



April 13, 2023

News Release (Translation)

Company: Daiwa House Industry Co., Ltd.
Representative: Keiichi Yoshii, President and CEO
(Code number: 1925,
Prime Market of the Tokyo Stock Exchange)
Contact: Yuji Yamada, Managing Executive Officer and
General Manager, IR Department
E-mail to: dh.ir.communications@daiwahouse.jp

Notice Regarding Actuarial Differences (Operating Income) Arising from Revision
of the Discount Rate for Retirement Benefits

Daiwa House Industry Co., Ltd. (hereinafter referred to as “the Company”) announces that it expects to record in operating income the impact of the actuarial differences (hereinafter referred to as “Actuarial Gains”) arising from the revision of the discount rate as a reduction in operating expenses in its financial results for the fiscal year ending March 31, 2023, which are currently being compiled.

1. Details of the Actuarial Gains (Operating Income)

- Total Actuarial Gains (operating income) resulting from the revision in the discount rate (consolidated)
: 81.2 billion yen
- Discount rate: mainly 1.5% (mainly 0.8% for the consolidated fiscal year ended March 31, 2022)

2. Factors behind the Occurrence

The Company revised the discount rate used to calculate defined benefit obligation of corporate pension plan and lump-sum severance payments plan from mainly 0.8% to 1.5% to reflect market interest rates, which were impacted by changes in monetary policy and other factors, at the end of the fiscal year. We will conduct the lump-sum disposal of the resulting decrease (81.2 billion yen) in defined benefit obligations as operating income (a decrease in operating expenses).

The so-called “deferred recognition” of expenses resulting from actuarial differences arising from retirement benefit accounting is permitted as a method of disposal. This is in accordance with Paragraph 24 of the Accounting Standard for Retirement Benefits (ASBJ Standard No. 26), which stipulates that “In principle, amounts incurred each fiscal year should be proportionately distributed over a certain number of years within the period defined as from the projected year of retirement through to the present day (hereinafter referred to as the “average remaining service period”) and disposed of each fiscal year as expenses.”

The Company has conducted deferred recognition since the fiscal year ended March 31, 2001 when the Accounting Standard for Retirement Benefits was first applied (mainly 10 years). However, at the end of the fiscal year ended

March 31, 2003, we revised the discount rate, which had been impacted by a decline in investment performance for pension assets due to a drop in the stock market and trends in the interest rate market. As part of that revision, the Company transitioned to a new pension plan, made significant changes to its retirement benefits and pension plan, and conducted a fundamental review of its pension asset management policies. The Company also changed from the previous policy of disposal based on “deferred recognition” to a policy of lump-sum disposal during the fiscal year in which said expenses occur. These changes were implemented to address the possibility of suffering a severe decline in financial stability due to the proportioned recognition of large-scale unrecognized actuarial differences (obligations of 81.6 billion yen) for a significant period into the future.

Since fiscal year ended March 31, 2003 when the Company implemented the abovementioned changes, we continue to conduct the lump-sum disposal of actuarial differences in the fiscal year in which they occur. In the fiscal year ended March 31, 2016, the Company recorded extraordinary losses of 84.9 billion yen as the impact of actuarial differences resulting from the revision of the discount rate following the adoption of negative interest rates and other changes in monetary policy.

At present, the retirement benefit obligation balance is 679.6 billion yen and the pension assets have reached 485.8 billion yen (both as of the end of March 2022). Fluctuations in the base rate used to calculate retirement benefit obligations and changes in the investment management environment for pension assets are having an increasing impact on the financial statements for the fiscal year of occurrence. Amid such an environment, the most recent discount rate revision resulted in the occurrence of significant actuarial differences (operating income). In response, we consulted with the accounting auditor concerning the disposal method for actuarial differences.

Firstly, there is the possibility that conducting the lump-sum disposal (a decrease in expenses) when actuarial differences occur could mistakenly influence investor investment decisions, because said actuarial differences will not affect cash flow for the current fiscal year or in the future, and future expenses will increase while expenses for the current fiscal year will decrease. Therefore, the Company did consider revising accounting policy and transitioning to deferred recognition as the method of depreciation for actuarial differences. However, changing accounting policy requires a practical reason (occurrence of new factors, timeliness, etc.), and the occurrence of actuarial differences due to the revision in the discount rate is not a new factor. As such, the Company finally determined that changing accounting policy solely due to the significance of monetary impact would not be appropriate.

Furthermore, the cause of said actuarial differences is attributable to fluctuations in market interest rates due to changes in monetary policy, and not the results of the Company’s business activities. Also, Paragraph 28 of the Accounting Standard for Retirement Benefits stipulates the following: “In principle, retirement benefit expenses should be recorded as cost of sales or as selling, general, and administrative expenses. However, when adopting a new retirement benefit plan, or when the company will treat the full amount of past labor expenses incurred due to major revisions to benefit standards as expenses and said amount is deemed to be significant, then said amount may be recorded as an extraordinary gains or losses.” As such, this can be interpreted as indicating that treatment as extraordinary gains or losses is permitted when said actuarial differences are transitional and significant. In light of the fact that, for the fiscal year ended March 31, 2016, the Company actually recorded actuarial differences attributable to similar factors as extraordinary losses, we did consider recording Actuarial Gains as extraordinary gains. However, the Company deemed it appropriate to record said actuarial differences as operating income (a decrease in operating expenses) due to the fact that retirement benefit expenses, which, broadly speaking, do include

actuarial differences, comprise a portion of personnel expenses over the long term. Furthermore, due to the future increase in operating expenses, recording these actuarial differences as a decrease in operating expenses represents the normal and appropriate recording of operating gains and losses.

Based on the above, we decided to conduct the lump-sum disposal of Actuarial Gains and treat said amount as operating income (a decrease in operating expenses) for the fiscal year ending March 31, 2023.

3. Financial Performance for fiscal year ending March 31, 2023

At present, we are still calculating performance for fiscal year ending March 31, 2023, including investment management performance for pension assets, and will provide further information as soon as we confirm the financial performance.

(Reference)

1) Fiscal year ended March 31, 2003

(At the time the Company decided to select the lump-sum disposal of actuarial differences)

Retirement benefit obligations: 199.5 billion yen

Pension assets (including retirement benefit trust): 63.1 billion yen

Unrecognized actuarial gains or losses treated in a lump sum: 81.6 billion yen

for accrued in the current fiscal year: 15.8 billion yen

for accrued in previous years: 34.0 billion yen

for effect of discount rate revision: 31.7 billion yen

2) Actuarial gains or losses during the past 10 years (unit: billion yen)

Fiscal Year Ended	Mar.31, 2013	Mar.31, 2014	Mar.31, 2015	Mar.31, 2016	Mar.31, 2017	Mar.31, 2018	Mar.31, 2019	Mar.31, 2020	Mar.31, 2021	Mar.31, 2022
Actuarial differences for calculation	-49.6	-7.7	-7.0	-93.3	3.5	-6.8	-3.3	0.3	-14.4	3.6
Actuarial differences on investment	20.6	21.9	28.0	-0.7	12.9	17.6	6.3	2.5	42.0	48.4
Total	-28.9	14.2	21.0	-94.1	16.5	10.8	3.0	2.8	27.6	52.0

Notes: Until the fiscal year ended March 2016, the Company accounted for actuarial gains or losses as non-operating profit or loss. Actuarial losses resulting from a revision of a discount rate were accounted as extraordinary losses.

End

Disclaimer:

This English translation has been prepared for general reference purposes only. The Company shall not be responsible for any consequence resulting from the use of the English translation in place of the original Japanese text. In any legal matter, readers should refer to and rely upon the original Japanese text of the press release dated April 13, 2023.