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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Financial Instruments and Related Disclosures (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

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

	<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 Disclosures (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.

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.

26. Financial Instruments and Related Disclosures (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)

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.

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”.

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

27. Derivatives (continued)

	Hedged item	<i>Thousands of U.S. dollars</i>	
		Contract amount	Contract amount due after one year
2023			
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).

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>
	2023	2022	2023
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	¥ 346,154	¥ 326,250	\$ 2,592,331

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

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.

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							Other (*1)
Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Total		
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	¥ 855,151	¥ 581,983	¥ 436,853	¥ 782,169	¥ 938,169	¥ 140,512	¥ 54,826	¥ 3,789,666
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 were as follows: (continued)

		<i>Millions of yen</i>								
		2022								
		Reportable segment								
		Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other (*1)	Total	
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	¥	729,359	¥ 521,993	¥ 348,920	¥ 725,573	¥ 901,285	¥ 125,663	¥ 36,282	¥ 3,389,078	
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								
		Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other (*1)	Total	
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	\$	6,404,186	\$ 4,358,443	\$ 3,271,571	\$ 5,857,627	\$ 7,025,904	\$ 1,052,287	\$ 410,589	\$ 28,380,633	
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	

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).

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.

30. Revenue Recognition (continued)

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

(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.

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:

Reportable segment	Description of main transaction
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.

30. Revenue Recognition (continued)

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

(2) Real estate sales transactions (continued)

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.

(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.

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.

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)

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.

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

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.

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.

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

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>				
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	¥ 784,887	¥ 1,052,558	¥ 379,942	¥ 1,038,576	¥ 1,079,253	¥ 161,002	¥ 4,496,220
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

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			
	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	¥ 63,046	¥ 4,559,267	¥ (119,731)	¥ 4,439,536
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

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				
	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

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.

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)

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.

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.

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

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								
	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.

5. Information by geographic segment

(Sales)

Geographical information on net sales is as follows:

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

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) Other current liabilities	¥ 1 ¥ 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	-	¥ -

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) Other current liabilities	\$ 7 \$ 0
Yukiko Yabu and her relatives	-	-	Outside Director	0.0% owned by the related party	Sales of condominium	Sales of condominium	\$ 681	-	\$ -

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

32. Related Party Transactions (continued)

- 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.

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

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

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.

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, 2022, 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, 2022, 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
<p>As described in Note 1 (m) "Revenue recognition," performance obligations related to ordered contract transactions in which contracts for construction work has been concluded with customers for single-family houses, rental housing, commercial facilities, 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. The progress is estimated using the input method based on cost (percentage of cost incurred to total construction costs).</p> <p>As described in Note 1 (u) "Significant Accounting Judgements, Estimates and Assumptions" sales (including construction contracts in progress at the end of the year) recorded for the year ended March 31, 2022 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 ¥1,908,959 million (\$15,597,344 thousand) (*).</p>	<p>We have mainly conducted the following audit procedures for the construction works selected by us based on quantitative and qualitative criteria that we have established in light of risks in order to assess the estimates of total construction costs for ordered contract transactions that were in progress at the end of the year and of 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 (#).</p> <p>(#) Construction progress standard abnormality detection tool</p> <p>A tool for detecting unusual trend of progress in construction and development projects that applies a method of recognizing revenue based on fulfilment of performance obligations over a</p>

Total construction costs are estimated using execution budgets for each construction contract, and the execution budgets are formulated by aggregating cost items such as the quantity of construction materials, labor hours, and procurement unit price. 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. In particular, estimates of execution budgets for construction contracts having a long construction period and unique specifications involve uncertainties and complexities since there are wide range of cost items.

Accordingly, we have determined the estimates of total construction costs for ordered contract transactions in progress at the end of the year and of 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.

certain period of time based on the prediction of progress using machine learning.

(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 ensuring 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 constructions drawings and quotations obtained from outside 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 conditions of construction work, actual cost incurred, or instructions for changes in specification from customers.

(2) Estimates of total construction costs

We have mainly conducted the following audit procedures in order to assess the estimates of total constructions costs.

- We considered whether the execution budgets incorporating the total construction costs were formulated based on an aggregation by construction type, and made inquiries to 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.
- We compared the construction costs that were already ordered to subcontractors with the acceptance on order and the documents corroborating the volume.
- We assessed whether the construction cost not yet ordered was properly estimated by comparing the execution budgets with the quotations obtained from subcontractors, or the actual construction records in the past and the profit margin of the similar construction works in progress.
- We made inquiries to the person in-charge of construction sites for 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.

	<ul style="list-style-type: none"> • 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 inspected construction sites of certain construction works (including remote inspection, and others), and considered whether the actual progress of construction works was consistent with execution budgets and the schedule of construction works.
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Revenue recognition of real estate sales transactions to real estate funds or others, such as special purpose companies, REITs or parties with which the Group has continuing involvement	
Description of Key Audit Matter	Auditor's Response
<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, 2022, the Group recorded sales of ¥290,084 million (\$2,370,160 thousand) (*) arising from sales of development properties, most of which consisted of sales of real estate to real estate funds or others).</p> <p>In general, the terms and conditions of the sale of development properties are highly specific, and each transaction amount is material. In particular, the individual scheme and terms and conditions of transactions are complicated when the transferees are real estate funds or others.</p> <p>If the Group has continuing 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, the judgment as to whether substantially all of the risks and rewards of ownership has been transferred may be highly complex.</p> <p>In the event that such judgment is inaccurate, material amount of revenue from real estate sales transactions to real estate funds or others in which substantially all of the risks and rewards of ownership have not been transferred may be recognized.</p> <p>Accordingly, we have determined revenue recognition for real estate sales transactions to real estate funds or others to be a key audit matter.</p> <p>(*) 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.”</p>	<p>We mainly conducted the following procedures for certain transactions in which there was continuing involvement and the amount of sales per transaction exceeded a quantitative threshold in order to assess revenue recognition for real estate sales transactions to real estate funds or others.</p> <ul style="list-style-type: none"> • In order to understand the entire transaction scheme, including the buyer, and assess the economic rationality of the transaction, we inspected the request for approval and the minutes of the Board of Directors' meetings. • In order to assess whether there are any 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. • 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.

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, 2022 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 22, 2022

/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, 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2022	2021	2022
Assets			
Current assets:			
Cash and bank deposits (Notes 9, 25 and 27)	¥ 337,632	¥ 425,980	\$ 2,758,656
Trade notes and accounts receivable (Notes 9, 25 and 29)	407,430	401,314	3,328,948
Lease receivables and investments in leases (Note 23)	89,875	45,411	734,332
Mortgage notes receivable held for sale (Note 9)	28,473	29,088	232,641
Securities maturing within one year (Notes 4, 5, 9 and 25)	7,568	550	61,835
Inventories (Notes 6, 7 and 9)	1,562,408	1,173,612	12,765,814
Other current assets (Note 9)	277,601	292,088	2,268,167
Allowance for doubtful accounts (Note 25)	(18,195)	(13,682)	(148,664)
Total current assets	2,692,794	2,354,364	22,001,748
Property, plant and equipment (Note 7):			
Land (Notes 6, 9 and 14)	878,851	870,822	7,180,741
Buildings and structures (Notes 6, 9 and 14)	1,302,750	1,164,230	10,644,251
Machinery, equipment and vehicles (Note 14)	160,254	159,424	1,309,371
Tools, furniture and fixtures (Notes 6, and 14)	79,847	75,280	652,398
Leased assets (Notes 14 and 23)	105,714	93,235	863,747
Construction in progress (Notes 6, and 14)	174,780	166,588	1,428,057
Other tangible assets (Note 14)	9,733	9,641	79,524
Total	2,711,934	2,539,224	22,158,133
Accumulated depreciation	(742,868)	(680,377)	(6,069,678)
Net property, plant and equipment	1,969,066	1,858,847	16,088,454
Investments and other assets:			
Investment securities (Notes 4, 5, 9 and 25)	228,794	231,490	1,869,384
Long-term loans receivable (Note 9)	2,255	5,284	18,424
Lease deposits (Note 25)	251,053	251,358	2,051,254
Deferred tax assets (Note 18)	159,203	161,458	1,300,784
Goodwill (Notes 14 and 28)	93,895	74,046	767,178
Other assets (Notes 5, 6, 9 and 14)	126,304	118,026	1,031,979
Allowance for doubtful accounts (Note 25)	(1,705)	(1,825)	(13,930)
Total investments and other assets	859,801	839,839	7,025,091
Total assets	¥5,521,662	¥5,053,052	\$45,115,303

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet (continued)

March 31, 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2022	2021	2022
Liabilities and net assets			
Current liabilities:			
Payables:			
Trade notes and accounts payable	¥ 355,936	¥ 296,165	\$ 2,908,211
Other	121,051	129,089	989,059
Short-term bank loans (Notes 8 and 9)	151,421	124,584	1,237,200
Current portion of long-term debt (Notes 8, 9, 23 and 25):			
Bonds	25,000	40,000	204,265
Loans from banks	79,589	46,700	650,290
Lease obligation	8,810	7,576	71,983
Income taxes payable (Note 18)	69,170	57,093	565,160
Advances received (Note 29)	199,824	175,978	1,632,682
Advances received on construction projects in progress (Note 29)	137,977	113,186	1,127,355
Accrued bonuses	56,759	53,276	463,755
Provision for warranties for completed construction	7,680	7,230	62,750
Asset retirement obligations (Note 11)	3,140	2,568	25,655
Other current liabilities (Note 9)	228,229	225,407	1,864,768
Total current liabilities	1,444,592	1,278,858	11,803,186
Long-term liabilities:			
Long-term debt (Notes 8, 9, 23 and 25):			
Bonds	408,000	383,000	3,333,605
Loans from banks	758,496	677,700	6,197,369
Lease obligation	102,731	93,780	839,374
Long-term deposits received from the Group's club members	1,332	1,419	10,883
Lease deposits received (Notes 9 and 25)	296,500	284,946	2,422,583
Deferred tax liabilities on land revaluation	19,117	19,634	156,197
Liabilities for employees' retirement benefits (Note 10)	193,753	246,059	1,583,078
Asset retirement obligations (Note 11)	55,904	53,784	456,769
Other long-term liabilities	129,848	120,363	1,060,936
Total long-term liabilities	1,965,684	1,880,689	16,060,821
Commitments and contingencies (Notes 23 and 24)			
Net assets (Notes 20, 21 and 32):			
Shareholders' equity			
Common stock – 1,900,000,000 authorized shares, 666,238,205 issued and 655,668,128 outstanding as of March 31, 2022 and 666,238,205 issued and 654,237,616 outstanding as of March 31, 2021	161,699	161,699	1,321,178
Capital surplus	301,982	304,595	2,467,374
Retained earnings	1,486,900	1,339,558	12,148,868
Treasury stock – at cost, 10,570,077 shares in 2022 and 12,000,589 shares in 2021	(29,081)	(33,019)	(237,609)
Total shareholders' equity	1,921,500	1,772,834	15,699,812
Accumulated other comprehensive income:			
Unrealized gain on securities	64,017	59,404	523,057
Deferred (loss) gain on hedging instruments	(860)	10	(7,026)
Land revaluation reserve	10,642	10,624	86,951
Foreign currency translation adjustments	24,857	(7,677)	203,096
Total accumulated other comprehensive income	98,657	62,361	806,087
Stock acquisition rights	–	91	–
Non-controlling interests	91,227	58,216	745,379
Total net assets	2,111,385	1,893,504	17,251,286
Total liabilities and net assets	¥5,521,662	¥5,053,052	\$45,115,303

See accompanying notes to the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2022	2021	2022
Net sales (Notes 7 and 29)	¥4,439,536	¥4,126,769	\$36,273,682
Cost of sales (Notes 6, 7, 10 and 12)	3,574,853	3,299,886	29,208,701
Gross profit	864,682	826,883	7,064,972
Selling, general and administrative expenses (Notes 7, 10 and 12)	481,425	469,761	3,933,532
Operating income	383,256	357,121	3,131,432
Other income (expenses):			
Interest income	2,901	2,638	23,702
Dividend income	4,431	4,616	36,203
Insurance claim income	2,277	2,888	18,604
Subsidies income	3,041	3,521	24,846
Interest expense	(13,033)	(10,013)	(106,487)
Taxes and dues	–	(1,537)	–
Provision of allowance for doubtful accounts	(1,635)	(4,509)	(13,358)
Equity in losses of affiliates	(6,810)	(11,553)	(55,641)
Gain on sales of fixed assets (Notes 7 and 13)	2,167	805	17,705
Gain on sales of investments in securities	1,635	449	13,358
Gain on sales of investments in capital of subsidiaries and affiliates	–	1,115	–
Gain on step acquisitions	3,907	–	31,922
Gain on change in equity interest	788	428	6,438
Subsidy income related to COVID-19 pandemic (Note 15)	379	1,871	3,096
Gain on reversal of stock acquisition rights	10	–	81
Loss on sales of fixed assets (Note 13)	(466)	(215)	(3,807)
Loss on disposal of fixed assets (Note 7)	(1,383)	(1,372)	(11,299)
Impairment loss (Notes 7 and 14)	(24,147)	(21,065)	(197,295)
Loss on sales of investments in securities	(880)	(0)	(7,190)
Loss on revaluation of investments in securities	(174)	(656)	(1,421)
Loss on sales of stocks of subsidiaries and affiliates	(763)	(418)	(6,234)
Loss on sales of investments in capital of an affiliate	(593)	–	(4,845)
Special retirement benefit expenses related to employee career support after retirement (Note 16)	(2,207)	–	(18,032)
Loss on COVID-19 pandemic (Note 17)	(1,208)	(7,561)	(9,870)
Other, net	1,809	(5,342)	14,780
Profit before income taxes	353,300	311,210	2,886,673
Income taxes (Note 18):			
Current	123,917	109,300	1,012,476
Deferred	423	573	3,456
Total income taxes	124,341	109,873	1,015,940
Profit	¥ 228,958	¥ 201,336	\$ 1,870,724
Profit attributable to non-controlling interests	¥ 3,686	¥ 6,260	\$ 30,116
Profit attributable to owners of the parent	225,272	195,076	1,840,607

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, 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2022	2021	2022
Profit	¥228,958	¥201,336	\$1,870,724
Other comprehensive income (Note 19):			
Unrealized gain on securities	4,631	22,455	37,838
Deferred (loss) gain on hedging instruments	(870)	19	(7,108)
Land revaluation reserve	15	5	122
Foreign currency translation adjustments	34,163	(9,770)	279,132
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	2,249	(344)	18,375
Total other comprehensive income	40,190	12,365	328,376
Comprehensive income	¥269,148	¥213,702	\$2,199,101
Total comprehensive income attributable to:			
Owners of the parent	¥261,565	¥208,745	\$2,137,143
Non-controlling interests	7,583	4,956	61,957

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, 2022

	<i>Thousands</i>	<i>Millions of yen</i>				
	Number of shares of common stock outstanding (<i>Note 20</i>)	Common stock	Capital surplus	Retained earnings	Treasury stock (<i>Note 20</i>)	Total shareholders' equity
Balance, April 1, 2020	664,019	¥161,699	¥307,154	¥1,217,407	¥ (7,588)	¥1,678,671
Cash dividends	-	-	-	(72,556)	-	(72,556)
Profit attributable to owners of the parent	-	-	-	195,076	-	195,076
Change in equity of parent arising from transaction with non-controlling shareholders	-	-	(2,614)	-	-	(2,614)
Land revaluation reserve	-	-	-	(367)	-	(367)
Purchase of treasury stock	(10,003)	-	-	-	(26,054)	(26,054)
Disposal of treasury stock	221	-	56	-	624	681
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Balance, 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, March 31, 2022	655,668	¥161,699	¥301,982	¥1,486,900	¥(29,081)	¥1,921,500

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2022

	<i>Millions of yen</i>							Total net assets
	Accumulated other comprehensive income				Total accumulated other comprehensive income	Stock acquisition rights (Note 21)	Non-controlling interests	
	Unrealized gain on securities	Deferred gain (loss) on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments				
Balance, April 1, 2020	¥36,996	¥ (10)	¥10,251	¥ 1,087	¥48,323	¥101	¥46,292	¥1,773,388
Cash dividends	–	–	–	–	–	–	–	(72,556)
Profit attributable to owners of the parent	–	–	–	–	–	–	–	195,076
Change in equity of parent arising from transaction with non-controlling shareholders	–	–	–	–	–	–	–	(2,614)
Land revaluation reserve	–	–	–	–	–	–	–	(367)
Purchase of treasury stock	–	–	–	–	–	–	–	(26,054)
Disposal of treasury stock	–	–	–	–	–	–	–	681
Net change in items other than those in shareholders' equity	22,407	21	373	(8,764)	14,037	(9)	11,924	25,952
Balance, 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, March 31, 2022	¥64,017	¥(860)	¥10,642	¥24,857	¥98,657	¥ –	¥91,227	¥2,111,385

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year Ended March 31, 2022

	<i>Thousands of U.S. dollars (Note 3)</i>				
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 20)	Total shareholders' equity
Balance, April 1, 2021	\$1,321,178	\$2,488,724	\$10,944,995	\$(269,785)	\$14,485,121
Cumulative impact of changes in accounting policies	-	-	10,711	-	10,711
Balance, April 1, 2021 (as restated)	1,321,178	2,488,724	10,955,715	(269,785)	14,495,841
Cash dividends	-	-	(647,430)	-	(647,430)
Profit attributable to owners of the parent	-	-	1,840,607	-	1,840,607
Change in equity of parent arising from transaction with non-controlling shareholders	-	(25,100)	-	-	(25,100)
Land revaluation reserve	-	-	(16)	-	(16)
Purchase of treasury stock	-	-	-	(98)	(98)
Disposal of treasury stock	-	3,742	-	32,273	36,016
Net change in items other than those in shareholders' equity	-	-	-	-	-
Balance, March 31, 2022	\$1,321,178	\$2,467,374	\$12,148,868	\$(237,609)	\$15,699,812

	<i>Thousands of U.S. dollars (Note 3)</i>							
	Accumulated other comprehensive income					Total accumulated other comprehensive income	Stock acquisition rights (Note 21)	Non- controlling interests
Unrealized gain on securities	Deferred gain (loss) on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments					
Balance, April 1, 2021	\$485,366	\$ 81	\$86,804	\$(62,725)	\$509,526	\$ 743	\$475,659	\$15,471,067
Cumulative impact of changes in accounting policies	-	-	-	-	-	-	-	10,711
Balance, April 1, 2021 (as restated)	485,366	81	86,804	(62,725)	509,526	743	475,659	15,481,787
Cash dividends	-	-	-	-	-	-	-	(647,430)
Profit attributable to owners of the parent	-	-	-	-	-	-	-	1,840,607
Change in equity of parent arising from transaction with non-controlling shareholders	-	-	-	-	-	-	-	(25,100)
Land revaluation reserve	-	-	-	-	-	-	-	(16)
Purchase of treasury stock	-	-	-	-	-	-	-	(98)
Disposal of treasury stock	-	-	-	-	-	-	-	36,016
Net change in items other than those in shareholders' equity	37,690	(7,108)	147	265,830	296,552	(743)	269,711	565,528
Balance, March 31, 2022	\$523,057	\$(7,026)	\$86,951	\$203,096	\$806,087	\$ -	\$745,379	\$17,251,286

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year Ended March 31, 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2022	2021	2022
Operating activities:			
Profit before income taxes	¥ 353,300	¥ 311,210	\$ 2,886,673
Adjustments for:			
Depreciation	100,328	78,403	819,740
Decrease in liability for employees' retirement benefits	(52,308)	(21,052)	(427,387)
Interest and dividend income	(7,332)	(7,254)	(59,906)
Interest expense	13,033	10,013	106,487
Equity in losses of affiliates	6,810	11,553	55,641
Net (gain) loss on sales and disposal of property, plant and equipment	(316)	782	(2,581)
Impairment loss	24,147	21,065	197,295
Loss on revaluation of investments in securities	174	656	1,421
Decrease in trade receivables	13,988	33,762	114,290
Increase in inventories	(228,299)	(419)	(1,865,340)
(Decrease) increase in advances received	(3,609)	98,846	(29,487)
Increase (decrease) in advances received on construction projects in progress	22,999	(17,929)	187,915
Increase (decrease) in trade payables	59,472	(72,335)	485,922
Other	148,572	93,601	1,213,922
Subtotal	450,962	540,904	3,684,631
Interest and dividends received	9,496	8,964	77,588
Interest paid	(11,884)	(8,388)	(97,099)
Income taxes paid	(112,138)	(111,165)	(916,234)
Net cash provided by operating activities	336,436	430,314	2,748,884
Investing activities:			
Purchases of property, plant and equipment	(410,981)	(334,698)	(3,357,962)
Proceeds from sales of property, plant and equipment	14,673	6,454	119,887
Purchases of investment securities	(13,064)	(5,759)	(106,740)
Proceeds from sales and redemption of investment securities	8,010	10,442	65,446
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 27)	(53,118)	(25,363)	(434,006)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(98)	(285)	(800)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	1,231	-
Payments for acquisition of business	(12,213)	(22,991)	(99,787)
Net proceeds from collection of leasehold and guarantee deposits	3,228	-	26,374
Net payments of leasehold and guarantee deposits	-	(6,971)	-
Other	(3,860)	(12,037)	(31,538)
Net cash used in investing activities	¥(467,423)	¥(389,980)	\$(3,819,127)

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year Ended March 31, 2022

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2022	2021	2022
Financing activities:			
Net increase in short-term bank loans	¥ 19,012	¥ 20,625	\$ 155,339
Net decrease in commercial paper	–	(49,000)	–
Proceeds from long-term debt – Loans from banks	181,281	260,299	1,481,174
Repayments of long-term debt – Loans from banks	(115,838)	(98,555)	(946,466)
Proceeds from issuance of bonds	50,000	146,000	408,530
Redemption of bonds	(40,000)	(65,000)	(326,824)
Repayments of finance lease obligations	(9,763)	(9,850)	(79,769)
Proceeds from share issuance to non-controlling shareholders	26,508	4,899	216,586
Purchase of treasury stock	(12)	(26,054)	(98)
Proceeds from disposal of treasury stock	4,328	671	35,362
Dividends paid	(79,239)	(72,556)	(647,430)
Dividends paid to non-controlling shareholders	(5,381)	(3,221)	(43,966)
Purchase of investments in subsidiaries that do not result in change in scope of consolidation	(7,876)	(6,577)	(64,351)
Other	1,407	1,051	11,496
Net cash provided by financing activities	24,427	102,731	199,583
Effect of exchange rate changes on cash and cash equivalents	16,283	(2,811)	133,041
Net (decrease) increase in cash and cash equivalents	(90,276)	140,253	(737,609)
Cash and cash equivalents at the beginning of the year	416,321	276,068	3,401,593
Increase in cash and cash equivalents from a newly consolidated subsidiary	205	–	1,674
Cash and cash equivalents at the end of the year (Note 27)	¥ 326,250	¥416,321	\$2,665,658

See accompanying notes to the consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2022

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, 2022 include the accounts of the Company and its 421 (381 in 2021) 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, 2022, 57 subsidiaries were included in the consolidation as a result of new formation or acquisition and 17 subsidiaries were excluded from the consolidation as a result of liquidation or merger.

CastleRock Communities, LLC, and Jiuxin (Suzhou) Real Estate Development Co., Ltd. , were included in the scope of consolidation during the year ended March 31, 2022 due to acquisition of equity interests and establishment of a company, respectively.

Daiwa Royal Co., Ltd. was excluded from the scope of consolidation as a result of management integration (merger) with Daiwa Information Services Co., Ltd., which is the surviving entity. Daiwa Information Services Co., Ltd. has changed its trade name to Daiwa House Realty Mgt. Co, Ltd. Daiwa Living Management Co., Ltd. was excluded from the scope of consolidation as a result of management integration (merger) with Daiwa Living Co., Ltd., which is the surviving entity.

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

Investments in 57 (61 in 2021) 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, 2022, 4 affiliates were included in and 8 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 statements as of December 31, January 31 or February 28. The financial statements of all significant subsidiaries whose balance sheet dates are on or after

1. Summary of Significant Accounting Policies (continued)

b. Principles of consolidation (continued)

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.

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.

1. Summary of Significant Accounting Policies (continued)

g. Property, plant and equipment (continued)

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

h. Intangible assets (except for leased assets)

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

i. Goodwill

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

j. Land revaluation

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

As of March 31, 2022 and 2021, the carrying amount of the land after the above revaluation exceeded the market value by ¥2,468 million (\$20,165 thousand) and ¥1,172 million, respectively.

k. Impairment loss

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

l. Retirement benefits

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

m. Revenue recognition

(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 and has an obligation to perform construction works based on the construction contracts.

1. Summary of Significant Accounting Policies (continued)

m. Revenue recognition (continued)

(a) Revenue from contracts with customers (continued)

(1) Ordered contract transactions (continued)

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.

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.

1. Summary of Significant Accounting Policies (continued)

q. Derivative financial instruments (continued)

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”).

ii) Hedging instruments and hedged items

Hedging instruments : Interest rate swap contracts
Interest rate and currency swap contracts
Foreign currency forward contracts and others

Hedged items : Long-term debt
Long-term debt denominated in foreign currencies
Accounts receivable 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, ASBJ issued “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (“PITF No.40”). PITF No.40 allows an entity to assume that the basic interest rate applicable to the interest rate swaps that meets special matching criteria does not change after the discontinuation of LIBOR. The Group applied the exceptional treatment described in PITF No.40 to all hedge transactions that reference LIBOR and details of those hedge transactions as follows.

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

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.

1. Summary of Significant Accounting Policies (continued)

s. Accrued bonuses

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

t. Provision for warranties for completed construction

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

u. 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, 2022 and 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Sales recorded by the method of recognizing revenue based on the fulfillment of performance obligations over a certain period of time	¥ 1,908,959	¥ 1,850,703	\$ 15,597,344

Notes: 1) For the year ended March 31, 2021, the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007), and others are applied.

(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).

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 year ending March 31, 2023

The amount of revenue recognized in the consolidated financial statements for the year ending March 31, 2023 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.

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

- (1) Amounts presented in the consolidated financial statements for the years ended March 31, 2022 and 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Real estate for sale in inventories	¥ 1,479,169	¥ 1,093,759	\$ 12,085,701
Loss on devaluation recognized in cost of sales	8,027	1,626	65,585

- (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 expected impact of the spread of COVID-19 pandemic in the market is also reflected in the assumptions of selling price, selling costs and others by sales region.

③ Impact on the consolidated financial statements for the year ending March 31, 2023

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.

(c) Valuation of fixed assets

- (1) Amounts presented in the consolidated financial statements for the years ended March 31, 2022 and 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Property, plant and equipment, goodwill and intangible assets recognized in other assets	¥ 2,139,984	¥ 1,994,473	\$ 17,484,957
Impairment loss	24,147	21,065	197,295

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

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. With regard to the expected impact of the spread of the COVID-19 pandemic on properties, the Group expects that the situation will gradually recover and normalize within three years at the latest.

③ Impact on the consolidated financial statements for the year ending March 31, 2023

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, 2022 and 2021

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Retirement benefit obligation	¥ 679,608	¥ 665,041	\$ 5,552,806

(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 increase rates of salary and expected turnover rates.

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 year ending March 31, 2023

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	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
		2022	2021	2022
Discount rate	Increase by 0.5%	¥ (57,791)	¥ (57,688)	\$ (472,187)
	Decrease by 0.5%	66,522	66,545	543,524

The significant actuarial assumptions used to measure the retirement benefit obligation are presented in Note 10 "Retirement Benefit Plans".

v. Accounting standards issued but not yet effective

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview

The guidance specifies the treatment of fair value measurement applicable to investment trusts and corresponding notes, and the treatment of notes on the fair value of investments in partnerships, etc., for which the amounts equivalent to equity interest are reported at the net amounts on the consolidated balance sheet.

(2) Scheduled date of adoption

The Group expects to adopt the implementation guidance from the beginning of the year ending March 31, 2023.

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

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

2. Accounting Change

Change in accounting policies

Application of the Accounting Standard for Revenue Recognition

“Accounting Standard for Revenue Recognition” ((ASBJ Statement No. 29, March 31, 2020), hereinafter “Revenue Recognition Standard”) has been adopted from the beginning of the year ended March 31, 2022, and revenue is recognized in the amount expected to be received in exchange for applicable goods or services when control of the promised good or service is transferred to the customer.

The Revenue Recognition Standard has been applied effective from the beginning of the year ended March 31, 2022, in accordance with the transitional treatment prescribed in Paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative impact of retroactively applying new accounting policies have been reflected in the beginning balance of retained earnings for the year ended March 31, 2022.

However, as provided for in Paragraph 86 of the Revenue Recognition Standard, the new accounting policies have not been retroactively adopted for contracts in which substantially all revenue amounts have been recognized prior to the beginning of the year ended March 31, 2022 in accordance with the previous treatment.

In addition, as provided for in Paragraph 86 (1) of the Revenue Recognition Standard, contract changes made prior to the beginning of the year ended March 31, 2022 have been accounted for based on the contract terms after reflecting all contract changes, and the cumulative impact have been reflected in retained earnings at the beginning of the year ended March 31, 2022.

The impact of these changes on its consolidated financial statements in the year ended March 31, 2022 is immaterial.

In accordance with the transitional treatment provided for in Paragraph 89-3 of the Revenue Recognition Standard, notes related to revenue recognition for the year ended March 31, 2021 are omitted.

Application of the Accounting Standard for Fair Value Measurement

“Accounting Standard for Fair Value Measurement” ((ASBJ Statement No. 30, July 4, 2019), hereinafter “Fair Value Measurement Standard”) has been adopted from the beginning of the year ended March 31, 2022, and new accounting policies prescribed by the Fair Value Measurement Standard will be adopted prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). As a result, the method of measurement of fair value at year-end for stocks with market price categorized as other securities is changed from the one based on the average market price during the last month of the fiscal year to the one based on the market price at year-end. Securities other than corporate bonds and other debt securities classified as financial instruments for which it was previously considered extremely difficult to determine fair values, had been valued based on historical cost on the consolidated balance sheet. When observable inputs are not available, their fair values are measured using unobservable inputs based on best available information.

In addition, notes regarding the breakdown of fair value of financial instruments by level are included in Note 25, “Financial Instruments and Related Disclosures”. However, notes for the year ended March 31, 2021 have not been included in accordance with the transitional treatment prescribed in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019).

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 ¥122.39 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2022. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities

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

Held-to-maturity debt securities

	<i>Millions of yen</i>		
	2022		
	Carrying value	Fair value	Difference
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

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

	<i>Thousands of U.S. dollars</i>		
	2022		
	Carrying value	Fair value	Difference
Securities whose fair value exceeds their carrying value:			
Government and corporate bonds	\$ 18,825	\$ 18,988	\$ 163
Securities whose fair value does not exceed their carrying value:			
Government and corporate bonds	0	0	-
Total	\$ 18,825	\$ 18,988	\$ 163

Other Securities

	<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	¥ 187,544	¥ 93,515	¥ 94,028

Notes: 1) Unlisted stocks in the amount of ¥12,167 million (\$99,411 thousand) and investments in limited liability partnership and others in the amount of ¥14,674 million (\$119,895 thousand) are not subject to disclosure of fair value in accordance with Paragraph 5 of the "Implementation Guidance on

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)

Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020) and Paragraph 27 of the “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.

Notes: 2) Preferred fund certificates are included in “Other Securities” in the table above.

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

Note: Unlisted stock of ¥13,561 million, preferred fund certificates of ¥14,717 million and investments in limited liability partnership of ¥15,291 million are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value as of March 31, 2021.

	<i>Thousands of U.S. dollars</i>		
	2022		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$ 1,205,882	\$ 478,846	\$ 727,028
Other			
Preferred fund certificates	168,240	115,818	52,422
Securities whose carrying value does not exceed their acquisition cost:			
Stock	31,652	39,807	(8,146)
Corporate bonds	120,254	120,254	-
Other			
Preferred fund certificates	6,307	9,338	(3,023)
Total	\$ 1,532,347	\$ 764,073	\$ 768,265

(2) Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2022 and 2021

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

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Marketable and Investment Securities (continued)

- (2) Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2022 and 2021 (continued)

March 31, 2022	<i>Thousands of U.S. dollars</i>		
	Sales proceeds	Aggregate gain	Aggregate loss
Stock	\$ 27,069	\$ 12,566	\$ 7,190
Other	236	24	-
Total	\$ 27,314	\$ 12,599	\$ 7,190

- (3) Impairment of investment securities

The impairment losses on investment securities for the years ended March 31, 2022 and 2021 were ¥174 million (\$1,421 thousand) and ¥656 million, stated as loss on revaluation of investments in securities in other income (expenses), respectively.

- (4) Change in purpose of holding securities

Investments in special purpose companies in the amount of ¥4,893 million (\$39,978 thousand), 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.

5. Investments in Affiliates

Investments in affiliates at March 31, 2022 and 2021 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Current portion of bonds of an affiliate	¥ 2,000	¥ -	\$ 16,341
Shares of affiliates accounted for by the equity method (Investment in jointly controlled entities included above)	16,144 (672)	22,865 (840)	131,906 (5,490)
Investments in preferred fund certificate of affiliates	3,504	3,235	28,629
Shares of affiliates which are not accounted for by the equity method	23	23	187
Bonds of an affiliate	9,000	11,000	73,535
Investments in capital of affiliates in other	18,383	25,253	150,200

6. Inventories

Inventories at March 31, 2022 and 2021 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Real estate for sale	¥ 192,511	¥ 172,150	\$ 1,572,930
Construction projects in progress	48,516	46,866	396,404
Real estate for sale in process	270,888	135,663	2,213,318
Land held:			
For sale	875,499	680,527	7,153,354
Under development	146,054	110,069	1,193,349
Undeveloped	3,288	3,421	26,864
Merchandise, construction materials and others	25,650	24,913	209,575
Total	¥ 1,562,408	¥ 1,173,612	\$ 12,765,814

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Inventories (continued)

Loss on devaluation of inventories included in cost of sales for the years ended March 31, 2022 and 2021 was ¥8,027 million (\$65,585 thousand) and ¥1,626 million, respectively.

Land, buildings and others held as investment and rental properties in the amount of ¥61,766 million (\$504,665 thousand) and ¥60,577 million, in property, plant and equipment in the consolidated balance sheets as of March 31, 2021 and 2020, respectively, have been reclassified to “Inventories” in current assets due to the change in holding purpose during the years ended March 31, 2022 and 2021.

7. Investment and Rental Property

The Group owns rental properties such as rental housing, commercial facilities and business facilities in Tokyo and other areas. The net of rental income and operating expenses, gain on sales and disposal, and impairment loss for those rental properties were ¥19,861 million (\$162,276 thousand), ¥918 million (\$7,500 thousand) and ¥6,470 million (\$52,863 thousand), respectively, for the year ended March 31, 2022. The net of rental income and operating expenses, gain on sales and disposal, and impairment loss for those rental properties were ¥24,336 million, ¥360 million and ¥4,573 million, respectively, for the year ended March 31, 2021.

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

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

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

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

<i>Thousands of U.S. dollars</i>			
	Carrying value		Fair value
	Increase/decrease	March 31, 2022	March 31, 2022
April 1, 2021			
\$ 10,175,847	\$ 327,935	\$ 10,503,791	\$ 12,008,137

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, 2022 primarily represents the acquisition of certain properties of ¥284,196 million (\$2,322,052 thousand) and decrease primarily represents depreciation of ¥32,591 million (\$266,288 thousand) and the transfer to inventories of ¥ 205,570 million (\$1,679,630 thousand).

3) Increase during the year ended March 31, 2021 primarily represents the acquisition of certain properties of ¥278,317 million and decrease primarily represents depreciation of ¥30,559 million and the transfer to inventories of ¥140,503 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, 2022 and 2021 were 0.88% and 0.78%, respectively. The annual weighted-average interest rates applicable to current portion of long-term loans from banks as of March 31, 2022 and 2021 were 1.28% and 1.42%, respectively.

Long-term debt and loans from banks as of March 31, 2022 and 2021 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Bonds, 0.00% to 0.80% (0.00% to 0.80% in 2021), due on various dates through 2059:			
Unsecured	¥ 283,000	¥ 273,000	\$ 2,312,280
Subordinated	150,000	150,000	1,225,590
Loans from banks, 0.00% to 10.75 % (0.00% to 10.75% in 2021), due on various dates through 2057:			
Collateralized	96,907	60,900	791,788
Unsecured	741,179	663,500	6,055,878
Obligations under finance leases, due on various date through 2056	111,542	101,357	911,365
Total	1,382,628	1,248,759	11,296,903
Less current portion	113,400	94,277	926,546
Long-term debt – net of current portion	¥ 1,269,227	¥ 1,154,481	\$ 10,370,348

The aggregate annual maturities of long-term debt subsequent to March 31, 2022 were as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2023	¥ 113,400	\$ 926,546
2024	229,026	1,871,280
2025	126,152	1,030,737
2026	176,851	1,444,979
2027	120,125	981,493
2028 and thereafter	617,071	5,041,841
Total	¥ 1,382,628	\$ 11,296,903

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 ¥26,310 million (\$214,968 thousand) and ¥23,603 million, current portion of long-term bank loans of ¥18,203 million (\$148,729 thousand) and ¥13,442 million, other current liabilities of ¥1 million (\$8 thousand) and ¥1 million, long-term bank loans of ¥78,703 million (\$643,050 thousand) and ¥47,458 million and lease deposits received of ¥10 million (\$81 thousand) and ¥11 million as of March 31, 2022 and 2021, respectively, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Cash and bank deposits	¥ 1,711	¥ 1,773	\$ 13,979
Trade notes and accounts receivable	8,173	10,047	66,778
Mortgage notes receivable held for sale	28,413	22,700	232,151
Inventories:			
Real estate for sale	58,183	25,836	475,390
Real estate for sale in process	101,658	56,250	830,607
Other current assets	7,574	7,745	61,884
Land	7,448	9,797	60,854
Buildings and structures	4,274	3,436	34,921
Total	¥ 217,438	¥ 137,587	\$ 1,776,599

The carrying amounts of assets pledged as collateral for guarantees of liabilities of investees as of March 31, 2022 and 2021 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Investment securities	¥ 395	¥ 395	\$ 3,227
Short-term loans receivable in other current assets	1	1	8
Long-term loans receivable	8	10	65

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Cash and bank deposits	¥ 1,154	¥ 2,153	\$ 9,428
Securities maturing within one year	–	0	–
Investment securities	0	–	0
Investments in capital in other assets	60	60	490

Securities maturing within one year deposited in accordance with the Act on Assurance of Performance of Specified Housing Defect Warranty were ¥467 million (\$3,815 thousand) and nil as of March 31, 2022 and 2021, respectively.

Investment securities deposited in accordance with the Act on Assurance of Performance of Specified Housing Defect Warranty were ¥1,792 million (\$14,641 thousand) and ¥2,784 million as of March 31, 2022 and 2021, respectively.

Shares of consolidated subsidiaries used as collateral amounted to ¥271 million (\$2,214 thousand) and ¥313 million as of March 31, 2022 and 2021, 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, 2022 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Balance at beginning of year	¥ 665,041	¥ 631,783	\$ 5,433,785
Service cost	29,340	28,609	239,725
Interest cost	5,374	5,109	43,908
Actuarial (gains) losses	(3,634)	14,406	(29,691)
Retirement benefits paid	(17,615)	(14,918)	(143,925)
Past service cost	1,100	–	8,987
Adjustments for business restructuring and others	1	51	8
Balance at end of year	¥ 679,608	¥ 665,041	\$ 5,552,806

- (2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Balance at beginning of year	¥ 418,981	¥ 364,720	\$ 3,423,327
Actuarial gains	48,455	42,054	395,906
Contributions from the employer	27,917	22,186	228,098
Retirement benefits paid	(9,500)	(9,979)	(77,620)
Retirement balance at end of year	¥ 485,854	¥ 418,981	\$ 3,969,719

- (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, 2022 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Funded defined benefit obligation	¥ 574,809	¥ 559,373	\$ 4,696,535
Plan assets	(485,854)	(418,981)	(3,969,719)
	88,955	140,391	726,815
Unfunded defined benefit obligation	104,798	105,667	856,262
Net liabilities for retirement benefits in the balance sheet	¥ 193,753	¥ 246,059	\$ 1,583,078

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Liabilities for retirement benefits	¥ 193,753	¥ 246,059	\$ 1,583,078
Net liabilities for retirement benefits in the balance sheet	193,753	246,059	1,583,078

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Retirement Benefit Plans (continued)

(4) The components of retirement benefit expense for the years ended March 31, 2022 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Service cost	¥ 29,340	¥ 28,609	\$ 239,725
Interest cost	5,374	5,109	43,908
Amortization of actuarial gain	(52,089)	(27,648)	(425,598)
Past service cost	1,100	-	8,987
Retirement benefit expense	¥ (16,274)	¥ 6,070	\$ (132,968)

(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, 2022 and 2021 was as follows:

	2022	2021
Domestic debt instruments	1%	1%
Overseas debt instruments	6	6
Domestic stocks	9	10
Overseas stocks	7	7
Cash and bank deposits	13	14
Private equity fund	28	21
Hedge fund	15	18
General accounts	8	8
Others	13	15
Total	100%	100%

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, 2022 and 2021, were set forth as follows:

	2022	2021
Discount rates	Principally 0.8%	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 for employees' retirement benefits

Amortization of actuarial gain for employees' retirement benefits included in cost of sales and selling, general and administrative expenses was ¥52,089 million (\$425,598 thousand) and ¥27,648 million for the years ended March 31, 2022 and 2021, respectively.

(8) Defined contribution plans

Required contributions to defined contribution plans of the Company and its certain consolidated subsidiaries were ¥6,958 million (\$56,851 thousand) and ¥6,708 million for the years ended March 31, 2022 and 2021, respectively.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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, 2022 and 2021 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Balance at beginning of year	¥ 56,352	¥ 52,040	\$ 460,429
Increase due to the acquisition of property, plant and equipment	3,587	4,200	29,307
Adjustment due to the elapse of time	655	780	5,351
Decrease due to fulfilment of asset retirement obligations	(1,550)	(668)	(12,664)
Balance at end of year	¥ 59,045	¥ 56,352	\$ 482,424

12. Research and Development Costs

Research and development costs included in “Selling, general and administrative expenses” were ¥9,503 million (\$77,645 thousand) and ¥10,209 million for the years ended March 31, 2022 and 2021, respectively.

13. Gain (loss) on Sales of Fixed Assets

Gain (loss) on sales of fixed assets for the years ended March 31, 2022 and 2021 consists of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Gain on sales of property, plant and equipment, and other assets:			
Buildings and constructions	¥ 1,655	¥ 487	\$ 13,522
Machinery and vehicles	171	44	1,397
Furniture and fixtures	3	7	24
Land	328	265	2,679
Intangible assets in other	9	–	73
Total	¥ 2,167	¥ 805	\$ 17,705
Loss on sales of property, plant and equipment:			
Buildings and constructions	¥ (204)	¥ (49)	\$ (1,666)
Machinery and vehicles	(8)	(47)	(65)
Furniture and fixtures	(12)	(12)	(98)
Land	(241)	(28)	(1,969)
Construction in progress	–	(38)	–
Intangible assets in other	(0)	(38)	(0)
Total	¥ (466)	¥ (215)	\$ (3,807)

14. Impairment Loss

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Impairment Loss (continued)

The Group recognized impairment losses of the following groups of assets for the years ended March 31, 2022 and 2021:

Use	Type of Assets	Location	Millions of yen	Thousands of U.S. dollars
			2022	2022
Real estate for lease	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, lease assets and intangible assets and tangible assets in other	Aichi Prefecture and others	¥ 3,805	\$ 31,089
Hotel	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land and intangible assets in other	Kagoshima Prefecture and others	2,527	20,647
Health and leisure facilities	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land and lease assets	Ishikawa Prefecture and others	12,676	103,570
Offices, factories and others	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, lease assets, intangible assets in other and construction in progress	Myanmar and others	552	4,510
Others	Buildings and structures, tools, furniture and fixtures, land and intangible assets in other	U.S.A and others	4,585	37,462
Total			¥ 24,147	\$ 197,295

Classification of Company	Type of Assets	Location	Millions of yen
			2021
Real estate for lease	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, lease assets and intangible assets in other	Osaka Prefecture and others	¥ 8,693
Hotel	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, lease assets, intangible assets in other and construction in progress	Hokkaido Prefecture and others	6,436
Health and leisure facilities	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, lease assets and intangible assets in other	Ishikawa Prefecture and others	1,299
Offices, factories and others	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land and intangible assets in other	Aichi Prefecture and others	464
Others	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, land, lease assets, intangible assets in other and goodwill	Australia and others	4,170
Total			¥ 21,065

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Subsidy Income Related to COVID-19 Pandemic

Based on the announcements and requests of national and local governments to prevent the spread of COVID-19 pandemic, the Group temporarily closed operating facilities and others. The support funding received from national and local governments to compensate for fixed costs incurred during this period of temporary closures such as personnel expenses and depreciation expense have been recorded in other income as “Subsidy income related to COVID-19 Pandemic” in the consolidated statement of income for the year ended March 31, 2022 and 2021.

16. 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”.

17. 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 years ended March 31, 2022 and 2021.

18. 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, 2022 and 2021. 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, 2022 and 2021 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Deferred tax assets:			
Loss on valuation of real estate for sale	¥ 4,288	¥ 3,872	\$ 35,035
Accrued bonuses	16,907	16,047	138,140
Accrued enterprise tax	4,098	4,159	33,483
Liabilities for employees’ retirement benefits	60,058	76,289	490,710
Unrealized gains on property, plant and equipment by consolidation	14,671	11,901	119,870
Excess of depreciation of property, plant and equipment	32,627	30,158	266,582
Impairment loss	17,824	13,190	145,632
Tax loss carryforwards	22,367	18,065	182,751
Other	94,636	86,439	773,233
Total of tax loss carryforwards and temporary differences	267,483	260,125	2,185,497
Less valuation allowance	(61,302)	(53,028)	(500,874)
Deferred tax assets	206,181	207,096	1,684,622
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	(2,359)	(2,386)	(19,274)
Net unrealized gain on securities	(29,167)	(25,359)	(238,311)
Other	(25,542)	(22,371)	(208,693)
Deferred tax liabilities	(57,069)	(50,116)	(466,288)
Net deferred tax assets	¥ 149,111	¥ 156,979	\$ 1,218,326

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Income Taxes (continued)

A reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income for the year ended March 31, 2022 and 2021 were as follows:

	2022	2021
Statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for tax purpose	0.7	0.7
Per capita portion of inhabitant tax	0.5	0.5
Equity in losses of affiliates	0.6	1.1
Change in valuation allowances	2.8	0.1
Expiration of tax loss carry forwards	0.2	1.7
Tax credits	(0.2)	(0.3)
Reversal of land revaluation reserve	0.0	(0.1)
Other	0.2	1.0
Effective tax rate	35.2%	35.3%

19. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2022 and 2021 were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	2022	2021	2022
Unrealized holding gain on securities:			
Amount arising during the year	¥ 6,404	¥ 32,209	\$ 52,324
Reclassification adjustments for (losses) gains included in profit	(383)	31	(3,129)
Amount before tax effect	6,020	32,240	49,187
Tax effect	(1,388)	(9,784)	(11,340)
Unrealized gain on securities	4,631	22,455	37,838
Deferred (loss) gain on hedging instruments:			
Amount arising during the year	(1,259)	27	(10,286)
Reclassification adjustments for gains included in profit	-	6	-
Amount before tax effect	(1,259)	33	(10,286)
Tax effect	389	(13)	3,178
Deferred (loss) gain on hedging instruments:	(870)	19	(7,108)
Land revaluation reserve:			
Tax effect	15	5	122
Foreign currency translation adjustments:			
Amount arising during the year	34,163	(9,795)	279,132
Reclassification adjustments for gains included in profit	-	24	-
Foreign currency translation adjustments:	34,163	(9,770)	279,132
Share of other comprehensive gain (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	1,688	(344)	13,791
Reclassification adjustments for gains included in profit	560	-	4,575
Share of other comprehensive gain (loss) of affiliates accounted for by the equity method:	2,249	(344)	18,375
Total other comprehensive income	¥ 40,190	¥ 12,365	\$ 328,376

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. 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, 2022 and 2021 amounted to ¥ 17,690 million (\$144,537 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, 2022

Types of shares	Thousands of shares			Number of shares as of March 31, 2022
	Number of shares as of April 1, 2021	Increase	Decrease	
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:

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

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

	Thousands of shares
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

Notes: 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.

For the year ended March 31, 2021

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

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Net Assets (continued)

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

	<i>Thousands of shares</i>
Increase due to purchase of the treasury stock approved by resolution of the Board of Directors	10,000
Increase due to purchase of shares of less than standard unit	3

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

	<i>Thousands of shares</i>
Decrease due to exercise of stock acquisition rights	173
Decrease due to sale of shares less than one unit by the Company	0
Decrease due to third party share issuance to the trust for delivery of shares to directors	47

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

Stock Acquisition Rights

The amount of stock acquisition rights (2016 Stock Options) was ¥91 million for the year ended March 31, 2021. The issuer is the Company and type of shares issued upon exercising the right is common stock.

Accounting Method for the Trust for Delivery of Shares to Directors

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

(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 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Treasury stock	¥ 188	¥ 256	\$ 1,536

	<i>Thousands of shares</i>	
	2022	2021
Number of shares as of the fiscal year end	61	83
Average number of shares during the fiscal year	68	98

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)

20. Net Assets (continued)

Dividends paid

For the year ended March 31, 2022

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, 2021	Common stock	¥ 43,185	\$ 352,847	¥ 66.0	\$ 0.53	March 31, 2021	June 30, 2021
Meeting of the Board of Directors held on November 9, 2021	Common stock	¥ 36,054	\$ 294,582	¥ 55.0	\$ 0.44	September 30, 2021	December 6, 2021

For the year ended March 31, 2021

Resolution	Types of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Shareholders' meeting held on June 26, 2020	Common stock	¥ 39,849	¥ 60.0	March 31, 2020	June 29, 2020
Meeting of the Board of Directors held on November 11, 2020	Common stock	¥ 32,707	¥ 50.0	September 30, 2020	December 7, 2020

21. Stock Options

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

When stock options are issued, the corresponding amount is recorded in net assets as stock acquisition rights. When stock options are exercised and corresponding treasury stock is disposed as a consideration, the difference between the book value of treasury stock disposed and the one of stock acquisition rights are recorded in net asset as gain or loss on disposal of treasury stock. In case of cancellation of stock option, the corresponding amount is charged to other income in the period that the cancellation is determined. The gain on reversal of stock acquisition rights for the year ended March 31, 2022 was ¥10 million (\$81 thousand).

The stock options outstanding as of March 31, 2022, were as follows:

Stock options	Grantees	Number of options granted	Date of grant	Exercise price (Yen)	Exercise price (U.S. dollars)	Exercise period
2016 stock option	16 directors 41 corporate officers 418 employees 112 subsidiary directors	2,013,500 shares	July 5, 2016	¥ 3,017	\$ 24	From May 1, 2019 to March 31, 2022

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Stock Options (continued)

The stock option activity is as follows:

	2016 Stock Option (Shares)	
Non-vested		
March 31, 2021 – Outstanding		
Granted		–
Forfeited		–
Vested		–
March 31, 2022 – Outstanding		–
Vested		
March 31, 2021 – Outstanding	1,599,700	
Vested		–
Exercised	1,411,900	
Forfeited	187,800	
March 31, 2022 – Outstanding		–
Exercise price	¥	3,017 (\$24)
Average stock price at exercise	¥	3,318 (\$27)

Conditions for the exercise of stock acquisition rights are as follows:

- 1) The Group's operating results must meet certain predetermined performance targets of the Group which had already been achieved.

22. Amounts Per Share

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

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

Amounts per share as of and for the years ended March 31, 2022 and 2021 were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2022	2021	2022
Profit attributable to owners of parent:			
Basic	¥ 343.82	¥ 297.18	\$ 2.80
Diluted	–	–	–
Net assets	3,081.07	2,805.09	25.17

Diluted profit per share is not presented because there were no potential shares with dilutive effect outstanding for the year ended March 31, 2021. Diluted profit per share is not presented because there were no potential shares outstanding for the year ended March 31, 2022.

In calculating the number of shares issued as of March 31, 2022 and 2021, above, the number of shares held by the Trust for Delivery of Shares to Directors (61 thousand shares and 83 thousand shares in 2022 and 2021, respectively) is reflected as treasury stock.

In calculating the number of weighted-average shares above, the number of shares that are held by the Trust (68 thousand shares and 98 thousand shares in 2022 and 2021, respectively) is included in treasury stock.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Leases

Finance leases:

(Lessee)

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

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

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

	<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	¥ 29,523	¥ 13	¥ 29,536

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

	<i>Thousands of U.S. dollars</i>		
	2022		
	Buildings and structures	Machinery, equipment and vehicles	Total
Acquisition cost	\$ 1,152,700	\$ 482	\$ 1,153,190
Accumulated depreciation	(886,632)	(375)	(887,008)
Accumulated impairment loss	(24,838)	–	(24,838)
Net leased property	\$ 241,220	\$ 106	\$ 241,326

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Leases (continued)

Finance leases (continued):

Future minimum lease payments subsequent to March 31, 2022 for finance leases were as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2022	2022
2023	¥ 8,314	\$ 67,930
2024 and thereafter	29,080	237,601
Total	¥ 37,394	\$ 305,531

The allowance for impairment loss on leased property of ¥1,397 million (\$11,414 thousand) and ¥1,611 million as of March 31, 2022 and 2021, 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, 2022 and 2021, were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Lease payments	¥ 11,517	¥ 13,178	\$ 94,100
Reversal of allowance for impairment loss on leased property	438	476	3,578
Depreciation expense	6,737	7,501	55,045
Interest expense	3,304	3,100	26,995
Impairment loss	224	322	1,830

(Lessor)

The net investments in leases as of March 31, 2022 and 2021, were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2022	2021	2022
Gross lease receivables	¥ 71,542	¥ 48,452	\$ 584,541
Unguaranteed residual values	2,231	1,974	18,228
Unearned interest income	(21,915)	(16,906)	(179,058)
Investments in leases, current	¥ 51,858	¥ 33,519	\$ 423,711

Contractual maturities of lease receivables from finance lease transactions subsequent to March 31, 2022 in which the ownership of the leased assets is transferred to the lessee are as follows:

Years Ending March 31	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2022	2022
2023	¥ 6,995	\$ 57,153
2024	6,770	55,314
2025	6,021	49,195
2026	5,592	45,690
2027	4,604	37,617
2028 and thereafter	14,939	122,060
Total	¥ 44,924	\$ 367,056

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Leases (continued)

Finance leases (continued):

Contractual maturities of the above gross lease receivables subsequent to March 31, 2022 in which the ownership of the leased assets is not transferred to the lessee are as follows:

Years Ending March 31	Millions of yen	Thousands of U.S. dollars
2023	¥ 11,380	\$ 92,981
2024	9,525	77,824
2025	7,783	63,591
2026	6,599	53,917
2027	4,902	40,052
2028 and thereafter	31,351	256,156
Total	¥ 71,542	\$ 584,541

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.

Operating Leases:

(Lessee)

Future minimum lease payments subsequent to March 31, 2022 for noncancelable operating leases were as follows:

Years Ending March 31	Thousands of U.S. dollars	
	2022	2022
2023	¥ 63,096	\$ 515,532
2024 and thereafter	605,743	4,949,285
Total	¥ 668,839	\$ 5,464,817

Lease transactions of lessees subject to IFRS 16 “Leases” for overseas subsidiaries, were not included in the above amount for the year ended March 31, 2022.

(Lessor)

Future minimum lease income subsequent to March 31, 2022 for noncancelable operating lease were as follows:

Years Ending March 31	Thousands of U.S. dollars	
	2022	2022
2023	¥ 13,175	\$ 107,647
2024 and thereafter	268,278	2,191,992
Total	¥ 281,453	\$ 2,299,640

Penalty income for early cancelation is included in the amount for 2024 and thereafter.

24. Contingent Liabilities

As of March 31, 2022, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted	¥ 148	\$ 1,209
Guarantees and similar items of bank loans:		
House purchasers' loans from banks	14,731	120,361
Loans of affiliates from banks	8,734	71,362

25. 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".

(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 26 "Derivatives" do not indicate the market risk associated with derivative transactions.

The carrying values of financial instruments on the accompanying consolidated balance sheet as of March 31, 2022 and 2021 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.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Financial Instruments and Related Disclosures (continued)

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

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>		
	2022		
	Carrying value	Fair value	Difference
Assets			
Trade notes and accounts receivables	¥ 176,993	¥	¥
Allowance for doubtful accounts	(3,056)		
	173,937	173,633	(304)
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)		
	250,853	244,579	(6,273)
Total assets	¥ 614,640	¥ 608,082	¥ (6,557)
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	¥ 1,567,587	¥ 1,556,701	¥ (10,885)

	<i>Millions of yen</i>		
	2021		
	Carrying value	Fair value	Difference
Assets			
Trade notes and accounts receivables	¥ 401,314	¥	¥
Allowance for doubtful accounts	(1,463)		
	399,851	399,851	-
Marketable and investment securities:			
Held-to-maturity debt securities	2,844	2,886	41
Other securities	159,500	159,500	-
Lease deposits	251,358		
Allowance for doubtful accounts	(200)		
	251,157	246,701	(4,456)
Total assets	¥ 813,354	¥ 808,939	¥ (4,415)
Liabilities			
Long-term debt:			
Bonds	¥ 423,000	¥ 423,431	¥ 431
Loans from banks	724,401	728,040	3,639
Lease deposits received	284,946	276,155	(8,790)
Total liabilities	¥ 1,432,348	¥ 1,427,628	¥ (4,720)

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Financial Instruments and Related Disclosures (continued)

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

	<i>Thousands of U.S. dollars</i>		
	2022		
	Carrying value	Fair value	Difference
Assets			
Trade notes and accounts receivables	\$ 1,446,139	\$	\$
Allowance for doubtful accounts	(24,969)		
	1,421,170	1,418,686	(2,483)
Marketable and investment securities:			
Held-to-maturity debt securities	18,825	18,988	163
Other securities	1,532,347	1,532,347	-
Lease deposits	2,051,254		
Allowance for doubtful accounts	(1,634)		
	2,049,620	1,998,357	(51,254)
Total assets	\$ 5,021,978	\$ 4,968,396	\$ (53,574)
Liabilities			
Long-term debt:			
Bonds	\$ 3,537,870	\$ 3,522,485	\$ (15,377)
Loans from banks	6,847,667	6,856,826	9,151
Lease deposits received	2,422,583	2,339,872	(82,711)
Total liabilities	\$ 12,808,129	\$ 12,719,184	\$ (88,937)

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>
	2022	2021	2022
Investments in securities without a quoted market price (*1)	¥ 31,839	¥ 37,142	\$ 260,143
Preferred fund certificates (*2)	-	17,262	-
Investments in limited liability partnership and others (*3)	14,674	15,291	119,895

(*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) Preferred fund certificates are included in “Other securities” under marketable and investment securities in the “Supplemental information for fair values of financial instruments” table.

(*3) 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 27 of the “Guidance on Accounting Standard for Measurement of Fair Value” (ASBJ Guidance No. 31, July 4, 2019).

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. 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, 2022 and 2021 was as follows:

	<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

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

	<i>Thousands of U.S. dollars</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	\$ 2,758,656	\$ –	\$ –	\$ –
Trade notes and accounts receivables	1,272,661	72,865	42,380	58,223
Marketable and investment securities:				
Held-to-maturity debt securities	3,962	14,935	–	81
Other securities with contractual maturities (*)	17,909	76,852	–	980
Lease deposits	201,225	628,221	407,770	837,690
Total	\$ 4,254,432	\$ 792,875	\$ 450,151	\$ 896,985

(*) 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, Commercial Paper and Long-Term Debt.”

25. Financial Instruments and Related Disclosures (continued)

(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 among observable valuation inputs

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.

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

	<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>			
	2022			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Stocks	\$ 1,237,543	\$ –	\$ –	\$ 1,237,543
Preferred fund certificates	–	–	174,548	174,548
Bonds	–	–	120,254	120,254
Total	\$ 1,237,543	\$ –	\$ 294,803	\$ 1,532,347

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

	<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)

25. Financial Instruments and Related Disclosures (continued)

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

	<i>Thousands of U.S. dollars</i>			
	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Trade notes and accounts receivables	\$ –	\$ 1,418,686	\$ –	\$ 1,418,686
Marketable and investment securities:				
Held-to-maturity debt securities	18,988	–	–	18,988
Lease deposits	–	1,998,357	–	1,998,357
Total assets	\$ 18,988	\$ 3,417,052	\$ –	\$ 3,436,048
Liabilities				
Long-term debt:				
Bonds	\$ –	\$ 3,522,485	\$ –	\$ 3,522,485
Loans from banks	–	6,718,694	138,124	6,856,826
Lease deposits received	–	2,203,750	136,114	2,339,872
Total liabilities	\$ –	\$ 12,444,938	\$ 274,246	\$ 12,719,184

Notes: 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 a discount rate with credit risks, and are categorized as Level 2.

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. 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 is measured at present value calculated by maturity periods to collection and discount rate 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.

25. Financial Instruments and Related Disclosures (continued)

(4) Breakdown by level of fair values of financial instruments (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 rate corresponding to loan periods. The fair values of loans from banks with the interest rate swap or currency swap transactions are determined at the present value by discounting the total amounts of principal and interest payments related to the debt at the Group's assumed corporate discount rate corresponding to loan periods.

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 26 "Derivatives".

26. Derivatives

Derivative transactions to which hedge accounting was applied as of March 31, 2022 and 2021 were as follows:

		<i>Millions of yen</i>			
		2022		2021	
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	¥ 25,760	¥ 25,447	¥ 30,972	¥ 25,526
Interest rate and currency swaps:					
Fixed rate payment in yen, floating rate receipt in U.S. dollars	Long-term debt – loans from banks	26,128	16,128	26,128	26,128
		<i>Thousands of U.S. dollars</i>			
		2022			
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	\$ 210,474	\$ 207,917		
Interest rate and currency swaps:					
Fixed rate payment in yen, floating rate receipt in U.S. dollars	Long-term debt – loans from banks	213,481	131,775		

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

26. Derivatives (continued)

The above interest rate swaps and interest rate and currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differentials paid or received under the swap agreements are recognized and included in interest expense or income, and long-term debts and short-term bank loans denominated in a foreign currency are translated at the contracted rates (allocation method and special treatment). In addition, the fair values of such interest rate swaps and interest rate and currency swaps in Note 25 “Financial Instruments and Related Disclosure” are included in those of the hedged items (i.e., long-term debt).

27. Supplemental Cash Flow Information

Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2022 and 2021 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>
	2022	2021	2022
Cash and bank deposits	¥ 337,632	¥ 425,980	\$ 2,758,656
Time deposits with maturities of more than three months	(11,381)	(9,658)	(92,989)
Cash and cash equivalents	¥ 326,250	¥ 416,321	\$ 2,665,658

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 are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. dollars</i>
	2022		2022
Current assets	¥ 34,919		\$ 285,309
Fixed assets	30		245
Goodwill	24,851		203,047
Current liabilities	(3,783)		(30,909)
Long-term liabilities	(6,460)		(52,782)
Non-controlling interests	(5,149)		(42,070)
Purchase cost of investments in capital of a newly consolidated subsidiary	44,408		362,840
Cash and cash equivalents of a newly consolidated subsidiary	(1,237)		(10,107)
Purchase of investment in subsidiary resulting in change in scope of consolidation	¥ 43,171		\$ 352,733

28. Business Combination

(Business Combination by Acquisition)

a. Outline of the business combination

(1) Name of acquired company and its business description

Name of the acquired company: CastleRock Communities LLC

Business description: Single-family housing business (Single-family housing business and developing and selling residential land business in the southern U.S.)

(2) Major reason for the business combination

Major reason for the business combination is strengthening and expanding single-family housing business in the U.S. market, where strong housing demand is expected.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

28. Business Combination (continued)

(Business Combination by Acquisition) (continued)

- (3) Date of business combination

September 3, 2021 (September 2, U.S. Central Standard Time)

- (4) Legal form of business combination

Acquisition of equity interests

- (5) Name of the company after the combination

The acquired company's name remains unchanged

- (6) Ratio of equity interests acquired

80.0%

- (7) Basis for determining the acquirer

The Company is determined as the acquirer since a subsidiary of the Company acquired equity interests in consideration for cash.

- b. Period for which the operating results of the acquired company are included in the consolidated financial statements

The date of fiscal year end of the acquired company is December 31, which is three months prior to that of the Company. As the date of acquisition was September 2, 2021 (U.S. Central Standard Time), the operating results of the acquired company from September 3 to December 31, 2021 were included in the consolidated financial statements for the year ended March 31, 2022.

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

	<i>Millions of Yen</i>	<i>Thousands of U.S. dollars</i>
	2022	2022
Consideration for acquisition - Cash	¥ 44,408	\$ 362,840
Acquisition cost	44,408	362,840

- d. Major acquisition-related costs

Advisory fees and others ¥757 million (\$6,185 thousand)

- e. Amount of goodwill recognized, reasons for the goodwill incurred, and the method and period of amortization

- (1) Amount of goodwill recognized

¥24,851 million (\$203,047 thousand)

Amount of goodwill recognized was calculated on a provisional basis because the allocation of acquisition cost was not completed as of the end of March 31, 2022.

- (2) Reasons for the goodwill recognized

Goodwill was recognized in connection with the excess earnings to be generated by the business base of single-family housing business in the U.S. operated by the acquired company.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

28. Business Combination (continued)

(Business Combination by Acquisition) (continued)

(3) Method and period of amortization for goodwill

Goodwill is amortized on a straight-line basis over 20 years.

f. Assets acquired and liabilities assumed on the date of business combination were as follows:

	<i>Thousands of</i>	
	<i>Millions of Yen</i>	<i>U.S. dollars</i>
	2022	2022
Current assets	¥ 34,919	\$ 285,309
Fixed assets	30	245
Total	¥ 34,950	\$ 285,562
Current liabilities	¥ 3,783	\$ 30,909
Long-term liabilities	6,460	52,782
Total	¥ 10,243	\$ 83,691

29. Revenue Recognition

1. Information on disaggregated revenue arising from contracts with customers is as follows:

	<i>Millions of yen</i>							
	2022							
	Reportable segment							
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Total
Ordered contract transactions	¥ 243,017	¥ 353,713	¥ 38,364	¥ 97,294	¥ 354,895	¥ 741,750	¥ 79,922	¥ 1,908,959
Real estate sales transactions	368,871	73,097	251,198	844	121,454	175,839	-	991,306
Other related business transactions	2	71,665	59,279	2,062	44,025	12,644	299,131	488,811
Revenue from contracts with customers	¥ 611,890	¥ 498,477	¥ 348,843	¥ 100,202	¥ 520,376	¥ 930,234	¥ 379,054	¥ 3,389,078
Other revenue	¥ 13,971	¥ 527,936	¥ 24,189	¥ 23,832	¥ 261,309	¥ 189,644	¥ 9,573	¥ 1,050,458
Sales to third parties	625,862	1,026,414	373,032	124,034	781,685	1,119,879	388,627	4,439,536

	<i>Thousands of U.S. dollars</i>							
	2022							
	Reportable segment							
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other (*2)	Total
Ordered contract transactions	\$ 1,985,595	\$ 2,890,048	\$ 313,456	\$ 794,950	\$ 2,899,705	\$ 6,060,544	\$ 653,010	\$ 15,597,344
Real estate sales transactions	3,013,898	597,246	2,052,438	6,895	992,352	1,436,710	-	8,099,566
Other related business transactions (*3)	16	585,546	484,345	16,847	359,710	103,309	2,444,080	3,993,880
Revenue from contracts with customers	\$ 4,999,509	\$ 4,072,857	\$ 2,850,257	\$ 818,710	\$ 4,251,785	\$ 7,600,571	\$ 3,097,099	\$ 27,690,808
Other revenue (*4)	\$ 114,151	\$ 4,313,555	\$ 197,638	\$ 194,721	\$ 2,135,051	\$ 1,549,505	\$ 78,217	\$ 8,582,874
Sales to third parties	5,113,669	8,386,420	3,047,896	1,013,432	6,386,837	9,150,085	3,175,316	36,273,682

Notes: (*1) The presentation of the information on disaggregated revenue has been changed from the presentation used until the third quarter of the year ended March 31, 2022.

Notes: (*2) "Other" includes the businesses for construction support, health and leisure and others.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

29. Revenue Recognition (continued)

Notes: (*3) “Other related business transactions” includes real estate management transactions, electric power retail business, home center business, logistics service business, and hotel business.

Notes: (*4) “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).

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
Existing home business	Ordered contracts of expansions and renovations
Commercial facilities	Ordered contracts of stores, commercial complexes, and others
Business and corporate facilities	Ordered contracts of logistics and manufacturing facilities and medical and nursing care facilities.

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.

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.

29. Revenue Recognition (continued)

(2) Real estate sales transactions

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

Reportable segment	Description of main transaction
Single-family houses	Sales of single-family houses
Rental housing	Sales of rental housing
Condominiums	Sales of condominiums
Existing home business	Sales of existing homes resold
Commercial facilities	Sales of stores, commercial complexes and other development properties
Business and corporate facilities	Sales of logistics facilities and other development properties

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

(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 (office 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 real 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 a 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)

29. Revenue Recognition (continued)

3. Information for understanding the amounts of revenue in the fiscal year ended March 31, 2022 and the fiscal year ending March 31, 2023

- (1) Balances of contract assets and contract liabilities

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2022	2022
Receivables arising from contracts with customers (balance at the beginning of the year)	¥ 183,112	\$ 1,496,135
Receivables arising from contracts with customers (balance at the end of the year)	158,357	1,293,872
Contract assets (balance at the beginning of the year)	224,552	1,834,725
Contract assets (balance at the end of the year)	230,436	1,882,800
Contract liabilities (balance at the beginning of the year)	260,977	2,132,339
Contract liabilities (balance at the end of the year)	289,436	2,364,866

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, 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 revenue recognized during the fiscal year ended March 31, 2022 that was included in the balance of contract liabilities at the beginning of the fiscal year ended March 31, 2022 was ¥145,056 million (\$1,185,194 thousand).

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

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>
	2022	2022
Notes receivable	¥ 3,199	\$ 26,137
Electronically recorded monetary claims	5,345	43,671
Accounts receivable	149,812	1,224,054
Contract assets	230,436	1,882,800
Total	¥ 388,794	\$ 3,176,681

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

29. Revenue Recognition (continued)

3. Information for understanding the amounts of revenue in the fiscal year ended March 31, 2022 and the fiscal year ending March 31, 2023 (continued)

(1) Balances of receivables arising from contracts with customers, contract assets and contract liabilities

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>
	2022	2022
Advances received	¥ 151,459	\$ 1,237,511
Advances received on construction projects in progress	137,977	1,127,355
Total	¥ 289,436	\$ 2,364,866

(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>
	2022	2022
Single-family houses	¥ 270,808	\$ 2,212,664
Rental housing	171,044	1,397,532
Condominiums	147,672	1,206,569
Existing home business	16,827	137,486
Commercial facilities	163,533	1,336,163
Business and corporate facilities	915,140	7,477,244
Other	32,414	264,841
Total	¥ 1,717,441	\$ 14,032,527

With respect to Single-family houses, Rental housing, and Existing home business, 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 Other, approximately 70% of revenues are expected to be recognized within one year after the end of fiscal year ended March 31, 2022, and 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.

30. 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, Existing Home Business, Commercial Facilities Business, and Business and Corporate Facilities Business. The Single-Family Houses Business consists of orders of single-family houses and sales of packages of new houses with land. The Rental Housing Business consists of the Group's operations in rental housing development, construction, management, operation and real estate agency services. The Condominiums Business consists of development, sale and management of condominiums. The Existing Home Business consists of renovation and real estate agency services. The Commercial Facilities Business consists of development, construction, management and operation of commercial facilities. The Business and Corporate Facilities Business consists of development and construction of logistics, manufacturing facilities and medical and nursing care facilities, and building, management and operation of temporary facilities.

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

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

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

	<i>Millions of yen</i>						
	2022						
	Reportable segments						
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Sub-total
Sales:							
Sales to third parties	¥ 625,862	¥ 1,026,414	¥ 373,032	¥ 124,034	¥ 781,685	¥ 1,119,879	¥ 4,050,908
Intersegment sales and transfers	1,027	2,780	6,832	2,920	15,236	19,760	48,558
Total	¥ 626,889	¥ 1,029,195	¥ 379,865	¥ 126,955	¥ 796,922	¥ 1,139,640	¥ 4,099,467
Segment profit	¥ 29,708	¥ 94,337	¥ 9,762	¥ 8,877	¥ 114,825	¥ 131,769	¥ 389,281
Segment assets	618,753	444,652	774,525	30,424	1,164,849	1,746,795	4,780,001
Other:							
Depreciation	4,934	10,606	2,793	218	33,715	32,118	84,386
Increase in property, plant and equipment and intangible assets	5,512	29,196	12,048	223	114,272	232,148	393,402

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Segment Information (continued)

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

		<i>Millions of yen</i>					
		2022					
		Other	Total	Adjustments and eliminations	Consolidated		
Sales:							
Sales to third parties	¥ 388,627	¥ 4,439,536	¥	-	¥ 4,439,536		
Intersegment sales and transfers	113,203	161,762	(161,762)		-		
Total	¥ 501,831	¥ 4,601,298	¥ (161,762)		¥ 4,439,536		
Segment profit	¥ 2,542	¥ 391,824	¥ (8,567)		¥ 383,256		
Segment assets	657,811	5,437,813	83,849		5,521,662		
Other:							
Depreciation	14,322	98,709	1,619		100,328		
Increase in property, plant and equipment and intangible assets	26,833	420,235	5,572		425,807		
		<i>Millions of yen</i>					
		2021					
		Reportable segments					
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Sub-total
Sales:							
Sales to third parties	¥ 513,665	¥ 980,718	¥ 332,497	¥ 121,557	¥ 796,470	¥ 979,889	¥ 3,724,799
Intersegment sales and transfers	2,444	2,067	7,293	3,160	11,924	10,095	36,986
Total	¥ 516,109	¥ 982,785	¥ 339,790	¥ 124,718	¥ 808,395	¥ 989,984	¥ 3,761,785
Segment profit	¥ 21,818	¥ 90,832	¥ 5,397	¥ 10,438	¥ 122,898	¥ 115,910	¥ 367,295
Segment assets	418,194	344,713	695,615	29,980	1,005,569	1,689,501	4,183,574
Other:							
Depreciation	4,576	9,158	2,575	216	31,936	14,393	62,856
Increase in property, plant and equipment and intangible assets	4,895	30,258	12,852	229	56,871	234,821	339,929

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Segment Information (continued)

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

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

Thousands of U.S. dollars

	2022						
	Reportable segments						
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Sub-total
Sales:							
Sales to third parties	\$ 5,113,669	\$ 8,386,420	\$ 3,047,896	\$ 1,013,432	\$ 6,386,837	\$ 9,150,085	\$ 33,098,357
Intersegment sales and transfers	8,391	22,714	55,821	23,858	124,487	161,451	396,748
Total	\$ 5,122,060	\$ 8,409,142	\$ 3,103,725	\$ 1,037,298	\$ 6,511,332	\$ 9,311,545	\$ 33,495,113
Segment profit	\$ 242,732	\$ 770,790	\$ 79,761	\$ 72,530	\$ 938,189	\$ 1,076,632	\$ 3,180,660
Segment assets	5,055,584	3,633,074	6,328,335	248,582	9,517,517	14,272,367	3 9,055,486
Other:							
Depreciation	40,313	86,657	22,820	1,781	275,471	262,423	689,484
Increase in property, plant and equipment and intangible assets	45,036	238,548	98,439	1,822	933,671	1,896,788	3,214,331

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Segment Information (continued)

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

	<i>Thousands of U.S. dollars</i>			
	2022			
	Other	Total	Adjustments and eliminations	Consolidated
Sales:				
Sales to third parties	\$ 3,175,316	\$ 36,273,682	\$ –	\$ 36,273,682
Intersegment sales and transfers	924,936	1,321,692	(1,321,692)	–
Total	\$ 4,100,261	\$ 37,595,375	\$ (1,321,692)	\$ 36,273,682
Segment profit	\$ 20,769	\$ 3,201,438	\$ (69,997)	\$ 3,131,432
Segment assets	5,374,711	44,430,206	685,096	45,115,303
Other:				
Depreciation	117,019	806,511	13,228	819,740
Increase in property, plant and equipment and intangible assets	219,241	3,433,573	45,526	3,479,099

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

2) Adjustments and eliminations for segment profit of ¥8,567 million (\$69,997 thousand) and ¥20,946 million include intersegment eliminations of ¥676 million (\$5,523 thousand) and ¥1,440 million, the amortization of goodwill of ¥699 million (\$5,711 thousand) and ¥803 million, and the corporate expenses not allocated to each business segment of ¥9,943 million (\$81,240 thousand) and ¥23,189 million for the years ended March 31, 2022 and 2021, respectively. Corporate expenses mainly consist of general and administrative expenses and experiment and research expenses not attributable to any reportable business segments.

Adjustments and eliminations for segment assets of ¥83,849 million (\$685,096 thousand) and ¥236,138 million include intersegment eliminations of ¥233,553 million (\$1,908,268 thousand) and ¥176,757 million, and the corporate assets of ¥317,402 million (\$2,593,365 thousand) and ¥412,896 million for the years ended March 31, 2022 and 2021, 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 ¥1,619 million (\$13,228 thousand) and ¥995 million include intersegment eliminations of ¥609 million (\$4,975 thousand) and ¥652 million, and the depreciation attributable to corporate assets of ¥2,228 million (\$18,204 thousand) and ¥1,647 million for the years ended March 31, 2022 and 2021, respectively.

Adjustments and eliminations for increase in property, plant and equipment and other assets of ¥5,572 million (\$45,526 thousand) and ¥3,016 million include intersegment eliminations of ¥565 million (\$4,616 thousand) and ¥4,267 million, and the headquarters’ capital investments in properties and equipment of ¥6,137 million (\$50,142 thousand) and ¥7,283 million for the years ended March 31, 2022 and 2021, 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)

30. Segment Information (continued)

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

Impairment losses

		<i>Millions of yen</i>								
		2022								
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated	
Impairment losses	¥ 312	¥ 461	¥ 5,331	¥ –	¥ 2,774	¥ 1,110	¥ 14,119	¥ 38	¥ 24,147	
		<i>Millions of yen</i>								
		2021								
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated	
Impairment losses	¥ 3,941	¥ 3,915	¥ 424	¥ 369	¥ 3,594	¥ 4,001	¥ 4,607	¥ 211	¥ 21,065	
		<i>Thousands of U.S. dollars</i>								
		2022								
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated	
Impairment losses	\$ 2,549	\$ 3,766	\$ 43,557	\$ –	\$ 22,665	\$ 9,069	\$ 115,360	\$ 310	\$ 197,295	

Note: 1) Adjustments and eliminations for impairment loss of ¥38 million (\$310 thousand) and ¥211 million represent the impairment loss for corporate assets that are not allocated to each business segment for the years ended March 31, 2022 and 2021, respectively.

Amortization of goodwill

		<i>Millions of yen</i>								
		2022								
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated	
Amortization	¥ 1,042	¥ 64	¥ 1,013	¥ (8)	¥ 421	¥ 2,679	¥ 360	¥ –	¥ 5,573	
Balance as of March 31, 2022	36,534	980	9,166	(45)	1,832	35,210	10,216	–	93,895	
		<i>Millions of yen</i>								
		2021								
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated	
Amortization	¥ 727	¥ 61	¥ 1,791	¥ (8)	¥ 422	¥ 2,274	¥ 257	¥ –	¥ 5,526	
Balance as of March 31, 2021	9,284	987	10,180	(53)	2,254	40,919	10,473	–	74,046	
		<i>Thousands of U.S. dollars</i>								
		2022								
	Single-family houses	Rental housing	Condominiums	Existing home business	Commercial facilities	Business and corporate facilities	Other	Adjustments and eliminations	Consolidated	
Amortization	\$ 8,513	\$ 522	\$ 8,276	\$ (65)	\$ 3,439	\$ 21,889	\$ 2,941	\$ –	\$ 45,534	
Balance as of March 31, 2022	298,504	8,007	74,891	(367)	14,968	287,686	83,470	–	767,178	

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Segment Information (continued)

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

Note: 1) Amortization in Single-family houses at the end of the year ended March 31, 2022 includes the amount of provisionally calculated goodwill incurred in the business combination through acquisition in the year ended March 31, 2022, for which the allocation of acquisition costs was not completed.

Gain on negative goodwill was nil for the years ended March 31, 2022 and 2021.

4. Information by product and service

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

5. Information by geographic segment

(Sales)

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

(Property, plant and equipment)

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

6. Information by major customer

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

31. 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, 2022 and 2021 were as follows:

									<i>Millions of yen</i>
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 3)	¥ 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 3)	¥ 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 3)	¥ 30	–	¥ –
Kazuhiro Dekura	–	–	Director and Managing Executive Officer	0.0% owned by the related party	Exercise of stock acquisition rights	Exercise of stock acquisition rights (Note 3)	¥ 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 3)	¥ 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 3)	¥ 30	–	¥ –

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Related Party Transactions (continued)

Millions of yen

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

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, 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 3)	\$ 367	-	\$ -
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 3)	\$ 490	-	\$ -
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 3)	\$ 245	-	\$ -
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 3)	\$ 245	-	\$ -
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 3)	\$ 245	-	\$ -
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 3)	\$ 245	-	\$ -

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Related Party Transactions (continued)

- Note:
1. More than 50% of the shares are owned by Tamio Ishibashi, Representative Director and Vice President of the Company and his relatives. As approved at the 82nd general shareholders meeting held on June 29, 2021, Tamio Ishibashi retired from the position of Representative Director Vice President.
 2. The corresponding construction or sales has been completed and the ownership has been transferred to the related party in the year ended March 31, 2021.
 3. 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 share by the exercise price.
 4. Business transactions with related parties except exercise of the acquisition rights are carried out on the same method as for third party transactions.

32. Subsequent Event

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, 2022, was approved at a shareholders' meeting of the Company held on June 29, 2022:

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	\$ 380,390	¥ 71	\$ 0.58	March 31, 2022	June 30, 2022

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Independent Auditor's Quarterly Review Report

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

Auditor's Conclusion

We have reviewed the accompanying quarterly consolidated financial statements of Daiwa House Industry Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the quarterly consolidated balance sheet as at September 30, 2023, and the quarterly consolidated statements of income, comprehensive income and cash flows for the six-month period then ended, and notes to the quarterly consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2023 and its consolidated financial performance and cash flows for the six-month period then ended in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan.

Basis for Auditor's Conclusion

We conducted our review in accordance with review standards for quarterly financial statements generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Review of the Quarterly Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our review of the quarterly consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained provides a basis for our conclusion.

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

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

In preparing the quarterly 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 for quarterly consolidated financial statements 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 Review of the Quarterly Consolidated Financial Statements

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our review.

As part of a review in accordance with review standards for quarterly financial statements generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters and apply analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude based on the evidence obtained whether anything has come to our attention that causes us to believe that the quarterly consolidated financial statements are not presented fairly in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan should we determine that 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. Additionally, if we conclude that a material uncertainty exists, we are required to draw attention in our auditor's quarterly review report to the related disclosures in the quarterly consolidated financial

statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our auditor's quarterly review report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether anything has come to our attention that causes us to believe that the overall presentation and disclosure of the quarterly consolidated financial statements are not in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, or that the overall presentation, structure and content of the quarterly consolidated financial statements, including the disclosures, do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain evidence regarding the financial information of the entities or business activities within the Group to express a conclusion on the quarterly consolidated financial statements. We are responsible for the direction, supervision and performance of the quarterly review. We remain solely responsible for our conclusion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding the planned scope and timing of the review and significant review findings.

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 review of the quarterly 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, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

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

We have reviewed the translation of these quarterly consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, based on our review, the accompanying quarterly consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC
Osaka, Japan

December 22, 2023

Kaname Matsumoto

Kaname Matsumoto
Designated Engagement Partner
Certified Public Accountant

Yasuhiro Takata

Yasuhiro Takata
Designated Engagement Partner
Certified Public Accountant

Satoshi Abe

Satoshi Abe
Designated Engagement Partner
Certified Public Accountant

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheet

September 30, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	September 30, 2023	March 31, 2023	September 30, 2023
Assets			
Current assets:			
Cash and bank deposits <i>(Note 7)</i>	¥ 402,379	¥ 358,086	\$ 2,690,058
Trade notes and accounts receivable	476,034	454,341	3,182,470
Mortgage notes receivable held for sale	21,208	15,771	141,783
Securities maturing within one year	3,354	3,570	22,422
Inventories <i>(Note 4)</i>	2,267,899	2,091,678	15,161,779
Other current assets	335,819	331,685	2,245,079
Allowance for doubtful accounts	(3,357)	(3,145)	(22,442)
Total current assets	3,503,338	3,251,988	23,421,165
Property, plant and equipment:			
Land <i>(Note 4)</i>	837,147	916,871	5,596,650
Buildings and structures <i>(Note 4)</i>	1,390,488	1,410,373	9,295,948
Other tangible assets <i>(Note 4)</i>	527,846	501,753	3,528,854
Total	2,755,481	2,828,998	18,421,453
Accumulated depreciation	(768,577)	(795,369)	(5,138,233)
Net property, plant and equipment	1,986,904	2,033,629	13,283,219
Investments and other assets:			
Investment securities	203,523	218,834	1,360,629
Lease deposits	260,732	256,582	1,743,093
Goodwill	106,394	94,467	711,284
Other assets	277,082	288,076	1,852,400
Allowance for doubtful accounts	(1,608)	(1,510)	(10,750)
Total investments and other assets	846,123	856,449	5,656,658
Total assets	¥6,336,366	¥6,142,067	\$42,361,050

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheet (continued)

September 30, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	September 30, 2023	March 31, 2023	September 30, 2023
Liabilities and net assets			
Current liabilities:			
Trade notes and accounts payable	¥ 325,338	¥ 380,004	\$ 2,175,010
Short-term bank loans	242,539	133,028	1,621,466
Current portion of long-term debt:			
Bonds	–	50,000	–
Loans from banks	121,902	159,044	814,961
Income taxes payable	47,511	57,254	317,629
Advances received	124,700	142,950	833,667
Advances received on construction projects in progress	182,230	183,273	1,218,277
Accrued bonuses	60,289	60,728	403,055
Provision for warranties for completed construction	7,421	7,460	49,612
Asset retirement obligations	2,667	4,130	17,829
Other current liabilities	301,942	348,973	2,018,598
Total current liabilities	1,416,543	1,526,847	9,470,136
Long-term liabilities:			
Long-term debt:			
Bonds	659,000	559,000	4,405,669
Loans from banks	1,011,194	945,507	6,760,221
Lease deposits received	308,673	307,593	2,063,598
Liabilities for employees' retirement benefits	104,891	103,617	701,236
Asset retirement obligations	60,158	58,009	402,179
Other long-term liabilities	259,388	252,576	1,734,108
Total long-term liabilities	2,403,306	2,226,305	16,067,027
Total liabilities	3,819,849	3,753,153	25,537,164
Commitments and contingencies (Note 10)			
Net assets (Note 8):			
Shareholders' equity			
Common stock – 1,900,000,000 authorized shares, 659,351,820 issued and 657,132,547 outstanding as of September 30, 2023 and 666,290,951 issued and 658,871,301 outstanding as of March 31, 2023	161,957	161,845	1,082,745
Capital surplus	302,024	303,741	2,019,146
Retained earnings	1,801,227	1,710,582	12,041,897
Treasury stock – at cost, 2,219,273 shares as of September 30, 2023 and 7,419,650 shares as of March 31, 2023	(7,838)	(20,327)	(52,400)
Total shareholders' equity	2,257,371	2,155,842	15,091,395
Accumulated other comprehensive income:			
Unrealized gain on securities	48,982	54,701	327,463
Deferred loss on hedging instruments	(841)	(118)	(5,622)
Land revaluation reserve	9,450	9,277	63,176
Foreign currency translation adjustments	103,239	64,508	690,192
Total accumulated other comprehensive income	160,831	128,369	1,075,217
Non-controlling interests	98,314	104,701	657,267
Total net assets	2,516,516	2,388,914	16,823,880
Total liabilities and net assets	¥6,336,366	¥6,142,067	\$42,361,050

See accompanying notes to the quarterly consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statement of Income

Six-month period ended September 30, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Net sales (Notes 11 and 12)	¥2,544,827	¥2,261,329	\$17,013,150
Cost of sales	2,072,857	1,843,231	13,857,848
Gross profit	471,969	418,097	3,155,294
Selling, general and administrative expenses (Note 5)	280,806	263,458	1,877,296
Operating income (Note 11)	191,163	154,639	1,277,998
Other income (expenses):			
Interest income	1,263	1,182	8,443
Dividend income	2,895	2,711	19,354
Equity in earnings of affiliates	2,383	1,142	15,931
Gain on valuation of derivatives	5,114	–	34,189
Interest expense	(14,286)	(8,310)	(95,507)
Gain on sales of fixed assets	7,042	3,448	47,078
Gain on sales of investments in securities	14,646	320	97,914
Gain on sales of stocks of a subsidiary (Note 6)	23,189	–	155,027
Gain on sales of investments in capital of subsidiaries and affiliates	–	3,464	–
Gain on change in equity interest	–	476	–
Loss on sales of fixed assets	(60)	(37)	(401)
Loss on disposal of fixed assets	(1,343)	(714)	(8,978)
Impairment loss	(196)	(1,716)	(1,310)
Loss on sales of investments in securities	(17)	(67)	(113)
Loss on revaluation of investments in securities	(100)	–	(668)
Loss on sales of investments in capital of an affiliate	–	(191)	–
Other, net	(417)	1,660	(2,787)
Profit before income taxes	231,276	158,007	1,546,169
Income taxes:			
Current	65,002	33,063	434,563
Deferred	11,781	16,196	78,760
Total income taxes	76,784	49,260	513,330
Profit	¥ 154,491	¥ 108,746	\$ 1,032,831
Profit attributable to non-controlling interests	¥ 3	¥ 2,752	\$ 20
Profit attributable to owners of the parent	154,488	105,994	1,032,811

See accompanying notes to the quarterly consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statement of Comprehensive Income

Six-month period ended September 30, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Profit	¥154,491	¥108,746	\$1,032,831
Other comprehensive income:			
Unrealized loss on securities	(5,720)	(4,305)	(38,240)
Deferred loss on hedging instruments	(723)	(104)	(4,833)
Land revaluation reserve	19	6	127
Foreign currency translation adjustments	43,812	71,178	292,900
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	284	(4,138)	1,898
Total other comprehensive income	37,673	62,636	251,858
Comprehensive income	¥192,165	¥171,383	\$1,284,697
Total comprehensive income attributable to:			
Owners of the parent	¥186,796	¥159,948	\$1,248,803
Non-controlling interests	5,369	11,435	35,893

See accompanying notes to the quarterly consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statement of Cash Flows

Six-Month Period Ended September 30, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Operating activities:			
Profit before income taxes	¥ 231,276	¥ 158,007	\$ 1,546,169
Adjustments for:			
Depreciation	56,666	55,806	378,834
(Decrease) increase in liability for employees' retirement benefits	(102)	989	(681)
Interest and dividend income	(4,158)	(3,893)	(27,797)
Interest expense	14,286	8,310	95,507
Equity in earnings of affiliates	(2,383)	(1,142)	(15,931)
Net gain on sales and disposal of property, plant and equipment	(5,638)	(2,697)	(37,692)
Impairment loss	196	1,716	1,310
Loss on revaluation of investments in securities	100	-	668
Increase in trade receivables	(20,577)	(19,094)	(137,565)
Decrease (increase) in inventories	14,394	(130,297)	96,229
Decrease in advances received	(20,596)	(5,135)	(137,692)
(Decrease) increase in advances received on construction projects in progress	(1,578)	25,176	(10,549)
Decrease in trade payables	(58,817)	(38,085)	(393,214)
Other	(30,109)	(22,004)	(201,290)
Subtotal	172,956	27,656	1,156,277
Interest and dividends received	7,382	6,864	49,351
Interest paid	(13,428)	(7,838)	(89,771)
Income taxes paid	(75,582)	(79,759)	(505,294)
Net cash provided by (used in) operating activities	91,327	(53,076)	610,556
Investing activities:			
Purchases of property, plant and equipment and intangible assets	(189,508)	(278,179)	(1,266,934)
Proceeds from sales of property, plant and equipment	11,001	6,838	73,545
Purchases of investment securities	(8,345)	(7,066)	(55,789)
Proceeds from sales and redemption of investment securities	30,432	2,355	203,449
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(10,047)	-	(67,168)
Proceeds from sales of investments in a subsidiary resulting in change in scope of consolidation	45,241	-	302,453
Proceeds from collection of leasehold and guarantee deposits	10,111	11,474	67,595
Payments of leasehold and guarantee deposits	(9,652)	(10,915)	(64,527)
Other	4,349	2,481	29,074
Net cash provided by (used in) investing activities	¥(116,417)	¥(273,011)	\$ (778,292)

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statement of Cash Flows (continued)

Six-Month Period Ended September 30, 2023

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Financing activities:			
Net increase in short-term bank loans	¥ 100,517	¥127,577	\$ 671,994
Net increase in commercial papers	–	49,000	–
Proceeds from long-term debt – Loans from banks	178,024	207,288	1,190,159
Repayments of long-term debt – Loans from banks	(189,514)	(88,646)	(1,266,974)
Proceeds from issuance of bonds	100,000	51,000	668,538
Redemption of bonds	(50,000)	(15,000)	(334,269)
Repayments of finance lease obligations	(4,423)	(4,705)	(29,569)
Proceeds from share issuance to non-controlling shareholders	625	214	4,178
Purchases of treasury stock	(6,689)	(4)	(44,718)
Proceeds from disposal of treasury stock	0	188	0
Dividends paid	(46,120)	(46,556)	(308,329)
Purchases of investments in subsidiaries that do not result in change in scope of consolidation	(688)	(115)	(4,599)
Other	(12,751)	3,176	(85,245)
Net cash provided by (used in) financing activities	68,980	283,414	461,157
Effect of exchange rate changes on cash and cash equivalents	4,834	13,566	32,317
Net increase (decrease) in cash and cash equivalents	48,724	(29,107)	325,738
Cash and cash equivalents at the beginning of the period	346,154	326,250	2,314,173
Increase in cash and cash equivalents from a newly consolidated subsidiary	–	1,524	–
Cash and cash equivalents at the end of the period (Note 7)	¥ 394,878	¥298,667	\$ 2,639,911

See accompanying notes to the quarterly consolidated financial statements.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements

September 30, 2023

1. Basis of Preparation

The accompanying quarterly 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 quarterly consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The accompanying quarterly consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company’s consolidated financial statements as of and for the year ended March 31, 2023. Under “Accounting Standard for Quarterly Financial Reporting” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 12, March 31, 2020) the disclosure of the quarterly consolidated statement of changes in net assets is not required and is hence omitted.

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

2. 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 ¥149.58 = U.S.\$1.00, the approximate rate of exchange prevailing on September 30, 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.

3. Additional Information

1. Capital contribution to a 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 capital contribution is scheduled to be made stepwise by June 2025, and before its completion, the subsidiary’s equity capital will exceed one-tenth of the Company’s total issued capital, making it a specified subsidiary.

(1) Purpose of the capital contribution

To date, the Company’s business has been concentrated in Sydney Australia, and the principal focus on developing its Single-Family Houses Business and its Condominiums Business.

This new investment will enable the Company to take advantage of opportunities related to the development of rental housing in Melbourne and positively contribute to partially relieving the current housing shortage, which is a current pressing social issue in 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	250,500 thousand Australian dollars (¥22,467 million (\$150,200 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) 100%

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

3. Additional Information (continued)

2. Establishment of a subsidiary

At the meeting of the Board of Directors held on August 7, 2023, the Company resolved to establish a subsidiary that will invest in condominium development opportunity in the United Kingdom. The capital contribution is scheduled to be made stepwise by June 2026, and before its completion, the subsidiary's equity capital will exceed one-tenth of the Company's total issued capital, making it a specified subsidiary.

(1) Purpose of the establishment

Already in 2020, the Company established Daiwa House Europe B.V. in the Netherlands and entered the business in Europe. This new investment will enable the Company to take advantage of opportunities related to condominium development in the United Kingdom and positively contribute to partially relieving the housing shortage, which is a current pressing social issue in the United Kingdom.

(2) Outline of the subsidiary

1) Company name	Elephant Park Plot H11b LLP
2) Location	London, the United Kingdom
3) Business description	Condominium development
4) Capital stock	179,850 thousand British pounds (¥32,828 million (\$219,467 thousand))
5) Date of establishment	August 30, 2023
6) Major shareholder and shareholding ratio	Daiwa House UK Limited (wholly owned subsidiary of Daiwa House Europe B. V., which is a wholly-owned subsidiary of the Company) 75.00%

4. Inventories

Inventories at September 30, 2023 and March 31, 2023 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	September 30, 2023	March 31, 2023	September 30, 2023
Real estate for sale	¥ 377,125	¥ 364,285	\$ 2,521,226
Construction projects in progress	55,741	49,993	372,650
Real estate for sale in process	339,803	325,007	2,271,714
Land held:			
For sale	1,263,471	1,146,951	8,446,791
Under development	199,519	173,014	1,333,861
Undeveloped	2,564	2,348	17,141
Merchandise, construction materials and others	29,673	30,076	198,375
Total	¥ 2,267,899	¥ 2,091,678	\$ 15,161,779

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.

Land, buildings and structures and others held as investment and rental properties in the amount of ¥140,732 million (\$940,847 thousand) and ¥224,712 million, in property, plant and equipment in the quarterly consolidated balance sheet as of September 30, 2023 and March 31, 2023, respectively, have been reclassified to "Inventories" in current assets due to the change in holding purpose during the six-month period ended September 30, 2023 and the year ended March 31, 2023.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

5. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the six-month periods ended September 30, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Employees' salaries and allowances	¥ 87,723	¥ 84,188	\$ 586,462
Provision for bonuses	35,144	32,270	234,951

6. Gain on Sales of Stocks of a Subsidiary

Gain on sales of stocks of a subsidiary for the six-month period ended September 30, 2023 was recognized due to transfer of all shares of the Company's former consolidated subsidiary, Daiwa Resort CO., LTD.

7. Supplemental Cash Flow Information

Cash and cash equivalents in the quarterly consolidated statement of cash flows for the six-month periods ended September 30, 2023 and 2022 are reconciled to cash and bank deposits in the quarterly consolidated balance sheet as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Cash and bank deposits	¥ 402,379	¥ 310,506	\$ 2,690,058
Time deposits with maturities of more than three months	(7,500)	(11,839)	(50,140)
Cash and cash equivalents	¥ 394,878	¥ 298,667	\$ 2,639,911

8. Net Assets

Distribution of retained earnings of the Company during the six-month periods ended September 30, 2023 and 2022 were as follows:

During the six-month period ended September 30, 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	\$ 308,329	¥ 70.0	\$ 0.46	March 31, 2023	June 30, 2023

During the six-month period ended September 30, 2022

Resolution	Types of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Shareholders' meeting held on June 29, 2022	Common stock	¥ 46,556	¥ 71.0	March 31, 2022	June 30, 2022

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

9. 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 period.

Basic profit per share for the six-month periods ended September 30, 2023 and 2022 was as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	Six-month periods ended September 30,		
	2023	2022	2023
Profit attributable to owners of parent:			
Basic	¥ 234.83	¥ 161.54	\$ 1.56

The average number of shares outstanding for the six-month periods ended September 30, 2023 and 2022 was 657,860 thousand shares and 656,146 thousand shares, respectively.

Diluted profit per share is not presented because there were no potential shares outstanding for the six-month periods ended September 30, 2023 and 2022.

10. Contingent Liabilities

As of September 30, 2023, the Group had the following contingent liabilities:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Guarantees and similar items of bank loans:		
House purchasers' loans from banks	¥ 17,769	\$ 118,792
Loans of affiliates from banks	9,554	63,872

11. Segment Information

1. Information about sales and profit is as follows:

	<i>Millions of yen</i>						
	Six-month period ended September 30, 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	¥ 439,669	¥ 608,012	¥ 213,642	¥ 578,315	¥ 623,363	¥ 56,029	¥ 2,519,032
Intersegment sales and transfers	3,099	1,265	4,178	3,601	20,081	17,558	49,783
Total	¥ 442,768	¥ 609,277	¥ 217,820	¥ 581,916	¥ 643,445	¥ 73,587	¥ 2,568,816
Segment profit	¥ 14,222	¥ 60,172	¥ 16,697	¥ 71,822	¥ 57,299	¥ 6,344	¥ 226,558

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

11. Segment Information (continued)

1. Information about sales and profit is as follows (continued):

<i>Millions of yen</i>				
Six-month period ended September 30, 2023				
	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
Sales:				
Sales to third parties	¥ 25,794	¥ 2,544,827	¥ -	¥2,544,827
Intersegment sales and transfers	12,866	62,650	(62,650)	-
Total	¥ 38,660	¥ 2,607,477	¥(62,650)	¥2,544,827
Segment profit	¥ 850	¥ 227,408	¥(36,245)	¥ 191,163

<i>Millions of yen</i>							
Six-month period ended September 30, 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	¥ 414,940	¥ 577,997	¥ 170,643	¥ 519,962	¥ 482,481	¥ 67,219	¥ 2,233,245
Intersegment sales and transfers	3,303	1,781	3,524	6,009	13,953	20,129	48,701
Total	¥ 418,243	¥ 579,779	¥ 174,167	¥ 525,972	¥ 496,434	¥ 87,348	¥ 2,281,946
Segment profit	¥ 20,257	¥ 53,207	¥ 9,070	¥ 62,555	¥ 38,535	¥ 2,355	¥ 185,983

<i>Millions of yen</i>				
Six-month period ended September 30, 2022				
	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
Sales:				
Sales to third parties	¥ 28,084	¥ 2,261,329	¥ -	¥ 2,261,329
Intersegment sales and transfers	12,084	60,785	(60,785)	-
Total	¥ 40,168	¥ 2,322,114	¥ (60,785)	¥ 2,261,329
Segment profit	¥ 2,665	¥ 188,648	¥ (34,009)	¥ 154,639

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

11. Segment Information (continued)

1. Information about sales and profit is as follows (continued):

	<i>Thousands of U.S. dollars</i>						
	Six-month period ended September 30, 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	\$2,939,356	\$ 4,064,794	\$1,428,279	\$ 3,866,258	\$4,167,422	\$374,575	\$16,840,700
Intersegment sales and transfers	20,718	8,457	27,931	24,074	134,249	117,382	332,818
Total	\$2,960,074	\$ 4,073,251	\$1,456,210	\$ 3,890,332	\$4,301,678	\$491,957	\$17,173,525
Segment profit	\$ 95,079	\$ 402,273	\$ 111,625	\$ 480,157	\$ 383,065	\$ 42,412	\$ 1,514,627

	<i>Thousands of U.S. dollars</i>			
	Six-month period ended September 30, 2023			
	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
Sales:				
Sales to third parties	\$ 172,442	\$17,013,150	\$ -	\$17,013,150
Intersegment sales and transfers	86,014	418,839	(418,839)	-
Total	\$ 258,457	\$17,431,989	\$ (418,839)	\$17,013,150
Segment profit	\$ 5,682	\$ 1,520,310	\$ (242,311)	\$ 1,277,998

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

(*2) Adjustments and eliminations for segment profit of ¥(36,245) million (\$ (242,311) thousand) and ¥(34,009) million include an elimination of intersegment transactions of ¥(1,708) million (\$ (11,418) thousand) and ¥(738) million, the amortization of goodwill and others of ¥400 million (\$2,674 thousand) and ¥425 million, and the corporate profit (expenses) not allocated to each business segment of ¥(34,937) million (\$ (233,567) thousand) and ¥(33,695) million for the six-month periods ended September 30, 2023 and 2022, respectively. Corporate expenses mainly consist of general and administrative expenses and experiment and research expenses not attributable to any reportable business segments.

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

2. Changes in reportable segments

Effective from the six-month period ended September 30, 2023, the Company's subsidiary, Daiwa House Modular Europe B.V., which had been classified in the "Single-family houses" segment, has been reclassified to the "Rental housing" segment due to a change in the management structure.

Furthermore, reportable segment information for the six-month period ended September 30, 2022 has been restated to reflect the changes.

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

12. Revenue Recognition

Information on disaggregated revenue arising from contracts with customers for the six-month periods ended September 30, 2023 and 2022 was as follows:

<i>Millions of yen</i>								
Six-month period ended September 30, 2023								
Reportable segments								
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other (*1)	Total
Ordered contract transactions	¥ 147,453	¥ 199,833	¥ 18,979	¥ 192,742	¥ 354,136	¥ 19,875	¥ 40	¥ 933,061
Real estate sales transactions	274,261	80,272	148,504	106,426	78,729	–	–	688,193
Other related business transactions (*2)	1,026	39,921	31,556	113,274	46,109	30,230	24,613	286,732
Revenue from contracts with customers	¥ 422,740	¥ 320,027	¥ 199,041	¥ 412,442	¥ 478,974	¥ 50,106	¥ 24,654	¥ 1,907,987
Other revenue (*3)	¥ 16,928	¥ 287,985	¥ 14,601	¥ 165,872	¥ 144,388	¥ 5,923	¥ 1,140	¥ 636,839
Sales to third parties	439,669	608,012	213,642	578,315	623,363	56,029	25,794	2,544,827

<i>Millions of yen</i>								
Six-month period ended September 30, 2022								
Reportable segments								
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other (*1)	Total
Ordered contract transactions	¥ 149,215	¥ 191,235	¥ 18,763	¥ 188,750	¥ 322,413	¥ 21,315	¥ 39	¥ 891,732
Real estate sales transactions	247,143	65,436	101,810	85,535	63,883	527	–	564,338
Other related business transactions (*2)	974	39,880	30,154	98,159	39,188	45,264	26,970	280,593
Revenue from contracts with customers	¥ 397,333	¥ 296,552	¥ 150,728	¥ 372,446	¥ 425,486	¥ 67,106	¥ 27,009	¥ 1,736,664
Other revenue (*3)	¥ 17,607	¥ 281,445	¥ 19,914	¥ 147,516	¥ 56,995	¥ 112	¥ 1,074	¥ 524,665
Sales to third parties	414,940	577,997	170,643	519,962	482,481	67,219	28,084	2,261,329

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements (continued)

September 30, 2023

12. Revenue Recognition (continued)

Information on disaggregated revenue arising from contracts with customers for the six-month periods ended September 30, 2023 and 2022 was as follows (continued):

	<i>Thousands of U.S. dollars</i>							
	Six-month period ended September 30, 2023							
	Reportable segments							
	Single-family houses	Rental housing	Condominiums	Commercial facilities	Business and corporate facilities	Environment and energy	Other (*1)	Total
Ordered contract transactions	\$ 985,780	\$ 1,335,960	\$ 126,881	\$ 1,288,554	\$ 2,367,535	\$ 132,872	\$ 267	\$ 6,237,872
Real estate sales transactions	1,833,540	536,649	992,806	711,498	526,333	-	-	4,600,835
Other related business transactions (*2)	6,859	266,887	210,964	757,280	308,256	202,099	164,547	1,916,914
Revenue from contracts with customers	\$ 2,826,179	\$ 2,139,503	\$ 1,330,665	\$ 2,757,333	\$ 3,202,125	\$ 334,977	\$ 164,821	\$ 12,755,629
Other revenue (*3)	\$ 113,170	\$ 1,925,290	\$ 97,613	\$ 1,108,918	\$ 965,289	\$ 39,597	\$ 7,621	\$ 4,257,514
Sales to third parties	2,939,356	4,064,794	1,428,279	3,866,258	4,167,422	374,575	172,442	17,013,150

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).

13. Subsequent Event

Interim dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying quarterly consolidated financial statements for the six-month period ended September 30, 2023, was approved at a meeting of the Board of Directors held on November 10, 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
Meeting of the Board of Directors held on November 10, 2023	Common stock	¥ 41,399	\$ 276,768	¥ 63.0	\$ 0.42	September 30, 2023	December 5, 2023

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