MISAWA

Annual Report 2008

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MISAWA HOMES CO., LTD.

Corporate Profile

The Misawa Homes Group, founded in 1967, has been engaged in delivering quality homes and living environments with industry-leading technologies and original concepts under the corporate slogan “Lifelong commitment to customers through housing.” We have won many coveted awards, such as the Good Design Award sponsored by the Japan Industrial Design Promotion Organization, and the Global Environment Award sponsored by the Fuji Sankei Group, reflecting our superb design and technological expertise. Having commemorated our 40th anniversary in October 2007, the Misawa Homes Group will strive to lead the housing industry through excellence in housing.

Contents

Cautionary Statement with Regard to Forward-Looking Statements

Certain of the statements made in this annual report are forward-looking statements, which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which are based on management's assumptions and beliefs in light of the information currently available. Misawa Homes undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date thereof or to reflect the occurrence of unanticipated events.

To Our Shareholders

We took a new step forward as Misawa Homes Co., Ltd. by merging with our core business subsidiary, Misawa Homes Co., Ltd. on October 1, 2007. With this merger, we have succeeded in further enhancing operating efficiency and corporate governance.

October 2007 also marked the 40th anniversary of the founding of the Misawa Homes Group. In commemoration of the anniversary, we released new products and held many events across the country, while implementing various measures to increase corporate performance and reinforce the foundations of a sustainable growth platform, including visits to about 400,000 owners who have lived in Misawa residences for ten or more years, as part of customer satisfaction activities.

The past year was a challenging year for the housing industry. The market contracted at a pace that few could have anticipated. Housing starts dropped 19.4 percent to a 41-year-low of 1.03 million. We were faced with several factors, including the impact of revisions made to the Building Standards Law and decreased consumer confidence, resulting from economic uncertainty. The owner-occupied housing market, our core market segment, was down 12.3 percent to 311,803 units. Additionally, the sharp price hikes in materials costs in the midst of spiraling crude oil prices overshadowed our consolidated operating results.

Given such background, net sales for the fiscal year ended March 31, 2008, totaled ¥409,246 million, down 1.3 percent from the previous year. Operating income came to ¥7,798 million, a 40.3 percent decrease, and ordinary profit to ¥6,430 million, down 46.7 percent from a year earlier. We posted a net income of ¥389 million, up 102.9 percent, mainly reflecting our reversal of deferred tax assets in the amount of ¥10,624 million for the previous fiscal year.

In August 2007, the Misawa Homes Group released its Mid- and Long-term Management

Vision and also its Mid-term Management Plan reflecting the Vision in concrete terms for the period from April 2006 to March 2009 aiming to become the “No. 1 Brand in Housing.” Recent unprecedented and drastic market changes, however, have nullified many of the conditions and assumptions we factored into the 2007 plan. As a result, we have formulated a New Mid-term Management Plan, for the three-year term from April 2008 to March 2011, by updating the original strategy, adding new strategic measures, and revising numerical targets, while the Mid-and Long-term Management Vision has remained unchanged.

The housing market is at a crossroads today. The Basic Act for Housing, enacted in 2006, calls for the housing industry to shift toward a new era wherein the emphasis is on quality rather than quantity. The government also positions houses as social assets that should be inherited from generation to generation, and promotes long-lived housing under the slogan “200-year Homes.” The Misawa Homes Group considers all these challenges as opportunities to demonstrate our strength. Looking ahead, we are confident we will be able to enhance our Group operations by continuing to deliver quality homes.

The Company had new leadership as of June 27, 2008. Kazuo Mizutani assumed the post of Chairman and Representative Director, and Nobuo Takenaka took the post of Representative Director, President and Chief Executive Officer. Under the new leadership, the Misawa Homes Group strives to accomplish the goals set in the New Mid-term Management Plan, continues to supply quality homes and living environments, and remains steadfast in our dedication to deliver value to our shareholders and all other stakeholders.

June 2008

Nobuo Takenaka
President and CEO

Mid-term Management Plan

Background to New Mid-term Management Plan

The Misawa Homes Group released a Mid- and Long-term Management Vision and a Mid-term Management Plan that reflect its vision in concrete terms in August 2006 for the period from April 2006 to March 2009. The Group companies have striven to achieve the goals and targets laid out in the vision and plan. However, in view of recent unprecedented market conditions and soaring materials costs, the conditions and assumptions of the said plan had to be made more current. Consequently, we created a New Mid-term Management Plan in May this year by adding new strategic measures, making some changes to the original plan, and updating numerical targets.

Sales Targets

(Number of buildings)

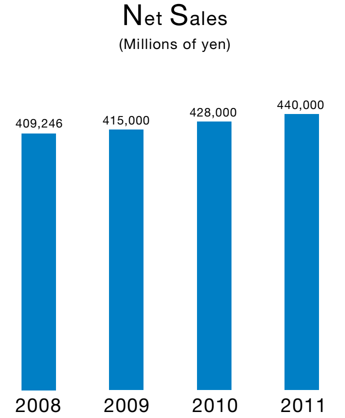
Fiscal year ending March 31	2008	2009	2010	2011
Custom homes	7,825	7,830	7,830	7,830
Rental homes	739	770	840	920
Lot-subdivision homes	1,176	1,300	1,350	1,400
Other homes	1,403	1,300	1,250	1,200
Total	11,143	11,200	11,270	11,350

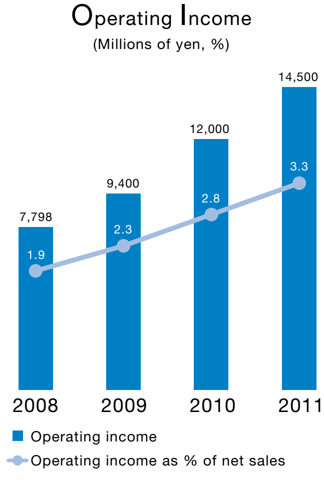
“Other homes” means home sales to non-consolidated subsidiaries.

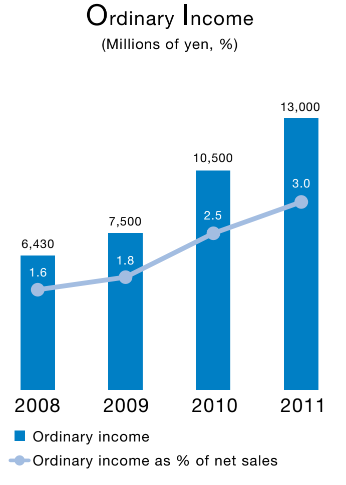
Major Financial Targets

(Millions of yen)

Fiscal year ending March 31	2008	2009	2010	2011
Net sales	409,246	415,000	428,000	440,000
Operating income	7,798	9,400	12,000	14,500
Ordinary income	6,430	7,500	10,500	13,000
Operating income as % of net sales	1.9%	2.3%	2.8%	3.3%
Ordinary income as % of net sales	1.6%	1.8%	2.5%	3.0%







Mid-term Numerical Plan

In recent years, the owner-occupied housing market has struggled, but the rental and lot-subdivision markets have remained stable. Given such an environment, the New Mid-term Management Plan reflects less dependence on custom homes and more emphasis on sales in the other market segments.

Outline of New Mid-term Management Plan

I. Diversification of business portfolio

We will take strategic measures to strengthen the following businesses to reduce too much dependence on custom homes, our primary market segment.

•Rental and lot-subdivision businesses

We will first increase our presence in urban areas by establishing specialized sales/marketing groups, and then expand to other markets utilizing our expertise gained in those urban area activities.

•Home renovation business

We anticipate the home renovation market will continue to grow, helped by growing remodeling needs from baby-boomers and for seismically resistant housing. We will make in-Group adjustments to allocate more sales workforce to this market and also strive to receive orders from owners of Misawa residences through better communication with them.

•Senior living business

We will make the most of the knowledge and expertise the Misawa Homes Group has garnered through our 15-year direct operation of a nursing home and through the supply of construction and consultation services to customers that operate senior living facilities.

•Conventional post and beam housing business

We will step up our effort to supply conventional post and beam homes to meet the market needs our existing wooden or ceramic homes cannot accommodate in terms of price, design, structure, site requirements and so forth.

II. Structural reform

We aim to lower our break-even point by implementing various measures such as sales productivity enhancement and overall cost reduction.

•Sales productivity enhancement

We will allocate sales personnel to promising markets and businesses and educate and train younger sales staff to improve productivity in sales.

•Indirect cost reduction

We will strive to reduce indirect costs through various active measures such as promotion of efficient operation, back-office workforce reduction, and review of underperforming model homes.

•Direct cost reduction

We will strive to reduce direct costs by reducing materials costs, trimming factory workforce through new recruit curtailment and natural attrition, and by implementing other measures.

•Regrouping of sales dealers

Tohoku Misawa Homes Co., Ltd. and Misawa Homes Fukushima Co., Ltd. as well as Misawa Homes Kyushu Co., Ltd. and Misawa Homes Miyazaki Co., Ltd. are scheduled to merge on October 1, 2008, with the aim to optimize operations in their respective markets.

Product Policy

Under the New Mid-term Management Plan, we will enhance our product lineup by placing on the market new products available in set plans that are customer- and sales staff-friendly, as well as semi-custom products.

SMART STYLE O series homes, released in October 2007, received more than 1,300 orders in six months. The model SMART STYLE O is an excellent product with superb cost performance. This product demonstrates the special features of prefabricated housing—realizing cost reductions by narrowing down the range of available designs, specifications and equipment, while standardizing design, cost estimate and construction parameters. Also, because SMART STYLE O homes are available in set plans, they are easy to sell for even novice sales persons, thereby enhancing sales productivity. Going forward, we plan to release semi-custom homes that meet diverse customer needs without sacrificing the merits of standardization and industrialization.

In light of the “Long-life Quality Housing Certification System” that is currently in a legislative process, we will also endeavor to lessen the environmental impact of our homes by designing and delivering homes that assure more durability, energy efficiency, and fewer CO_2 emissions.

Topics

Misawa Homes: Good Design Award Recipient for 18 Consecutive Years

The Good Design Award is Japan’s only system for comprehensively evaluating and recommending designs. Covering all industrial products, these awards provide an overall evaluation that extends beyond design to include essentially all the elements of production, including function, quality, safety and after-sales service. Since becoming the first in the industry to earn this award in 1990, Misawa Homes has been a Good Design Award recipient for 18 consecutive years with awards for 99 products, the most ever won by a business in this field.

Of special note is our housing model GENIUS *kura-no-aru-ie*. It won the Grand Prix in 1996, a first for the industry, and also earned the Long-life Design Award last year. The Long-life Design Award rewards products that are still being produced and sold ten years after being selected for the G-Mark, a mark given to a Good Design Award product, and whose selection is subject to another strict review. The GENIUS *kura-no-aru-ie* is a good example of superior design performance, that has allowed the product to stand the test of time.

1996-1997 Good Design Award Grand Prix
—GENIUS *kura-no-aru-ie*— won Long-life Design Award

2007-2008 Good Design Award —GENIUS Link-Age with kids—

40th Anniversary Commemorative Product, SMART STYLE O, Selling Briskly

The SMART STYLE O was launched in celebration of the 40th anniversary of our founding.

The main concept behind SMART STYLE O is smartness and customizability. Customers can select a favorite plan and items from among 100 options infused with the knowledge and ingenuity of professionals to create a design and lifestyle that goes with their own ideas.

By selecting from basic designs and plans that have been prepared by professionals, customers can reduce the effort and time required for designing from scratch. They can personalize their homes easily and intelligently, while controlling costs. This “smart” concept has been well received by childrearing families, with more than 1,300 cumulative orders over the six months since its introduction. We will add new variations to this series of homes in hopes of establishing SMART STYLE O as a popular brand.

SMART STYLE O

“Next-generation Zero Energy Home” Test Model Constructed

We have built a Next-generation Zero Energy Home test model in Asahikawa, Hokkaido. Not just all the energy required for daily life, the home can recover the energy consumed in its construction.

The Zero Energy Home is a home that generates more energy from the sun than is needed for its yearly operation. The Next-generation Zero Energy Home utilizes energy even more efficiently and makes a life-cycle energy balance of below zero by recovering CO_2 emissions generated at the time of construction. This is a home that integrates superior-level green performance technologies to meet the environmental challenges of the coming years. We are well positioned to deliver next-generation homes that are more environmentally friendly and more comfortable to live in.

Next-generation Zero Energy Home, test model

Financial Section

Consolidated Six-Year Summary

Misawa Homes Co., Ltd. and Subsidiaries

For the years ended March 31	Millions of yen						Thousands of U.S. dollars
	2008	2007	2006	2005	2004	2003	**2008**
For the Year:							
Net Sales	**¥ 409,246**	¥ 414,566	¥ 383,941	¥ 389,595	¥ 403,127	¥ 412,121	**$ 4,084,695**
Cost of Sales	**317,244**	314,582	286,703	289,192	289,030	288,087	**3,166,418**
Gross Profit	**92,002**	99,984	97,238	100,403	114,097	124,034	**918,277**
Selling, General and Administrative Expenses	**84,204**	86,918	79,356	81,542	83,733	92,841	**840,443**
Operating Income	**7,798**	13,066	17,882	18,861	30,364	31,193	**77,834**
Income (Loss) before Income Taxes and Minority Interest	**4,989**	10,947	123,827	(175,916)	(128,810)	6,517	**49,799**
Net Income	**389**	192	124,024	(203,252)	(129,134)	2,020	**3,886**
At Year-End:							
Total Assets	**¥ 227,894**	¥ 235,136	¥ 224,469	¥ 264,382	¥ 505,906	¥ 714,915	**$ 2,274,621**
Total Net Assets	**26,346**	26,946	25,143	(161,286)	34,490	62,673	**262,958**
Per Share Amounts (yen):							
Net Income (Loss)	**¥ 10.50**	¥ 5.17	¥ 3,844.63	¥ (996.92)	¥ (695.12)	¥ 5.00	**$ 0.10**

Notes: (1) Figures for 2003 show the consolidated financial statements of Misawa Homes Co., Ltd.
(2) Figures for 2004, 2005, 2006 and 2007 show the financial statements of Misawa Homes Holdings, Inc., which include the statements of Misawa Homes Co., Ltd.
(3) Total Net Assets for prior years have been reclassified to conform to the presentations for the year ended March 31, 2007.

Financial Review

Performance Overview

Housing market environment

In fiscal 2008, ended March 31, 2008, housing starts fell to a 41-year-low of 1.03 million, down 19.4 percent from a year earlier. The slowdown was caused mainly by revisions the government made to the Building Standards Law, which tightened regulations for building certification inspections. The owner-occupied housing market, our core market segment, also dropped, 12.3 percent from fiscal 2007.

Given such an environment, the Misawa Homes Group strived to perform better by implementing many measures, including new product releases and special events in commemoration of our 40th anniversary as well as visits to about 400,000 owners who have been living in Misawa residences for ten or more years.

Net sales

Net sales for the fiscal year ended March 31, 2008, declined ¥5,320 million to ¥409,246 million, down 1.3 percent from a year earlier. We sold more rental and lot-subdivision homes than in the previous year, but the number of custom homes, our mainstay products, dropped. Net sales among new home sales decreased ¥5,903 million, as a result of the total new home sales decreased 413 buildings from previous year.

Operating income

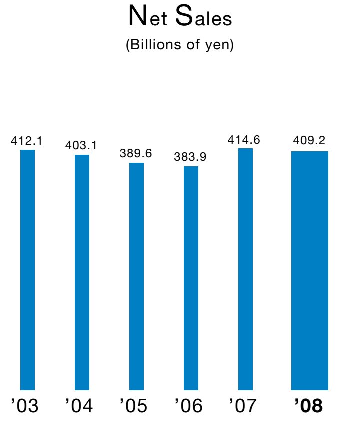
Operating income for the fiscal year ended March 31, 2008, was down ¥5,268 million from the previous year to ¥7,798 million. The decrease was due mainly to a decline in buildings sold of ¥3,429 million, an increase in cost of raw materials of ¥1,011 million, an increase in personnel costs of ¥814 million, and increased guaranteed work and others of about ¥929 million. Meanwhile, our cost cutting efforts improved our results by ¥737 million.

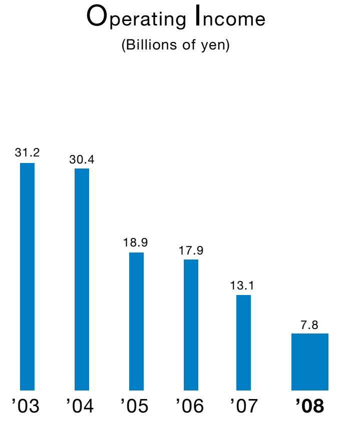
Income before income taxes

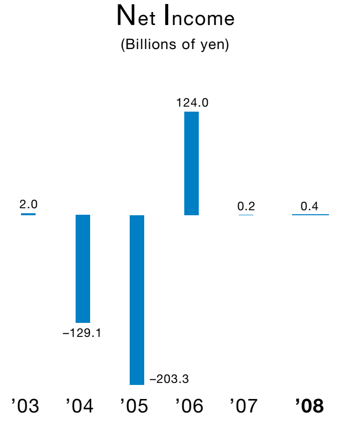
Income before income taxes for the fiscal year ended March 31, 2008, was ¥4,989 million, down ¥5,958 million, or 54.4 percent, from a year earlier. The Group posted an impairment loss of ¥1,511 million in connection with tangible fixed assets and goodwill of underperforming subsidiaries.

Net income

Net income for the fiscal year ended March 31, 2008, increased ¥197 million, or 102.9 percent, from the previous year, to ¥389 million. For the previous fiscal year, we recorded a substantial decrease in







income because of the reversal of deferred tax assets of ¥10,624 million. For the fiscal year ended March 31, 2008, as well, we posted a reversal of ¥4,326 million as a result of the reassessment of the tax plan associated with the New Mid-term Management Plan.

Financial position

Total assets as of March 31, 2008, were ¥227,894 million, down ¥7,242 from a year earlier. They decreased due mainly to the decline in the market price of securities held and a reversal of deferred tax assets as a result of reconsideration of collectibles and despite an increase in inventory assets from purchase of real estate for sale.

Liabilities, as of March 31, 2008, declined by ¥6,642 million from the previous year to ¥201,548 million. The decrease was primarily attributable to a decrease in advances and deposits from customers resulting from a drop in order backlog because of sluggish orders for custom homes.

Net assets as of March 31, 2008, were ¥26,346 million, a decrease of ¥600 million from a year earlier, due mainly to a decline in unrealized gain on available-for-sale securities and minority interests.

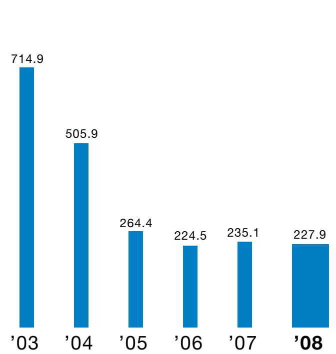
Cash flows

Net cash provided by operating activities for the fiscal year ended March 31, 2008, was down ¥2,302, million to ¥2,924 million. This was mainly caused by the decrease of purchase obligations and expenditures from an increase of inventory assets and others, although income increased due to the posting of net income before tax and a decrease in sales receivables.

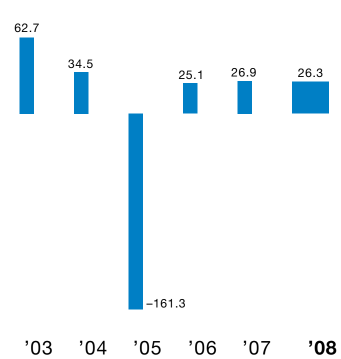
Net cash used in investing activities decreased by ¥365 million from the previous year to ¥2,370 million, due primarily to payment for the purchase of fixed assets.

Net cash provided by financing activities increased ¥3,735 million to ¥428 million, due primarily to income from an increase in short-term borrowings, despite the increase of expenditures by repayment of long-term borrowings.

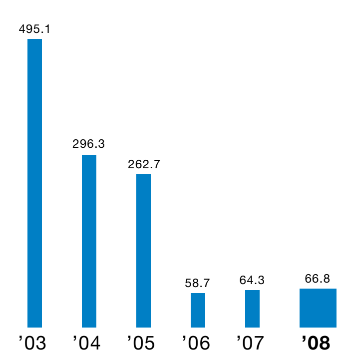
Total Assets
(Billions of yen)



Total Net Assets
(Billions of yen)



Interest-Bearing Debt
(Billions of yen)



Consolidated Balance Sheets

Misawa Homes Co., Ltd. and Subsidiaries
March 31, 2007 and 2008

Assets	Millions of yen March 31 2008	Millions of yen March 31 2007	Thousands of U.S. dollars (Note 3) March 31, 2008
Current assets:			
Cash and bank deposits (Notes 7 and 16)	¥ 41,372	¥ 40,606	$ 412,934
Notes and accounts receivable, trade	10,349	11,218	103,296
Inventories (Note 7)	89,980	85,664	898,098
Deferred tax assets (Note 14)	5,816	6,094	58,048
Other current assets (Note 7)	6,981	10,900	69,674
Allowance for doubtful accounts	(608)	(896)	(6,070)
Total current assets	153,890	153,586	1,535,980
Property, plant and equipment (Notes 6 and 7):			
Buildings and structures	33,841	33,487	337,772
Machinery and equipment	16,514	16,053	164,828
Land	26,237	26,410	261,869
Other	7,070	7,228	70,567
	83,662	83,178	835,036
Less: Accumulated depreciation	(35,825)	(33,718)	(357,569)
Net property, plant and equipment	47,837	49,460	477,467
Intangible assets (Note 6):			
Goodwill	—	119	—
Other	5,458	5,750	54,474
Total intangible assets	5,458	5,869	54,474
Investments and other assets:			
Investment securities (Notes 4 and 7)	3,668	5,087	36,610
Investments in affiliates	183	217	1,828
Deferred tax assets (Note 14)	10,375	13,666	103,556
Other assets (Note 6)	10,263	10,070	102,437
Allowance for doubtful accounts	(3,780)	(2,819)	(37,731)
Total investments and other assets	20,709	26,221	206,700
Total assets	¥227,894	¥235,136	$2,274,621

The accompanying notes are an integral part of these financial statements.

Liabilities and Net Assets	Millions of yen March 31 2008	2007	Thousands of U.S. dollars (Note 3) March 31, 2008
Current liabilities:			
Short-term bank loans (Note 7)	¥ 46,328	¥ 35,892	$ 462,398
Current portion of long-term debt (Note 7)	15,130	13,542	151,013
Notes and accounts payable, trade	54,785	56,343	546,811
Accounts payable, other	7,255	7,681	72,417
Accrued bonuses	5,366	5,757	53,561
Allowance for claim expenses	2,404	2,496	23,994
Advance received on uncompleted contracts	31,838	33,639	317,776
Deposits received (Note 8)	12,989	16,072	129,645
Other current liabilities	4,186	5,202	41,783
Total current liabilities	180,281	176,624	1,799,398
Long-term liabilities:			
Long-term debt (Note 7)	5,358	14,832	53,475
Accrued pension and severance costs (Note 9)	5,162	5,598	51,517
Deferred tax liabilities (Note 14)	88	106	883
Deferred tax liabilities from land revaluation	1,984	2,021	19,801
Accrued pension and severance costs for directors and corporate auditors	1,001	761	9,986
Other long-term liabilities	7,674	8,238	76,603
Total long-term liabilities	21,267	31,566	212,265
Net assets:			
Shareholders' equity (Note 10)			
Capital stock	23,413	23,413	233,686
(Thousands of shares) In 2008 / In 2007			
Common stock—authorized 142,160 / 142,160			
—issued 38,739 / 38,739			
Preferred stock—authorized 7,840 / 7,840			
—issued 7,833 / 7,833			
Additional paid-in capital	5,480	13,546	54,692
Accumulated deficit	(6,325)	(14,706)	(63,130)
Treasury stock, at cost	(4,234)	(4,225)	(42,261)
Revaluation and translation adjustments			
Net unrealized gains on other securities (Note 4)	841	1,266	8,393
Land revaluation difference	2,253	2,178	22,492
Foreign currency translation adjustments	157	159	1,567
Minority interest in subsidiaries	4,761	5,315	47,519
Total net assets	26,346	26,946	262,958
Commitments and contingent liabilities (Note 18)			
Total liabilities and net assets	¥227,894	¥ 235,136	$2,274,621

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

Misawa Homes Co., Ltd. and Subsidiaries
Years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Year ended March 31		Year ended March 31,
	2008	2007	2008
Net sales	¥409,246	¥414,566	$4,084,695
Cost of sales (Notes 15)	317,244	314,582	3,166,418
Gross profit	92,002	99,984	918,277
Selling, general and administrative expenses: (Notes 15 and 17)			
Salaries and wages	38,925	40,024	388,513
Advertising	12,538	12,344	125,140
Sales promotion	4,965	5,369	49,551
Addition to allowance for claim expenses	1,535	1,789	15,318
Provision for accrued bonuses	3,986	4,672	39,781
Depreciation expenses	3,534	3,306	35,269
Other selling expenses	5,606	6,039	55,955
Other general and administrative expenses	13,115	13,375	130,916
Total selling, general and administrative expenses	84,204	86,918	840,443
Operating income	7,798	13,066	77,834
Non-operating income:			
Interest income	69	53	693
Income from commissions	300	313	2,991
Insurance dividend	181	164	1,809
Other	893	1,125	8,915
Total non-operating income	1,443	1,655	14,408
Non-operating expenses:			
Interest expenses	1,864	1,571	18,609
Pension and severance costs	418	418	4,169
Other	529	662	5,281
Total non-operating expenses	2,811	2,651	28,059
Ordinary income	6,430	12,070	64,183
Other gains (“TOKUBETSU RIEKI”):			
Reversal of allowance for liabilities on guaranty	846	—	8,441
Gain from liquidation of a subsidiary	254	—	2,537
Gain on changes of share ownership in subsidiaries	193	—	1,929
Gain on sales of investment securities	154	447	1,541
Gain on sales of property, plant and equipment (Note 11)	56	1,354	563
Reversal of allowance for doubtful accounts	206	438	2,060
Compensation received for the transfer of the facilities	—	441	—
Other	97	162	958
Total other gains	1,806	2,842	18,029
Other losses (“TOKUBETSU SONSHITSU”):			
Impairment loss on long-lived assets (Note 6)	1,511	2,061	15,080
Loss on devaluation of investment securities	232	638	2,314
Addition to allowance for doubtful accounts	722	60	7,203
Addition to allowance for pension and severance costs for directors and corporate auditors	301	—	3,007
Loss on disposal of property, plant and equipment (Note 12)	173	390	1,727
Loss on write-down of inventories	5	96	50
Other	303	720	3,032
Total other losses	3,247	3,965	32,413
Income before income taxes and minority interest	4,989	10,947	49,799
Income taxes: (Note 14):			
Current	618	667	6,170
Deferred	4,326	10,624	43,181
	4,944	11,291	49,351
Loss before minority interest	(45)	(344)	(448)
Minority interest in subsidiaries	(344)	(536)	(3,438)
Net income	¥ 389	¥ 192	$ 3,886

	Yen		U.S. dollars (Note 3)
Per share:			
Net income (Note 13)—Basic	¥ 10.50	¥ 5.17	$ 0.10
—Diluted	¥ 6.00	¥ 3.14	$ 0.06

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Misawa Homes Co., Ltd. and Subsidiaries
Years ended March 31, 2007 and 2008

	Number of shares issued		Millions of yen								
			Shareholders' equity				Revaluation and translation adjustments				
	Common stock	Preferred stock	Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	Total net assets
Balance at March 31, 2006	38,738,914	48,332,613	¥23,413	¥67,689	(¥68,744)	(¥4,192)	¥2,009	¥2,178	¥ 89	¥2,701	¥25,143
Net income	—	—	—	—	192	—	—	—	—	—	192
Purchases of treasury stock	—	—	—	—	—	(33)	—	—	—	—	(33)
Reverse stock split		(40,499,352)	—	—	—	—	—	—	—	—	—
Transfer of additional paid-in capital	—	—	—	(54,143)	54,143	—	—	—	—	—	—
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	—	(297)	—	—	—	—	—	(297)
Items other than changes in shareholders' equity	—	—	—	—	—	—	(743)	—	70	2,614	1,941
Balance at March 31, 2007	38,738,914	7,833,261	23,413	13,546	(14,706)	(4,225)	1,266	2,178	159	5,315	26,946
Net income	—	—	—	—	389	—	—	—	—	—	389
Transfer of additional paid-in capital	—	—	—	(8,066)	8,066	—	—	—	—	—	—
Reversal of land revaluation difference	—	—	—	—	(136)	—	—	—	—	—	(136)
Transfer from land revaluation difference	—	—	—	—	62	—	—	—	—	—	62
Purchases of treasury stock	—	—	—	—	—	(9)	—	—	—	—	(9)
Items other than changes in shareholders' equity	—	—	—	—	—	—	(425)	75	(2)	(554)	(906)
Balance at March 31, 2008	38,738,914	7,833,261	¥23,413	¥ 5,480	(¥ 6,325)	(¥4,234)	¥ 841	¥2,253	¥157	¥4,761	¥26,346

	Thousands of U.S. dollars (Note 3)								
	Shareholders' equity				Revaluation and translation adjustments				
	Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	Total net assets
Balance at March 31, 2007	$233,686	$135,199	($146,776)	($42,176)	$12,635	$21,744	$1,591	$53,048	$268,951
Net income	—	—	3,886	—	—	—	—	—	3,886
Transfer of additional paid-in capital	—	(80,507)	80,507	—	—	—	—	—	—
Reversal of land revaluation difference	—	—	(1,357)	—	—	—	—	—	(1,357)
Transfer from land revaluation difference	—	—	610	—	—	—	—	—	610
Purchases of treasury stock	—	—	—	(85)	—	—	—	—	(85)
Items other than changes in shareholders' equity	—	—	—	—	(4,242)	748	(24)	(5,529)	(9,047)
Balance at March 31, 2008	$233,686	$ 54,692	($ 63,130)	($42,261)	$ 8,393	$22,492	$1,567	$47,519	$262,958

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Misawa Homes Co., Ltd. and Subsidiaries
Years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Year ended March 31		Year ended March 31,
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 4,989	¥ 10,947	$ 49,799
Adjustments for:			
Depreciation and amortization	5,203	5,006	51,927
Amortization and write-off of goodwill	56	107	555
Increase (decrease) in allowance for doubtful accounts	645	(668)	6,437
Decrease in other allowances	(2,118)	(72)	(21,138)
Interest and dividend income	(135)	(119)	(1,345)
Interest expenses	1,864	1,571	18,609
Gain on sales of investment securities	(154)	(447)	(1,540)
Impairment loss on long-lived assets	1,511	2,061	15,080
Loss (gain) on sales of property, plant and equipment	117	(964)	1,164
Decrease in notes and accounts receivable, trade	763	2,978	7,619
Increase in inventories	(4,388)	(11,388)	(43,793)
(Decrease) increase in notes and accounts payable, trade	(1,627)	1,241	(16,239)
Other	(1,466)	(3,191)	(14,638)
Subtotal	5,260	7,062	52,497
Interest and dividends received	139	117	1,386
Interest paid	(1,761)	(1,554)	(17,575)
Income taxes paid	(714)	(399)	(7,126)
Net cash provided by operating activities	2,924	5,226	29,182
Cash flows from investing activities:			
Decrease of time deposits with maturity over three months	358	281	3,571
Payments for purchases of property, plant equipment and intangible assets	(3,662)	(9,026)	(36,547)
Proceeds from sales of property, plant equipment and intangible assets	882	2,858	8,806
Payments for purchases of investment securities	(66)	(756)	(658)
Proceeds from sales of investment securities	176	615	1,761
Effect results from the change of consolidation scope	(87)	3,429	(869)
Other	29	594	279
Net cash used in investing activities	(2,370)	(2,005)	(23,657)
Cash flows from financing activities:			
Increase in short-term bank loans	10,354	7,411	103,347
Proceeds from long-term debt	6,122	2,930	61,108
Repayments of long-term debt	(14,314)	(13,591)	(142,869)
Proceeds from issuance of bonds	198	—	1,973
Payments for purchase of treasury stock	(9)	(33)	(85)
Cash dividends paid to minority interest	(23)	(24)	(230)
Disbursement for liquidation of construction contract amount	(1,900)	—	(18,964)
Net cash provided by (used in) financing activities	428	(3,307)	4,280
Effect of exchange rate changes on cash and cash equivalents	0	17	0
Net increase (decrease) in cash and cash equivalents	982	(69)	9,805
Cash and cash equivalents at the beginning of the year	39,897	39,966	398,209
Cash and cash equivalents at the end of the year (Note 16)	¥ 40,879	¥ 39,897	$ 408,014

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

MISAWA HOMES CO., LTD. (the “Company”) and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively “Misawa Homes”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in Japan, but which is provided herein as additional information. However, none of the reclassifications or rearrangements has a material effect on the financial statements.

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates
The accompanying consolidated financial statements include the accounts of the Company and those of its subsidiaries that are controlled by Misawa Homes. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent company in accordance with Japanese accounting standards. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated upon consolidation.

Investments in affiliates in which Misawa Homes has significant influence are accounted for using the equity method. Consolidated income includes Misawa Homes’ current equity in net income or loss of affiliates after elimination of unrealized inter-company profits.

The excess of the cost over the underlying net equity of investments in subsidiaries is recognized as a “goodwill” included in the intangible assets account and is amortized on a straight-line basis over a period of mainly 20 years.

(2) Cash and cash equivalents
Cash and cash equivalents included in the consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with original maturities of three months or less and which present low risk of fluctuation in value.

(3) Investment securities
Investment securities are classified into three categories in accordance with accounting principles generally accepted in Japan: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities. These categories are treated differently for purposes of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of net assets, net of taxes. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving average cost method. Other than temporary declines in the value of other securities are reflected in current income.

(4) Allowance for doubtful accounts
To provide for losses from bad debts, the allowance is provided according to the actual rate of non-recovery for ordinary claims and in view of the probability of recovery for specific doubtful receivables.

(5) Inventories
Finished goods, work in process and semi-finished goods are stated at cost, which is primarily determined using the weighted average cost method. Real estate for sale and cost of uncompleted contracts are stated at cost, which is determined by the specific identification method.

(6) Property, plant and equipment
Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Depreciation of property, plant and equipment is mainly computed based on the declining-balance method over the period prescribed by the Corporate Tax Law.

Starting from this period, pursuant to an amendment to the Corporate Tax Law, the Company and its domestic consolidated subsidiaries have depreciated property, plant and equipment acquired on and after April 1, 2007 in accordance with the method stipulated in the amended Corporation Tax Law. As a result, for the year ended March 31, 2008, operating income, ordinary income and income before income taxes and minority interest were down ¥40 million ($396 thousand) each, compared to the previous method.

Pursuant to an amendment to the Corporate Tax Law, after having fully depreciated property, plant and equipment acquired on and before March 31, 2007 up to 5% of the acquisition cost, based on the prior Corporate Tax Law, the Company and its domestic subsidiaries have depreciated the difference between 5% of the acquisition cost and the memorandum price, using a straight-line method over 5 years and expensed as “Depreciation expenses.” The straight-line depreciation starts from the year, following the year when the book value of property, plant and equipment acquired on and before March 31, 2007 reaches 5% of the acquisition cost. As a result, for the year ended March 31, 2008, operating income decreased by ¥65 million ($647 thousand) and ordinary income and income before income taxes and minority interest decreased by ¥65 million ($649 thousand) compared to the previous method.

(7) Intangible assets
Amortization of intangible assets excluding goodwill is computed on the straight-line method over the period prescribed by the Corporate Tax Law.

(8) Accrued bonuses
Accrued bonuses to employees are provided for the estimated amounts, which Misawa Homes is obligated to pay to employees as of the fiscal year-end, based on services provided during the current period.

(9) Pension and severance costs
Accrued pension and severance costs are provided based on the estimated amount of projected benefit obligation and fair value of the pension assets at the balance sheet date. Transition amounts resulting from the initial adoption of the new accounting method for employees' retirement benefits are amortized over 15 years.

Unrecognized actuarial gains and losses are amortized starting from the beginning of the year following the year in which such actuarial gains or losses occurred on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods.

Prior service costs are amortized on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods.

(10) Pension and severance costs for directors and corporate auditors
Until the previous fiscal year, the Company and its certain domestic consolidated subsidiaries recognized director and corporate auditor retirement benefits as expenses at the time of payment. However, in accordance with the public announcement of the "Accounting Standard for Director's Bonus" (ASBJ Statement No. 4, November 29, 2005) and the "Auditing Treatment Relating to Reserve Defined under the Special Tax Measurement Law, Reserve Defined under the Special Law and Reserve for Director and Corporate Auditor Retirement Benefits" (The Japanese Institute of Certified Public Accountants ("JICPA") Auditing and Assurance Practice Committee Report No. 42, April 13, 2007), these benefits are recorded as reserve for director and corporate auditor retirement benefits at the required amount at the end of the fiscal year, based on internally established standards.

As a result, with the increase of other losses ("TOKUBETSU SONSHITSU") for ¥301 million ($3,007 thousand) in previous period and the increase of selling, general and administrative expenses for ¥114 million ($1,136 thousand) in current period, for the year ended March 31, 2008, operating income and income before income taxes and minority interest were down ¥114 million ($1,136 thousand) and ¥415 million ($4,143 thousand), respectively, compared to the previous method.

(11) Allowance for claim expenses
Allowance for claim expenses is provided in amounts sufficient to cover possible claim expenses on completed contracts. It is provided based on the estimated amount of payments for future claims, which may be filed, on contracts completed during the year.

(12) Foreign currency translation and transactions
Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting transaction gains or losses are taken into income currently.

All the assets and liabilities and all the income and expense accounts of foreign subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign currency financial statement translation differences are recorded in the consolidated balance sheets as a separate component of net assets and minority interest in subsidiaries.

(13) Income taxes
The provision for income taxes is computed based on income before income taxes and minority interest in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax

consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

(14) Research and development costs
Research and development costs are expensed as incurred.

(15) Land revaluation
Land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law in the years ended March 31, 2000 and 2002. The revaluation amount, net of related taxes, is shown as a separate component of net assets.

(16) Leases
Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees at the end of the lease term are principally accounted for by the method that is applicable to ordinary operating leases.

(17) Net income per share
Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal period.

(18) Appropriations of retained earnings
Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Corporate Law of Japan.

(19) Reclassifications
Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2008.

3. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥100.19 = U.S.$1, the rate of exchange prevailing at March 31, 2008, has been used.

4. Investment securities:

Misawa Homes' management determined that all investment securities were other securities for the year ended March 31, 2008 and 2007.

Net unrealized gains, net of tax, on securities categorized as other securities of ¥841 million ($8,393 thousand) and ¥1,266 million at March 31, 2008 and 2007, respectively, were recorded as a component of net assets. A related deferred income tax liability thereon of ¥61 million ($613 thousand) and ¥873 million was recorded against deferred income tax assets relating to other temporary differences at March 31, 2008 and 2007, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2008 and 2007, were as follows:

	Millions of yen			
	March 31, 2008			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	¥2,096	¥1,051	(¥161)	¥2,986
Debt securities	144	1	—	145
Other	11	1	(1)	11
Total	¥2,251	¥1,053	(¥162)	¥3,142

	Millions of yen			
	March 31, 2007			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	¥2,251	¥2,267	(¥132)	¥4,386
Debt securities	130	0	(1)	129
Other	10	5	—	15
Total	¥2,391	¥2,272	(¥133)	¥4,530

	Thousands of U.S. dollars (Note 3)			
	March 31, 2008			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	$20,915	$10,490	($1,602)	$29,803
Debt securities	1,439	9	—	1,448
Other	108	10	(13)	105
Total	$22,462	$10,509	($1,615)	$31,356

As of March 31, 2008 and 2007, the carrying amount of unlisted equity securities, which were included in the investment securities account, were ¥658 million ($6,569 thousand) and ¥688 million, respectively.

Proceeds from sales of other securities for the years ended March 31, 2008 and 2007, were ¥176 million ($1,761 thousand) and ¥615 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥154 million ($1,541 thousand) and ¥0 million ($1 thousand) respectively, for the year ended March 31, 2008 and ¥447 million and nothing respectively, for the year ended March 31, 2007.

The redemption schedule for securities with maturities as of March 31, 2008 and 2007, are as follows:

	Millions of yen			
	March 31, 2008			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥20	¥115	¥10	¥—
Corporate bonds	15	—	—	—
Total	¥35	¥115	¥10	¥—

	Millions of yen			
	March 31, 2007			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥20	¥100	¥10	¥—
Total	¥20	¥100	¥10	¥—

	Thousands of U.S. dollars (Note 3)			
	March 31, 2008			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	$200	$1,148	$100	$—
Corporate bonds	149	—	—	—
Total	$349	$1,148	$100	$—

5. Derivative instruments:

Misawa Homes entered into foreign exchange contracts for the year ended March 31, 2008 and 2007. Derivative transactions entered into by Misawa Homes have been made in accordance with internal policies, which regulate the authorization of such transactions.

Misawa Homes does not disclose the outstanding foreign exchange contracts at March 31, 2008 as they are accounted for as hedges.

There was no balance of derivative transactions outstanding at March 31, 2007.

6. Impairment loss on long-lived assets:

Misawa Homes recognized impairment losses on long-lived assets for the following assets for the years ended March 31, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Assets written-off	2008	2007	2008
Buildings and structures	¥ 49	¥ 254	$ 487
Machinery and equipment	—	30	—
Land	209	620	2,088
Lease property	474	461	4,733
Goodwill	745	626	7,431
Other assets	34	70	341
Total	¥1,511	¥2,061	$15,080

Misawa Homes classified the fixed assets by business control unit such as branch office or plant, which controls its revenue and expenditure continuously.

Book values of the above assets were written down to the recoverable amounts due to decrease in profitability or fair market value.

Recoverable amount of each group of assets is the higher amount of net selling price or value in use. Value in use was calculated by discounting future cash flows at an interest rate of 6.5% for the year ended March 31, 2008 and 2007.

7. Short-term bank loans and long-term debt:

Short-term bank loans at March 31, 2008 and 2007, were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Loans, principally from banks, with weighted-average interest rate of 2.4% at March 31, 2008	¥46,328	¥35,892	$462,398

Long-term debt at March 31, 2008 and 2007, was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Loans, principally from banks and insurance companies, due 2008 to 2013 with weighted-average interest rate of 2.4% at March 31, 2008	¥ 19,788	¥ 27,374	$ 197,502
Unsecured 0.65% bonds, due 2007	—	500	—
Unsecured 1.345% bonds, due 2008	500	500	4,990
Unsecured 2.15% bonds, due 2012	200	—	1,996
	20,488	28,374	204,488
Less-portion due within one year	(15,130)	(13,542)	(151,013)
	¥ 5,358	¥ 14,832	$ 53,475

The aggregate annual maturities of long-term debt outstanding at March 31, 2008, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2009	¥15,130	$151,013
2010	2,471	24,660
2011	1,407	14,040
2012	491	4,898
2013	989	9,877
Thereafter	—	—
Total	¥20,488	$204,488

Assets pledged as collateral for secured loans and debt at March 31, 2008 and 2007, were as follows:

Pledged assets	Millions of yen March 31 2008	Millions of yen March 31 2007	Thousands of U.S. dollars (Note 3) March 31, 2008
Cash and bank deposits	¥ 20	¥ —	$ 200
Inventories	7,567	5,281	75,530
Other current assets	3	3	30
Buildings and structures	1,685	1,305	16,819
Land	5,818	5,472	58,066
Investment securities	120	141	1,202
Other fixed assets	276	3	2,750
Total	¥15,489	¥12,205	$154,597

Secured loans and debt	Millions of yen March 31 2008	Millions of yen March 31 2007	Thousands of U.S. dollars (Note 3) March 31, 2008
Short-term bank loans	¥15,180	¥15,379	$151,513
Long-term debt	4,060	994	40,527
Total	¥19,240	¥16,373	$192,040

8. Deposits received:

Among deposits received, ¥6,800 million ($67,871 thousand) and ¥8,700 at March 31, 2008 and 2007, were financing with transfers of contractual receivables.

9. Pension and severance costs:

The Company and its domestic consolidated subsidiaries have introduced defined benefit retirement plans. These include tax-qualified pension plan and the lump-sum retirement payment plan.

The funded status of retirement benefit obligations at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Projected benefit obligation	(¥26,930)	(¥25,902)	($268,790)
Plan assets at fair value	16,379	16,377	163,482
Unfunded status	(10,551)	(9,525)	105,308
Unrecognized items:			
Net transition obligation	2,864	3,264	28,590
Actuarial losses	3,087	1,113	30,816
Prior service cost reduction due to plan amendment	(297)	(175)	(2,968)
Accrued pension and severance costs - net	(4,897)	(5,323)	(48,870)
Prepaid pension cost	265	275	2,647
Accrued pension and severance costs	(¥ 5,162)	(¥ 5,598)	($ 51,517)

The composition of net pension and severance costs for the years ended March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Year ended March 31		Year ended March 31,
	2008	2007	2008
Service cost	¥2,224	¥1,965	$22,203
Interest cost	389	376	3,882
Expected return on plan assets	(270)	(235)	(2,698)
Amortization and expenses:			
Prior service costs	(56)	(38)	(559)
Actuarial losses	377	436	3,762
Transition obligation	418	418	4,169
Total	¥3,082	¥2,922	$30,759

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2008 and 2007, were as follows:

	Year ended March 31	
	2008	2007
Discount rate	1.5%	1.5%
Long-term rate of return on plan assets	0.0-4.4%	0.0-4.3%

10. Shareholders' equity:

Preferred stocks outstanding as of March 31, 2008 are as follows:

Classified stock	Class B-3	Class B-4	Class C
Number of outstanding shares	333,328 shares	4,166,600 shares	3,333,333 shares
Date of issuance	February 25, 2004	February 25, 2004	June 10, 2005
Distribution of profit	1YTibor + 2.375%	1YTibor + 2.375%	1YTibor + 1.500% No dividend to be distributed until March 2008
Upper limit	¥600	¥600	¥600
Participatory clause	Nonparticipating	Nonparticipating	Nonparticipating
Accumulative clause	Noncumulative	Noncumulative	Noncumulative
Interim dividend	Yes	Yes	Yes
Voluntary purchase/cancellation	Cancelable at any time	Cancelable at any time	Cancelable at any time
Mandatory redemption (Call)	None	None	Applied (always possible for 22 years after the issuance, with the issue price of ¥6,000 + preferred dividend per diem)
Claim of redemption (Put)	If unappropriated retained earnings as of the end of the previous fiscal year exceed ¥20.0 billion, the redemption may be requested within an upper limit of the amount that corresponds to 50% of such unappropriated retained earnings deducted by the dividend paid for the year.	If unappropriated retained earnings as of the end of the previous fiscal year exceed ¥20.0 billion, the redemption may be requested within an upper limit of the amount that corresponds to 50% of such unappropriated retained earnings deducted by the dividend paid for the year.	None
Conversion right to be requested by shareholders	Conversion to common stock	Conversion to common stock	Conversion to common stock
Conversion claimable period	For 15 years from July 2020 to June 2035	For 15 years from July 2023 to June 2038	For 15 years from July 2027 to June 2042
Initial conversion price	¥1,300.40	¥1,300.40	To be determined based on the Company's stock price in the above conversion claimable period
Revision to the conversion price	July 1 every year for the period from July 1, 2021 to June 30, 2035, upward/downward revisions are possible annually based on the stock price	July 1 every year for the period from July 1, 2024 to June 30, 2038, upward/downward revisions are possible annually based on the stock price	Upward/downward revisions are possible annually based on the stock price
Lower limit of the conversion price	¥650.20	¥650.20	50% of the initial conversion price
Upper limit of the conversion price	¥2,600.80	¥2,600.80	None
Mandatory conversion right	Conversion to common stock	Conversion to common stock	Conversion to common stock
Conversion price	The average price for 30 transaction days starting from the 45th transaction day prior to the date of revision to the conversion price	The average price for 30 transaction days starting from the 45th transaction day prior to the date of revision to the conversion price	The average price for 30 transaction days starting from the 45th transaction day prior to the date of revision to the conversion price
Distribution of residual property	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit
Voting rights	None (provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion as of the end of the fiscal year, and the distribution of the preferred dividend is ascertained to be voted down)	None (provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion as of the end of the fiscal year, and the distribution of the preferred dividend is ascertained to be voted down)	None (except for the cases provided for by laws)

The Company's retained earnings consist of unappropriated retained earnings and legal reserves required by the Corporate Law of Japan. The retained earnings accumulated by the Company are initially recorded as unappropriated retained earnings and later transferred to legal reserve upon approval at the shareholders' meeting.

Under the Corporate Law of Japan, the Company is permitted to use additional paid-in capital and legal reserve to eliminate or reduce a deficit upon approval at the shareholders' meeting.

Under the Corporate Law of Japan, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held within three months after the balance sheet date, and accordingly such appropriations are recorded at the time of resolution. The Company may pay interim dividends by resolution of the Board of Directors once during each fiscal year in accordance with the Corporate Law of Japan and the Company's Articles of Incorporation.

There were 1,638,444 shares and 1,631,104 shares of treasury stock at March 31, 2008 and 2007, respectively.

11. Details of gain on sales of property, plant and equipment:

The following are the elements of "Gain on sales of property, plant and equipment" for the years ended March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Year ended March 31		Year ended March 31,
	2008	2007	2008
Buildings and structures	¥39	¥ 8	$396
Machinery and equipment	9	2	87
Land	7	1,343	65
Other fixed assets	1	1	15
Total	¥56	¥1,354	$563

12. Details of loss on disposal of property, plant and equipment:

The following are the elements of "Loss on disposal of property, plant and equipment" for the years ended March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Year ended March 31		Year ended March 31,
	2008	2007	2008
Buildings and structures	¥137	¥240	$1,371
Machinery and equipment	5	56	53
Land	4	38	35
Other fixed assets	27	56	268
Total	¥173	¥390	$1,727

13. Net income per share:

Calculation of net income per share for the years ended March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Year ended March 31		Year ended March 31,
	2008	2007	2008
Net income attributable to common shares	¥389	¥192	$3,886
Weighted average number of common shares outstanding:			
—Basic	37,104,019	37,112,732	
—Diluted	64,852,938	61,167,584	

Net income per share:	Yen		U.S. dollars (Note 3)
—Basic	¥10.50	¥5.17	$0.10
—Diluted	¥ 6.00	¥3.14	$0.06

14. Income taxes:

Misawa Homes is subject to several income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.7 % for the years ended March 31, 2008 and 2007.

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Deferred tax assets:			
Devaluation of inventories	¥ 2,833	¥ 3,160	$ 28,277
Tax loss carry-forwards	119,779	118,266	1,195,518
Others	10,056	11,891	100,369
Gross deferred tax assets	132,668	133,317	1,324,164
Less: valuation allowance	(116,378)	(112,701)	(1,161,576)
Total deferred tax assets	16,290	20,616	162,588
Deferred tax liabilities:			
Prepaid pension cost	(107)	—	(1,067)
Net unrealized gains on other securities	(61)	(873)	(613)
Others	(19)	(89)	(187)
Gross deferred tax liabilities	(187)	(962)	(1,867)
Net deferred tax assets	¥ 16,103	¥ 19,654	$ 160,721

The valuation allowance was established mainly against deferred tax assets on future tax-deductible temporary differences and tax loss carry-forwards of certain subsidiaries, as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future.

The total valuation allowance for the year ended March 31, 2008, was increased by ¥3,677 million ($36,701 thousand).

The differences between Misawa Homes' statutory income tax rate and the income tax rate reflected in the consolidated statements of income were reconciled as follows:

March 31	2008	2007
Statutory income tax rate	40.7%	40.7%
Reconciliation:		
Changes in valuation allowance	56.0	63.4
Entertainment expenses, etc. permanently non-tax deductible	6.1	2.8
Per capita inhabitant tax	4.6	2.0
Consolidation adjustment	(16.3)	(7.7)
Difference in statutory income tax rate of subsidiaries	6.3	—
Others	1.7	1.9
Income tax rate per consolidated statements of income	99.1%	103.1%

15. Research and development costs:

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥3,051 million ($30,449 thousand) and ¥3,010 million for the years ended March 31, 2008 and 2007, respectively.

16. Cash flow information:

Cash and cash equivalents at March 31, 2008 and 2007, were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Cash and bank deposits	¥41,372	¥40,606	$412,934
Less:			
Time deposits due over three months	(493)	(709)	(4,920)
Cash and cash equivalents	¥40,879	¥39,897	$408,014

17. Leases:

As described in Note 2 (16) Misawa Homes, as a lessee, charges periodic finance lease payments to expense when paid. Such payments for the years ended March 31, 2008 and 2007 amounted to ¥2,996 million ($29,902 thousand) and ¥2,308 million, respectively.

If finance leases which do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the finance lease assets at March 31, 2008 and 2007, would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Acquisition cost:			
Buildings and structures	¥9,113	¥7,641	$90,962
Machinery and equipment	299	444	2,989
Other property, plant and equipment	3,044	2,687	30,378
Other intangible assets	561	336	5,592
	13,017	11,108	129,921
Less:			
Accumulated depreciation	(6,145)	(4,523)	(61,331)
Net book value	¥6,872	¥6,585	$68,590

Depreciation expenses for these leased assets for the years ended March 31, 2008 and 2007, would have been ¥2,909 million ($29,036 thousand) and ¥2,232 million, respectively, if they were computed in accordance with the straight-line method over the periods of these finance leases, assuming no residual value.

Interest expense for these finance leases for the years ended March 31, 2008 and 2007, would have been ¥179 million ($1,782 thousand) and ¥153 million, respectively.

Impairment loss for these finance leases for the years ended March 31, 2008 and 2007 were ¥474 million ($4,733 thousand) and ¥461 million, respectively.

Future lease payments for finance leases at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Future lease payments			
Due within one year	¥2,794	¥2,389	$27,889
Due after one year	4,424	4,324	44,153
Total	¥7,218	¥6,713	$72,042

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2008	2007	2008
Future lease payments			
Due within one year	¥ 493	¥ 562	$ 4,916
Due after one year	3,155	3,492	31,494
Total	¥3,648	¥4,054	$36,410

18. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2008 and 2007 were ¥50,489 million ($503,928 thousand) and ¥47,732 million. Furthermore, the amount of trade notes endorsed at March 31, 2008 and 2007, were ¥1 million ($10 thousand) and ¥25 million, respectively.

19. Related party transactions:

There were no material related party transactions for the years ended March 31, 2008 and 2007.

20. Transactions under common control:

(1) Misawa Homes Co., Ltd. was merged with Misawa Homes Holdings, Inc.
The details of this merger are as follows:

(Business description of combined parties)

a. Misawa Homes Holdings, Inc.
Management of Misawa Homes, Co., Ltd. other subsidiaries (together the "Group")

b. Misawa Homes Co., Ltd. (a consolidated subsidiary of Misawa Homes Holdings, Inc.)
Development of prefabricated houses, provision of materials for prefabricated houses

(Name of the company after business combination)
Misawa Homes Co., Ltd. (the "Company")

(Purpose of transaction)
The purpose of the merger is to strengthen the operational base of housing construction business and enhance the corporate governance in the Group by streamlining the group organizations, and also to accelerate its decision-making.

(Summary of accounting procedure)
The Company adopted the accounting procedures for a business combination under the common control based on the accounting standards, "Accounting Standards for Business Combination" issued by Business Accounting Council on October 31, 2003, and "Implementation Guidance on application of Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No.10 revised by the Accounting Standards Board of Japan on December 22, 2006).

(2) Misawa Homes Kitanihon Co., Ltd. was merged with Tohoku Misawa Homes Co., Ltd.
The details of this merger are as follows:

(Business description of combined parties)

a. Tohoku Misawa Homes Co., Ltd.
(a consolidated subsidiary of the Company)
Construction and sale of prefabricated houses

b. Misawa Homes Kitanihon Co., Ltd.
(a consolidated subsidiary of the Company)
Construction and sale of prefabricated houses

(Name of the company after business combination)
Tohoku Misawa Homes Co., Ltd.

(Purpose of transaction)
The purpose of the merger is to strengthen the regional operation in the Tohoku area and enhance the operational efficiency based on the mid-term business plan of the Group.

(Summary of accounting procedure)
The Company adopted the accounting procedures for a business combination under the common control based on the accounting standards, “Accounting Standards for Business Combination” issued by Business Accounting Council on October 31, 2003, and “Implementation Guidance on application of Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No.10 revised by the Accounting Standards Board of Japan on December 22, 2006).

(3) Misawa Homes San-in Co., Ltd. was merged with Misawa Homes Chugoku Co., Ltd.
The details of this merger are as follows:
(Business description of combined parties)
a. Misawa Homes Chugoku Co., Ltd.
(a consolidated subsidiary of the Company)
Construction and sale of prefabricated houses
b. Misawa Homes San-in Co., Ltd.
(a consolidated subsidiary of the Company)
Construction and sale of prefabricated houses

(Name of the company after business combination)
Misawa Homes Chugoku Co., Ltd.

(Purpose of transaction)
The purpose of the merger is to strengthen the regional operation in the Chugoku area and enhance the operational efficiency based on the mid-term business plan of the Group.

(Summary of accounting procedure)
The Company adopted the accounting procedures for a business combination under the common control based on the accounting standards, “Accounting Standards for Business Combination” issued by Business Accounting Council on October 31, 2003, and “Implementation Guidance on application of Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No.10 revised by the Accounting Standards Board of Japan on December 22, 2006).

21. Segment information:

(1) Business Segments
Information regarding business segments is omitted in consolidated financial reports for the years ended March 31, 2008 and 2007, because sales, operating income and total assets in the residential segment are more than 90% of all business segments.

(2) Geographical Segments
Information regarding geographical areas is omitted for the years ended March 31, 2008 and 2007, because sales and total assets in the Japan area are more than 90% of all geographical areas.

(3) Overseas Sales
Information regarding overseas sales is omitted for the years ended March 31, 2008 and 2007, because overseas sales represents less than 10% of total sales.

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
Misawa Homes Co., Ltd.

We have audited the accompanying consolidated balance sheet of Misawa Homes Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Misawa Homes Co., Ltd. and consolidated subsidiaries for the year ended March 31, 2007 were audited by other auditor whose report dated June 29, 2007, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Misawa Homes Co., Ltd. and consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2(10), effective the year ended March 31, 2008, the Company and consolidated subsidiaries changed their accounting policy for retirement benefits for directors and corporate auditors from cash basis to accrual basis accounting.

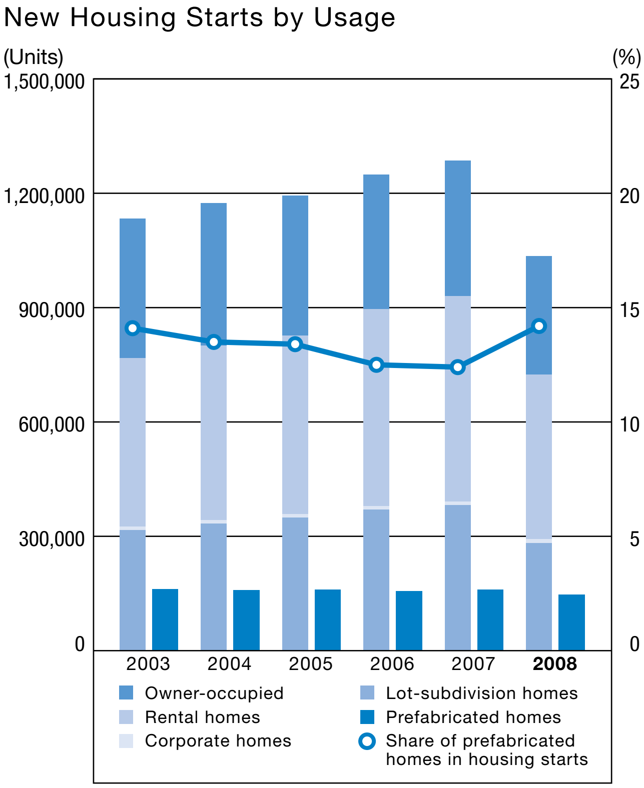
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

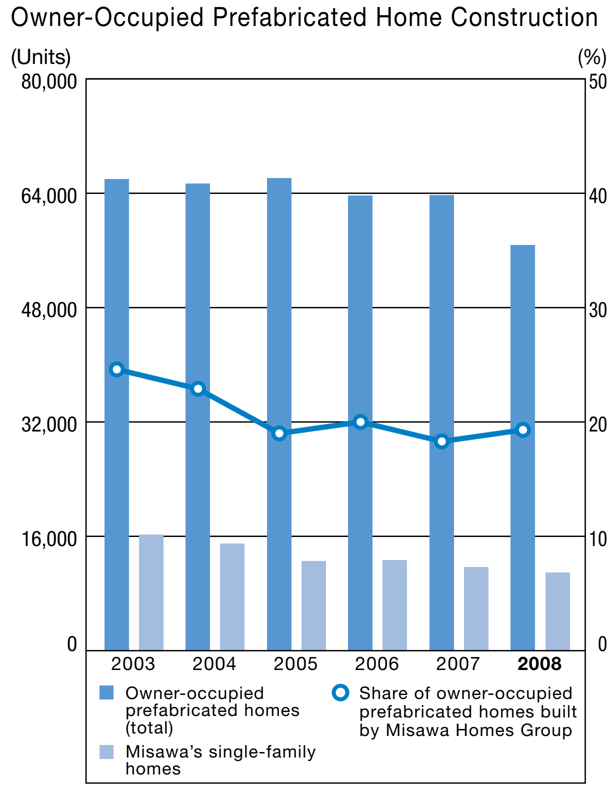
Ernst & Young ShinNihon

June 27, 2008

A MEMBER OF ERNST & YOUNG GLOBAL

Trends in the Housing Market





New Housing Starts by Usage

(Units, %)

Years ended March 31	2003		2004		2005		2006		2007		2008	
Owner-occupied homes	365,507	31.9	373,015	31.8	367,233	30.8	352,577	28.2	355,700	27.7	311,803	30.1
Rental homes	454,505	39.7	458,708	39.1	467,348	39.2	517,999	41.5	537,943	41.9	430,867	41.6
Corporate homes	9,539	0.8	8,101	0.7	9,413	0.8	8,515	0.7	9,100	0.7	10,311	1.0
Lot-subdivision homes	316,002	27.6	333,825	28.4	349,044	29.3	370,275	29.6	382,503	29.7	282,617	27.3
Total	1,145,553	100.0	1,173,649	100.0	1,193,038	100.0	1,249,366	100.0	1,285,246	100.0	1,035,598	100.0

Prefabricated Home Construction

(Units, %)

Years ended March 31	2003		2004		2005		2006		2007		2008	
Prefabricated homes	161,728	14.1	158,929	13.5	159,945	13.4	156,581	12.5	159,544	12.4	146,571	14.2
Housing starts (total)	1,145,553	100.0	1,173,649	100.0	1,193,038	100.0	1,249.366	100.0	1,285,246	100.0	1,035,598	100.0

Owner-Occupied Prefabricated Home Construction

(Units, %)

Years ended March 31	2003		2004		2005		2006		2007		2008	
Misawa's single-family homes*	16,240	24.6	14,981	22.9	12,534	19.0	12,700	20.0	11,676	18.3	10,957	19.3
Owner-occupied prefabricated homes (total)	65,974	100.0	65,353	100.0	66,129	100.0	63,586	100.0	63,725	100.0	56,719	100.0

*Based on orders received by our dealers
Source: Ministry of Land, Infrastructure and Transport "Housing Starts Statistics."

Subsidiaries and Affiliated Company (As of March 31, 2008)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Co., Ltd. (%)	Primary Business
Consolidated subsidiaries:				
Misawa Homes Hokkaido Co., Ltd.	Sapporo, Hokkaido Prefecture	988	75.5 (1.6)	Construction and sales of prefabricated houses
Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	4,178	56.9 (13.1)	Construction and sales of prefabricated houses
Misawa Homes Fukushima Co., Ltd.	Fukushima, Fukushima Prefecture	180	100.0	Construction and sales of prefabricated houses
Misawa Homes Nishikanto Co., Ltd.	Saitama, Saitama Prefecture	450	100.0	Construction and sales of prefabricated houses
Misawa Homes Higashikanto Co., Ltd.	Chiba, Chiba Prefecture	475	100.0	Construction and sales of prefabricated houses
Misawa Homes Tokyo Co., Ltd.	Suginami-ku, Tokyo	2,234	100.0	Construction and sales of prefabricated houses
Misawa Homes Shin-etsu Co., Ltd.	Niigata, Niigata Prefecture	537	99.9	Construction and sales of prefabricated houses
Misawa Homes Shizuoka Co., Ltd.	Shizuoka, Shizuoka Prefecture	300	100.0	Construction and sales of prefabricated houses
Misawa Homes Tokai Co., Ltd.	Nagoya, Aichi Prefecture	450	100.0	Construction and sales of prefabricated houses
Misawa Homes Kinki Co., Ltd.	Osaka, Osaka Prefecture	2,340	100.0	Construction and sales of prefabricated houses
Misawa Homes Chugoku Co., Ltd.	Hiroshima, Hiroshima Prefecture	1,369	73.3 (5.6)	Construction and sales of prefabricated houses
Misawa Homes Kyushu Co., Ltd.	Fukuoka, Fukuoka Prefecture	1,451	93.8 (3.0)	Construction and sales of prefabricated houses
Misawa Homes Ceramics Co., Ltd.	Suginami-ku, Tokyo	300	100.0	Construction and sales of prefabricated houses
Misawa Techno Co., Ltd.	Matsumoto, Nagano Prefecture	50	100.0	Manufacture of house materials
33 others				
Affiliated company:				
Nomura Holdings, Inc.	Chuo-ku, Tokyo	182,800	[15.3] [(15.2)]	Securities operations

Notes: (1) Voting rights figures in parentheses, ( ), indicate indirect holdings.
(2) Square brackets, [ ], indicate holdings in Misawa Homes Co., Ltd.

Corporate Data (As of March 31, 2008)

Corporate Name: Misawa Homes Co., Ltd.
Headquarters: 2-4-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0833, Japan
Established: August 1, 2003
Paid-in Capital: ¥23,413 million

Directors, Executive Officers and Corporate Auditors
(As of June 27, 2008)

Directors
Kazuo Mizutani[*1]
Nobuo Takenaka[*2]
Masahiro Nakagami[*2]
Haruo Sato
Takeo Tokai
Hitoshi Nishihira
Hiroomi Tanaka
Michimasa Taga
Senta Morioka
Yasuo Miyawaki

Corporate Auditors
Masakazu Miyamori[*3]
Teruaki Kato[*3]
Seiji Sakai[*3]
Tetsuo Akamatsu[*3]
Shuntaro Moritani
Tsukasa Yorifuji

Executive Officers
Nobuo Takenaka[*4]
Masahiro Nakagami[*5]
Haruo Sato[*5]
Takeo Tokai[*6]
Hitoshi Nishihira[*6]
Kosaku Miyagawa[*6]
Shigeharu Wakatsuki[*6]
Toshitsugu Hirata[*6]
Hiroomi Tanaka[*6]
Michimasa Taga
Hideki Shimomura
Kazuhiro Watanabe
Hiroshi Sakaguchi
Tetsuya Sakuo
Yoichiro Dokan
Kazuaki Uchida

*1. Chairman and Representative Director
*2. Representative Director
*3. Standing Corporate Auditor
*4. Chief Executive Officer
*5. Senior Executive Officer
*6. Managing Executive Officer

Share Information

	Shares
Total number of shares authorized	150,000,000
Common stock	142,160,000
Class B preferred stock	4,500,000
Class C preferred stock	3,340,000
Total number of shares issued	46,572,175
Common stock	38,738,914
Third issue of Class B preferred stock	333,328
Fourth issue of Class B preferred stock	4,166,600
First issue of Class C preferred stock	3,333,333
Number of shareholders	
Common stock	21,720
Class B preferred stock	1
Class C preferred stock	1

Note: The Bank of Tokyo-Mitsubishi UFJ, Ltd. is the holder of our third and fourth issues of Class B preferred shares, as well as our first issue of Class C preferred shares.

Major shareholders	No. of shares	%
1 NPF-MG Investment Limited Partnership	5,593,000	14.4
2 Toyota Motor Corporation	5,191,100	13.4
3 Aioi Insurance Co., Ltd.	2,458,230	6.3
4 The Master Trust Bank of Japan, Ltd. (Trust A/C)	1,233,700	3.1
5 State Street Bank and Trust Company	1,220,500	3.1
6 Bank of New York GCM Client Accounts JPRD AC ISG (FE-AC)	911,000	2.3
7 I.L.S. Co., Ltd.	826,000	2.1
8 Misawa Capital Co., Ltd.	734,900	1.8
9 Japan Trustee Services Bank, Ltd. (Trust A/C)	659,300	1.7
10 BBH (LUX) for Fidelity Funds Pacific Fund	630,700	1.6

Custodian of shareholders' register: Mitsubishi UFJ Trust and Banking Corporation
4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo

MISAWA