MISAWA

Annual Report 2010

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MISAWA HOMES CO., LTD.

Corporate Profile

Misawa Homes Co., Ltd., the cornerstone of today's Misawa Homes Group, is a leader in the development, manufacture and sale of homes. Established in 1967 with a pioneering wood panel adhesion system for prefabricated housing construction, the Company has maintained a next-generation perspective in the construction of quality homes, reflected in the corporate motto, "Lifelong commitment to customers through housing."

Our core business is the sale of single-family homes and apartment rentals. We complement these operations with housing-related pursuits, including home renovation and senior living businesses.

The design of our homes has earned us the Good Design Award for 20 consecutive years, while GENIUS kura-no-aru-ie, a housing model featuring a large storage area, won the 1996 Good Design Grand Prix. These awards not only confirm excellence in design but the latter was a first in the housing industry. We have also achieved the world's first "zero-energy" home and boast other award-winning housing technologies.

Since 1968, we have been involved in the design and construction of facilities for Japan's Showa Station in Antarctica, which include an administration building and living quarters as well as a broadcasting studio for Japan Broadcasting Corporation (NHK) and cover a total of about 5,000 square meters.

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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 ofunanticipated events.

2009-2010 Good Design Award – SMART STYLE ZERO –

To Our Shareholders

Business Results

The housing industry in Japan welcomed some positive developments in fiscal 2010, ended March 31, 2010. The impact of industry-benefiting provisions in the national government's economic stimulus package, especially the largest tax cut ever on housing loans and a subsidy program for homeowners who install photovoltaic systems, began to materialize in the second half of the year. However, personal income uncertainty and concern over growing unemployment dampened consumer interest in home purchases, which pushed housing starts down to 775,277 units — a 25.4 percent drop over fiscal 2009. This marked the lowest level since 1964 and the first time in 45 years that the number fell below 800,000.

Against this backdrop, the Misawa Homes Group moved forward on the core themes of its medium-term management plan—to optimize the business portfolio and reorganize business operations—and endeavored to improve fiscal performance. Our efforts did not translate into higher net sales, as sluggish order activity culminated in an 11.9 percent decrease, to ¥353,621 million. However, we were successful on the profit front, as operating income edged up 0.5 percent, to ¥8,726 million, and ordinary income grew 10.2 percent, to ¥7,713 million, largely thanks to progress on cost-cutting and lower selling, general and administrative expenses. In addition, we achieved a net income of ¥3,044 million, rebounding ¥6,028 million out of the red recorded in 2009. This turnaround reflects the fact that the Group recorded valuation loss on inventory assets caused by the application of the lower of cost or market method and booked costs associated with business reorganization improvements, such as factory closures, in fiscal 2009 but not in fiscal 2010.

Unfortunately, retained earnings did not recover sufficiently to allow management to execute a distribution of dividends.

Optimize Business Portfolio, Reorganize Business Operations

With regard to the optimization of our business portfolio, we are working to reinforce profitability in our core single-family home business while emphasizing businesses with growth potential, particularly activities in the renovation and real asset utilization markets, that will further enhance profitability. We are also pushing ahead on business diversification, namely senior care services, child daycare services and "green" business. These efforts will create the well-balanced structure of an optimized business portfolio.

As part of the reorganization of our business operations, we are pursuing several measures. On the sales front, our efforts focus on the possible closure of underperforming model homes at multicompany display sites and the reassignment of personnel from back-office divisions to marketing divisions as well as steps to boost marketing efficiency and trim back-office costs. On the production front, we shuttered three factories in fiscal 2010 and made headway on building a more streamlined and efficient production structure.

On June 21, 2010, we executed a share exchange with Misawa Homes Hokkaido Co., Ltd., a sales company covering Japan's northern island of

Hokkaido, and with Tohoku Misawa Homes Co., Ltd., a sales company covering Tohoku, the northeastern area of Japan's main island, to turn these companies into wholly owned subsidiaries. As a result, Misawa Homes Hokkaido was delisted from the Sapporo Securities Exchange and Tohoku Misawa Homes was delisted from the First Section of the Tokyo Stock Exchange. Both companies are major sources of income for the Company on a consolidated basis, but challenges, particularly the uncertain business climate and unsettled employment conditions over the past few years, have squeezed order activity and severely capped income potential. By turning these companies into wholly owned subsidiaries, we will create a structure that promotes greater cooperation with the head office in Tokyo and facilitates wider assistance, primarily the dispatch of directors and management support, to realize improvements in local management.

Stronger Ties with Toyota Group

On May 31, 2010, Toyota Housing Corporation, a wholly owned subsidiary of Toyota Motor Corporation, acquired additional shares in Misawa Homes from NPF-MG Investment Limited Partnership, an investment fund run by Nomura Principal Finance Co. Ltd., and became the majority shareholder in Misawa Homes. This acquisition raises the Toyota Group's stake in Misawa Homes to 27.8 percent.

We will now strive to reinforce our relationship with the Toyota Group in more ways than before, especially through cooperative pursuits in new areas of business, such as home renovations and senior living. This is sure to lead to better fiscal performance.

In Closing

Giving serious thought to the kind of world that should exist for tomorrow's children, management articulated four concepts in 2009 that imbue home-building operations with a multifaceted perspective, from protecting the environment to preserving the quintessential spirit of Japan. Guided by these four concepts—caring for the environment, cultivating comfortable lifestyles, providing for families and nourishing the soul of Japan—we will undertake sales activities and product development with an emphasis on eco-friendly living environments offering even greater comfort, and continue to offer an inventory of quality homes.

On behalf of the Board, I ask for the continued encouragement and support of shareholders and all stakeholders as we make strides toward our goals.

June 2010

Nobuo Takenaka
President and CEO

Business Strategies for Fiscal 2011

Market Outlook

The national government has hammered out an assortment of additional economy-stimulating provisions that should encourage consumers to buy homes and invest in home improvement. These provisions include an extension to the largest tax cut ever on housing loans; a steep rise in gift tax exemptions for home buyers who receive financial support from family members to purchase a home; and an eco-point system for housing that applies to eco-friendly construction and renovation projects that effective from December 31, 2010.

Misawa Homes will ride the fair wind of demand generated by these provisions and actively undertake sales campaigns and product development to capitalize on market opportunities. However, the operating environment is still marred by consumer fears over growing unemployment and deteriorating personal income, so despite hopes for a higher demand for homes and home improvement, a dramatic recovery in housing starts is unlikely. The level will probably hover in the low 800,000s. Even in the medium to long term, it would be unrealistic to assume recovery in housing starts to the one million mark, given a shrinking population and fewer households reflecting an aging society with fewer children.

Under these circumstances, in fiscal 2011 we will push ahead with efforts to optimize our business portfolio so as to shed as quickly as possible the existing business model that relies too heavily on the core business of single-family homes. We remain committed to the single-family home business and will in fact strive to boost profitability in this segment. But we will also concentrate our energies on the promising markets of renovation, asset utilization and senior living services to solidly augment income from core operations.

Strategies by business segment are presented below.

• Single-Family Custom Homes

Misawa Homes is enriching its lineup of affordable homes geared to the needs of next-generation baby boomers, a two-tiered premium market segment of home buyers in the age groups of 20-29 and 30-34.

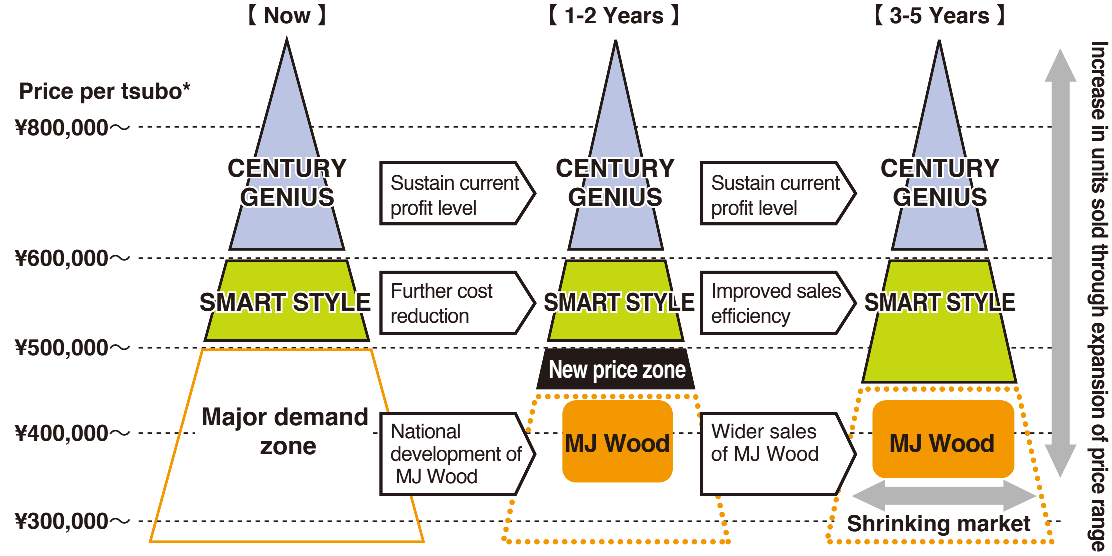
We aim to further reduce the cost of our high cost-performance SMART STYLE homes and raise the cost-performance factor still higher. We will also steadily increase unit sales of MJ Wood, a brand of conventional post-and-beam homes launched in 2008 that are less expensive than our mainstay homes. In fiscal 2011, we will energetically promote this brand by expanding our sales areas and reassigning personnel to marketing activities.

Provisions in the government's economic stimulus package, including continued tax breaks for homeowners who install photovoltaic systems and the start of an eco-point system for housing, will also have a positive impact on demand, boosting consumer interest in environment-friendly homes. With

Next-generation Zero-Energy Home, test model

this market in mind, we will promote the development of environment-friendly homes and expect to make available in fiscal 2011 a next-generation zero-energy home that not only realizes a zero-energy balance with devices that generate the power needed for daily life but also achieves a surplus in its lifecycle to recoup the energy consumed during the home's construction.

Product Brand Flow Chart



* Japanese land measure where 1 tsubo = about 3.3 square meters

• Renovation

Amid changing times, defined by a shift in perspective on homes from a flow- to stock-based permanence, Misawa Homes has prioritized renovation as a principal business, selectively concentrating management resources into this segment and expanding the scope of services. Recently, we moved beyond our single-family home renovation focus with the debut of Marm, a flat-rate condominium renovation service, in the Tokyo metropolitan area. We also introduced services to evaluate seismic resilience in non-residential structures, such as office buildings and factories, and address any reinforcement work deemed necessary.

We aim to broaden the scope of our renovation business still further through an alliance with the All Japan Ryokan Association, which will facilitate active involvement in renovation projects at *ryokan*—Japanese inns—and hotels.

On April 1, 2010, Misawa Homes integrated the renovation operations of three sales companies in the Tokyo metropolitan area under the newly established Misawa Homeing Co., Ltd. This move lays the groundwork for developing Misawa Homeing into a renovation brand in the capital, and facilitates our entry into the general renovation market, that includes non-residential structures, and should generate synergy through such processes as joint procurement of materials.

The Company also seeks to create a rock-solid system to support expansion into stock-based services, such as sale, rental and management of pre-owned properties.

• Lot-Subdivision Single-Family Homes

Over the past few years, we have maintained a freeze on the purchase of lot-subdivision property, owing to sluggish conditions in the housing market, and have focused on reducing our inventory. In fiscal 2011, we will resume purchasing activities with the meticulous selection of properties. The first wave already took place in May 2010, when we joined two other homebuilders, Toyota Housing Corporation and PanaHome Corporation, in acquiring 316 lots on land for residential use in Urayasu, Chiba Prefecture. We will apply our expertise in subdivision development with due consideration to local weather and landscape features as well as the biological environment to create a community where asset value rises over time.

• Asset Utilization and Real Estate

In March 2010, we launched the Misawa Asset Utilization Plaza help desk inside all of our renovation and sales offices in Tokyo and Kanagawa to offer general consultations on asset utilization. The desk caters specifically to the queries of people who own apartments, condominiums and commercial buildings and shares information with members of the Group. We expect this will benefit both the asset utilization business and the renovation business.

One of the government's programs facilitates the start of services to revitalize the resale market and is intended to boost the quality of home inventory and promote the availability of pre-owned homes on the market. Demand for pre-owned homes is expected to grow, and Misawa Homes seeks to establish a presence in this promising market with HOMEVER, a system for the purchase, renovation and resale of homes originally built by the Company.

• Senior Living and Daycare Services

For 17 years, we have been involved in the operation of Motherth Minami-Kashiwa, a nursing home, in Chiba Prefecture. We have applied the know-how gained through the operation of this facility to the construction and operation of a variety of senior care and welfare facilities, including adult daycare centers and group homes, within a five-kilometer radius of Motherth Minami-Kashiwa. Using this nursing home and senior care network as a template, we aim to develop similar hub-and-satellite structures in urban areas where the number of seniors is expected to increase, so that the elderly have safe and comfortable places to live and spend their days even when their physical and mental capacities are compromised.

In April 2010, we opened Motherth Court Minami-Kashiwa Eki-mae rental housing exclusively for seniors. It is an assisted living community offering various levels of support, from monitoring to nursing care. We plan to build similar communities in regional cities, such as Sapporo, to meet a growing interest in this new residence format for people in their golden years.

Another important business segment is child daycare. Currently, we are working with a daycare center operator, utilizing our many years of research into the relationship between living spaces and parenting to apply toward the renovation of child daycare centers. We are also looking into the possibility of expanding our involvement beyond renovation to the operation of daycare centers.

Motherth Court Minami-Kashiwa Eki-mae

Topics

Misawa Homes' Environment-Oriented Activities

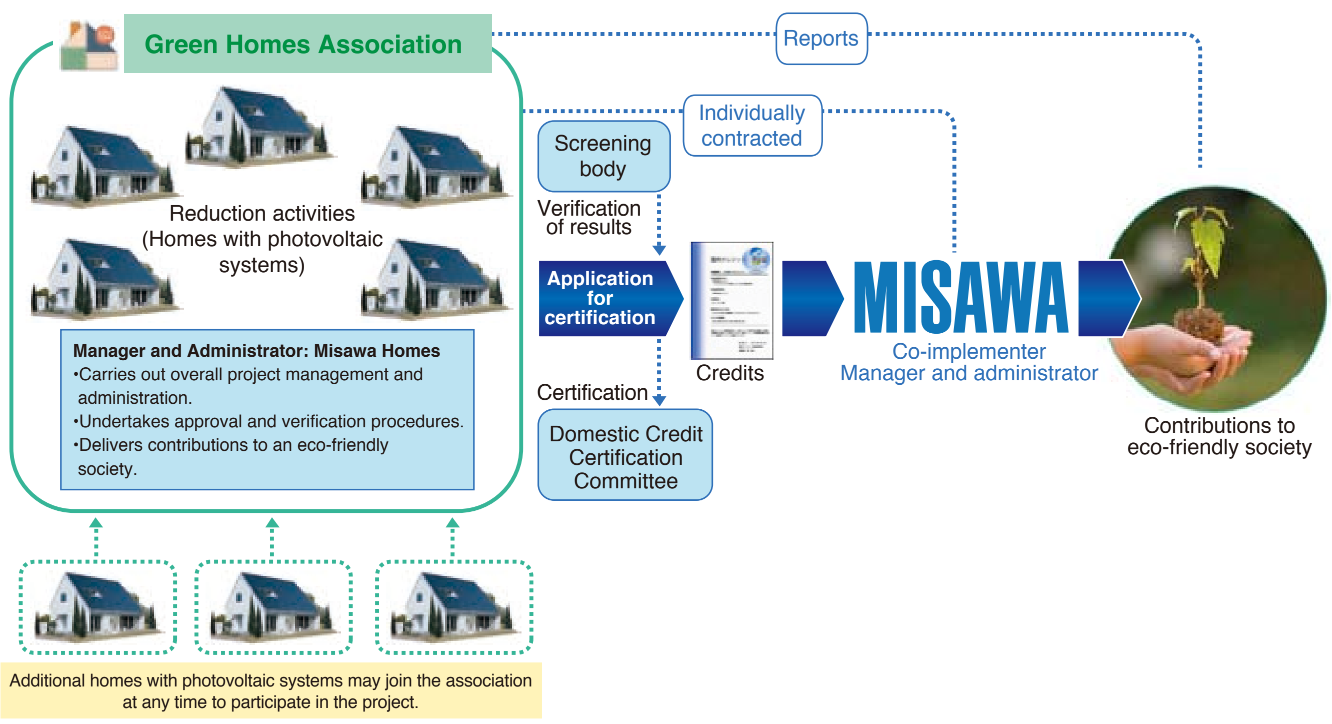
Misawa Homes is actively engaged in the development of environment-friendly homes, particularly those equipped with photovoltaic systems, and is working to promote widespread acceptance of such model choices.

The national government has set a high target for greenhouse gas emissions reduction: 25 percent below the 1990 level by 2020. Environment-friendly homes can play a major role in achieving this reduction target. Evidently, for this to happen, all newly built homes have to be highly energy-efficient and the market must be far more receptive to the photovoltaic system in the home.

In April 2009, Misawa Homes launched sales of SMART STYLE ZERO, a concept home that makes photovoltaic systems a standard feature in residences. The design packs a triple-zero punch—zero energy, zero cost and zero carbon emissions—while offering excellent cost performance. Complementing this model is a next-generation zero-energy home that that not only realizes a zero-energy balance but also generates a surplus to recoup the energy consumed during the home's construction. We are currently working to bring this model to market and expect sales to begin during fiscal 2011.

We have also implemented a project that takes advantage of the domestic credit system introduced by the Ministry of Economy, Trade and Industry to reward homeowners for installing photovoltaic systems to reduce carbon emissions. We formed the Green Homes Association and invited owners of Misawa-brand homes featuring photovoltaic systems to join. The volume of carbon emissions reduced through the use of photovoltaic systems at individual homes is added up, turned into carbon credits, and traded. We handle the income generated through trading on behalf of the association and apply the funds to activities that benefit the environment and the community.

Misawa Homes' Emissions Reduction Project

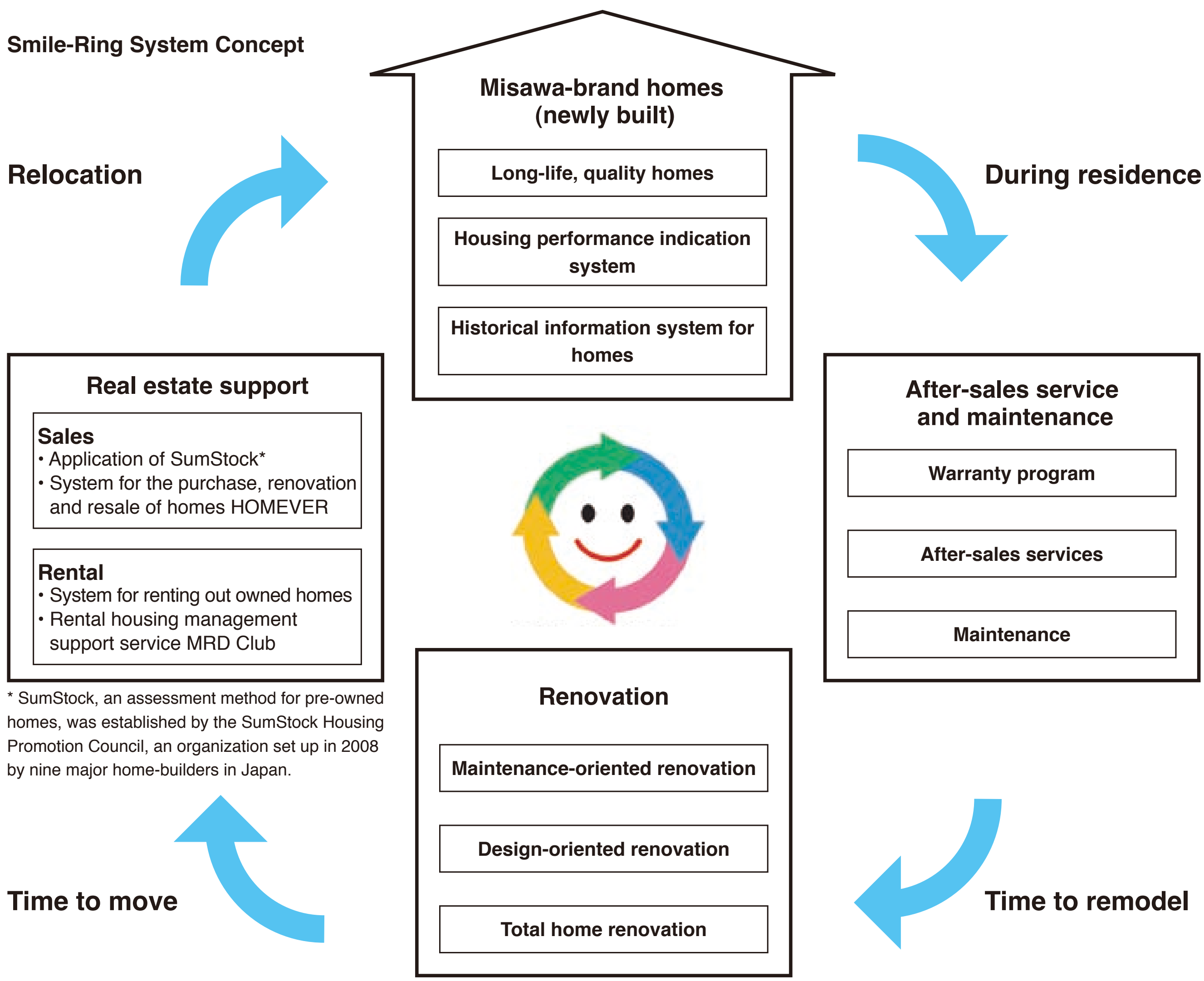


Smile-Ring System

The Misawa Homes Group structure of services that applies to the construction of new homes, after-sales maintenance and renovation, and support for real estate-related activities, including sales, rental and management, now also applies to the lifespan of the home that extends beyond even the original owners. We are promoting this process as the Smile-Ring System.

One core theme of our medium-term management plan is the optimization of the Group’s business portfolio. Our core business is the sale of single-family homes, but a shrinking population and fewer households will surely narrow the market for new homes. We must therefore expand our core business perspective to include renovation and resale support services for pre-owned homes. Toward this end, in October 2009, we added HOMEVER—a system for the purchase, renovation and resale of Misawa-brand homes—to our lineup, and rounded out the Smile-Ring System. Our times demand a shift toward a stock-style society, in which companies make quality products that with proper maintenance can be used and appreciated for many years. By promoting the Smile-Ring System, we will not only optimize our business portfolio but also raise our profile as a homebuilder with long-life products that maintain their asset value.

Smile-Ring System Concept



* SumStock, an assessment method for pre-owned homes, was established by the SumStock Housing Promotion Council, an organization set up in 2008 by nine major home-builders in Japan.

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
	2010	2009	2008	2007	2006	2005	**2010**
For the Year:							
Net Sales	**¥ 353,621**	¥ 401,204	¥ 409,246	¥ 414,566	¥ 383,941	¥ 389,595	**$3,800,740**
Costs of revenue	**274,510**	311,111	317,244	314,582	286,703	289,192	**2,950,446**
Gross profit	**79,111**	90,093	92,002	99,984	97,238	100,403	**850,294**
Selling, General andAdministrative Expenses	**70,385**	81,412	84,204	86,918	79,356	81,542	**756,511**
Operating Income	**8,726**	8,681	7,798	13,066	17,882	18,861	**93,783**
Income (Loss) before IncomeTaxes and Minority Interest	**4,862**	759	4,989	10,947	123,827	(175,916)	**52,258**
Net (Loss) Income	**3,044**	(2,984)	389	192	124,024	(203,252)	**32,717**
At Year-End:							
Total Assets	**¥ 180,306**	¥ 194.934	¥ 227,894	¥ 235,136	¥ 224,469	¥ 264,382	**$1,937,943**
Total Net Assets	**23,461**	21,244	26,346	26,946	25,143	(161,286)	**252,164**
Per Share Amounts (yen):							
Net Income (Loss)	**¥ 82.15**	¥ (80.43)	¥ 10.50	¥ 5.17	¥ 3,844.63	¥ (996.92)	**$ 0.88**

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

Financial Review

Operating Environment

The housing industry in Japan welcomed some positive developments in fiscal 2010, ended March 31, 2010. The impact of industry-benefiting provisions in the national government's economic stimulus package, especially the largest tax cut ever on housing loans and a subsidy program to encourage homeowners to install photovoltaic systems, began to materialize in the second half of the year. However, personal income uncertainty and concern over growing unemployment dampened consumer interest in home purchases, which pushed housing starts down to 775,277—a 25.4 percent drop over fiscal 2009. This marked the lowest level since 1964 and the first time in 45 years that the number fell below 800,000.

Against this backdrop, the Misawa Homes Group moved forward on the core themes of its medium-term management plan—to optimize the business portfolio and reorganize business operations—and endeavored to improve fiscal performance. The results are presented below.

• Net Sales

Consolidated net sales fell 11.9 percent, or ¥47,583 million, to ¥353,621 million. The downward change reflects a year-on-year decrease of ¥32,067 million in the order balance at the beginning of fiscal 2010 and fewer units sold during fiscal 2010 because of sluggish order activity precipitated mainly by poor demand for homes.

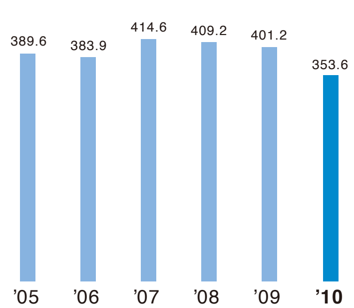
• Operating Income

Consolidated operating income edged up 0.5 percent, or ¥45 million, to ¥8,726 million. This small but still positive improvement despite lower net sales is due to successful cost reduction efforts and a reduction in selling, general and administrative expenses.

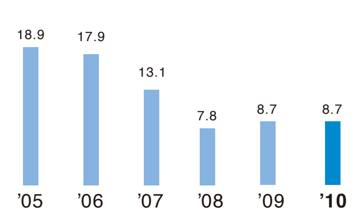
Gross profit settled at ¥79,111 million, down 12.2 percent, or ¥10,982 million. The primary reason for this decrease was that the Group generated ¥18,399 million less from the sale of mainstay homes, which was offset by a ¥3,923 million increase delivered through efforts to tighten construction costs, including the cost of construction work, and a ¥1,781 million increase from sales of home renovation and MJ Wood homes.

Selling, general and administrative expenses shrank ¥11,027 million, to ¥70,385 million. The main components of this change were a ¥2,380 million drop in selling costs realized through lower advertising and promotional costs and a ¥3,659 million decline in personnel costs achieved through workforce reductions at factories and sales companies.

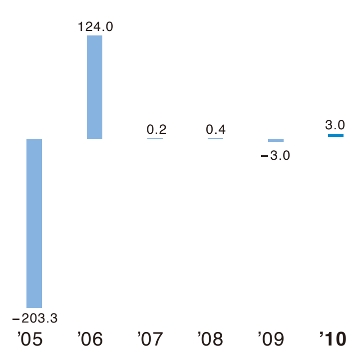
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Net Income
(Billions of yen)



• Income before Income Taxes and Minority Interests

Consolidated income before income taxes and minority interests soared 540.6 percent, or ¥4,103 million, to ¥4,862 million. This enormous year-on-year rally is due to the fact that the Company did not book other losses in fiscal 2010, whereas in fiscal 2009 the Company booked other losses, including a loss of ¥2,536 million on the write-down of inventories caused by the application of the lower of cost or market method as well as ¥1,840 million in costs associated with improvements to production and sales structures.

• Net Income

On a consolidated basis, the Company rebounded ¥6,028 million out of its fiscal 2009 net loss position with a net income of ¥3,044 million in fiscal 2010. The amount reflects a reversal of ¥1,978 million in deferred tax assets, based on the Group's tax plan.

• Financial Position

Total assets stood at ¥180,306 million as of March 31, 2010, down ¥14,628 million from a year earlier, owing to lower inventories and deferred tax assets. Total liabilities came to ¥156,845 million, down ¥16,845 million, reflecting a decline in interest-bearing debt. Net assets amounted to ¥23,461 million, up ¥2,217 million, as net income offset a leaner contribution from minority interests in subsidiaries.

• Cash Flow Status

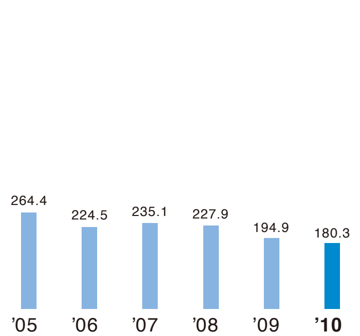
Cash and cash equivalents at March 31, 2010, stood at ¥41,410 million, up ¥12,938 million from a year earlier. The change reflects a ¥29,016 million increase in net cash provided by operating activities, which more than offset a combined decrease of ¥16,067 million in net cash used in investing and financing activities.

The ¥29,016 million in cash flows from operating activities was ¥28,940 million higher than the amount booked in fiscal 2009. This huge inflow of cash was largely comprised of income before income taxes and cash generated through the reduction of inventories.

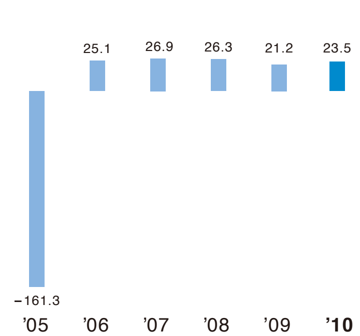
Net cash used in investing activities amounted to ¥1,923 million, down ¥1,470 million from a year earlier. This was primarily for the purchase of fixed assets.

Net cash used in financing activities settled at ¥14,144 million, up ¥5,067 million from the end of March 2009. The main application of funds was for reducing interest-bearing debt.

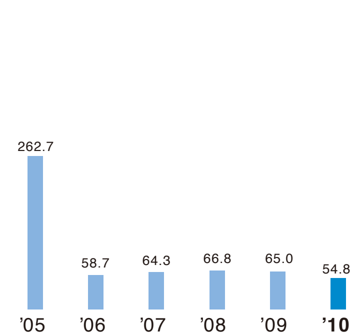
Total Assets
(Billions of yen)



Total Net Assets
(Billions of yen)



Interest-Bearing Debt
(Billions of yen)



MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
ASSETS			
Current assets:			
Cash and bank deposits (Notes 5, 9 and 17)	¥41,877	¥28,826	$450,098
Notes and accounts receivable, trade (Note 5)	6,227	7,802	66,930
Land and housing for sale (Note 9)	41,898	61,938	450,322
Cost of uncompleted contracts (Note 9)	13,157	14,206	141,411
Merchandise and finished goods	1,891	2,081	20,323
Work in process	199	267	2,134
Raw materials and supplies	1,762	2,391	18,935
Deferred tax assets (Note 15)	4,279	4,301	45,995
Other current assets (Note 9)	4,872	5,830	52,368
Allowance for doubtful accounts	(177)	(240)	(1,904)
Total current assets	115,985	127,402	1,246,612
Property, plant and equipment (Notes 7 and 9):			
Buildings and structures	35,606	34,826	382,697
Machinery and equipment	15,050	15,735	161,759
Land	25,214	25,077	270,998
Other	6,476	7,152	69,609
	82,346	82,790	885,063
Less: Accumulated depreciation	(37,707)	(36,992)	(405,277)
Net property, plant and equipment	44,639	45,798	479,786
Intangible assets (Note 7):			
Other	5,180	5,329	55,675
Total intangible assets	5,180	5,329	55,675
Investments and other assets:			
Investment securities (Notes 4, 5 and 9)	2,393	2,779	25,722
Investments in affiliates	-	15	-
Deferred tax assets (Note 15)	5,585	7,389	60,024
Other (Note 7)	9,960	9,824	107,059
Allowance for doubtful accounts	(3,436)	(3,602)	(36,935)
Total investments and other assets	14,502	16,405	155,870
Total assets	¥180,306	¥194,934	$1,937,943

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

			Millions of yen		Thousands of U.S. dollars (Note 3)
			March 31		March 31,
			2010	2009	2010
LIABILITIES AND NET ASSETS					
Current liabilities:					
Short-term bank loans (Notes 5, 9 and 20)			¥21,228	¥29,970	$228,162
Current portion of long-term debt (Notes 5 and 9)			12,497	10,328	134,316
Notes and accounts payable, trade (Note 5)			41,281	45,651	443,687
Accounts payable, other			5,356	6,284	57,571
Accrued bonuses			4,373	4,321	47,005
Allowance for claim expenses			2,028	2,470	21,801
Advance received on uncompleted contracts			23,673	23,967	254,436
Deposits received			5,713	5,509	61,401
Deferred tax liabilities (Note 15)			15	34	164
Other current liabilities			4,433	4,821	47,646
Total current liabilities			120,597	133,355	1,296,189
Long-term liabilities:					
Long-term debt (Notes 5, 9 and 20)			20,003	24,749	214,991
Accrued pension and severance costs (Note 10)			5,879	5,117	63,191
Deferred tax liabilities (Note 15)			140	85	1,508
Deferred tax liabilities from land revaluation			1,814	1,814	19,492
Accrued pension and severance costs for directors and corporate auditors			1,006	1,091	10,815
Other long-term liabilities			7,406	7,479	79,593
Total long-term liabilities			36,248	40,335	389,590
Net assets:					
Shareholders' equity (Note 11)					
Capital stock			23,413	23,413	251,644
	(Thousands of shares)				
	In 2010	In 2009			
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	5,480	58,894
Accumulated deficit			(6,027)	(9,071)	(64,783)
Treasury stock, at cost			(4,250)	(4,239)	(45,676)
Revaluation and translation adjustments					
Net unrealized gains on other securities (Note 4)			31	143	334
Land revaluation difference			2,017	2,017	21,677
Foreign currency translation adjustments			(1)	28	(8)
Minority interest in subsidiaries			2,798	3,473	30,082
Total net assets			23,461	21,244	252,164
Commitments and contingent liabilities (Note 19)					
Total liabilities and net assets			¥180,306	¥194,934	$1,937,943

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2010	2009	2010
Net sales	¥353,621	¥401,204	$3,800,740
Cost of sales (Note 16)	274,510	311,111	2,950,446
Gross profit	79,111	90,093	850,294
Selling, general and administrative expenses: (Notes 16 and 18)			
Salaries and wages	35,192	38,885	378,245
Advertising	9,231	10,887	99,213
Sales promotion	4,796	5,520	51,544
Addition to allowance for claim expenses	1,217	2,234	13,083
Provision for accrued bonuses	2,735	2,701	29,391
Depreciation expenses	3,048	3,237	32,766
Other selling expenses	3,586	4,625	38,553
Other general and administrative expenses	10,580	13,323	113,716
Total selling, general and administrative expenses	70,385	81,412	756,511
Operating income	8,726	8,681	93,783
Non-operating income:			
Interest income	39	60	417
Income from commissions	370	287	3,975
Insurance dividend	185	187	1,989
Other	791	852	8,503
Total non-operating income	1,385	1,386	14,884
Non-operating expenses:			
Interest expenses	1,594	1,879	17,127
Pension and severance costs	415	416	4,455
Commission for syndicate loan	91	370	981
Other	298	400	3,209
Total non-operating expenses	2,398	3,065	25,772
Ordinary income	7,713	7,002	82,895
Other gains (“TOKUBETSU RIEKI”):			
Gain on changes of share ownership in subsidiaries	-	105	-
Gain on sales of investment securities	202	56	2,169
Gain on sales of property, plant and equipment (Note 12)	135	36	1,453
Allowance for claim expenses	76	-	814
Reversal of allowance for doubtful accounts	23	152	248
Other	39	98	423
Total other gains	475	447	5,107
Other losses (“TOKUBETSU SONSHITSU”):			
Impairment loss on long-lived assets (Note 7)	1,093	1,186	11,743
Loss on sales of investment securities	57	1	612
Loss on devaluation of investment securities	50	347	541
Special retirement benefits	1,108	-	11,911
Loss on disposal of property, plant and equipment (Note 13)	267	306	2,875
Loss on write-down of inventories	-	2,536	-
Business restructuring expenses	-	1,840	-
Other	751	474	8,062
Total other losses	3,326	6,690	35,744
Income before income taxes and minority interest	4,862	759	52,258

Income taxes (Note 15):			
Current	561	565	6,035
Deferred	1,978	4,290	21,257
	2,539	4,855	27,292
Income (loss) before minority interest	2,323	(4,096)	24,966
Minority interest in subsidiaries	(721)	(1,112)	(7,751)
Net income (loss)	¥3,044	(¥2,984)	$32,717

	Yen		U.S. dollars (Note 3)
Per share:			
Net income (loss) (Note 14)－Basic	¥82.15	(¥80.43)	$0.88
－Diluted	¥19.99	-	$0.21

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	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, 2008	38,738,914	7,833,261	¥23,413	¥5,480	(¥6,325)	(¥4,234)	¥841	¥2,253	¥157	¥4,761	¥26,346
Net loss	-	-	-	-	(2,984)	-	-	-	-	-	(2,984)
Reversal of land revaluation difference	-	-	-	-	238	-	-	-	-	-	238
Purchase of treasury stock	-	-	-	-	-	(5)	-	-	-	-	(5)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	(698)	(236)	(129)	(1,288)	(2,351)
Balance at March 31, 2009	38,738,914	7,833,261	¥23,413	¥5,480	(¥9,071)	(¥4,239)	¥143	¥2,017	¥28	¥3,473	¥21,244
Net income	-	-	-	-	3,044	-	-	-	-	-	3,044
Reversal of land revaluation difference	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(11)	-	-	-	-	(11)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	(112)	-	(29)	(675)	(816)
Balance at March 31, 2010	38,738,914	7,833,261	¥23,413	¥5,480	(¥6,027)	(¥4,250)	¥31	¥2,017	(¥1)	¥2,798	¥23,461

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

	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, 2009	$251,644	$58,894	($97,500)	($45,565)	$1,539	$21,677	$306	$37,330	$228,325
Net income	-	-	32,717	-	-	-	-	-	32,717
Reversal of land revaluation difference	-	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	(111)	-	-	-	-	(111)
Net changes in items other than those in shareholders' equity	-	-	-	-	(1,205)	-	(314)	(7,248)	(8,767)
Balance at March 31, 2010	$251,644	$58,894	($64,783)	($45,676)	$334	$21,677	($8)	$30,082	$252,164

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interest	¥4,862	¥759	$52,258
Adjustments for:			
Depreciation and amortization	4,631	4,985	49,770
Amortization and write-off of goodwill	146	77	1,574
Decrease in allowance for doubtful accounts	(271)	(535)	(2,917)
Increase (decrease) in other allowances	127	(1,032)	1,360
Interest and dividend income	(85)	(124)	(915)
Interest expenses	1,594	1,878	17,127
Gain on sales of investment securities	(145)	(55)	(1,557)
Impairment loss on long-lived assets	1,093	2,164	11,743
Loss on sales of property, plant and equipment	132	269	1,422
Decrease in notes and accounts receivable, trade	1,085	2,258	11,667
Decrease in inventories	24,414	9,045	262,408
Decrease in notes and accounts payable, trade	(4,790)	(9,254)	(51,479)
Decrease in advances received on uncompleted contract	(1,321)	(8,175)	(14,196)
Other	(508)	341	(5,461)
Subtotal	30,964	2,601	332,804
Interest and dividends received	119	121	1,281
Interest paid	(1,537)	(2,088)	(16,529)
Income taxes paid	(530)	(558)	(5,693)
Net cash provided by operating activities	29,016	76	311,863
Cash flows from investing activities:			
(Decrease) increase of time deposits with maturity over three months	(75)	143	(808)
Payments for purchases of property, plant equipment and intangible assets	(2,061)	(4,173)	(22,148)
Proceeds from sales of property, plant equipment and intangible assets	256	386	2,751
Payments for purchases of investment securities	(1)	(507)	(11)
Proceeds from sales of investment securities	282	130	3,033
Purchase (Proceeds from sales) of subsidiaries' shares resulting in change in scope of consolidation	989	(30)	10,627
Payments for transfer of business	(360)	-	(3,865)
Other	(953)	658	(10,247)
Net cash used in investing activities	(1,923)	(3,393)	(20,668)
Cash flows from financing activities:			
Decrease in short-term bank loans	(10,038)	(16,358)	(107,893)
Proceeds from long-term debt	6,449	30,232	69,311
Repayments of long-term debt	(10,433)	(16,130)	(112,130)
Proceeds from issuance of bonds	197	-	2,121
Payments for purchase of treasury stock	(11)	(5)	(111)
Cash dividends paid to minority interest	(16)	(16)	(174)
Disbursement for liquidation of construction contract amount	-	(6,800)	-
Other	(292)	-	(3,143)

Net cash used in financing activities	(14,144)	(9,077)	(152,019)
Effect of exchange rate changes on cash and cash equivalents	(11)	(13)	(127)
Net increase (decrease) in cash and cash equivalents	12,938	(12,407)	139,049
Cash and cash equivalents at the beginning of the year	28,472	40,879	306,024
Cash and cash equivalents at the end of the year (Note 17)	¥41,410	¥28,472	$445,073

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements:

Misawa Homes Co., Ltd. (the "Company") and its subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan.
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 Act 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 the Company. 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 balance and unrealized inter-company profits are eliminated in 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.
As of March 31, 2010, the numbers of consolidated subsidiaries and subsidiaries and affiliates accounted for by the equity method were 47 and 0 (45 and 0 in 2009), respectively. The financial statements of ILS Co., Ltd. and one other subsidiary are consolidated by using their financial statements as of the parent fiscal year end which are prepared solely for consolidation purposes.
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 periods 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 little 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 debit accounts, 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

Merchandise and finished goods, work in process and raw materials and supplies are stated at cost, which is primarily determined using the weighted average cost method, and are written down based on their decrease in profitability. Land and housing for sale and cost of uncompleted contracts are stated at cost, which is determined by the specific identification method, and are written down based on their decrease in profitability.
Effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries applied “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan (“ASBJ”) Statement No.9, issued on July 5, 2006). Due to the application of this standard, operating income and ordinary income decreased by ¥1,364 million, respectively, and income before income taxes and minority interest decreased by ¥3,900 million for the year ended March 31,2009.

The write-down of inventories recognized as an expense and included in cost of sales for the years ended March 31, 2010 and 2009 were ¥ 4,633 million ($ 49,794 thousand) and ¥3,287 million, respectively.

(6) Property, plant and equipment (Excluding leased assets)

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.
Effective from the fiscal year ended March 31, 2009, triggered by amendment to the Corporate Tax Law, as a result of re-estimation ,the Company and its domestic consolidated subsidiaries changed the useful life of machinery and equipment in accordance with the amended law. As a result, for the year ended March 31, 2009, operating income,

ordinary income and income before income taxes and minority interest decreased by ¥171 million, respectively, compared with the previous period.

(7) Intangible assets (Excluding leased 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 after 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.
Effective from the year ended March 31, 2010, Misawa Homes has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008). The adoption of the new standard had no effect on operating income, ordinary income and income before income taxes and minority interest for the year ended March 31, 2010.

(10) Pension and severance costs for directors and corporate auditors

Accrued pension and severance costs for directors and corporate auditors had been recorded in the past as reserve for directors and corporate auditors' retirement benefits at the required amount at the end of the fiscal year, based on internally established standards.
The Annual General Shareholders' Meeting held on June 26, 2009 approved a resolution to abolish retirement benefit plans for directors and corporate auditors and to pay the retirement benefits based on internally established standards and respective service periods. At the same meeting, a proposal to pay incumbent directors and corporate auditors final retirement benefits was also approved. As the retirement benefit payment dates and amount are not finalized yet, accrued pension and severance costs for directors and corporate auditors were recorded as a reserve for retirement benefits at the required amount as of March 31, 2010.

(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 foreign currency translation adjustments and minority interest in subsidiaries in net assets.

(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 land revaluation difference in net assets.

(16) Leases

Leased assets under finance lease transactions in which ownership is not transferred to the lessees, which were entered into on or after April 1, 2008, are depreciated by the straight-line method to a residual value of zero. However, leased assets under finance lease transactions in which ownership is not transferred to the lessees, which were entered into prior to April 1, 2008, and previously accounted for as operating leases, continue to be accounted for operating leases.
Effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries applied the “Accounting Standard for Lease Transactions” (ASBJ Statement No.13, issued on June 17, 1993 (First Committee of Business Accounting Council), revised on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16, issued on January 18, 1994 (Accounting System Committee of the Japanese Institute of Certified Public Accountants), revised on March 30, 2007), and finance lease transactions in which ownership is not transferred to lessees, previously accounted for as operating leases, are now being accounted for based on purchase transactions.
Because there were no such finance lease transactions entered into during this fiscal year, there was no effect on the consolidated financial statements of the Company for the year ended March 31,2009, due to the application of this accounting standard.

(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 Companies Act of Japan.

(19) Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentations for the year ended March 31, 2010.

(20) Recognition of revenues and costs on construction contracts

Misawa Homes previously applied the completed-contract method for recognizing revenues associated with construction contracts. However, from the fiscal year ended March 31, 2010, Misawa Homes has applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). As a result, the percentage-of-completion method is applied for construction contracts, which started from the year ended March 31, 2010, for which the outcome of the construction in progress as of March 31, 2010 is deemed certain, except for short-term construction contracts. The completed-contract method is applied to other construction contracts. As Misawa Homes does not have any construction contracts applying the percentage-of-completion method, there was no effect on operating income, ordinary income and income before income taxes and minority interest for the year ended March 31, 2010.

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 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 ¥ 93.04= U.S. $1, the rate of exchange prevailing on March 31, 2010, has been used.

4. Investment securities:

Misawa Homes' management classified all investment securities as other securities at March 31, 2010 and 2009. Net unrealized gains, net of tax, on securities categorized as other securities of ¥ 31 million ($334 thousand) and ¥143 million at March 31, 2010 and 2009, respectively, were recorded as a component of net assets. Related deferred tax liabilities thereon of ¥ 100 million ($1,075 thousand) and ¥134 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2010 and 2009, respectively.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2010 and 2009, were as follows:

	Millions of yen			
	March 31, 2010			
	Acquisition cost	Gross unrealized Gains	Gross unrealized Losses	Market value (carrying value)
Equity securities	¥1,636	¥314	(¥189)	¥1,761
Debt securities	735	1	(6)	730
Other	11	0	(2)	9
Total	¥2,382	¥315	(¥197)	¥2,500

	Millions of yen			
	March 31, 2009			
	Acquisition cost	Gross unrealized Gains	Gross unrealized Losses	Market value (carrying value)
Equity securities	¥1,815	¥440	(¥179)	¥2,076
Debt securities	129	1	-	130
Other	11	-	(4)	7
Total	¥1,955	¥441	(¥183)	¥2,213

	Thousands of U.S. dollars (Note 3)			
	March 31, 2010			
	Acquisition cost	Gross unrealized Gains	Gross unrealized Losses	Market value (carrying value)
Equity securities	$17,586	$3,377	($2,036)	$18,927
Debt securities	7,893	14	(66)	7,841
Other	117	5	(24)	98
Total	$25,596	$3,396	($2,126)	$26,866

Note: Unlisted equity securities were not included in the above table because there were no quoted market prices available and it is extreamely difficult to determine the fair value. As of March 31, 2010 and 2009, the carrying values of these unlisted securities were ¥ 624 million ($ 6,711 thousand) and ¥695 million, respectively.
Proceeds from sales of other securities for the years ended March 31, 2010 and 2009, were ¥ 282 million ($ 3,033 thousand) and ¥145 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥ 202 million ($ 2,169 thousand) and ¥ 57 million ($ 612 thousand), respectively, for the year ended March 31, 2010 and ¥56 million and ¥1 million, respectively, for the year ended March 31, 2009.
Impairment losses of other securities for the year ended March 31, 2010 were ¥50 million ($ 541 thousand).
Impairment losses are recorded for securities whose fair value has declined by more than 50% or for those which have declined from 30% to 50% if the decline is deemed to be irrecoverable.
The redemption schedule for securities with maturities as of March 31, 2010 and 2009 are as follows:

	Millions of yen			
	March 31, 2010			
	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	¥100	¥20	¥611	¥ -
Total	¥100	¥20	¥611	¥ -

	Millions of yen			
	March 31, 2009			
	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	¥ -	¥120	¥10	¥ -
Total	¥ -	¥120	¥10	¥ -

	Thousands of U.S. dollars (Note 3)			
	March 31, 2010			
	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	$1,075	$215	$6,567	$ -
Total	$1,075	$215	$6,567	$ -

5. Financial Instruments:

Effective from the fiscal year ended March 31, 2010, Misawa Homes has applied "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 10, 2008).

(1) Policy for financial instruments

Misawa Homes utilizes short-term deposits for surplus funds. In addition, it raises funds through borrowings from financial institutions. Derivative transactions are only used to reduce risks, and it is a policy not to enter into derivatives for speculative purposes.

(2) Details of financial instruments, related risk and risk management system

Trade receivables such as trade notes and accounts receivable, trade are exposed to credit risk. Misawa Homes monitors the due dates and manage credit risk under the credit management rules to mitigate the risk.

Investment securities mainly consist of equity securities and are exposed to market risk. Misawa Homes reviews the fair values of the listed equity securities quarterly.

Short-term bank loans are mainly used for the working capital and for the purchase of land and housing for sale.

Some long-term debt is exposed to interest rate fluctuation risk. Some long-term debt, which is exposed to interest rate fluctuation risk, is hedged by interest swap agreements to fix interest payments.

(3) Supplemental explanation of the estimated fair value of financial instruments

As well as the fair values based on market prices, the fair values of financial instruments include reasonably estimated amounts in case there are no quoted market prices available. As the estimation of those fair values relies on certain assumptions, different assumptions and factors could result in different fair values. Also, the notional amount of derivative transactions described in Note 6. Derivative instruments, is not necessarily indicative of the actual market risk involved in the derivative transactions.

Estimated fair value and others of financial instruments as of March 31, 2010 are as follows:

	Millions of yen		
	March 31, 2010		
	Carrying value	Estimated fair Value	Difference
Cash and bank deposits	¥41,877	¥41,877	¥—
Notes and accounts receivable, trade	6,227	6,227	—
Investment securities	2,500	2,500	—
Total assets	¥50,604	¥50,604	¥—
Notes and accounts payable, trade	¥41,281	¥41,281	¥—
Short-term bank loans	21,228	21,228	—
Long-term debt (excluding bonds)	31,900	31,783	(117)
Total liabilities	¥94,409	¥94,292	(¥117)
Derivatives	—	—	—

	Thousands of U.S. dollars		
	March 31, 2010		
	Carrying value	Estimated fair Value	Difference
Cash and bank deposits	$450,098	$450,098	$—
Notes and accounts receivable, trade	66,930	66,930	—
Investment securities	26,866	26,866	—
Total assets	$543,894	$543,894	$—
Notes and accounts payable, trade	$443,687	$443,687	$—
Short-term bank loans	228,162	228,162	—
Long-term debt (excluding bonds)	342,857	341,608	(1,249)
Total liabilities	$1,014,706	$1,013,457	($1,249)
Derivatives	—	—	—

Note 1: Unlisted securities of ¥624 million ($6,711 thousand) whose fair value is extremely difficult to determine as of March 31, 2010 were not included in the above tables.

Note 2: Valuation method to determine the estimated fair value of financial instruments and other matters related to transactions are as follows:

Cash and bank deposits, notes and accounts receivable, trade

The carrying value approximates fair value since these items are settled in a short period of time.

Investment securities

Fair value of equity securities is based on quoted market prices and that of bonds is based on either quoted market prices or prices provided by counter party financial institutions. Marketable securities amounting to ¥6 million ($68 thousand) are included in other current assets of current assets. Government bonds used for deposits amounting to ¥724 million ($7,786 thousand) are included in other of investments and other assets.

Notes and accounts payables, trade, short-term bank loans

The carrying value approximates fair value since these items are settled in a short period of time.

Long-term debt

The fair value is based on the net present value of the total of the principal and interest discounted by the interest rate to be applied if similar new loans were entered into. Long-term floating rate loans are accounted for by the special treatment. Please refer to the Note 6. Derivative instruments. The fair value is based on the total amount of the principal and interest processed as an interest rate swap discounted by the interest rate if similar new loans were entered into. Long-term debt due within 1-year amounting to ¥12,497 million ($134,316 thousand) is included in long-term debt in the above table.

Derivative transactions

The fair value of derivative transaction which meet special treatment criteria for interest rate swaps, is included in long-term debt in the above table.

(4) The redemption schedule for financial instruments and securities with maturities at March 31, 2010 is as follows:

	Millions of yen			
	March 31, 2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥41,877	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	6,227	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	100	20	611	–
Total	¥48,204	¥20	¥611	¥ –

	Thousands of U.S. dollars			
	March 31, 2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	$450,098	$ –	$ –	$ –
Notes and accounts receivable, trade	66,930	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	1,075	215	6,567	–
Total	$518,103	$215	$6,567	$ –

6. Derivative instruments:

Misawa Homes enters into interest rate swap agreements and foreign exchange forward contracts only for hedging risks from fluctuation in interest rates and foreign exchange rates. The derivative transactions entered into by Misawa Homes are made in accordance with internal policies, which regulate the authorization of such transactions.

Material derivative transactions for which hedge accounting is applied for the year ended March 31, 2010 were as follows:

	Hedged item	Millions of yen			Thousands of U.S. dollars		
		Notional amount	Maturing after one year	Fair value	Notional amount	Maturing after one year	Fair value
Interest rate:							
Deferral method							
Interest rate swap Agreement Receive floating/ Pay fix	Long-term debt	¥1,500	¥ 900	Note	$16,122	$9,673	Note

Note: Fair value of the interest rate swap agreement is included in the fair value of the long-term debt as the hedged item.

Foreign exchange forward contracts are omitted since the contract amounts are immaterial.

7. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2010 and 2009 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
Applicable assets	2010	2009	2010
Buildings and structures	¥168	¥323	$1,805
Machinery and equipment	–	298	–
Land	430	1,038	4,621
Leased assets	26	107	282
Goodwill	452	359	4,858
Other assets	17	39	177
Total	¥1,093	¥2,164	$11,743

Misawa Homes classifies fixed assets by business control unit such as branch office or plant, under which control over revenue and expenditures is consistently maintained.

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

Due to restructuring production of housing materials, certain factories were resolved to be closed. Consequently, ¥ 978 million was recognized as impairment loss and included in the business restructuring expenses for the year ended March 31, 2009.

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 years ended March 31, 2010 and 2009.

8. Business restructuring expenses:

Misawa Homes recorded business-restructuring expenses of ¥1,840 million for the year ended March 31, 2009 consisting of impairment loss of its subsidiary businesses' assets, including loss on disposal of long-lived assets of subsidiaries, as well as costs related to layoffs.

Business restructuring expenses	Millions of yen
Impairment loss:	
Buildings and structures	¥194
Machinery and equipment	298
Land	480
Other	6
Total amount of impairment loss	978
Loss on disposal of long-lived assets	660
Others	202
Total	¥1,840

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

Short-term bank loans at March 31, 2010 and 2009, were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
Loans, principally from banks, with weighted-average interest rate of 2.2% at March 31, 2010	¥21,228	¥29,970	$228,162

Long-term debt at March 31, 2010 and 2009, was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
Loans, principally from banks and insurance companies, due 2011 to 2020 with weighted-average interest rate of 2.3% at March 31, 2010	¥31,900	¥34,877	$342,857
Unsecured 2.15% bonds, due 2012	200	200	2,150
Unsecured 0.85% bonds, due 2012	200		2,150
Unsecured 0.9% bonds, due 2013	200		2,150
	32,500	35,077	349,307
Less-portion due within one year	(12,497)	(10,328)	(134,316)
	¥20,003	¥24,749	$214,991

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2011	¥12,497	$134,316
2012	13,490	144,988
2013	4,859	52,221
2014	795	8,543
2015	512	5,507
Thereafter	347	3,732
Total	¥32,500	$349,307

Assets pledged as collateral for secured loans and debt at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Pledged assets	2010	2009	2010
Cash and bank deposits	¥20	¥20	$215
Land and housing for sale	5,667	7,472	60,906
Cost of uncompleted contracts	2,376	2,279	25,535
Other current assets	3	-	32
Buildings and structures	3,233	2,372	34,752
	(582)	(642)	(6,263)
Machinery and equipment	1,698	636	18,252
	(351)	(459)	(3,770)
Land	10,134	8,555	108,917
	(3,138)	(3,011)	(33,730)
Other fixed assets	29	28	309
	(29)	(28)	(309)
Investment securities	112	110	1,208
Total	¥23,272	¥21,472	$250,126
	(¥4,100)	(¥4,140)	($44,072)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Secured loans and debt	2010	2009	2010
Short-term bank loans	¥19,469 (3,300)	¥20,209 (1,100)	$209,257 (35,469)
Long-term debt	7,132	6,992 (3,300)	76,651
Total	¥26,601 (¥3,300)	¥27,201 (¥4,400)	$285,908 ($35,469)

The amounts in parenthesis are pledged as factory foundation collateral.

10. Pension and severance costs:

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

The funded status of retirement benefit obligations at March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
Projected benefit obligation	(¥25,594)	(¥27,521)	($275,090)
Plan assets at fair value	15,345	14,659	164,934
Unfunded status	10,249	(12,862)	110,156
Unrecognized items:			
Net retirement benefit obligation at transition	1,838	2,458	19,755
Actuarial losses	2,872	5,596	30,863
Prior service cost reduction due to plan amendment	(38)	(45)	(410)
Accrued pension and severance costs - net	(5,577)	(4,853)	(59,948)
Prepaid pension cost	302	264	3,243
Accrued pension and severance costs	(¥5,879)	(¥5,117)	($63,191)

The composition of net pension and severance costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2010	2009	2010
Service cost	¥2,335	¥2,334	$25,093
Interest cost	396	407	4,259
Expected return on plan assets	(134)	(258)	(1,438)
Amortization and expenses:			
Prior service costs	(128)	(45)	(1,375)
Actuarial losses	898	572	9,657
Net retirement benefit obligation at transition	415	416	4,455
Retirement benefit expenses due to mass retirement	324	-	3,479
Total	¥4,106	¥3,426	$44,130

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2010 and 2009 were as follows:

	Years ended March 31	
	2010	2009
Discount rate	1.5%	1.5%
Long-term rate of return on plan assets	0.0-3.7%	0.0-4.4%

11. Shareholders' equity:

Preferred stocks outstanding as of March 31, 2010 were 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 being 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 being 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 Companies Act 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 Companies Act 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 Companies Act 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 during each fiscal year in accordance with the Companies Act of Japan and the Company's Articles of Incorporation.

There were 1,697,613 shares and 1,650,881 shares of treasury stock at March 31, 2010 and 2009, respectively.

12. 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, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2010	2009	2010
Buildings and structures	¥10	¥20	$113
Machinery and equipment	5	1	51
Land	1	15	8
Other	119	0	1,281
Total	¥135	¥36	$1,453

13. 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, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2010	2009	2010
Buildings and structures	¥208	¥194	$2,231
Machinery and equipment	24	63	255
Land	-	14	-
Other	35	35	389
Total	¥267	¥306	$2,875

14. Net income per share:

Calculation of net income per share for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2010	2009	2010
Net income (loss) attributable to common shares	¥3,044	(¥2,984)	$32,717
Weighted average number of common shares outstanding:			
-Basic	37,052,629	37,093,990	
-Diluted	152,243,834	-	

	Yen		U.S. dollars (Note 3)
Net income (loss) per share:			
-Basic	¥82.15	(¥80.43)	$0.88
-Diluted	¥19.99	-	$0.21

Diluted net income per share for the year ended March 31, 2009 was not disclosed because net loss per share was recorded despite the existence of potentially dilutive shares.

15. Income taxes:

Misawa Homes is subject to several types of 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, 2010 and 2009.

The significant components of deferred tax assets and liabilities at March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
Deferred tax assets:			
Devaluation of inventories	¥4,184	¥3,757	$44,972
Tax loss carry forwards	111,698	115,797	1,200,537
Others	11,018	10,359	118,423
Gross deferred tax assets	126,900	129,913	1,363,932
Less: valuation allowance	(116,953)	(118,083)	(1,257,022)
Total deferred tax assets	9,947	11,830	106,910
Deferred tax liabilities:			
Prepaid pension cost	(122)	(107)	(1,310)
Net unrealized gains on other securities	(100)	(134)	(1,075)
Others	(16)	(18)	(178)
Gross deferred tax liabilities	(238)	(259)	(2,563)
Net deferred tax assets	¥9,709	¥11,571	$104,347

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 years ended March 31, 2010 and 2009 decreased by ¥1,130 million ($12,147 thousand) and increased by ¥1,705 million, respectively.

The differences between Misawa Homes' statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the years ended March 31, 2010 and 2009 were reconciled as follows:

March 31	2010	2009
Statutory income tax rate	40.7%	40.7%
Reconciliation:		
Changes in valuation allowance	2.0	600.2
Entertainment expenses, etc. permanently non-tax deductible	10.0	36.9
Per capita inhabitants tax	3.8	32.9
Consolidation adjustment	(3.6)	(75.8)
Others	(0.7)	4.8
Effective income tax rates	52.2%	639.7%

16. Research and development costs:

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥2,561 million ($27,524 thousand) and ¥3,357 million for the years ended March 31, 2010 and 2009, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2010 and 2009 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
Cash and bank deposits	¥41,877	¥28,826	$450,098
Less:			
Time deposits due over three months	(467)	(354)	(5,025)
Cash and cash equivalents	¥41,410	¥28,472	$445,073

18. Leases:

As described in Note 2. (16) Leases, Misawa Homes, as a lessee, charges periodic payment of finance lease transactions acquired prior to April 1, 2008, as an expense when paid. Such payments for the years ended March 31, 2010 and 2009 amounted to ¥2,102 million ($22,591 thousand) and ¥2,869 million, respectively.
If the finance lease transactions entered into on or before March 31, 2009 that 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, 2010 and 2009 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2010	2009	2010
Acquisition cost:			
Buildings and structures	¥5,687	¥8,208	$61,123
Machinery and equipment	178	212	1,905
Other property, plant and equipment	2,120	2,638	22,788
Other intangible assets	466	482	5,011
	8,451	11,540	90,827
Less:			
Accumulated depreciation	(6,621)	(7,376)	(71,161)
Net book value	¥1,830	¥4,164	$19,666

Depreciation expenses for these leased assets for the years ended March 31, 2010 and 2009, would have been ¥2,013 million ($21,639 thousand) and ¥2,721 million, respectively, if they were computed in accordance with the straight-line method over the contractual periods of these finance leases, assuming no residual value.
Interest expense for these finance leases for the years ended March 31, 2010 and 2009, would have been ¥73 million ($788 thousand) and ¥140 million, respectively.
Impairment loss for these finance leases for the years ended March 31, 2010 and 2009 were ¥26 million ($282 thousand) and ¥107 million, respectively.

Future lease payments for finance leases at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Future lease payments	2010	2009	2010
Due within one year	¥1,296	¥2,189	$13,924
Due after one year	643	2,199	6,914
Total	¥1,939	¥4,388	$20,838

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Future lease payments	2010	2009	2010
Due within one year	¥306	¥290	$3,291
Due after one year	3,918	2,757	42,107
Total	¥4,224	¥3,047	$45,398

19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2010 and 2009 were ¥40,423 million ($434,464 thousand) and ¥43,665 million, respectively.

20. Related party transactions:

(Additional information)
Effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries applied "Accounting Standard for Related Party Disclosures" (ASBJ Statement No.11, issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13, issued on October 17, 2006). Due to the application of these standards, persons associated with directors of subsidiaries are additionally included in the scope of disclosure than what would have been disclosed under the previous accounting method.

Significant transactions with related parties for the years ended March 31, 2010 and 2009 were as follows:

(1) Significant transactions between the Company and related parties

(Transactions)

Name of related party	Type of transaction	Millions of yen, Years ended March 31, 2010	Millions of yen, Years ended March 31, 2009	Thousands of U.S. dollars (Note 3), Year ended March 31, 2010
Toyota Finance Corporation	Borrowings	¥-	¥4,400	$-
	Pledged assets	¥3,300	¥4,400	$35,469

(Balances)

Name of related party	Account	Millions of yen, March 31, 2010	Millions of yen, March 31, 2009	Thousands of U.S. dollars (Note 3), March 31, 2010
Toyota Finance Corporation	Short-term loans	¥3,300	¥1,100	$35,469
	Long-term debts	¥-	¥3,300	$-

Toyota Finance Corporation is a company, which is owned more than half of its voting rights by the main shareholders of the Company.

Note 1: The interest rate for the loans and debts was reasonably determined, considering the market interest rate.

Note 2: The pledged assets are furnished by the subsidiaries, and the amount of the transaction is the balance of the borrowings at March 31, 2009.

(2) Significant transactions between the consolidated subsidiaries of the Company and related parties

(Transactions)

Name of related party	Type of transaction	Millions of yen, Years ended March 31, 2010	Millions of yen, Years ended March 31, 2009	Thousands of U.S. dollars (Note 3), Year ended March 31, 2010
Kenji Hisanobu	Housing contract construction	¥-	¥25	$-

(Balances)

Name of related party	Account	Millions of yen, March 31, 2010	Millions of yen, March 31, 2009	Thousands of U.S. dollars (Note 3), March 31, 2010
Kenji Hisanobu	-	¥-	¥-	$-

Kenji Hisanobu is a representative director of Misawa Homes Chugoku Co., Ltd.

Note: The amount is determined based on the employee's house ownership discount regulation of the Company.

21. Transactions under common control:

(The transaction for the year ended March 31, 2009)

(1) Companies subject to business combination, legal form of business combination, and outline of transaction, including objective of transaction:

(Business description of combined parties)

a. Misawa Homes Co., Ltd

Management of Misawa Homes, development of prefabricated houses, provision of materials for prefabricated houses.

b. Misawa Homes Kyushu Co., Ltd. (a consolidated subsidiary of the Company)

Construction and sale of prefabricated houses.

(Legal form of business combination)

Business combination by simple exchange of shares

(Purpose of transaction)

The purpose of the business combination is to strengthen the regional operation in the Kyushu area and enhance the operational efficiency based on the mid-term business plan of the Group.

(2) Outline of accounting treatment

The Company adopted the accounting treatment for a business combination under common control based on the accounting standards, "Accounting Standard for Business Combinations" (Business Accounting Council issued on October 31, 2003), and "Implementation Guidance on application of Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 revised on November 15, 2007).

(3) Additional acquisition of the subsidiary's shares from minority shareholders:

(Acquisition cost and details)

Cash payment : ¥202 million

.

(Exchange ratio and calculation method of the ratio)

a. Exchange ratio

¥68 to one share of common stock in Misawa Homes Kyushu Co., Ltd.

b. Calculation method of the ratio

The Company commissioned Mitsubishi UFJ Securities Co., Ltd., and Misawa Homes Kyushu Co., Ltd. commissioned KPMG FAS Co., Ltd., to evaluate the stock for each company. An agreement was reached through discussion between the Company and Misawa Homes Kyushu Co., Ltd. by referencing the results of these evaluations.

(Goodwill)

a. Amount of goodwill: ¥73 million

b.Reason for recognizing goodwill: A difference between the above-stated acquisition cost and the amount of decrease in minority interest resulting from the acquisition.

c. Amortization method: Amortized as an expense during the year ended March 31, 2009.

22. Segment information:

(1) Business Segments

Information regarding business segments is omitted in consolidated financial reports for the years ended March 31, 2010 and 2009 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, 2010 and 2009 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, 2010 and 2009 because overseas sales represents less than 10% of total sales.

23. Subsequent events:

Based on the resolution of the Board of Directors meeting held on March 18, 2010, the Company acquired common stock of Misawa Homes Hokkaido Co., Ltd. and Tohoku Misawa Homes Co., Ltd., the Company's consolidated subsidiaries, through tender offer ("Tender Offer"). Based on the Board of Directors meeting held on May 14, 2010, the Company signed the share exchange agreement to make Misawa Homes Hokkaido Co., Ltd. and Tohoku Misawa Homes Co., Ltd. wholly owned subsidiaries of the Company and executed the share exchange on June 21, 2010.

1. Tender Offer and share exchange of Misawa Homes Hokkaido Co., Ltd.

a. Objective of the Tender Offer

By establishing a more firm and cooperative structure between the Company and Misawa Homes Hokkaido Co., Ltd. the Company is able to make and execute flexible management strategies that should not be preoccupied with short-term interests. The Company is also able to undertake agile and flexible decision-making for Misawa Homes Hokkaido Co., Ltd.

b. Outline of Tender Offer

Type of shares: Common stock

Period of the Tender Offer: 25 business days from March 19 to April 23, 2010

c. Results of the Tender Offer
Number of shares acquired: 2,683,300 shares
Change in ratio of voting rights as a result of the Tender Offer: 99.35%
Price to be offered: ¥270 ($2.90) per share
Total amount of the Tender Offer: ¥712 million ($7,656 thousand)
Settlement start date: April 30, 2010
Note: Change in ratio of voting rights as a result of the Tender Offer was calculated based on the voting rights (11,780 rights) for the total number of issued common stock (11,780,800 shares) of Misawa Homes Hokkaido Co., Ltd. as of March 31, 2010 as denominator.

d. Effective date of share exchange
June 21, 2010

e. Conditions of share exchange
¥270 ($2.90) per one share of common stock of Misawa Homes Hokkaido Co., Ltd. (by cash)
The Company does not offer cash for the shares of Misawa Homes Hokkaido Co., Ltd. that the Company owns.

f. Calculation basis for acquisition cost and allotment of the share exchange
The Company and Misawa Homes Hokkaido Co., Ltd. commissioned Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and Growin' Partners Inc. to evaluate the shares for each company. An agreement was reached through discussion between the Company and Misawa Homes Hokkaido Co., Ltd. by referencing the results of these evaluations.

2. Tender Offer and share exchange of Tohoku Misawa Homes Co., Ltd.

a. Objective of the Tender Offer
By establishing a more firm and cooperative structure between the Company and Tohoku Misawa Homes Co., Ltd., the Company is able to make and execute flexible management strategies that should not be preoccupied with the short-term interests. The Company is also able to make agile and flexible decision-making in Tohoku Misawa Homes Co., Ltd..

b. Outline of Tender Offer
Type of shares: Common stock
Period of the Tender Offer: 25 business days from March 19 to April 23, 2010

c. Results of the Tender Offer
Number of shares acquired: 10,113,947 shares
Change in ratio of voting rights as a result of the Tender Offer: 92.48%
Price to be offered: ¥204 ($2.19) per share
Total amount of the Tender Offer: ¥2,063 million ($ 22,176 thousand)
Settlement start date: April 30, 2010

Note: Change in ratio of voting rights as a result of the Tender Offer was calculated based on the voting rights (250,105 rights) for the total number of issued common stock (25,010,537 shares) of Tohoku Misawa Homes Co., Ltd. , which deducted treasury stock (4,995 shares) as of March 31, 2010 .

d. Effective date of share exchange

June 21, 2010

e. Conditions of share exchange

¥204 ($2.19) per one share of common stock of Tohoku Misawa Homes Co., Ltd. (by cash)

The Company does not offer cash for the shares of Tohoku Misawa Homes Co., Ltd. that it already owns.

f. Calculation basis for acquisition cost and allotment of the share exchange

The Company and Tohoku Misawa Homes Co., Ltd. commissioned Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and Growin' Partners Inc. to evaluate the shares for each company. An agreement was reached through discussion between the Company and Tohoku Misawa Homes Co., Ltd. by referencing the results of these evaluations.

Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
Misawa Homes Co., Ltd.

We have audited the accompanying consolidated balance sheets of Misawa Homes Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2(5), effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied a new accounting standard for measurement of inventories.

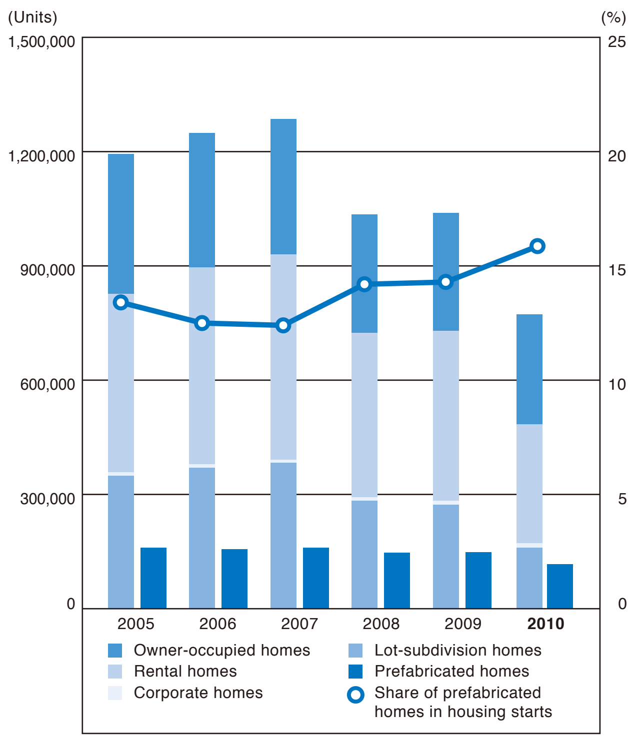
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

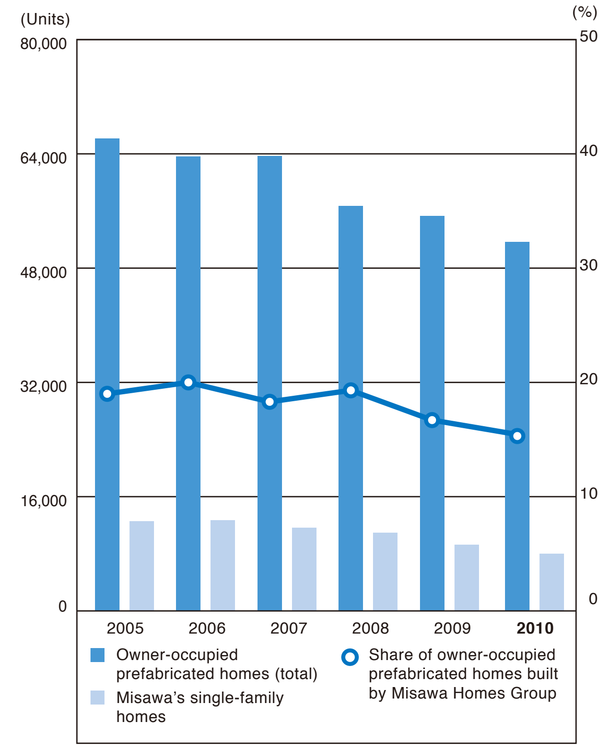
June 29, 2010

Trends in the Housing Market

New Housing Starts by Usage



Owner-Occupied Prefabricated Home Construction



New Housing Starts by Usage

(Units, %)

Years ended March 31	2005		2006		2007		2008		2009		**2010**	
Owner-occupied homes	367,233	30.8	352,577	28.2	355,700	27.7	311,803	30.1	310,664	29.9	286,993	37.0
Rental homes	467,348	39.2	517,999	41.5	537,943	41.9	430,867	41.6	444,747	42.8	311,463	40.2
Corporate homes	9,413	0.8	8,515	0.7	9,100	0.7	10,311	1.0	11,089	1.1	13,231	1.7
Lot-subdivision homes	349,044	29.3	370,275	29.6	382,503	29.7	282,617	27.3	272,680	26.2	163,590	21.1
Total	1,193,038	100.0	1,249,366	100.0	1,285,246	100.0	1,035,598	100.0	1,039,180	100.0	775,277	100.0

Prefabricated Home Construction

(Units, %)

Years ended March 31	2005		2006		2007		2008		2009		**2010**	
Prefabricated homes	159,945	13.4	156,581	12.5	159,544	12.4	146,571	14.2	148,273	14.3	123,757	16.0
Housing starts (total)	1,193,038	100.0	1,249.366	100.0	1,285,246	100.0	1,035,598	100.0	1,039,180	100.0	775,277	100.0

Owner-Occupied Prefabricated Home Construction

(Units, %)

Years ended March 31	2005		2006		2007		2008		2009		**2010**	
Misawa's single-family homes*	12,534	19.0	12,700	20.0	11,676	18.3	10,957	19.3	9,238	16.7	8,074	15.6
Owner-occupied prefabricated homes (total)	66,129	100.0	63,586	100.0	63,725	100.0	56,719	100.0	55,271	100.0	51,653	100.0

* Based on orders received by our dealers

Source: Ministry of Land, Infrastructure, Transport and Tourism "Housing Starts Statistics."

Subsidiaries and Affiliated Company (As of March 31, 2010)

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	1,238	78.4 (1.4)	Construction and sales of prefabricated houses
Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	4,178	61.8 (9.8)	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 Nishikanto Co., Ltd.	Saitama, Saitama Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Higashikanto Co., Ltd.	Chiba, Chiba Prefecture	100	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 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	800	100.0	Construction and sales of prefabricated houses
Misawa Homes Chugoku Co., Ltd.	Hiroshima, Hiroshima Prefecture	1,369	73.0 (5.6)	Construction and sales of prefabricated houses
Misawa Homes Kyushu Co., Ltd.	Fukuoka, Fukuoka Prefecture	1,451	100.0	Construction and sales of prefabricated houses
Misawa Homes Ceramics Co., Ltd.	Suginami-ku, Tokyo	100	100.0	Construction and sales of prefabricated houses
Misawa Techno Corporation	Matsumoto, Nagano Prefecture	50	100.0	Manufacture of house materials
34 others				
Affiliated company:				
Nomura Holdings, Inc.	Chuo-ku,Tokyo	594,493	[15.4] [(15.4)]	

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, 2010)

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 29, 2010)

Directors

Teiji Tachibana*1
Nobuo Takenaka*2
Hitoshi Nishihira
Takeo Tokai
Shigeharu Wakatsuki
Toshitsugu Hirata
Hiroomi Tanaka
Masahiro Nakagami
Yuji Goto

Executive Officers

Nobuo Takenaka*4
Hitoshi Nishihira*5
Takeo Tokai*5
Shigeharu Wakatsuki*6
Toshitsugu Hirata*6
Hiroomi Tanaka*6
Hideki Shimonomura*6
Hiroshi Sakaguchi
Tetsuya Sakuo
Yoichiro Dokan
Kazuaki Uchida
Sumio Yokota

Corporate Auditors

Masakazu Miyamori*3
Teruaki Kato*3
Yoshihiro Ishizaka
Toshimi Roppongi

***1. Chairman**
***2. Representative Director**
***3. Standing Corporate Auditor**
***4. Chief Executive Officer**
***5. Senior Managing 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	20,746
Third issue of Class B preferred stock	1
Fourth issue of Class B preferred stock	1
First issue of 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.	2,058,327	5.3
4	State Street Bank and Trust Company	1,240,000	3.2
5	Japan Trustee Services Bank, Ltd. (Trust A/C)	1,175,800	3.0
6	The Master Trust Bank of Japan, Ltd. (Trust A/C)	979,700	2.5
7	I.L.S. Co., Ltd.	826,000	2.1
8	Misawa Capital Co., Ltd.	734,900	1.8
9	The Chase Manhattan Bank NA London SL Omnibus Account	669,090	1.7
10	Nippon Life Insurance Company	609,053	1.5

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

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MISAWA