MISAWA

# Annual Report 2011

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MISAWA HOMES CO., LTD.

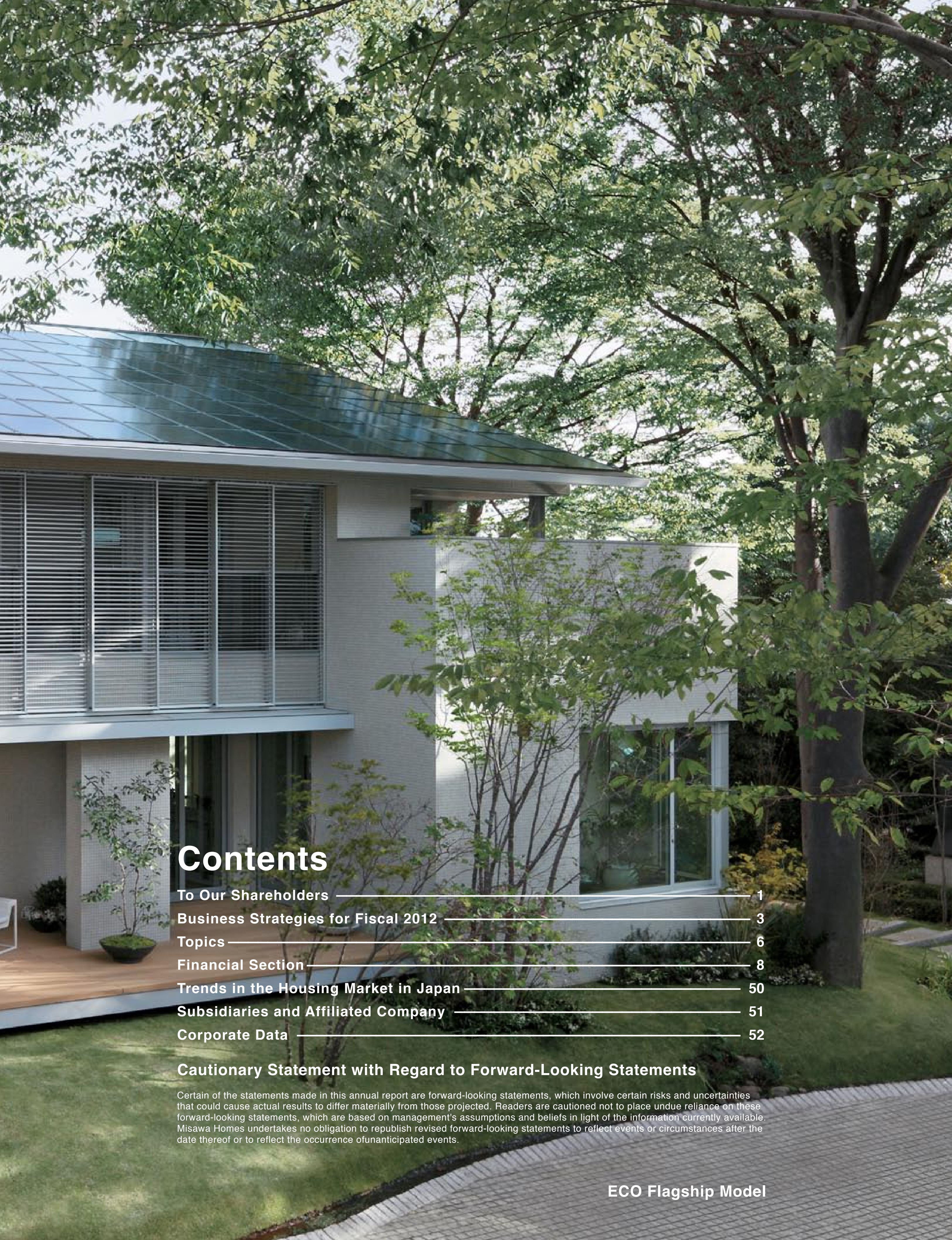
# Corporate Profile

Misawa Homes Co., Ltd., the pillar 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 and multi-family homes and we have supplied more than 1.2 million homes in total. We complement our core business with housing-related pursuits to expand our sources of revenue, including home renovation, real estate brokerage and senior care businesses.

Misawa-brand homes are well regarded for innovative design features as well as technological excellence. Our reputation is validated by the fact that we have been a recipient of the Good Design Award from the Japan Institute of Design Promotion for 21 consecutive years.

Misawa Homes has been involved in the design and construction of most of the facilities at Showa Station in Antarctica sponsored by the Japanese government. This substantiates the sophisticated features characteristic of Misawa-brand homes that make life pleasant and safe even in a harsh environment like Antarctica.



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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.

ECO Flagship Model

# To Our Shareholders

## The Great East Japan Earthquake

On behalf of everyone at Misawa Homes, I pray for the souls of all who lost their lives in the Great East Japan Earthquake, which occurred on March 11, 2011, and extend my most heartfelt sympathies to all who have been affected by the unimaginable loss and destruction precipitated by this tragedy.

At magnitude 9.0, this was the most powerful earthquake to hit Japan in recorded history, and while the epicenter was in the Tohoku region, the unbelievable force of this event extended well beyond this northeastern part of Japan, as far away as the Kanto region, which centers on Tokyo, and caused damage, particularly in the capital and Chiba Prefecture. The temblor itself was bad enough, but the monster tsunami it triggered made the situation exponentially worse, giving the Great East Japan Earthquake the dubious distinction of being the most destructive calamity ever to hit Japan. The earthquake and tsunami compromised buildings at a nuclear power plant complex, allowing the release of radiation and prompting power shortages due to the shutdown of power-generating facilities.

A week after the earthquake, I visited several of the affected areas. It was a landscape in ruins—such a miserable sight to behold. From its early days, the Misawa Homes Group has emphasized the single-family home business in its corporate development, so my thoughts as I looked at the scenes before me were on housing, and what I saw made me all the more acutely aware of the importance of building safe, sturdy and anti-seismic homes.

The Misawa Homes Group is drawing on composite capabilities to determine the status of Misawa structures in the affected areas and assist in the best we can.

Currently, at the request of the national government, way we are also involved in the construction of emergency temporary housing for victims of the earthquake and tsunami.

Cognizant of our duty as a builder of homes, we will continue to utilize groupwide expertise to assist those who have been affected by the disaster, in hopes of early recovery.

## Fiscal 2011 Business Results

In fiscal 2011, ended March 31, 2011, corporate earnings improved in Japan, mainly due to the success of the national government's economic stimulus package, and the domestic economy moved toward gradual recovery. But conditions were not completely rosy, as risks, namely yen appreciation and persistent deflation, created some downward pressure on expansion trends. In the end, uncertainties still obscured the path ahead.

The housing industry was to benefit from programs hammered out by the national government to stimulate demand for housing through such means as tax provisions, including a tax cut on housing loans, and the creation of a housing eco-point system that encourages eco-friendly construction and renovations. These proactive steps were supposed to push housing starts back into the high 800,000s, after a drop into the 770,000s in fiscal 2010. But the rebound stalled at 819,000 units and the earthquake, tsunami and nuclear crisis are partly to blame.

Against this backdrop, the Misawa Homes Group continued to move 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. Although net sales fell 3.5 percent over the previous fiscal year to ¥341,387 million, the Group held operating income steady at ¥8,723 million, posted ordinary income of ¥7,875 million up 2.1 percent and sustained a net income position at ¥3,133 million up 2.9 percent from a year earlier.

Despite higher income, retained earnings failed to improve sufficiently for management to execute a distribution of dividends.

As an aside, the recent disasters caused a delay in the transfer of completed structures to their respective buyers, which reduced net sales by ¥6.5 billion and ordinary income by ¥1.5 billion. In addition, the Group posted extraordinary loss of ¥400 million, primarily comprising reconstruction costs for damaged model homes and sales offices in the Tohoku area.

## New Medium-term Management Plan

We plan to release our new three-year management plan, which takes effect in fiscal 2012, when we announce our results for the first half of fiscal 2012. By this time, we should have accurately pinpointed the impact of the Great East Japan Earthquake on our operations.

Suffice to say, the core themes of the new medium-term management plan will be familiar: to optimize the business portfolio and reorganize business operations.The Group has pursued reforms in production and logistics for a while now and has made progress in cutting costs. The new plan will push the Group further toward enhanced efficiency by emphasizing standardization in production activities and well-organized design and estimation services.

We will also reassign personnel and integrate back-office operations, such as accounting and general affairs, and are considering such measures as shared services to streamline costs. In addition, we seek to maximize earnings from existing businesses, particularly the single-family home business, while actively exploring new sources of revenue, such as home renovation, real estate brokerage and senior care services. The three years of the new medium-term management plan will be a time for creating a platform for expanded profitability, one that includes establishing a wider presence overseas.

## Ties with Toyota Group

Through a corporate split on October 1, 2010, Toyota Motor Corporation transferred shares held in Misawa Homes to Toyota Housing Corporation, a wholly owned subsidiary of the carmaker. As a result, Toyota Housing became the Company's majority shareholder with a 27.8 percent stake.

Together, Misawa Homes and Toyota Housing will strive to reinforce ties and thereby demonstrate greater synergy in such pursuits as production as well as procurement and logistics, where both are already active. In addition, both companies aim to strengthen cooperative efforts in the home renovation and senior care services, which present considerable demand potential.

## Creating Better Homes

The Great East Japan Earthquake was an eye-opener. It reminded people in Japan of things they had started to take for granted, particularly, appreciation for life and family and consideration for others. It also highlighted the big challenges in store for homebuilders, especially with regard to energy issues. Of course, homes must be sturdy, safe and secure to protect the lives of the people inside them when an earthquake strikes. They must also be built with the whole community in mind, in terms of the layout of homes and supply of basic utilities, to allow the community to better withstand disaster. We intend to provide such homes and have made it a part of our mission.

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

June 2011

Nobuo Takenaka
President and CEO

# Business Strategies for Fiscal 2012

## Market Outlook

Economic conditions in Japan are likely to remain challenging due to the lingering effects of the earthquake, tsunami and nuclear crisis. In the domestic housing industry as well, major concerns stem from a disaster-induced slump in corporate production and cooling of consumer sentiment. The situation makes it impossible to anticipate market demand.

Last year, the national government hammered out an assortment of provisions to stimulate demand for housing. They included an extension to the largest tax cut ever on housing loans; broader gift tax exemptions for home buyers who receive financial support from family members to purchase a home; and the introduction of an eco-point system for housing that encourages eco-friendly construction and renovation projects. But these provisions may be terminated or reduced in scope at some point in the future.

Against this operating backdrop, the Misawa Homes Group must prepare for the possibility of a smaller market for new homes and will strive to expand its sources of revenue by aggressively investing management resources in businesses with growth potential to develop its business lines.

## ■ Home Building

In April 2011, we made our homes more competitive, with high added value and cost performance. Specifically, in GENIUS, our mainstay brand of homes, we introduced a 2.6 m high ceiling, in the living room on the first floor; installed our MGEO next-generation vibration-control device; designed a wide-step, gently inclined staircase; and used easy-maintenance tiles on the roof and exterior walls.

Another focus is MJ Wood, a brand of conventional post-and-beam homes launched in 2008 that are less expensive than our mainstay system-built homes. In fiscal 2011, we increased unit sales of MJ Wood homes by attracting customers who might have been considering a Misawa-brand system-built home but would have abandoned the purchase because of financing issues or an unsuitable lot shape. For such customers, MJ Wood is a perfect alternative.

In April 2011, we set up a division to actively promote MJ Wood homes.

High-value-added features are standard GENIUS Qualie.

## ■ Property Owner Services

In Japan, the market for newly built homes is likely to shrink, owing to such factors as fewer households in an aging society with a falling birthrate and a shift in the value perceptions of people who live in houses. Conversely, demand for property owner services, is expected to rise, underpinned by the New Growth Strategy program initiated by the national government that emphasizes the resale of homes.

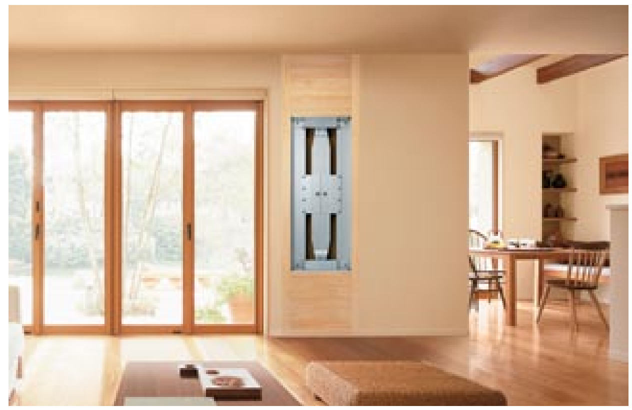
To address these market developments, the Misawa Homes Group has put renovation, real estate brokerage and life care and daycare services into the property owner service spotlight and will reinforce activities to boost the proportion of such property owner services in its business portfolio.

## — Renovation

Not limiting our services to people who already own a Misawa Home, we will energetically promote our expertise to the renovation market in general and strive to acquire more orders. In the single-family home market, we will focus on seismic resilience evaluations and address any reinforcement work deemed necessary. We will also propose silver renovations—that is, renovations that make living at home safer and more comfortable for seniors—and present eco-minded options such as the installation of photovoltaic systems.

In the condominium market, the need to renovate has become considerably more pronounced in recent years. To capitalize on rising demand, we will promote our flat-rate service, strive to enrich our lineup of multi-family homes renovation products, and broaden our sales area.

We will also direct concerted effort toward expanding orders for renovations and seismic resilience evaluations and associated reinforcement work in non-residential structures, such as hotels and commercial facilities.

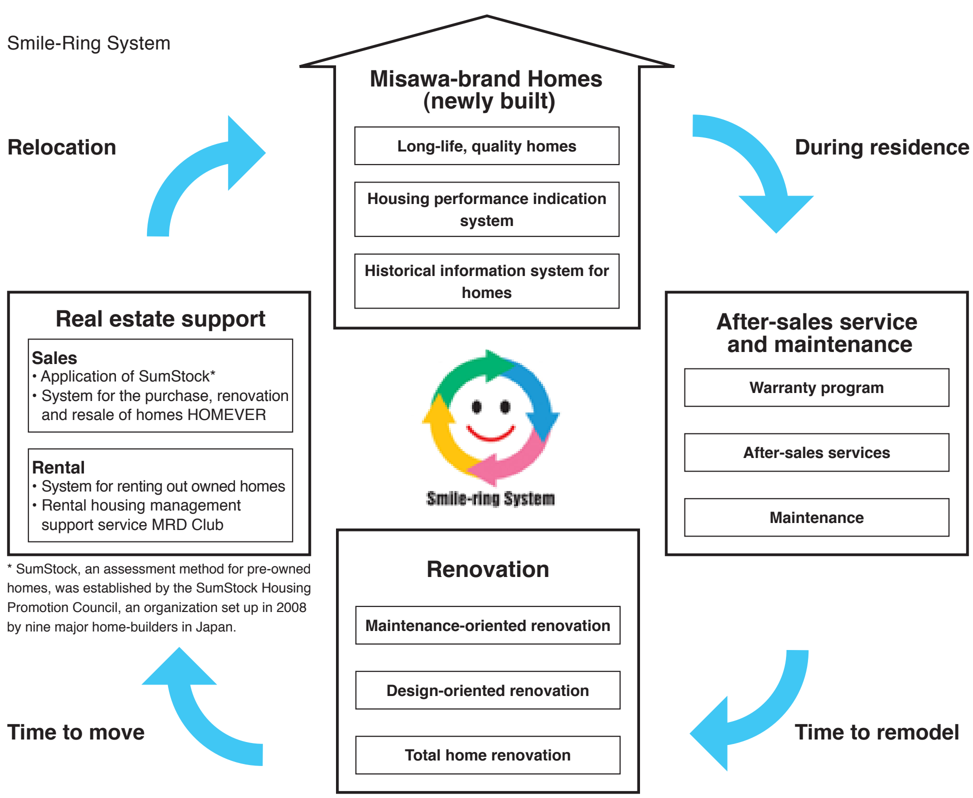


MGEO-R, an earthquake control system for conventional wooden houses

## — Real Estate Brokerage Services

The Misawa Homes Group structure of services is a circle, beginning with construction of new homes, moving through after-sales service and maintenance to renovation and then support for real estate-related activities, such as sales and property rental and management. We call this concept the Smile-Ring System.

HOMEVER is a system within the Smile-Ring System. Through HOMEVER, we purchase Misawa-brand homes, undertake any maintenance and renovation that is necessary, and then resell the homes. We will actively highlight the high-asset value and other features of HOMEVER and in so doing attract more business from the pre-owned home market.




* 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.

## — Life Care and Daycare Services

A priority segment in the business of life care services is daycare services. Currently, we are working with a daycare center operator, utilizing know-how accumulated through many years of research into the relationship between living spaces and parenting, to design and build or renovate daycare centers. We are also looking to the possibility of expanding our activities, with an eye toward the operation of daycare centers.

In addition, we began a cleaning service for people who have purchased a Misawa-brand home. We will continue to enhance our service menu and expand our operating area.

Daycare center

## Senior Care Services

For 18 years, the Misawa Homes Group has been involved in the operation of Motherth Minami-Kashiwa, a nursing home, in Chiba Prefecture. We will continue to apply know-how gained here to promote the senior care services, especially in urban areas where the number of seniors is expected to increase.

In 2010, we opened two group homes in Tokyo. In August 2011, we plan to open another group home in the city. In addition, we have teamed up with Hokkaido Railway Company (JR Hokkaido) to build a rental apartment complex exclusively for seniors in front of Sapporo Station. This assisted living community is scheduled to open in spring 2012. Using this apartment complex as a hub, we will actively develop satellite senior care services in Sapporo.

Concept image of the exterior of senior-oriented rental apartment complex being developed with JR Hokkaido.

## Asset Utilization

The Misawa Homes Group draws on many years of proven results in the operation of nursing care facilities to offer know-how gained in the design and construction of numerous senior care and welfare facilities and to extend consulting services. To ensure optimum utilization of assets, we conduct a good number of marketing surveys regarding the opening of a facility and fully coordinate all project stages, including land acquisition, balance sheet preparation, design and architectural plans, and fund procurement. We will enhance our support services to property owners to boost sales in this segment.

Nursing home

# Topics

## Debut of Life Cycle Carbon Minus House —ECO Flagship Model

Since its early days, the Misawa Homes Group has embraced various environmental activities and developed many environmentally friendly homes. In 1998, we began selling HYBRID-Z, the world's first zero-energy home, which utilizes solar power to satisfy energy requirements during occupancy.

The ECO Flagship Model, which takes zero-energy home development to the next level of evolution, is a life cycle carbon minus home that functions as a component of the planet, like a tree, and its very construction is of benefit to the environment. A life cycle carbon minus home is one in which the latest environmental technologies push the carbon emissions of a dwelling-in-use deep into the minus range and one that sustains a zero carbon balance throughout the lifecycle of the structure, from construction and occupancy to demolition.

The ECO Flagship Model features our own cascading solar system, a premiere energy-creating technology that combines a photovoltaic system, which converts the sun's radiant energy into electricity, and a solar heat recovery system, which captures the sun's warmth for such applications as room heating in winter. Energy-saving technologies in the concept home include Industry-leading thermal insulation, such as insulation of the foundation and beefed-up insulation of the exterior walls, as well as the use of high-performance insulating glass. In addition, window design, location, and layout promote the passage of natural light and fresh air inside to enhance the indoor environment. For example, as sunlight pours in through top lights, they reflect off the mirror-finish ducts and flicker downward, evoking the image of light dancing through the trees and creating a bright, uplifting space inside.

Furthermore, anticipating how lifestyles might be in the not too distant future, we incorporated the latest in carbon-reduction technology, namely, a battery-equipped home energy management system, or HEMS, and a next-generation green car charging system.

In January 2011, we launched sales of GENIUS $LCCO_2$ Minus Model, a life cycle carbon minus home for mass production based on the ECO Flagship Model.

ECO Flagship Model

The ECO Flagship Model utilizes sunlight and solar heat concurrently.

The 5.6 m open ceiling allows lots of natural light and fresh air to fill the dining room, creating a pleasant atmosphere.

The toplights create the same effect as light dancing through trees.

# New Companies

## —Techno Factories and Construction Co., Ltd.

Misawa Homes liquidated Misawa Techno Corporation, a production subsidiary that turned out about 80 percent of the housing components used by the Misawa Homes Group, and established Techno Factories and Construction Co., Ltd. This move paves the way for a more flexible production structure, wider cost reduction and expanded sales outside the Group. In addition, the new company will strive to enhance not only its factory-based production function for single-family housing but also its service function for overall home production, including on-site construction.

## —CS Logistics Co., Ltd.

Misawa Homes maintains ties with transport service providers all over Japan and utilizes a logistics network hinging on 22 hubs throughout the country. In June 2010, we joined this network by establishing CS Logistics Co., Ltd. to provide transport services using pallets, among other services, which can consolidate a mixture of odd-shaped items. Providing pallet-based transport services to customers outside the Misawa Homes Group, including other homebuilders as well as material makers, will make the process for transporting building materials more efficient and could see the system become the housing industry's principal logistics system in the future.

Seeking to broaden the scope of our logistics business, we will also earnestly promote services to companies in other sectors, such as senior care and the environment.

Techno Factories and Construction


Factory tour

# 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 |
|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 | 2006 | **2011** |
| **For the Year:** | | | | | | | |
| Net Sales | **¥ 341,388** | ¥ 353,621 | ¥ 401,204 | ¥ 409,246 | ¥ 414,566 | ¥ 383,941 | **$4,105,688** |
| Costs of revenue | **260,755** | 274,510 | 311,111 | 317,244 | 314,582 | 286,703 | **3,135,955** |
| Gross profit | **80,633** | 79,111 | 90,093 | 92,002 | 99,984 | 97,238 | **969,733** |
| Selling, General andAdministrative Expenses | **71,909** | 70,385 | 81,412 | 84,204 | 86,918 | 79,356 | **864,815** |
| Operating Income | **8,724** | 8,726 | 8,681 | 7,798 | 13,066 | 17,882 | **104,918** |
| Income (Loss) before IncomeTaxes and Minority Interest | **3,877** | 4,862 | 759 | 4,989 | 10,947 | 123,827 | **46,627** |
| Net (Loss) Income | **3,133** | 3,044 | (2,984) | 389 | 192 | 124,024 | **37,685** |
| **At Year-End:** | | | | | | | |
| Total Assets | **¥ 176,628** | ¥ 180,306 | ¥ 194.934 | ¥ 227,894 | ¥ 235,136 | ¥ 224,469 | **$2,124,204** |
| Total Net Assets | **25,528** | 23,461 | 21,244 | 26,346 | 26,946 | 25,143 | **307,010** |
| **Per Share Amounts (yen):** | | | | | | | |
| Net Income (Loss) | **¥ 84.60** | ¥ 82.15 | ¥ (80.43) | ¥ 10.50 | ¥ 5.17 | ¥ 3,844.63 | **$ 1.02** |

Notes(1) Figures for 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

In fiscal 2011, ended March 31, 2011, the domestic economy was characterized by a persistently unfavorable business climate. Despite signs of recovery in corporate performances, mainly due to the success of the national government's economic stimulus package, the rosy corporate outlook lost some of its luster under pressure from the yen's appreciation and a seemingly endless period of deflation. These conditions were compounded by lingering unemployment and personal income concerns. Then on March 11, 2011, the Great East Japan Earthquake struck, causing vast destruction, especially in the Tohoku region—Japan's northeast—and the struggling domestic economy was dealt another big blow.

In the housing industry, housing starts were up over the previous fiscal year, thanks to programs by the national government to stimulate demand for housing through such means as a tax cut on housing loans and the creation of a housing eco-point system that encourages eco-friendly construction and renovations. These proactive steps were supposed to push housing starts back into the high 800,000s, but the rebound stalled at 819,020 units.

Against this backdrop, the Misawa Homes Group continued to move 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 achieved in fiscal 2011 are presented below.

### • Net Sales

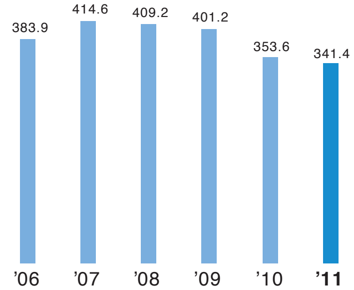
Consolidated net sales reached ¥341,388 million, falling 3.5 percent, or ¥12,233 million, over the previous fiscal year. The order balance grew, owing to more orders received. However, revenues retreated because the order balance at the beginning of fiscal 2011 was ¥19,943 million less than the starting balance a year earlier, due to sluggish order activity in fiscal 2010, and the earthquake, tsunami and nuclear crisis of March 2011 which caused delays.

### • Operating Income

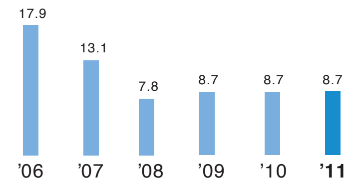
Consolidated operating income amounted to ¥8,724 million, down just 0.02 percent, or ¥2 million, from the previous fiscal year. The Group's ability to avert a larger decrease is primarily a reflection of successful cost reduction efforts and revenue from renovation services, which offset the drop in net sales caused by fewer units of single-family homes sold.

Gross profit grew 1.9 percent, or ¥1,522 million, to ¥80,633 million. The primary reason for the year-on-year improvement is that cost cuts, including lower cost of construction, yielded an increase of ¥4,141 million and favorable demand for renovations and non-mainstay homes delivered an increase of ¥2,755 million, which compensated for ¥5,380 million less from the sale of single-family homes due to the triple-tragedy disaster in March.

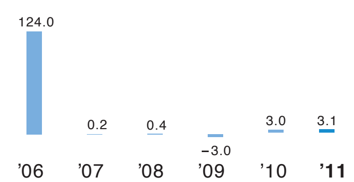
**Net Sales**
(Billions of yen)




**Operating Income**
(Billions of yen)




**Net Income**
(Billions of yen)



Selling, general and administrative expenses grew ¥1,524 million, to ¥71,909 million. The change is largely due to higher personnel costs, reflecting improved benefits for employees among others.

## • Income before Income Taxes and Minority Interests

Consolidated income before income taxes and minority interests dropped 20.3 percent, or ¥985 million, from the previous fiscal year to ¥3,877 million. The Company booked extraordinary loss of ¥2,677 million in expenses accompanying the liquidation of Misawa Techno Corporation and ¥628 million in asset retirement obligations. The Company also booked extraordinary loss of ¥410 million, primarily to cover repair costs for model homes and offices damaged in the earthquake and tsunami.

## • Net Income

Consolidated net income inched up 2.9 percent, or ¥89 million, from the previous fiscal year to ¥3,133 million. This change is due to a reversal of ¥1,813 million in deferred tax liabilities, following the liquidation of Misawa Techno Corporation.

## • Financial Position

Total assets stood at ¥176,628 million as of March 31, 2011, down ¥3,678 million from a year earlier, as a higher order balance bumped up costs of uncompleted contracts and the resulting increase was offset by such factors as a decrease in land and housing for sale and long-term deferred tax assets, as well as impairment losses on property, plant and equipment.

Total liabilities stood at ¥151,100 million, down ¥5,745 million from a year earlier, mainly because of lower interest-bearing debt. Net assets were up ¥2,067 million from a year earlier, to ¥25,528 million, despite a drop in minority interests in subsidiaries, because the Company generated a positive net income.

## • Cash Flow Status

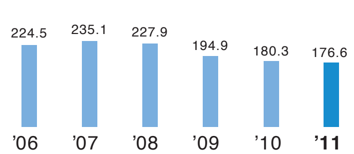
Cash and cash equivalents at March 31, 2011, came to ¥36,593 million, down ¥4,817 million from a year earlier. The change is because the ¥8,599 million in net cash provided by operating activities was overshadowed by a combined ¥13,400 million net cash used in investing and financing activities.

The ¥8,599 million in net cash provided by operating activities was ¥20,417 million less than the amount booked in fiscal 2010. The considerable decrease stems mainly from a bigger backlog of orders due to a larger number of orders received and delays in completing construction because of the earthquake and tsunami, and also from a subsequent increase in advances received on uncompleted contracts.

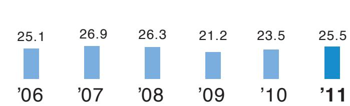
Net cash used in investing activities amounted to ¥6,114 million, up ¥4,191 million from a year earlier. The primary application of funds was to acquire additional equity in subsidiaries and to purchase property, plant and equipment.

Net cash used in financing activities reached ¥7,286 million, down ¥6,858 million from a year earlier. Most of this amount was used to reduce interest-bearing debt.

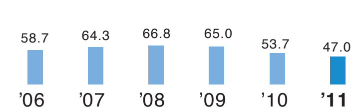
**Total Assets**
(Billions of yen)




**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 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2011 | 2010 | 2011 |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and bank deposits (Notes 6, 9 and 17) | ¥37,097 | ¥41,877 | $446,145 |
| Notes and accounts receivable, trade (Note 6) | 6,387 | 6,227 | 76,809 |
| Land and housing for sale (Note 9) | 34,263 | 41,898 | 412,067 |
| Cost of uncompleted contracts (Note 9) | 22,136 | 13,157 | 266,223 |
| Merchandise and finished goods | 1,690 | 1,891 | 20,326 |
| Work in process | 362 | 199 | 4,349 |
| Raw materials and supplies | 1,980 | 1,762 | 23,810 |
| Deferred tax assets (Note 15) | 4,942 | 4,279 | 59,436 |
| Other current assets (Note 9) | 5,596 | 4,872 | 67,302 |
| Allowance for doubtful accounts | (151) | (177) | (1,818) |
| Total current assets | 114,302 | 115,985 | 1,374,649 |
| Property, plant and equipment (Notes 8 and 9): | | | |
| Buildings and structures | 28,940 | 35,606 | 348,043 |
| Machinery and equipment | 3,466 | 15,050 | 41,679 |
| Land | 24,065 | 25,214 | 289,421 |
| Other | 5,983 | 6,476 | 71,957 |
| | 62,454 | 82,346 | 751,100 |
| Less: Accumulated depreciation | (19,202) | (37,707) | (230,933) |
| Net property, plant and equipment | 43,252 | 44,639 | 520,167 |
| Intangible assets (Note 8): | | | |
| Other | 6,203 | 5,180 | 74,594 |
| Total intangible assets | 6,203 | 5,180 | 74,594 |
| Investments and other assets: | | | |
| Investment securities (Notes 5, 6 and 9) | 2,325 | 2,393 | 27,958 |
| Deferred tax assets (Note 15) | 3,409 | 5,585 | 41,002 |
| Other (Note 8) | 10,379 | 9,960 | 124,819 |
| Allowance for doubtful accounts | (3,242) | (3,436) | (38,985) |
| Total investments and other assets | 12,871 | 14,502 | 154,794 |
| Total assets | ¥176,628 | ¥180,306 | $2,124,204 |

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

## CONSOLIDATED BALANCE SHEETS

| | Millions of yen March 31 2011 | Millions of yen March 31 2010 | Thousands of U.S. dollars (Note 4) March 31, 2011 |
|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | |
| Current liabilities: | | | |
| Short-term bank loans (Notes 6, 9 and 20) | ¥19,644 | ¥21,228 | $236,242 |
| Current portion of long-term debt (Notes 6 and 9) | 18,259 | 12,497 | 219,588 |
| Notes and accounts payable, trade (Note 6) | 37,634 | 41,281 | 452,604 |
| Accounts payable, other | 4,968 | 5,356 | 59,751 |
| Accrued bonuses | 4,796 | 4,373 | 57,682 |
| Allowance for claim expenses | 1,799 | 2,028 | 21,636 |
| Advances received on uncompleted contracts | 29,370 | 23,673 | 353,211 |
| Deposits received | 5,896 | 5,713 | 70,906 |
| Income taxes payable | 1,184 | 590 | 14,236 |
| Deferred tax liabilities (Note 15) | 2 | 15 | 27 |
| Asset retirement obligations | 75 | - | 902 |
| Other current liabilities | 3,684 | 3,843 | 44,310 |
| Total current liabilities | 127,311 | 120,597 | 1,531,095 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 6, 9 and 20) | 9,066 | 20,003 | 109,032 |
| Accrued pension and severance costs (Note 10) | 5,393 | 5,879 | 64,857 |
| Deferred tax liabilities (Note 15) | 20 | 140 | 238 |
| Deferred tax liabilities from land revaluation | - | 1,814 | - |
| Accrued pension and severance costs for directors and corporate auditors | 743 | 1,006 | 8,941 |
| Asset retirement obligations | 1,073 | - | 12,909 |
| Other long-term liabilities | 7,494 | 7,406 | 90,122 |
| Total long-term liabilities | 23,789 | 36,248 | 286,099 |
| Net assets: | | | |
| Shareholders' equity (Note 11): | | | |
| Capital stock: | 23,413 | 23,413 | 281,575 |

| | (Thousands of shares) In 2011 | (Thousands of shares) In 2010 |
|---|---|---|
| Common stock | | |
| Authorized | 142,160 | 142,160 |
| Issued | 38,739 | 38,739 |
| Preferred stock | | |
| Authorized | 7,840 | 7,840 |
| Issued | 7,833 | 7,833 |

| | 2011 | 2010 | 2011 (US$) |
|---|---|---|---|
| Additional paid-in capital | 5,480 | 5,480 | 65,899 |
| Accumulated deficit | (428) | (6,027) | (5,151) |
| Treasury stock, at cost | (4,251) | (4,250) | (51,129) |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains (losses) on other securities (Note 5) | (39) | 31 | (464) |
| Land revaluation difference | (449) | 2,017 | (5,398) |
| Foreign currency translation adjustments | (43) | (1) | (513) |
| Minority interest in subsidiaries | 1,845 | 2,798 | 22,191 |
| Total net assets | 25,528 | 23,461 | 307,010 |
| Commitments and contingent liabilities (Note 19) | | | |
| Total liabilities and net assets | ¥176,628 | ¥180,306 | $2,124,204 |

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

## CONSOLIDATED STATEMENTS OF INCOME

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| | 2011 | 2010 | 2011 |
| Net sales | ¥341,388 | ¥353,621 | $4,105,688 |
| Cost of sales (Note 16) | 260,755 | 274,510 | 3,135,955 |
| Gross profit | 80,633 | 79,111 | 969,733 |
| Selling, general and administrative expenses: (Notes 16 and 18) | | | |
| Salaries and wages | 35,955 | 35,192 | 432,416 |
| Advertising | 8,782 | 9,231 | 105,616 |
| Sales promotion | 5,404 | 4,796 | 64,989 |
| Addition to allowance for claim expenses | 1,184 | 1,217 | 14,237 |
| Provision for accrued bonuses | 3,074 | 2,735 | 36,969 |
| Depreciation expenses | 2,955 | 3,048 | 35,544 |
| Other selling expenses | 3,842 | 3,586 | 46,210 |
| Other general and administrative expenses | 10,713 | 10,580 | 128,834 |
| Total selling, general and administrative expenses | 71,909 | 70,385 | 864,815 |
| Operating income | 8,724 | 8,726 | 104,918 |
| Non-operating income: | | | |
| Interest income | 48 | 39 | 579 |
| Income from commissions | 370 | 370 | 4,448 |
| Insurance dividend | 149 | 185 | 1,795 |
| Other | 727 | 791 | 8,735 |
| Total non-operating income | 1,294 | 1,385 | 15,557 |
| Non-operating expenses: | | | |
| Interest expenses | 1,375 | 1,594 | 16,538 |
| Pension and severance costs | 374 | 415 | 4,499 |
| Commission for syndicate loan | 145 | 91 | 1,750 |
| Other | 248 | 298 | 2,970 |
| Total non-operating expenses | 2,142 | 2,398 | 25,757 |
| Ordinary income | 7,876 | 7,713 | 94,718 |
| Other gains (“TOKUBETSU RIEKI”): | | | |
| Gain on sales of property, plant and equipment (Note 12) | 7 | 135 | 79 |
| Gain on sales of investment securities | 33 | 202 | 391 |
| Reversal of negative goodwill | 328 | - | 3,948 |
| Reversal of allowance for doubtful accounts | 44 | 23 | 530 |
| Allowance for claim expenses | - | 76 | - |
| Other | 98 | 39 | 1,193 |
| Total other gains | 510 | 475 | 6,141 |
| Other losses (“TOKUBETSU SONSHITSU”): | | | |
| Retirement benefit expenses | 749 | - | 9,005 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | 628 | - | 7,550 |
| Loss on disaster | 410 | - | 4,928 |
| Loss on disposal of property, plant and equipment (Note 13) | 213 | 267 | 2,563 |
| Impairment loss on long-lived assets (Note 8) | 2,323 | 1,093 | 27,935 |
| Loss on sales of investment securities | 12 | 57 | 145 |
| Loss on devaluation of investment securities | 27 | 50 | 327 |
| Special retirement benefits | - | 1,108 | - |
| Other | 147 | 751 | 1,779 |
| Total other losses | 4,509 | 3,326 | 54,232 |
| Income before income taxes and minority interest | 3,877 | 4,862 | 46,627 |

| | | | |
|---|---|---|---|
| Income taxes (Note 15): | | | |
| Current | 1,248 | 561 | 15,004 |
| Deferred | (525) | 1,978 | (6,315) |
| | 723 | 2,539 | 8,689 |
| Income before minority interest | 3,154 | 2,323 | 37,938 |
| Minority interest in subsidiaries | 21 | (721) | 253 |
| Net income | ¥3,133 | ¥3,044 | $37,685 |

| | Yen | | U.S. dollars (Note 3) |
|---|---|---|---|
| Per share: | | | |
| Net income (Note 14)－Basic | ¥84.60 | ¥82.15 | $1.02 |
| －Diluted | ¥25.84 | ¥19.99 | $0.31 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Millions of yen | Thousands of U.S. dollars (Note 4) |
|---|---|---|
| | Year ended March 31, | Year ended March 31, |
| | 2011 | 2011 |
| Income before minority interest | ¥3,154 | $37,938 |
| Other comprehensive income : | | |
| Net unrealized losses on other securities | (70) | (846) |
| Foreign currency translation adjustments | (62) | (745) |
| Total other comprehensive income (loss)(Note 22) | (132) | (1,591) |
| Comprehensive income (Note 22) | ¥3,022 | $36,347 |
| Total comprehensive income attributable to : | | |
| Shareholders of MISAWA HOMES CO., LTD. | ¥3,021 | $36,343 |
| Minority interest | 1 | 4 |

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 | | | | Accumulated other comprehensive income | | | | |
| | Common stock | Preferred stock | Capital stock | Additional paid-in capital | Retained earnings (Accumulated deficit) | Treasury stock, at cost | Net unrealized gains (losses) on other securities | Land revaluation difference | Foreign currency translation adjustments | Minority interest in subsidiaries | Total net assets |
| 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 |
| Net income | - | - | - | - | 3,133 | - | - | - | - | - | 3,133 |
| Reversal of land revaluation difference | - | - | - | - | 2,466 | - | - | - | - | - | 2,466 |
| Purchase of treasury stock | - | - | - | - | - | (1) | - | - | - | - | (1) |
| Net changes in items other than those in shareholders' equity | - | - | - | - | - | - | (70) | (2,466) | (42) | (953) | (3,531) |
| Balance at March 31, 2011 | 38,738,914 | 7,833,261 | ¥23,413 | ¥5,480 | (¥428) | (¥4,251) | (¥39) | (¥449) | (¥43) | ¥1,845 | ¥25,528 |

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

| | Thousands of U.S. dollars (Note 4) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | Accumulated other comprehensive income | | | | |
| | Capital stock | Additional paid-in capital | Retained earnings (Accumulated deficit) | Treasury Stock, at cost | Net unrealized gains (losses) on other securities | Land revaluation difference | Foreign currency translation adjustments | Minority interest in subsidiaries | Total net assets |
| Balance at March 31, 2010 | $281,575 | $65,899 | ($72,489) | ($51,109) | $374 | $24,255 | ($8) | $33,660 | $282,157 |
| Net income | - | - | 37,685 | - | - | - | - | - | 37,685 |
| Reversal of land revaluation difference | - | - | 29,653 | - | - | - | - | - | 29,653 |
| Purchase of treasury stock | - | - | - | (20) | - | - | - | - | (20) |
| Net changes in items other than those in shareholders' equity | - | - | - | - | (838) | (29,653) | (505) | (11,469) | (42,465) |
| Balance at March 31, 2011 | $281,575 | $65,899 | ($5,151) | ($51,129) | ($464) | ($5,398) | ($513) | $22,191 | $307,010 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| | 2011 | 2010 | 2011 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interest | ¥3,877 | ¥4,862 | $46,627 |
| Adjustments for: | | | |
| Depreciation and amortization | 4,263 | 4,631 | 51,267 |
| Amortization and write-off of goodwill | 179 | 146 | 2,154 |
| Reversal of negative goodwill | (328) | - | (3,948) |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | 628 | - | 7,551 |
| Decrease in allowance for doubtful accounts | (218) | (271) | (2,616) |
| (Decrease) increase in other allowances | (526) | 127 | (6,323) |
| Interest and dividend income | (92) | (85) | (1,104) |
| Interest expenses | 1,375 | 1,594 | 16,538 |
| Gain on sales of investment securities | (20) | (145) | (246) |
| Impairment loss on long-lived assets | 2,323 | 1,093 | 27,935 |
| Loss on sales and retirement of property, plant and equipment | 207 | 132 | 2,485 |
| (Increase) decrease in notes and accounts receivable, trade | (170) | 1,085 | (2,044) |
| (Increase) decrease in inventories | (1,452) | 24,414 | (17,465) |
| Decrease in notes and accounts payable, trade | (3,731) | (4,790) | (44,876) |
| Increase (decrease) in advances received on uncompleted contracts | 5,697 | (1,321) | 68,512 |
| Other | (1,279) | (508) | (15,370) |
| Subtotal | 10,733 | 30,964 | 129,077 |
| Interest and dividends received | 46 | 119 | 554 |
| Interest paid | (1,424) | (1,537) | (17,129) |
| Income taxes paid | (756) | (530) | (9,092) |
| Net cash provided by operating activities | 8,599 | 29,016 | 103,410 |
| Cash flows from investing activities: | | | |
| Decrease (increase) of time deposits with maturity over three months | 36 | (75) | 442 |
| Purchases of property, plant equipment and intangible assets | (3,141) | (2,061) | (37,775) |
| Proceeds from sales of property, plant equipment and intangible assets | 134 | 256 | 1,618 |
| Purchases of investment securities | (1) | (1) | (11) |
| Proceeds from sales of investment securities | 120 | 282 | 1,441 |
| Purchases of investments in subsidiaries | (2,770) | (83) | (33,319) |
| Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation | - | 989 | - |
| Payments for transfer of business | - | (360) | - |
| Other | (492) | (870) | (5,923) |
| Net cash used in investing activities | (6,114) | (1,923) | (73,527) |
| Cash flows from financing activities: | | | |
| Decrease in short-term bank loans | (1,718) | (10,038) | (20,664) |
| Proceeds from long-term debt | 5,670 | 6,449 | 68,192 |
| Repayments of long-term debt | (11,224) | (10,433) | (134,988) |
| Proceeds from issuance of bonds | 384 | 197 | 4,621 |
| Redemption of bonds | (34) | - | (409) |
| Cash dividends paid to minority interest | (17) | (16) | (199) |
| Payments for purchase of treasury stock | (2) | (11) | (21) |
| Other | (345) | (292) | (4,154) |

| | | | |
|---|---|---|---|
| Net cash used in financing activities | (7,286) | (14,144) | (87,622) |
| Effect of exchange rate changes on cash and cash equivalents | (16) | (11) | (194) |
| Net (decrease) increase in cash and cash equivalents | (4,817) | 12,938 | (57,933) |
| Cash and cash equivalents at the beginning of the year | 41,410 | 28,472 | 498,011 |
| Cash and cash equivalents at the end of the year (Note 17) | ¥36,593 | ¥41,410 | $440,078 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of presenting consolidated financial statements:

Misawa Homes Co., Ltd. (the "Company") and its subsidiaries 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, 2011 and 2010, the numbers of consolidated subsidiaries and subsidiaries and affiliates accounted for by the equity method were 47 and 0, 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 solely for consolidation purposes.

The excess of the cost over the underlying net equity of investments in subsidiaries is recognized as "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 on receivable 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.

The write-downs of inventories recognized as an expense and included in cost of sales for the years ended March 31, 2011 and 2010 were ¥2,343 million ($28,172 thousand) and ¥4,633 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.

(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)" (Accounting Standards Boards of Japan ("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, 2011 and 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.

(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, 2011.

(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 the balance sheet date 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. Changes in accounting policies and adoption of new accounting standards:

(1) Asset Retirement Obligations

Effective from the fiscal year ended March 31, 2011, the Company has adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, dated March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, dated March 31, 2008).
Due to the application of this standard, operating income and ordinary income decreased by ¥108 million ($1,295 thousand), respectively, and income before income taxes and minority interest decreased by ¥738 million ($8,880 thousand) for the year ended March 31, 2011.

(2) Business Combinations

Effective from the fiscal year ended March 31, 2011, the Company has adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, dated December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, dated December 26, 2008), the "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, dated December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, dated December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, dated December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, dated December 26, 2008).

(3) Presentation of Comprehensive Income

Effective from the fiscal year ended March 31, 2011, the Company has adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, dated June 30, 2010). The amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" in the accompanying balance sheet as of March 31, 2010 represent the amounts of "Revaluation and translation adjustments" and "Total Revaluation and translation adjustments", respectively.

4. 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 ¥83.15= U.S. $1, the rate of exchange prevailing on March 31, 2011, has been used.

5. Investment securities:

Misawa Homes' management classified all investment securities as other securities at March 31, 2011 and 2010.
Net unrealized loss of ¥39 million ($464 thousand) and net unrealized gain of ¥31 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2011 and 2010, respectively.
Deferred tax liabilities on net unrealized gains on other securities of ¥194 million ($2,336 thousand) and ¥100 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2011 and 2010, respectively.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2011 and 2010, were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | March 31, 2011 | | | |
| | Acquisition cost | Gross unrealized Gains | Gross unrealized Losses | Market value (carrying value) |
| Equity securities | ¥1,574 | ¥520 | ¥(386) | ¥1,708 |
| Debt securities | 1,234 | 10 | (3) | 1,241 |
| Other | 11 | 1 | (3) | 9 |
| Total | ¥2,819 | ¥531 | ¥(392) | ¥2,958 |

| | 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 |

| | Thousands of U.S. dollars (Note 4) | | | |
|---|---|---|---|---|
| | March 31, 2011 | | | |
| | Acquisition cost | Gross unrealized Gains | Gross unrealized Losses | Market value (carrying value) |
| Equity securities | $18,930 | $6,253 | $(4,642) | $20,541 |
| Debt securities | 14,841 | 117 | (37) | 14,921 |
| Other | 131 | 4 | (31) | 104 |
| Total | $33,902 | $6,374 | $(4,710) | $35,566 |

Note: Unlisted equity securities were not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value. As of March 31, 2011 and 2010, the carrying values of these unlisted securities were ¥609 million ($7,328 thousand) and ¥624 million, respectively.
Proceeds from sales of other securities for the years ended March 31, 2011 and 2010, were ¥120 million ($1,439 thousand) and ¥282 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥33 million ($391 thousand) and ¥10 million ($116 thousand), respectively, for the year ended March 31, 2011 and ¥202 million and ¥57 million, respectively, for the year ended March 31, 2010.
Impairment losses of other securities for the years ended March 31, 2011 and 2010 were ¥27 million ($327 thousand) and ¥50 million, respectively. 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, 2011 and 2010 is as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | March 31, 2011 | | | |
| | 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 | ¥ - | ¥286 | ¥946 | ¥ - |
| Total | ¥ - | ¥286 | ¥946 | ¥ - |

| | 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 | ¥ - |

| | Thousands of U.S. dollars (Note 4) | | | |
|---|---|---|---|---|
| | March 31, 2011 | | | |
| | 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 | $ - | $3,443 | $11,377 | $ - |
| Total | $ - | $3,443 | $11,377 | $ - |

6. 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 Misawa Homes’ policy not to enter into derivative transaction for speculative purposes.

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

Trade receivables such as notes and accounts receivable are exposed to credit risk. Misawa Homes monitors the due dates and manages credit risk under the credit management rules to mitigate this 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. Certain long-term debt 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 7. 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, 2011 and 2010 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | March 31, 2011 | | |
| | Carrying value | Estimated fair value | Difference |
| Cash and bank deposits | ¥37,097 | ¥37,097 | ¥— |
| Notes and accounts receivable, trade | 6,387 | 6,387 | — |
| Investment securities | 2,957 | 2,957 | — |
| Total assets | ¥46,441 | ¥46,441 | ¥— |
| Notes and accounts payable, trade | ¥37,634 | ¥37,634 | ¥— |
| Short-term bank loans | 19,644 | 19,644 | — |
| Long-term debt (excluding bonds) | 26,359 | 26,091 | (268) |
| Total liabilities | ¥83,637 | ¥83,369 | ¥ (268) |
| Derivative transactions | — | — | — |

| | 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) |
| Derivative transactions | — | — | — |

| | Thousands of U.S. dollars (Note 4) | | |
|---|---|---|---|
| | March 31, 2011 | | |
| | Carrying value | Estimated fair value | Difference |
| Cash and bank deposits | $446,145 | 446,145 | $— |
| Notes and accounts receivable, trade | 76,809 | 76,809 | — |
| Investment securities | 35,566 | 35,566 | — |
| Total assets | $558,520 | $558,520 | $— |
| Notes and accounts payable, trade | $452,604 | $452,604 | $— |
| Short-term bank loans | 236,242 | 236,242 | — |
| Long-term debt (excluding bonds) | 317,003 | 313,782 | (3,221) |
| Total liabilities | $1,005,849 | ¥1,002,628 | $ (3,221) |
| Derivative transactions | — | — | — |

Note 1: Unlisted securities of ¥609 million ($7,328 thousand) and ¥624 million whose fair value was extremely difficult to determine as of March 31, 2011 and 2010, respectively, 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 counterparty financial institutions. Marketable securities amounting to

¥1million ($15 thousand) and ¥6 million are included in other current assets as part of current assets as of March 31, 2011 and 2010, respectively. Government bonds used for deposits amounting to ¥1,241 million ($14,921 thousand) and ¥724 million are included in other of investments and other assets as of March 31, 2011 and 2010, respectively.

Notes and accounts payable, trade, and 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 7. 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 one-year amounting to ¥18,190 million ($218,770 thousand) and ¥12,497 million is included in long-term debt in the above table as of March 31, 2011 and 2010, respectively.

Derivative transactions

The fair value of derivative transactions 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, 2011 and 2010 is as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | March 31, 2011 | | | |
| | 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 | ¥36,891 | ¥ – | ¥ – | ¥ – |
| Notes and accounts receivable, trade | 6,387 | – | – | – |
| Investment securities | | | | |
| Other securities with maturities | | | | |
| Government bonds | – | 286 | 946 | – |
| Total | ¥43,278 | ¥286 | ¥946 | ¥ – |

| | 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 (Note 4) | | | |
|---|---|---|---|---|
| | March 31, 2011 | | | |
| | 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 | $443,663145 | $ – | $ – | $ – |
| Notes and accounts receivable, trade | 76,809 | – | – | – |
| Investment securities | | | | |

| | | | | |
|---|---|---|---|---|
| Other securities with maturities | | | | |
| Government bonds | – | 3,443 | 11,377 | – |
| Total | $520,472 | $3,443 | $11,377 | $ – |

7. 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 years ended March 31, 2011 and 2010 were as follows:

| | | Millions of yen | | | Thousands of U.S. dollars (Note 4) | | |
|---|---|---|---|---|---|---|---|
| | | March 31, 2011 | | | March 31, 2011 | | |
| | Hedged item | 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 | ¥1,800 | ¥1,620 | Note | $21,648 | $19,483 | Note |

| | Hedged item | Millions of yen<br>March 31, 2010<br>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 |

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 for the years ended March 31, 2011 and 2010.

## 8. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2011 and 2010 were as follows.

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| Applicable assets | 2011 | 2010 | 2011 |
| Buildings and structures | ¥484 | ¥168 | $5,815 |
| Machinery and equipment | 599 | – | 7,202 |
| Land | 1,159 | 430 | 13,943 |
| Leased assets | 27 | 26 | 330 |
| Goodwill | – | 452 | – |
| Other | 54 | 17 | 645 |
| Total | ¥2,323 | ¥1,093 | $27,935 |

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.

The 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, 2011 and 2010.

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

Short-term bank loans at March 31, 2011 and 2010 were composed of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2011 | 2010 | 2011 |
| Loans, principally from banks, with a weighted-average interest rate of 2.3% at March 31, 2011 and 2010 | ¥19,644 | ¥21,228 | $236,242 |

Long-term debt at March 31, 2011 and 2010 was composed of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2011 | 2010 | 2011 |
| Loans, principally from banks and insurance companies, due 2012 to 2020 with weighted-average interest rate of 2.2% at March 31, 2011 and 2010 | ¥26,359 | ¥31,900 | ¥317,003 |
| Unsecured 2.15% bonds, due 2012 | 200 | 200 | 2,405 |
| Unsecured 0.85% bonds, due 2012 | 200 | 200 | 2,405 |
| Unsecured 0.9% bonds, due 2013 | 200 | 200 | 2,405 |
| Unsecured semiannual TIBOR+0.15% bonds, due 2013 | 166 | - | 1,997 |
| Unsecured 0.82% bonds, due 2014 | 200 | - | 2,405 |
| | 27,325 | 32,500 | 328,620 |
| Less portion due within one year | (18,259) | (12,497) | (219,588) |
| | ¥9,066 | ¥20,003 | ¥109,032 |

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 4) |
|---|---|---|
| 2012 | ¥18,259 | $219,588 |
| 2013 | 5,529 | 66,499 |
| 2014 | 1,445 | 17,378 |
| 2015 | 993 | 11,936 |
| 2016 | 887 | 10,666 |
| Thereafter | 212 | 2,553 |
| Total | ¥27,325 | $328,620 |

Assets pledged as collateral for secured loans and debt at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| Pledged assets | 2011 | 2010 | 2011 |
| Cash and bank deposits | ¥154 | ¥20 | $1,848 |
| Land and housing for sale | 4,260 | 5,667 | 51,233 |
| Cost of uncompleted contracts | 2,430 | 2,376 | 29,221 |
| Other current assets | 3 | 3 | 36 |
| Buildings and structures | 2,961 | 3,233<br>(582) | 35,614 |
| Machinery and equipment | 624 | 1,698<br>(351) | 7,510 |
| Land | 10,240 | 10,134<br>(3,138) | 123,150 |
| Other fixed assets | 3 | 29<br>(29) | 37 |
| Investment securities | 87 | 112 | 1,049 |
| Total | ¥20,762<br>(¥ -) | ¥23,272<br>(¥4,100) | $249,698<br>($ -) |

| Secured loans and debt | Millions of yen<br>March 31<br>2011 | <br><br>2010 | Thousands of U.S. dollars (Note 4)<br>March 31,<br>2011 |
|---|---|---|---|
| | ¥16,056 | ¥19,469 | $193,098 |
| Short-term bank loans | | (3,300) | |
| Long-term debt | 7,152 | 7,132 | 86,015 |
| Total | ¥23,208<br>(¥ -) | ¥26,601<br>(¥3,300) | $279,113<br>($ -) |

The amounts in parenthesis are pledged as factory foundation collateral.

10. Pension and severance costs:

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

The Company abolished its tax-qualified pension plan and newly established a defined benefit corporate retirement plan on July 1, 2010.

The funded status of retirement benefit obligations at March 31, 2011 and 2010 was as follows:

| | Millions of yen<br>March 31<br>2011 | <br><br>2010 | Thousands of U.S. dollars (Note 4)<br>March 31,<br>2011 |
|---|---|---|---|
| Projected benefit obligation | ¥(25,274) | ¥(25,594) | $(303,955) |
| Plan assets at fair value | 15,810 | 15,345 | 190,137 |
| Unfunded status | (9,464) | (10,249) | (113,818) |
| Unrecognized items: | | | |
| Net retirement benefit obligation at transition | 1,420 | 1,838 | 17,079 |
| Actuarial losses | 2,796 | 2,872 | 33,629 |
| Prior service cost reduction due to plan amendment | (131) | (38) | (1,583) |
| Accrued pension and severance costs - net | (5,379) | (5,577) | (64,693) |
| Prepaid pension cost | 14 | 302 | 164 |
| Accrued pension and severance costs | ¥ (5,393) | ¥(5,879) | $(64,857) |

The composition of net pension and severance costs for the years ended March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| | 2011 | 2010 | 2011 |
| Service cost | ¥2,153 | ¥2,335 | $25,887 |
| Interest cost | 378 | 396 | 4,553 |
| Expected return on plan assets | (169) | (134) | (2,032) |
| Amortization and expenses: | | | |
| Prior service costs | (89) | (128) | (1,066) |
| Actuarial losses | 618 | 898 | 7,429 |
| Expense related to transfer from simplified method | 187 | - | 2,247 |
| Net retirement benefit obligation at transition | 374 | 415 | 4,499 |
| Retirement benefit expenses due to dissolution of a subsidiary | 749 | - | 9,005 |
| Retirement benefit expenses due to mass retirement | - | 324 | - |
| Total | ¥4,201 | ¥4,106 | $50,522 |

The following are included in "Retirement benefit expenses" recorded in Other losses ("TOKUBETSU SONSHITSU") for the year ended March 31, 2011:

| | Millions of yen | Thousands of U.S. dollars (Note 4) |
|---|---|---|
| | Year ended March 31, 2011 | |
| Unrecognized difference on change of retirement benefit scheme due to dissolution of a subsidiary | ¥158 | $1,896 |
| Unrecognized prior service cost | (30) | (364) |
| Unrecognized actuarial losses | 621 | 7,473 |
| | ¥749 | $9,005 |

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2011 and 2010 were as follows:

| | Years ended March 31 | |
|---|---|---|
| | 2011 | 2010 |
| Discount rate | 1.5% | 1.5% |
| Long-term rate of return on plan assets | 0.0-3.7% | 0.0-3.7% |

## 11. Shareholders' equity:

Preferred stocks outstanding as of March 31, 2011 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%<br>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 1,702,136 shares and 1,697,613 shares of treasury stock at March 31, 2011 and 2010, 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, 2011 and 2010:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| | 2011 | 2010 | 2011 |
| Buildings and structures | ¥2 | ¥10 | $33 |
| Machinery and equipment | 3 | 5 | 33 |
| Land | 1 | 1 | 7 |
| Other | 1 | 119 | 6 |
| Total | ¥7 | ¥135 | $79 |

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, 2011 and 2010:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| | 2011 | 2010 | 2011 |
| Buildings and structures | ¥97 | ¥208 | $1,161 |
| Machinery and equipment | 8 | 24 | 98 |
| Land | 1 | - | 7 |
| Other | 107 | 35 | 1,297 |
| Total | ¥213 | ¥267 | $2,563 |

## 14. Net income per share:

Calculation of net income per share for the years ended March 31, 2011 and 2010 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | Years ended March 31 | | Year ended March 31, |
| | 2011 | 2010 | 2011 |
| Net income attributable to common shares | ¥3,133 | ¥3,044 | $37,685 |
| Weighted average number of common shares outstanding: | | | |
| -Basic | 37,038,469 | 37,052,629 | |
| -Diluted | 121,252,748 | 152,243,834 | |

| | Yen | | U.S. dollars (Note 4) |
|---|---|---|---|
| Net income per share: | | | |
| -Basic | ¥84.60 | ¥82.15 | $1.02 |
| -Diluted | ¥25.84 | ¥19.99 | $0.31 |

## 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, 2011 and 2010.

The significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2011 | 2010 | 2011 |
| Deferred tax assets: | | | |
| Devaluation of inventories | ¥2,757 | ¥4,184 | $33,156 |
| Tax loss carry forwards | 115,987 | 111,698 | 1,394,916 |
| Others | 11,306 | 11,018 | 135,969 |
| Gross deferred tax assets | 130,050 | 126,900 | 1,564,041 |
| Less: valuation allowance | (121,294) | (116,953) | (1,458,735) |
| Total deferred tax assets | 8,756 | 9,947 | 105,306 |
| Deferred tax liabilities: | | | |
| Expense related to asset retirement obligations | (218) | - | (2,616) |
| Prepaid pension cost | - | (122) | - |
| Net unrealized gains on other securities | (194) | (100) | (2,336) |
| Others | (15) | (16) | (181) |
| Gross deferred tax liabilities | (427) | (238) | (5,133) |
| Net deferred tax assets | ¥8,329 | ¥9,709 | $100,173 |

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, 2011 and 2010 increased by ¥4,340 million ($52,200 thousand) and decreased by ¥1,130 million, respectively.

The differences between Misawa Homes' statutory income tax rate and the effective income tax rates reflected in the consolidated statements of income for the years ended March 31, 2011 and 2010 were reconciled as follows:

| Year ended March 31 | 2011 | 2010 |
|---|---|---|
| Statutory income tax rate | 40.7% | 40.7% |
| Reconciliation: | | |
| Changes in valuation allowance | (31.5) | 2.0 |
| Entertainment expenses, etc. permanently non-tax deductible | 4.0 | 10.0 |
| Per capita inhabitants tax | 5.6 | 3.8 |
| Consolidation adjustment | (0.4) | (3.6) |
| Others | 0.2 | (0.7) |
| Effective income tax rates | 18.6% | 52.2% |

## 16. Research and development costs:

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥2,476 million ($29,773 thousand) and ¥2,561 million for the years ended March 31, 2011 and 2010, respectively.

## 17. Cash flow information:

Cash and cash equivalents at March 31, 2011 and 2010 were composed of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2011 | 2010 | 2011 |
| Cash and bank deposits | ¥37,097 | ¥41,877 | $446,145 |
| Less: | | | |
| Time deposits due over three months | (504) | (467) | (6,067) |
| Cash and cash equivalents | ¥36,593 | ¥41,410 | $440,078 |

## 18. Leases:

A consolidated subsidiary leases group of assets which are recorded in "Buildings and structures" as part of Property, plant and equipment on the accompanying consolidated balance sheets as of March 31, 2011.

As described in Note 2. (16) Leases, Misawa Homes, as a lessee, charges periodic payments of finance lease transactions entered into prior to April 1, 2008, as an expense when paid. Such payments for the years ended March 31, 2011 and 2010 amounted to ¥1,275 million ($15,339 thousand) and ¥2,102 million, respectively.
If the finance lease transactions entered into on or before March 31, 2008 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, 2011 and 2010 would have been as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2011 | 2010 | 2011 |
| Acquisition cost: | | | |
| Buildings and structures | ¥3,115 | ¥5,687 | $37,463 |
| Machinery and equipment | 91 | 178 | 1,100 |
| Other property, plant and equipment | 1,203 | 2,120 | 14,466 |
| Other intangible assets | 323 | 466 | 3,879 |
| | 4,732 | 8,451 | 56,908 |
| Less: | | | |
| Accumulated depreciation | (4,133) | (6,621) | (49,702) |
| Net book value | ¥599 | ¥1,830 | $7,206 |

Depreciation expenses for these leased assets for the years ended March 31, 2011 and 2010, would have been ¥1,085 million ($13,051 thousand) and ¥2,013 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, 2011 and 2010, would have been ¥28 million ($338 thousand) and ¥73 million, respectively.
Impairment loss for these finance leases for the years ended March 31, 2011 and 2010 were ¥27 million ($325 thousand) and ¥26 million, respectively.

Future lease payments for finance leases at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| Future lease payments | 2011 | 2010 | 2011 |
| Due within one year | ¥432 | ¥1,296 | $5,197 |
| Due after one year | 192 | 643 | 2,309 |
| Total | ¥624 | ¥1,939 | $7,506 |

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| Future lease payments | 2011 | 2010 | 2011 |
| Due within one year | ¥309 | ¥306 | $3,722 |
| Due after one year | 3,661 | 3,918 | 44,028 |
| Total | ¥3,970 | ¥4,224 | $47,750 |

## 19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2011 and 2010 were ¥35,236 million ($423,761 thousand) and ¥40,423 million, respectively.

## 20. Related party transactions:

Significant transactions with related parties for the years ended March 31, 2011 and 2010 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 2011 | 2010 | Thousands of U.S. dollars (Note 4) Year ended March 31, 2011 |
|---|---|---|---|---|
| Toyota Finance Corporation | Pledged assets | ¥2,200 | ¥3,300 | $26,458 |

(Balances)

| Name of related party | Account | Millions of yen March 31 2011 | 2010 | Thousands of U.S. dollars (Note 4) March 31, 2011 |
|---|---|---|---|---|
| Toyota Finance Corporation | Short-term loans | ¥2,200 | ¥3,300 | $26,458 |

Toyota Finance Corporation is a company in which more than half of its voting rights are owned 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 Company and the amount of the transaction is the balance of the borrowings at March 31, 2011.

The pledged assets are furnished by the subsidiaries, and the amount of the transaction is the balance of the borrowings at March 31, 2010.

(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 2011 | 2010 | Thousands of U.S. dollars (Note 4) Year ended March 31, 2011 |
|---|---|---|---|---|
| Masakatsu Takeda<br>Rei Takeda | Housing construction contract | ¥ 24 | ¥ - | $295 |

There was no outstanding balance with Masakatsu Takeda and Rei Takeda as of March 31, 2011 and 2010.

Masakatsu Takeda and Rei Takeda are close relatives of Masakazu Miyamori, a corporate auditor of the Company.

Note: The contract amount is determined based on the employee's house ownership discount policy.

21. Transactions under common control:

1. 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. to make Misawa Homes Hokkaido Co., Ltd. a wholly owned subsidiary.

(Business description of combined parties)
Company name: Misawa Homes Hokkaido Co., Ltd.
Description of the business: Construction and sales of industrialized houses

(Date of the business combination)
June 21, 2010

(Legal form of the business combination)
Share exchange

(Name of company following the business combination)
Misawa Homes Hokkaido Co., Ltd.

(Overview of the transaction including purpose)
The Company decided to make Misawa Homes Hokkaido Co., Ltd. a wholly owned subsidiary through the share exchange and tender offer to improve the corporate value of Misawa Homes Hokkaido Co., Ltd. in the medium and long term and to maximize the entire value of Misawa Homes. 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 without being preoccupied by short-term interests. The Company is also able to undertake agile and flexible decision-making for Misawa Homes Hokkaido Co., Ltd.

(Outline of accounting treatment)
This merger has been accounted for as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No.21, dated December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, dated December 26, 2008).

(Acquisition cost and details)
Acquisition cost was ¥747 million ($8,988 thousand), including the cost of both the share exchange and tender offer.

(Exchange ratio and calculation method of the ratio)
The share price of Misawa Homes Hokkaido Co., Ltd. is ¥270 ($3.25) per share.
To ensure fairness, the Company and Misawa Homes Hokkaido Co., Ltd. assigned third party institutions to calculate the valuation of the share price. The Company consigned the computation to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and Misawa Homes Hokkaido Co., Ltd. consigned the computation to Growin’ Partners Inc. The Company and Misawa Homes Hokkaido Co., Ltd. negotiated and agreed upon the share price based on the reports by the third party institutions.

(Goodwill)
Amount of goodwill: ¥487 million ($5,854 thousand)

Reason for recognizing goodwill: The difference between the above-stated acquisition cost and the amount of decrease in minority interest resulting from the acquisition
Amortization method: Straight-line method over 10 years

2. Based on the resolution of the Board of Directors meeting held on March 18, 2010, the Company acquired common stock of Tohoku Misawa Homes Co., Ltd. to make Tohoku Misawa Homes Co., Ltd. a wholly owned subsidiary.

(Business description of combined parties)
Company name: Tohoku Misawa Homes Co., Ltd.
Description of the business: Construction and sales of industrialized houses

(Date of the business combination)
June 21, 2010

(Legal form of the business combination)
Share exchange

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

(Overview of the transaction including purpose)
The Company decided to make Tohoku Misawa Homes Co., Ltd. a wholly owned subsidiary through the share exchange and tender offer to improve the corporate value of Tohoku Misawa Homes Co., Ltd. in the medium and long term and maximize the entire value of Misawa Homes. 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 without being preoccupied by short-term interests. The Company is also able to undertake agile and flexible decision-making for Tohoku Misawa Homes Co., Ltd.

(Outline of accounting treatment)
This merger has been accounted for as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No.21, dated December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, dated December 26, 2008).

(Acquisition cost and details)
Acquisition cost was ¥2,009 million ($24,158 thousand), including the cost of both share exchange and tender offer.

(Exchange ratio and calculation method of the ratio)
The share price of Tohoku Misawa Homes Co., Ltd. is ¥204 ($2.45) per share.
To ensure fairness, the Company and Tohoku Misawa Homes Co., Ltd. assigned third party institutions to calculate the valuation of the share price. The Company consigned the computation to Mitsubishi UFJ Morgan Stanley Securities

Co., Ltd. and Tohoku Misawa Homes Co., Ltd. consigned the computation to Growin' Partners Inc. The Company and Tohoku Misawa Homes Co., Ltd. negotiated and agreed upon the share price based on the reports by the third party institutions.

(Goodwill)

Amount of goodwill: ¥1,315 million ($15,809 thousand)

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

Amortization method and period: Straight-line method over 10 years

## 22. Comprehensive income:

Other comprehensive income for the year ended March 31, 2010 consists of the following:

| | Millions of yen |
|---|---|
| | March 31, 2010 |
| Other comprehensive income: | |
| Net unrealized losses on other securities | ¥(107) |
| Foreign currency translation adjustments | (43) |
| Total other comprehensive income(loss) | ¥ (150) |

Total comprehensive income for the year ended March 31, 2010 comprises the following:

| | Millions of yen |
|---|---|
| | March 31, 2010 |
| Total comprehensive income attributable to: | |
| Shareholders of MISAWA HOMES CO., LTD. | ¥ 2,903 |
| Minority interest | (730) |
| Total comprehensive income | ¥ 2,173 |

## 23. Segment information:

Effective from the fiscal year ended March 31, 2011, the Company has adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, dated March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, dated March 21, 2008).

For the year ended March 31, 2011

Segment information under the revised accounting standard is as follows:

(1) Information about reportable segments

Information about reportable segments is omitted since the Company's business is mostly residential property development and related business and considered one reportable segment.

(2) Information about products and services of the reportable segment

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| | Custom -built houses | Leasing | Built for sale | Housing materials | Renovations | Other | Total |
| Sales to third parties | ¥167,290 | ¥16,241 | ¥25,903 | ¥7,612 | ¥50,836 | ¥73,506 | ¥341,388 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| | Custom -built houses | Leasing | Built for sale | Housing materials | Renovations | Other | Total |
| Sales to third parties | $2,011,901 | $195,327 | $311,527 | $91,549 | $611,375 | $884,009 | $4,105,688 |

(3) Geographical segments

a. Sales by region is omitted because sales in the Japan area account for more than 90% of sales in the accompanying consolidated statements of income.

b. Property, plant and equipment by region is omitted because property, plant and equipment in the Japan area account for more than 90% of fixed assets in the accompanying consolidated balance sheets.

(4) Information by major customers

Information by major customer is omitted because there are no customers for which sales account for more than 10% of net sales.

(5) Information about impairment loss on long-lived assets by reportable segment

Information about impairment loss on long-lived assets by reportable segment is omitted because the Company's business is mostly residential property development and related business and essentially considered one reportable segment.

(6) Information about amortization and unamortized balance of goodwill by reportable segment

Information about amortization and unamortized balance of goodwill by reportable segment is omitted the Company's business is mostly residential and related business and practically considered one reportable segment.

For the year ended March 31, 2010

Segment information under the previous accounting standards is as follows:

(1) Business segments

Information regarding business segments is omitted in the consolidated financial statements for the year ended March 31, 2010 because sales, operating income and total assets in the residential segment account for more than 90% of all business segments.

(2) Geographical segments

Information regarding geographical areas is omitted for the year ended March 31, 2010 because sales and total assets in the Japan area account for more than 90% of all geographical areas.

(3) Overseas sales

Information regarding overseas sales is omitted for the year ended March 31, 2010 because overseas sales represent less than 10% of total sales.

# 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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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 3(1), effective the fiscal year ended March 31, 2011, the Company and consolidated subsidiaries have applied a new accounting standard for Asset Retirement Obligations.

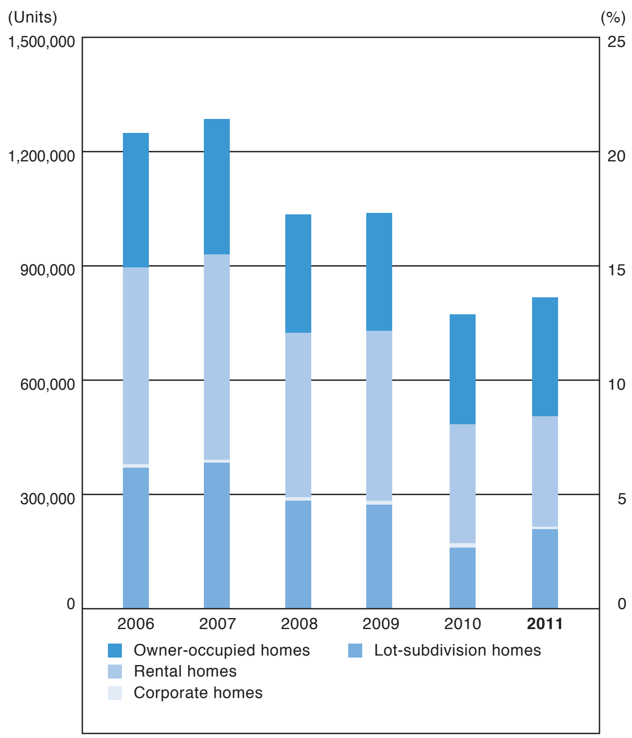
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon LLC

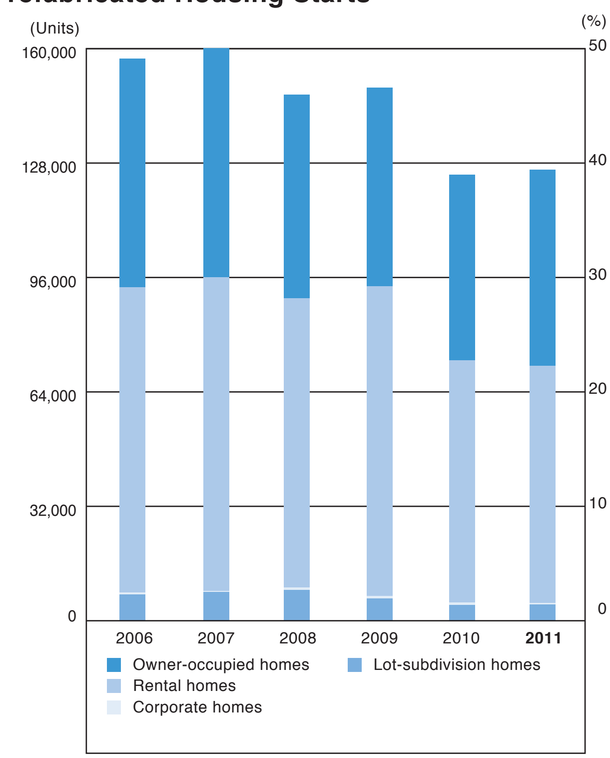
June 20, 2011

# Trends in the Housing Market in Japan

## Housing Starts




## Prefabricated Housing Starts




## Housing Starts

(Units, %)

| Fiscal year ended March 31 | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | | **2011** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Owner-occupied homes | 352,577 | 28.2 | 355,700 | 27.7 | 311,800 | 30.1 | 310,670 | 29.9 | 286,993 | 37.0 | 308,517 | 37.7 |
| Rental homes | 517,999 | 41.5 | 537,943 | 41.9 | 430,855 | 41.6 | 444,848 | 42.8 | 311,463 | 40.2 | 291,840 | 35.6 |
| Corporate homes | 8,515 | 0.7 | 9,100 | 0.7 | 10,311 | 1.0 | 11,089 | 1.1 | 13,231 | 1.7 | 6,580 | 0.8 |
| Lot-subdivision homes | 370,275 | 29.6 | 382,503 | 29.7 | 282,632 | 27.3 | 272,607 | 26.2 | 163,590 | 21.1 | 212,083 | 25.9 |
| Total | 1,249,366 | 100.0 | 1,285,246 | 100.0 | 1,035,598 | 100.0 | 1,039,214 | 100.0 | 775,277 | 100.0 | 819,020 | 100.0 |

## Prefabricated Housing Starts

(Units, %)

| Fiscal year ended March 31 | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | | **2011** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Owner-occupied homes | 63,586 | 40.6 | 63,725 | 39.9 | 56,724 | 38.7 | 55,317 | 37.2 | 51,819 | 41.7 | 54,715 | 43.5 |
| Rental homes | 85,110 | 54.4 | 87,370 | 54.8 | 80,662 | 55.0 | 86,253 | 58.0 | 67,415 | 54.2 | 65,952 | 52.5 |
| Corporate homes | 485 | 0.3 | 413 | 0.3 | 557 | 0.4 | 802 | 0.5 | 749 | 0.6 | 533 | 0.4 |
| Lot-subdivision homes | 7,400 | 4.7 | 8,036 | 5.0 | 8,662 | 5.9 | 6,220 | 4.2 | 4,378 | 3.5 | 4,502 | 3.6 |
| Total | 156,581 | 100.0 | 159,544 | 100.0 | 146,605 | 100.0 | 148,592 | 100.0 | 124,361 | 100.0 | 125,702 | 100.0 |

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

# Subsidiaries and Affiliated Company (As of March 31, 2011)

| 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 | 1,738 | 100.0 | Construction and sales of prefabricated houses |
| Tohoku Misawa Homes Co., Ltd. | Sendai, Miyagi Prefecture | 500 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Shin-etsu Co., Ltd. | Niigata, Niigata Prefecture | 537 | 100.0 | 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. | Okayama, Okayama Prefecture | 1,369 | 72.9 (5.6) | Construction and sales of prefabricated houses |
| Misawa Homes Shikoku Co., Ltd. | Takamatsu, Kagawa Prefecture | 100 | 100.0 | 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 Homeing Co., Ltd. | Suginami-ku, Tokyo | 800 | 100.0 | Home renovation |
| Techno Factories and Construction Co., Ltd. | Suginami-ku, Tokyo | 50 | 85.1 (30.0) | Manufacture of house materials |
| 32 others | | | | |
| **Affiliated company:** | | | | |
| Toyota Motor Corporation | Toyota, Aichi Prefecture | 397,050 | [29.3] [(29.3)] | |

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, 2011)

| | |
|---|---|
| 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, 2011)

**Directors**

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

**Corporate Auditors**

Masakazu Miyamori*3
Seiji Urita*3
Yoshihiro Ishisaka
Shuzo Kameda

**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
Tetsuyuki Morita
Sumio Yokota

***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 | 19,855 |
| 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 | Toyota Housing Corporation | 10,784,100 | 27.8 |
| 2 | Aioi Nissay Dowa Insurance Co., Ltd. | 2,058,327 | 5.3 |
| 3 | Japan Trustee Services Bank, Ltd. (Trust A/C) | 1,499,500 | 3.8 |
| 4 | State Street Bank and Trust Company | 1,390,600 | 3.5 |
| 5 | I.L.S. Co., Ltd. | 826,000 | 2.1 |
| 6 | Misawa Capital Co., Ltd. | 734,900 | 1.8 |
| 7 | The Chase Manhattan Bank NA London SL Omnibus Account | 684,900 | 1.7 |
| 8 | The Master Trust Bank of Japan, Ltd. (Trust A/C) | 612,800 | 1.5 |
| 9 | Nippon Life Insurance Company | 609,053 | 1.5 |
| 10 | Bank of Tokyo-Mitsubishi UFJ, Ltd. | 559,912 | 1.4 |

Notes: Percentage shareholding is calculated based on common shares issued.
Custodian of shareholders' register: Mitsubishi UFJ Trust and Banking Corporation
4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo

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MISAWA