

MISAWA 45th
Anniversary

Annual Report 2013
Annual Report 2013

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 rental apartment houses and we have supplied more than 1.2 million homes in total. We are striving to maximize the revenue potential of our core business, which also includes such house-related pursuits as home renovations, while diversifying our sources of revenue through real estate brokerage, senior care businesses, and other activities.

Misawa-brand homes are well regarded for their 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 23 consecutive years.

Misawa Homes has also been involved in the design and construction of most of the facilities at Showa Station in Antarctica. Being chosen to build the facilities substantiates the sophistication characteristic of Misawa-brand homes that make life pleasant and safe even in a harsh environment like Antarctica.



Contents

To Our Shareholders	1
Maximizing Revenue Opportunities and Diversifying Sources of Revenue	3
Topics	7
Financial Section	8
Trends in the Housing Market in Japan	43
Subsidiaries and Affiliated Company	44
Corporate Data	45

Cautionary Statement with Regard to Forward-Looking Statements

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



To Our Shareholders

We continue to pursue business activities to become the “No. 1 brand in housing.”

Fiscal 2013 Results

The domestic economic environment in fiscal 2013—the business year ended March 31, 2013—remained challenging against a backdrop that included such issues as tight supply-and-demand for electricity and the impact of slowing business activity worldwide. In the second half, however, signs of recovery appeared, notably, an uptick in stock prices and a drop in the yen, which was prompted mainly by the expectation of new economic policy accompanying the change in Japan’s ruling party in December 2012. This was the setting in which Misawa Homes marked its 45th anniversary, in October 2012. The Company utilized this event as an opportunity to take steps, such as a large-scale sales campaign and the launch of time-limited products, to expand sales and also to improve customer satisfaction. These efforts yielded solid rewards, underlined by a 4.3 percent increase in net sales, to ¥394,697 million. Ordinary income rose 10.4 percent, to ¥12,030 million. Net income, however, jumped 43.4 percent, to ¥9,920 million.

Medium-term Management Plan

The Misawa Homes Group continues to pursue business activities in line with Home Step Jump, the three-year medium-term management plan drafted in 2011. This plan follows on from the themes of the previous medium-

term management plan—to optimize the business portfolio and reorganize business operations—with strategies to maximize the revenue potential of existing operations and diversify sources of revenue.

Our existing operations hinge on the single-family home, subdivision single-family home and home renovation businesses, and we will strive to boost revenue from these core activities while targeting higher profits through meticulous cost-cutting to derive maximum results. In addition, aware that demand for newly built homes could slow because of the declining birthrate and further graying of the population, we will actively promote new revenue businesses, such as senior care, special buildings and condominiums, real estate brokerage, life care and daycare, landscaping, and sales of housing materials, which will underpin diversification of our sources of revenue.

The three years of the medium-term management plan will be a vital time for preparing a foundation—the step—from which we will launch new growth strategies for the future—the jump. By steadily implementing the strategies of this plan, we will achieve our medium-to long-term management vision of becoming the “No. 1 brand in housing.”

A priority under the medium-term management plan is to write down preferred stock. As of March 2012,

preferred stock has been reduced to ¥14.5 billion, from an earlier level of ¥47.0 billion, and we endeavored to minimize future stock dilution risk and reinforce our financial footing through purchase and cancellation of ¥7.0 billion of the remaining amount in March 2013. In addition, having achieved a certain level of retained earnings, we are in a position to execute a ¥10 per share increase in dividends to ¥20 per share. Going forward, as we steadily implement the strategies outlined in the medium-term management plan, we will address such issues as early purchase and cancellation of remaining preferred stock and strive to raise corporate value to new heights.

In addition, we readily acknowledge our responsibility as a builder of homes and will naturally continue to direct concerted efforts toward the construction of sturdy homes that protect the lives of the people inside them when disasters, such as earthquakes, strike. We will also strive to build homes that are safer, more secure and more comfortable, with particular emphasis on creating disaster-ready communities with features that keep lifelines open in times of natural or man-made catastrophe and offset the impact of blackouts when commercial power supply fails to match demand.

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



June 2013

Nobuo Takenaka

Nobuo Takenaka
President and CEO

Maximizing Revenue Opportunities and Diversifying Sources of Revenue

Market Outlook

The three prongs of “Abenomics”—shorthand for a suite of recovery measures introduced under the ruling administration of Prime Minister Shinzo Abe—are expected to reinvigorate the business environment in Japan through a massive fiscal stimulus focused on public works spending, aggressive monetary easing from the Bank of Japan, and structural reforms to sharpen Japan’s competitiveness on the world stage. An increase in the consumption tax will help to finance stimulus spending, and it is the interim measure ahead of the planned first-stage increase in April 2014 that could have an impact on the housing industry.

Normally, consumption tax is applied when a home is transferred to the buyer not when the contract is signed. The current rate will continue to apply to any contracts for which transfer of ownership occurs before March 31, 2014. However, the interim measure will extend application of the current rate to contracts for which transfer occurs after March 31, 2014, as long as the agreements are signed before the end of September 2013. Therefore, the housing industry could see a burst of purchasing activity in the first half of fiscal 2014—that is, the six months to September 30, 2013—as people who had been hesitating about home ownership suddenly rush to buy before the interim measure lapses and a higher consumption tax essentially makes the investment more expensive.

In comparison, market conditions in the second half of fiscal 2014 could be more difficult. Given this scenario, the Misawa Homes Group will use Home Step Jump to guide business activities and thereby maximize revenue opportunities from existing businesses and diversify sources of revenue to ensure access to revenue in all business segments.

Homes

We continued to enrich our lineup of homes to match market needs and develop high-value-added system-built homes at reasonable prices. With regard to market needs, the events of the Great East Japan Earthquake in March 2011 made people more community- and family-minded. To address new attitudes, we debuted homes with layouts that create a more neighborly feel from an external perspective—but not at the expense of privacy—and offer sunny interior spaces where families can spend quality time together. We also began sales of products geared to two-family homes, another category of homes that is attracting greater interest.

With regard to pricing, we enhanced the perceived affordability of homes in the Misawa-brand SMART STYLE series by lowering prices and improving standard features. As products to commemorate our 45th anniversary, we introduced homes featuring options that have been particularly

popular with buyers of Misawa-brand homes in the past.

To capture a share of the post-and-beam construction market, which represents nearly 80 percent of Japan’s single-family home market, in 2008 we began sales of MJ Wood, a brand of conventional post-and-beam homes that is less expensive than our mainstay system-built homes. Unit sales continue to increase. Going forward, we will expand our sales channels, especially in large urban centers, to boost sales.

In the subdivision homes business, we are expanding our residential community development operations, a forte field that draws on the strengths of the Misawa Homes Group, with an emphasis on the metropolitan Tokyo area and the Kansai and Chukyo regions, centered on Osaka and Nagoya, respectively, which present considerable market scale. Meanwhile, we began promoting the environment-conscious smart city business in earnest.



SMART STYLE, offering high added value and a true sense of affordability



Example of a smart town home

Asset Utilization

We have a menu of proposals for property owners designed to help them best utilize their assets, that includes rental homes, condominiums and dwellings with shops. In 2012, we began sales of a three-floor dwelling that is both home to the owner as well as a rental property. This product is designed for the urban market to



Belle Lead HOME plus3, a three-floor dwelling that integrates rental units and the owner's residence under one roof

make the most of narrow lots. It is an effective approach to utilizing assets as it brings in stable rental income for household finances and presents tax advantages as well. In the condominium business, which we are pursuing jointly with condominium developers, we kicked off sales in several cities, including Sapporo, on the northern island of Hokkaido, and in Hiroshima, in western Japan.



Condominium sold in Hiroshima

Renovation

Heightened concern about the environment in recent years has made the environment-friendly equipment and thermal insulation performance found in newly built homes quite attractive to owners of existing homes. In fiscal 2013, seeking to expand sales of environment-related renovation services, we presented homeowners with solutions that turn existing homes into smart homes through the installation of photovoltaic power generating systems, the use of HEMS (home energy management systems) and energy-saving renovations.

As part of this emphasis, we developed a photovoltaic power generating system using a lightweight solar cell module that is about half as heavy as conventional models. This system went on sale in April 2012. Access to this system led to a dramatic increase in the installation rate of photovoltaic power generating systems in existing single-family homes, a market sector that had been difficult to accommodate before because of load issues, and we worked to raise the profile of these systems. On a groupwide basis, the number of

photovoltaic power generating systems installed in fiscal 2013 was double that of the previous fiscal year. We also actively promoted our flat-rate condominium renovation service and barrier-free renovation services for seniors.



Super-lightweight photovoltaic solar cell module

Real Estate Brokerage Services

Demand for pre-owned homes in Japan is expected to grow, buoyed by government incentives. The Misawa Homes Group structure of services is a circle, beginning with construction of new homes, moving through after-sales services 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 necessary maintenance and renovation work, and then resell the homes with the Misawa quality guarantee. We will utilize the features of HOMEVER to strengthen the supply of homes with high asset value and in so doing attract more business from the pre-owned home market.

Senior Care Services

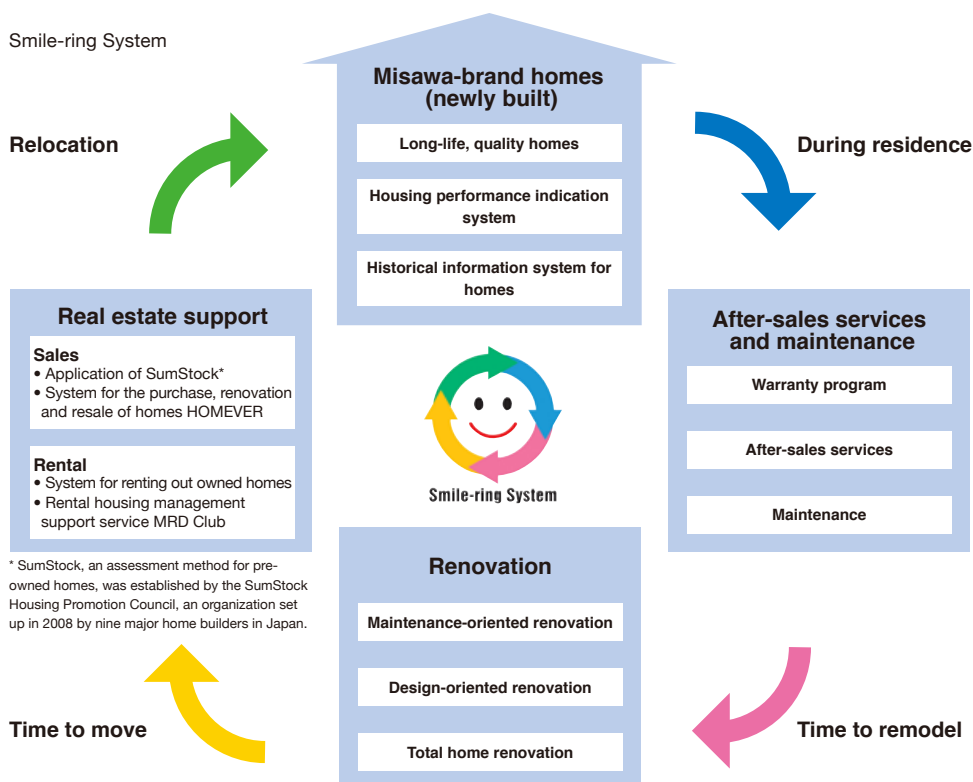
Guided by the corporate motto “Lifelong commitment to customers through housing,” Misawa Homes and members of the Misawa Homes Group have been involved in senior care services for many years, centered around the operation of nursing homes. An area of particular interest for the future is the development of

business activities in urban areas where the number of seniors is rising and the needs of a graying society are expected to increase. In 2012, we opened a rental apartment complex in Sapporo, on the northern island of Hokkaido. This complex is conveniently located close to Sapporo Station and commercial facilities and boasts features designed specifically for seniors.

Looking ahead, with a possible shortage of senior care providers impacting operations as the need for such services expands, we turned Saint Staff Co., Ltd., which is primarily an employment agency for the medical, nursing care and daycare sectors, into a subsidiary to ensure our ability to take advantage of future growth potential.



Rental apartment complex for seniors in Sapporo, Hokkaido



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, to create better child-development environments. To date, we have been involved in the design, construction and renovation of six daycare centers. In some parts of Japan, particularly urban areas, there are more people seeking daycare services for their children than there are spaces available at existing facilities, and the large number of children who cannot be enrolled in daycare programs has become a pressing social issue. This lack of sufficient daycare also presents an obstacle to women who would like join the workforce but cannot because they have no one

to care for their children during the day. In 2012, we built daycare centers in key urban areas where the need for



Yoshikawa Station, a daycare center

daycare services is high, thereby helping to resolve this outstanding issue at least to some degree.

Going forward, we are considering a wider range of activities, with an eye toward not only the construction but also the operation of daycare centers.

Other Key Strategies

In overseas operations, we pursued opportunities for gathering information and forging business connections, including a “three-peat” product display at Shanghai International Green Wood Residential Exhibition, a green housing expo in Shanghai, China. In September 2012, we built a model house in a subdivision area to be developed by a local developer in Kunming, Yunnan Province, China. Two model houses have also been constructed in South Korea, and we will continue with further efforts to develop our presence overseas.

Elsewhere, in conjunction with measures to address business continuity planning, in August 2012, we established an operating base in Okinawa Prefecture to handle such operations as drawing up housing component design plans and estimating cost of materials. We already have similar back-office operations in Tokyo and Dalian, China. Going forward, we will disperse production information operations to sidestep possible impact from such disasters as earthquakes on business activities.

Consolidated Income

(Hundred million yen, %)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014 (Planned)
Net sales	3,414	3,785	3,947	4,250
Operating income	87	120	124	142
Ordinary income	79	109	120	140

Number of Homes Sold

(Units, %)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014 (Planned)
Custom homes	5,981	6,361	6,527	7,040
Subdivision single-family homes	787	663	729	820
Multi-family homes	1,532	1,874	1,724	1,750
Other	663	652	650	760
System-built homes	8,963	9,550	9,630	10,370
Post-and-beam and 2x4 construction systems	932	1,008	1,110	1,250
Total	9,895	10,558	10,740	11,620

Number of Staff Employed

(Number of persons, %)

	Fiscal 2011	Fiscal 2012	Fiscal 2013
New home business	2,062	2,035	2,050
Home renovation business	947	917	968
Design, construction, management	3,785	3,891	4,017
All sales companies	6,794	6,843	7,035
Misawa Homes	680	651	694
Production companies	995	983	991
Affiliated companies	342	398	621
Total	8,782	8,917	9,306

Topics

Toward a Low-Carbon Society

The government created a policy that encourages national and local public entities to take the initiative in using wood in the construction of public buildings. In response, Misawa Homes developed a proprietary method—Future Wood System (FWS)—that facilitates the construction of large post-and-beam buildings, and embarked on the construction of new offices for a subsidiary using the new method in October 2012. Going forward, we will delve more deeply into R&D on this method to expand activities related to the construction of large post-and-beam buildings, especially educational facilities and nursing care facilities.

In addition, since 2012 we have announced plans



Large wooden building showcasing the FWS method



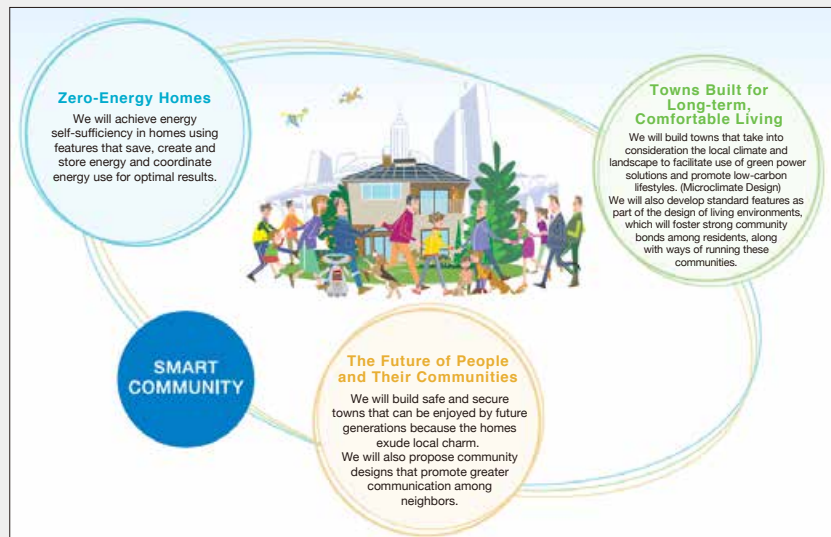
Large-scale photovoltaic power generating system that went online in March 2013

to set up large-scale, clean-energy photovoltaic power generating facilities at four locations in Japan. One plant brought its facility on line in March 2013. We expect the remaining three locations to go on line soon. We expect to increase the number of plants, and as the network expands, so will our energy sales business.

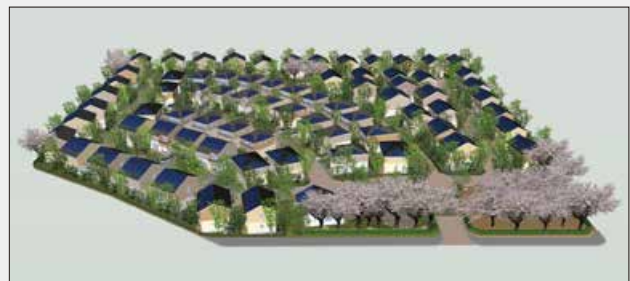
Smart Town Activities

The events of the Great East Japan Earthquake led to tight supply and demand of electricity and heightened awareness of environmental issues, prompting government and citizens alike to seek constructive approaches to effective utilization of energy. The situation sparked a sudden rush of interest in the smart house concept, which emphasizes energy self-sufficiency and optimized energy usage. The smart town—or smart community—idea has also attracted attention. In a smart town, it is the entire community, not just individual homes, that embraces measures to optimize energy. In 2012, Misawa Homes began promoting smart towns all over Japan, and sales have already been logged in the prefectures of Niigata and Nara.

In Japan, temperatures, humidity, wind direction and other variables differ considerably depending on geographical location, so Misawa Homes' smart town emphasis goes beyond the installation of advanced environment-conscious facilities to include a close look into the local climate and landscape as well as the ecosystem in each area and applies this information to the creation of smart towns. This is what distinguishes a Misawa-brand smart town from the rest. We will continue to actively promote the smart town concept to enable customers to realize a comfortable lifestyle in a safe and secure setting.



Three elements of a smart community designed by Misawa Homes



Conceptual drawing of smart town

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
	2013	2012	2011	2010	2009	2008	2013
For the Year:							
Net Sales	¥ 394,697	¥ 378,574	¥ 341,388	¥ 353,621	¥ 401,204	¥ 409,246	\$4,196,669
Cost of Sales	301,775	290,592	260,755	274,510	311,111	317,244	3,208,663
Gross Profit	92,922	87,982	80,633	79,111	90,093	92,002	988,006
Selling, General and Administrative Expenses	80,490	76,006	71,909	70,385	81,412	84,204	855,817
Operating Income	12,432	11,976	8,724	8,726	8,681	7,798	132,189
Income before Income Taxes and Minority Interests	11,488	11,147	3,877	4,862	759	4,989	122,150
Net Income (Loss)	9,920	6,919	3,133	3,044	(2,984)	389	105,480
At Year-End:							
Total Assets	¥ 212,725	¥ 197,759	¥ 176,628	¥ 180,306	¥ 194,934	¥ 227,894	\$2,261,829
Total Net Assets	35,552	32,623	25,528	23,461	21,244	26,346	378,012
Per Share Amounts (yen):							
Net Income (Loss)	¥ 254.55	¥ 180.95	¥ 84.60	¥ 82.15	¥ (80.43)	¥ 10.50	\$ 2.71

Financial Review

Results

Operating Environment

In fiscal 2013, ended March 31, 2013, the domestic economy remained challenging against a backdrop that included such issues as tight supply-and-demand for electricity and the impact of slowing business activity worldwide. In the second half, however, signs of recovery appeared, notably, an uptick in stock prices and a drop in the yen, which was prompted mainly by the expectation of better times to come through economic policy outlined by Japan's new administration.

In the housing industry, the interest rate on mortgages fell to an all-time low, and with other positive catalysts, particularly steady reconstruction demand in the areas devastated by the events of the Great East Japan Earthquake, housing starts climbed 6.2 percent over the previous fiscal year to around 890,000 units.

In this context, the Misawa Homes Group implemented various measures, kicked off by promotions related to the Company's 45th anniversary, and worked toward achieving the targets set in the medium-term management plan "Home Step Jump," which runs from fiscal 2012 through fiscal 2014. The results derived from these efforts in fiscal 2013 are presented below.

Net Sales

Consolidated net sales reached ¥394,697 million, up 4.3 percent, or ¥16,123 million, over the previous fiscal year. This is primarily due to higher order activity, buoyed mainly by government initiatives to boost demand for housing and the introduction of products geared to changing consumer needs in the wake of the March 2011 disasters, which led to a year-on-year increase in the number of system-built homes sold. Additionally, sales from the condominium and renovation businesses shifted favorably, paralleling progress in business diversification, which ultimately contributed to higher net sales.

Operating Income

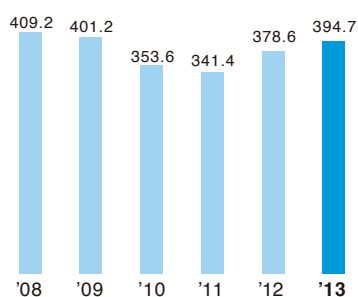
Consolidated operating income in fiscal 2013 amounted to ¥12,432 million, up 10.4 percent, or ¥456 million, from the previous fiscal year. The increase reflects solid net sales and successful cost-cutting, including cost planning, which offset increased costs resulting mainly from enhanced product value and skyrocketing material prices.

Gross profit came to ¥92,922 million, up 5.6 percent, or ¥4,940 million. Costs rose mainly due to enhanced product value and skyrocketing materials prices, however this amount was neutralized most notably by an increase in sales of system-built homes, as well as an increase in sales from the condominium and renovation businesses primarily, and a decrease in costs through such measures as cost planning.

Selling, general and administrative expenses grew ¥4,484 million to ¥80,490 million. The main reason for this change was higher selling costs, caused by extensive sales promotion activities, and higher personnel costs, largely due to increased recruiting.

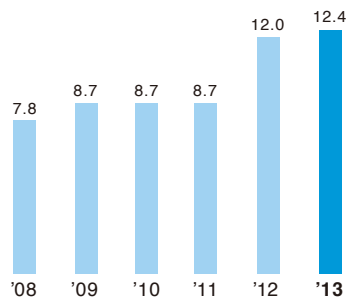
Net Sales

(Billions of yen)



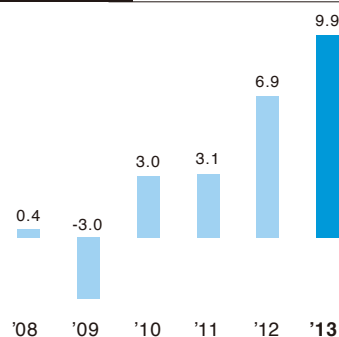
Operating Income

(Billions of yen)



Net Income

(Billions of yen)



Income before Income Taxes and Minority Interests

Consolidated income before income taxes and minority interests rose 3.0 percent, or ¥341 million, to ¥11,488 million.

Net Income

Consolidated net income surged 43.3 percent, or ¥3,001 million, to ¥9,920 million.

Financial Position

Total assets at the end of March 2013 stood at ¥212,725 million, up ¥14,966 million from a year earlier, primarily because of increases in cash and bank deposits and land and housing for sale.

Current liabilities at the end of March 2013 stood at ¥145,532 million, up ¥13,369 million from a year earlier, mainly because of a higher order backlog and an increase in bank borrowings used to purchase land and buildings for sale.

With regard to net assets, the Company covered a decrease caused by partial buyback of preferred stock with fiscal 2013 net income, leading to net assets of ¥35,552 million at the end of March 2013, up ¥2,929 million from a year earlier.

Cash Flow Status

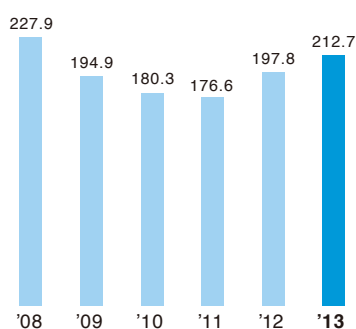
Cash and cash equivalents at March 31, 2013, amounted to ¥55,194 million, up ¥7,170 million from a year earlier. The change reflects net inflow of ¥11,779 million from net cash provided by operating activities and investing activities, which more than offset ¥4,616 million used in financing activities.

Net cash provided by operating activities was ¥18,115 million, down ¥1,158 million. This decrease is mainly due to an increase in inventories.

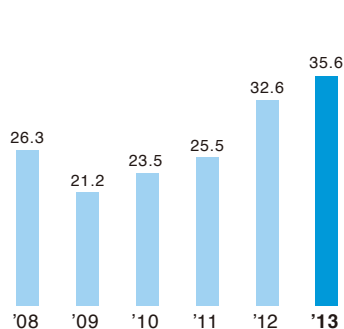
Net cash used in investing activities was ¥6,336 million, down ¥955 million from a year earlier. The primary application of funds was the purchase of fixed assets under property, plant and equipment.

Net cash used in financing activities was ¥4,616 million, down ¥2,159 million from a year earlier. The main use of funds was to retire long-term debt and to purchase preferred stock.

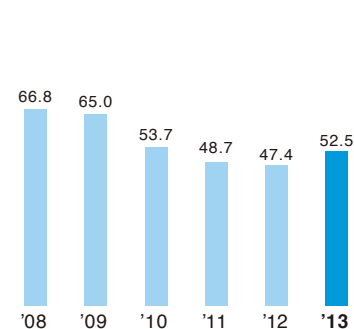
Total Assets (Billions of yen)



Total Net Assets (Billions of yen)



Interest-Bearing Debt (Billions of yen)



MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
<u>ASSETS</u>			
Current assets:			
Cash and bank deposits (Notes 7, 10 and 18)	¥55,512	¥48,452	\$590,238
Notes and accounts receivable, trade (Note 7)	7,016	13,564	74,594
Land and housing for sale (Note 10)	42,006	37,094	446,635
Cost of uncompleted contracts (Note 10)	23,732	23,981	252,335
Merchandise and finished goods	973	1,115	10,343
Work in process	284	322	3,022
Raw materials and supplies	1,784	1,791	18,968
Deferred tax assets (Note 16)	6,966	4,667	74,066
Other current assets (Note 10)	7,711	5,056	81,990
Allowance for doubtful accounts	(159)	(183)	(1,691)
Total current assets	145,825	135,859	1,550,500
Property, plant and equipment (Notes 9 and 10):			
Buildings and structures	32,160	30,631	341,947
Machinery and equipment	4,393	3,417	46,710
Land	24,718	24,464	262,822
Other	7,090	6,240	75,383
	68,361	64,752	726,862
Less: Accumulated depreciation	(21,856)	(20,183)	(232,396)
Net property, plant and equipment	46,505	44,569	494,466
Intangible assets (Note 9):			
Other	7,632	6,251	81,155
Total intangible assets	7,632	6,251	81,155
Investments and other assets:			
Investment securities (Notes 6, 7 and 10)	2,835	2,152	30,140
Deferred tax assets (Note 16)	794	1,034	8,445
Other (Note 9)	10,848	10,456	115,344
Allowance for doubtful accounts	(1,714)	(2,562)	(18,221)
Total investments and other assets	12,763	11,080	135,708
Total assets	¥212,725	¥197,759	\$2,261,829

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Short-term bank loans (Notes 7, 10 and 21)	¥26,563	¥17,642	\$282,438
Current portion of long-term debt (Notes 7 and 10)	7,704	10,038	81,916
Notes and accounts payable, trade (Note 7)	48,119	47,526	511,632
Accounts payable, other	7,743	8,614	82,327
Accrued bonuses	5,905	5,419	62,789
Allowance for claim expenses	2,807	1,872	29,850
Advances received on uncompleted contracts	33,428	29,535	355,429
Deposits received	5,938	5,825	63,134
Income taxes payable	2,753	1,047	29,267
Deferred tax liabilities (Note 16)	-	2	-
Asset retirement obligations	35	41	374
Other current liabilities	4,537	4,602	48,234
Total current liabilities	145,532	132,163	1,547,390
Long-term liabilities:			
Long-term debt (Notes 7 and 10)	15,339	17,616	163,096
Accrued pension and severance costs (Note 11)	5,562	5,499	59,140
Deferred tax liabilities (Note 16)	519	79	5,522
Accrued pension and severance costs for directors and corporate auditors	816	821	8,671
Asset retirement obligations	1,148	1,125	12,208
Other long-term liabilities	8,257	7,833	87,790
Total long-term liabilities	31,641	32,973	336,427
Net assets:			
Shareholders' equity (Note 12):			
Capital stock:	10,000	10,000	106,326
	(Thousands of shares)		
	<u>In 2013</u>	<u>In 2012</u>	
Common stock			
Authorized	150,000	150,000	
Issued	38,739	38,739	
Preferred stock			
Authorized	0	0	
Issued	0	0	
Additional paid-in capital	11,340	18,893	120,575
Retained earnings	15,824	6,491	168,246
Treasury stock, at cost	(4,071)	(4,253)	(43,280)
Accumulated other comprehensive income:			
Net unrealized gains on other securities (Note 6)	773	96	8,219
Land revaluation difference	(449)	(449)	(4,772)
Foreign currency translation adjustments	(8)	(75)	(91)
Minority interest in subsidiaries	2,143	1,920	22,789
Total net assets	35,552	32,623	378,012
Commitments and contingent liabilities (Note 20)			
Total liabilities and net assets	¥212,725	¥197,759	\$2,261,829

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Net sales	¥394,697	¥378,574	\$4,196,669
Cost of sales (Note 17)	301,775	290,592	3,208,663
Gross profit	92,922	87,982	988,006
Selling, general and administrative expenses (Notes 17 and 19):			
Salaries and wages	39,223	37,282	417,048
Advertising	9,992	8,949	106,243
Sales promotion	6,140	6,622	65,288
Addition to allowance for claim expenses	2,444	1,558	25,988
Provision for accrued bonuses	3,779	3,492	40,184
Depreciation expenses	2,859	2,889	30,395
Other selling expenses	4,266	4,015	45,355
Other general and administrative expenses	11,787	11,199	125,316
Total selling, general and administrative expenses	80,490	76,006	855,817
Operating income	12,432	11,976	132,189
Non-operating income:			
Interest income	70	69	744
Income from commissions	242	337	2,573
Insurance dividend	54	199	579
Other	804	637	8,544
Total non-operating income	1,170	1,242	12,440
Non-operating expenses:			
Interest expenses	932	1,163	9,913
Pension and severance costs	352	352	3,741
Commission for syndicate loan	145	264	1,542
Stock issuance cost	-	388	-
Other	143	150	1,525
Total non-operating expenses	1,572	2,317	16,721
Ordinary income	12,030	10,901	127,908
Other gains (“TOKUBETSU RIEKI”):			
Gain on sales of property, plant and equipment (Note 13)	20	19	213
Gain on sales of investment securities	17	0	185
Settlement received	-	1,200	-
Other	-	62	-
Total other gains	37	1,281	398
Other losses (“TOKUBETSU SONSHITSU”):			
Loss on disposal of property, plant and equipment (Note 14)	92	184	978
Impairment loss on long-lived assets (Note 9)	318	520	3,385
Loss on devaluation of investment securities	106	249	1,129
Other	63	82	664
Total other losses	579	1,035	6,156
Income before income taxes and minority interest	11,488	11,147	122,150
Income taxes (Note 16):			
Current	3,179	1,354	33,804
Deferred	(1,796)	2,790	(19,096)
	1,383	4,144	14,708
Income before minority interest	10,105	7,003	107,442
Minority interest in subsidiaries	185	84	1,962
Net income	¥9,920	¥6,919	\$105,480

	Yen		U.S. dollars (Note 5)
	Years ended March 31,		Year ended
	2013	2012	March 31, 2013
Per share:			
Net income (Note 15)—Basic	¥254.55	¥180.95	\$2.71
—Diluted	¥183.93	¥118.99	\$1.96

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Income before minority interest	¥10,105	¥7,003	\$107,442
Other comprehensive income (Note 22):			
Net unrealized gains on other securities	689	155	7,325
Foreign currency translation adjustments	96	(50)	1,025
Total other comprehensive income	785	105	8,350
Comprehensive income	¥10,890	¥7,108	\$115,792
Total comprehensive income attributable to :			
Shareholders of MISAWA HOMES CO., LTD.	¥10,664	¥7,021	\$113,386
Minority interest	226	87	2,406

The accompanying notes are an integral part of these financial statements

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Millions of yen											
	Number of shares issued		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	
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
Issuance of preferred stock	-	145	7,250	7,250	-	-	-	-	-	-	14,500
Transfer to additional paid-in capital from capital stock	-	-	(20,663)	20,663	-	-	-	-	-	-	-
Purchase of preferred stock	-	-	-	-	-	(14,500)	-	-	-	-	(14,500)
Retirement of preferred stock	-	(7,833,261)	-	(14,500)	-	14,500	-	-	-	-	-
Net income	-	-	-	-	6,919	-	-	-	-	-	6,919
Purchase of treasury stock	-	-	-	-	-	(2)	-	-	-	-	(2)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	135	-	(32)	75	178
Balance at March 31, 2012	38,738,914	145	¥10,000	¥18,893	¥6,491	(¥4,253)	¥96	(¥449)	(¥75)	¥1,920	¥32,623
Cash dividends	-	-	-	-	(587)	-	-	-	-	-	(587)
Purchase of preferred stock	-	-	-	-	-	(7,450)	-	-	-	-	(7,450)
Retirement of preferred stock	-	-	-	(7,450)	-	7,450	-	-	-	-	-
Net income	-	-	-	-	9,920	-	-	-	-	-	9,920
Purchase of treasury stock	-	-	-	-	-	(4)	-	-	-	-	(4)
Disposal of treasury stock	-	(70)	-	(103)	-	186	-	-	-	-	83
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	677	-	67	223	967
Balance at March 31, 2013	38,738,914	75	¥10,000	¥11,340	¥15,824	(¥4,071)	¥773	(¥449)	(¥8)	¥2,143	¥35,552

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

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Thousands of U.S. dollars (Note 5)

	Shareholders' equity		Accumulated other comprehensive income				
			Net				
	Capital stock	Additional paid-in capital	Treasury stock, at cost	unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Total net assets
Thousands of U.S. dollars (Note 5)							
Balance at March 31, 2012	\$106,326	\$200,877	(\$45,218)	\$1,019	(\$4,772)	(\$796)	\$346,872
Cash dividends	-	-	-	-	-	-	(6,250)
Purchase of preferred stock	-	-	(79,213)	-	-	-	(79,213)
Retirement of preferred stock	-	(79,213)	79,213	-	-	-	-
Net income	-	-	-	-	-	-	105,480
Purchase of treasury stock	-	-	(39)	-	-	-	(39)
Disposal of treasury stock	-	(1,089)	1,977	-	-	-	888
Net changes in items other than those in shareholders' equity	-	-	-	7,200	-	705	10,274
Balance at March 31, 2013	\$106,326	\$120,575	(\$43,280)	\$8,219	(\$4,772)	(\$91)	\$378,012

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interest	¥11,488	¥11,147	\$122,150
Adjustments for:			
Depreciation and amortization	4,504	4,627	47,889
Amortization and write-off of goodwill	203	193	2,157
Decrease in allowance for doubtful accounts	(863)	(632)	(9,176)
Increase in other allowances	1,565	887	16,639
Interest and dividend income	(101)	(105)	(1,072)
Interest expenses	932	1,163	9,913
Gain on sales of investment securities	(17)	(0)	(185)
Impairment loss on long-lived assets	318	520	3,385
Loss on sales and disposal of property, plant and equipment	72	165	765
Decrease (increase) in notes and accounts receivable, trade	6,683	(7,181)	71,060
Increase in inventories	(4,828)	(4,014)	(51,331)
Increase in notes and accounts payable, trade	565	9,894	6,005
Increase in advances received on uncompleted contracts	3,894	164	41,401
Other	(4,126)	4,918	(43,873)
Subtotal	20,289	21,746	215,727
Interest and dividends received	99	133	1,055
Interest paid	(886)	(1,127)	(9,422)
Income taxes paid	(1,387)	(1,479)	(14,749)
Net cash provided by operating activities	18,115	19,273	192,611
Cash flows from investing activities:			
Decrease of time deposits with maturity over three months	120	27	1,276
Purchases of property, plant, equipment and intangible assets	(5,683)	(5,251)	(60,422)
Proceeds from sales of property, plant, equipment and intangible assets	167	221	1,774
Purchases of investment securities	-	(30)	-
Proceeds from sales of investment securities	45	-	482
Purchases of investments in subsidiaries	(0)	(0)	(5)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(725)	(7)	(7,712)
Other	(260)	(341)	(2,766)
Net cash used in investing activities	(6,336)	(5,381)	(67,373)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans	8,776	(2,129)	93,311
Proceeds from long-term debt	7,544	21,452	80,209
Repayments of long-term debt	(11,750)	(21,198)	(124,934)
Proceeds from issuance of bonds	244	-	2,598
Redemption of bonds	(668)	(68)	(7,103)
Cash dividends paid	(583)	-	(6,201)
Cash dividends paid to minority interest	(16)	(16)	(173)
Proceeds from issuance of preferred stock	-	14,112	-
Proceeds from sales of treasury stock	83	-	888
Payments for purchase of treasury stock	(7,454)	(14,501)	(79,252)
Other	(792)	(109)	(8,419)
Net cash used in financing activities	(4,616)	(2,457)	(49,076)

Effect of exchange rate changes on cash and cash equivalents	<u>7</u>	<u>(4)</u>	<u>69</u>
Net increase in cash and cash equivalents	7,170	11,431	76,231
Cash and cash equivalents at the beginning of the year	<u>48,024</u>	<u>36,593</u>	<u>510,624</u>
Cash and cash equivalents at the end of the year (Note 18)	<u>¥55,194</u>	<u>¥48,024</u>	<u>\$586,855</u>

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements:

Misawa Homes Co., Ltd. (the “Company”) and its subsidiaries maintain their records and prepare their financial statements in accordance with generally accepted accounting principles 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, 2013 and 2012, the numbers of consolidated subsidiaries were 44 and 46, respectively. There were no subsidiaries and affiliates accounted for by the equity method as of March 31, 2013 and 2012. Misawa Homes of Dongguan Ltd. (China) is excluded from the application of the equity method since its net income (loss) and retained earnings, etc. are considered immaterial on the consolidated financial statements and was of little importance taken as a whole. The financial statements of Misawa Homes of Linyi Ltd. (China) are consolidated by using its 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. Cost of these other securities sold is determined by the moving average method and unrealized gains and losses 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, 2013 and 2012 were ¥1,019 million (\$10,837 thousand) and ¥3,610 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.

The amount directly deducted from the acquisition costs of buildings and structures which were replaced by national subsidy at March 31, 2013 was ¥19 million (\$198 thousand).

(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.

(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.

(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 as 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, 2013.

(20) Recognition of revenues and costs on construction contracts

The percentage-of-completion method is applied for construction contracts 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.

(21) Consumption taxes

Transactions subjected to consumption taxes are recorded at amounts exclusive of consumption taxes.

3. Changes in accounting policies:

Depreciation method of property, plant and equipment

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on and after April 1, 2012. The financial impact of this change was immaterial.

4. Additional information:

Adoption of the consolidated taxation system

The Company and its certain domestic consolidated subsidiaries plan to adopt the Japanese consolidated taxation system from the fiscal year ending March 31, 2014. Consequently, effective in the fiscal year ended March 31, 2013, the Company adopted "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (Accounting Standards Board of Japan ("ASBJ") Practical Issue Task Force ("PITF") No.5, dated March 18, 2011) and "Practical Solution in Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (PITF No.7, dated June 30, 2010).

Employee Stock Ownership Incentive Plan

The Company has introduced “Trust-type Employee Stock Ownership Incentive Plan” (the “Plan”) with the aim of improving the incentives of the Company’s employees through enhancing its mid-to-long-term corporate value by utilizing Misawa Group employees’ shareholding association (the “Association”) including employees of its consolidated subsidiaries, enhancing the welfare programs, increasing the employee’s motivation toward work through promoting capital participation as its shareholders and the Group’s constant growth.

Under the Plan, the Employee Stock Ownership Trust (the “ESOP Trust”), which is established for the purpose of transferring the Company’s common stocks to the Association, acquires 352,600 shares by ¥395 million (\$4,199 thousand), which are the expected number of the Company’s common stocks that the Association would acquire in the next three years, through third party allocation in advance and subsequently sells those stocks to the Association.

Acquisition and disposal of the Company’s common stocks are treated as if the Company and the ESOP Trust are united as a single entity focusing on its economic substances. Therefore, the Company’s common stocks held by the ESOP Trust and assets, liabilities, expenses and income of the ESOP Trust are included in the accompanying consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets and consolidated statements of cash flows.

As of March 31, 2013, the number of shares of the Company’s common stocks held by the ESOP Trust is 278,000 shares.

Standard issued but not yet effective

On May 17, 2012, the ASBJ issued “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

(1) Treatment in the balance sheet— Actuarial gains and losses and prior service costs that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the statement of income and the statement of comprehensive income— Actuarial gains and losses and prior service costs that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

5. 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 ¥94.05= U.S. \$1, the rate of exchange prevailing on March 31, 2013, has been used.

6. Investment securities:

Misawa Homes' management classified all investment securities as other securities at March 31, 2013 and 2012. Net unrealized gains of ¥773 million (\$8,219 thousand) and ¥96 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2013 and 2012, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥286 million (\$3,039 thousand) and ¥110 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2013 and 2012, respectively.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2013 and 2012, were as follows:

Millions of yen				
March 31, 2013				
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	¥1,395	¥1,017	(¥22)	¥2,390
Debt securities	2,079	83	(0)	2,162
Other	11	2	(2)	11
Total	¥3,485	¥1,102	(¥24)	¥4,563

Millions of yen				
March 31, 2012				
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	¥1,415	¥310	(¥130)	¥1,595
Debt securities	1,760	36	(1)	1,795
Other	11	1	(3)	9
Total	¥3,186	¥347	(¥134)	¥3,399

Thousands of U.S. dollars (Note 5)				
March 31, 2013				
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	\$14,833	\$10,820	(\$237)	\$25,416
Debt securities	22,105	879	(1)	22,983
Other	115	16	(17)	114
Total	\$37,053	\$11,715	(\$255)	\$48,513

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, 2013 and 2012, the carrying values of these unlisted securities were ¥424 million (\$4,513 thousand) and ¥549 million, respectively. Proceeds from sales of other securities for the years ended March 31, 2013 and 2012, were ¥45 million (\$482 thousand) and ¥5 million, respectively. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥17 million (\$185 thousand) and nil, respectively, for the year ended March 31, 2013 and

¥0 million and nil, respectively, for the year ended March 31, 2012.

Impairment losses of other securities for the years ended March 31, 2013 and 2012 were ¥106 million (\$1,129 thousand) and ¥249 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.

7. Financial instruments:

(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 transactions 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 8. 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, 2013 and 2012 are as follows:

	Millions of yen		
	March 31, 2013		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥55,512	¥55,512	¥—
Notes and accounts receivable, trade	7,016	7,016	—
Investment securities	4,562	4,562	—
Total assets	¥67,090	¥67,090	¥—
Notes and accounts payable, trade	¥48,119	¥48,119	¥—
Short-term bank loans	26,563	26,563	—
Long-term debt (excluding bonds)	22,563	22,592	29
Total liabilities	¥97,245	¥97,274	¥29
Derivative transactions	—	—	—
	Millions of yen		
	March 31, 2012		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥48,452	¥48,452	¥—
Notes and accounts receivable, trade	13,564	13,564	—
Investment securities	3,399	3,399	—
Total assets	¥65,415	¥65,415	¥—
Notes and accounts payable, trade	¥47,526	¥47,526	¥—
Short-term bank loans	17,642	17,642	—
Long-term debt (excluding bonds)	26,756	26,765	9
Total liabilities	¥91,924	¥91,933	¥9
Derivative transactions	—	—	—

Thousands of U.S. dollars (Note 5)			
March 31, 2013			
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	\$590,238	\$590,238	\$—
Notes and accounts receivable, trade	74,594	74,594	—
Investment securities	48,513	48,513	—
Total assets	\$713,345	\$713,345	\$—
Notes and accounts payable, trade	\$511,632	\$511,632	\$—
Short-term bank loans	282,438	282,438	—
Long-term debt (excluding bonds)	239,908	240,217	309
Total liabilities	\$1,033,978	\$1,034,287	\$309
Derivative transactions	—	—	—

Note 1: Unlisted securities of ¥424 million (\$4,513 thousand) and ¥549 million whose fair value was extremely difficult to determine as of March 31, 2013 and 2012, 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

The 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 ¥1 million (\$13 thousand) are included in other current assets as part of current assets as of March 31, 2013 and 2012. Government bonds used for deposits amounting to ¥2,151 million (\$22,873 thousand) and ¥1,795 million are included in other of investments and other assets as of March 31, 2013 and 2012, 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 8. 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 ¥7,474 million (\$79,470 thousand) and ¥9,370 million is included in long-term debt in the above table as of March 31, 2013 and 2012, 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, 2013 and 2012 is as follows:

Millions of yen				
March 31, 2013				
	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	¥54,946	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	7,016	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	80	475	1,446	69
Total	¥62,042	¥475	¥1,446	¥69

Millions of yen				
March 31, 2012				
	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	¥47,921	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	13,564	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	152	335	1,220	43
Total	¥61,637	¥335	¥1,220	¥43

Thousands of U.S. dollars (Note 5)				
March 31, 2013				
	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	\$584,224	\$ –	\$ –	\$ –
Notes and accounts receivable, trade	74,594	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	853	5,052	15,375	733
Total	\$659,671	\$5,052	\$15,375	\$733

8. 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 at March 31, 2013 and 2012 were as follows:

		Millions of yen			Thousands of U.S. dollars (Note 5)		
		March 31, 2013			March 31, 2013		
Hedged item	Notional amount	Maturing after one year	Fair value		Notional amount	Maturing after one year	Fair value
Interest rate related transaction							
Deferral method							
Interest rate swap agreement							
Receive floating/ Pay fix	Long-term debt	¥1,143	¥897	Note	\$12,157	\$9,537	Note

		Millions of yen		
		March 31, 2012		
	Hedged item	Notional amount	Maturing after one year	Fair value
Interest rate related transaction				
Deferral method				
Interest rate swap agreement				
Receive floating/	Long-term	¥1,770	¥1,060	Note
Pay fix	debt			

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 at March 31, 2013 and 2012.

9. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2013 and 2012 were as follows.

		Millions of yen		Thousands of U.S. dollars (Note 5)
		Years ended March 31		Year ended March 31,
Applicable assets		2013	2012	2013
Buildings and structures		¥278	¥419	\$2,953
Machinery and equipment		3	3	29
Land		18	42	194
Other		19	56	209
Total		¥318	¥520	\$3,385

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.

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

Short-term bank loans at March 31, 2013 and 2012 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Loans, principally from banks, with weighted-average interest rates of 1.3% at March 31, 2013 and 1.9% at March 31, 2012	¥26,563	¥17,642	\$282,438

Long-term debt at March 31, 2013 and 2012 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Loans, principally from banks and insurance companies, due 2014 to 2021 with weighted-average interest rates of 1.7% at March 31, 2013 and 1.9% at March 31, 2012	¥22,563	¥26,756	\$239,909
Unsecured 2.15% bonds, due 2012	-	200	-
Unsecured 0.85% bonds, due 2012	-	200	-
Unsecured 0.9% bonds, due 2013	-	200	-
Unsecured semiannual TIBOR+0.15% bonds, due 2013	30	98	319
Unsecured 0.82% bonds, due 2014	200	200	2,127
Unsecured 0.41% bonds, due 2014	100	-	1,063
Unsecured 0.60% bonds, due 2017	150	-	1,594
	23,043	27,654	245,012
Less portion due within one year	(7,704)	(10,038)	(81,916)
	¥15,339	¥17,616	\$163,096

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 5)
2014	¥7,704	\$81,916
2015	10,841	115,267
2016	2,991	31,799
2017	1,032	10,977
2018	379	4,027
Thereafter	96	1,026
Total	¥23,043	\$245,012

Assets pledged as collateral for secured loans and debt at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
Pledged assets	2013	2012	2013
Cash and bank deposits	¥-	¥60	\$-
Land and housing for sale	2,331	4,651	24,789
Cost of uncompleted contracts	683	2,670	7,259
Buildings and structures	1,768	1,887	18,800
Machinery and equipment	733	311	7,795
Land	6,122	6,540	65,093
Other fixed assets	6	3	60
Other intangible assets	2	1	23
Investment securities	-	92	-
Total	¥11,645	¥16,215	\$123,819

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
Secured loans and debt	2013	2012	2013
Short-term bank loans	¥9,328	¥15,232	\$99,177
Long-term debt	4,768	4,194	50,698
Total	¥14,096	¥19,426	\$149,875

11. Pension and severance costs:

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

The funded status of retirement benefit obligations at March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Projected benefit obligation	¥(27,590)	¥(26,481)	\$(293,360)
Plan assets at fair value	21,227	17,804	225,703
Unfunded status	(6,363)	(8,677)	(67,657)
Unrecognized items:			
Net retirement benefit obligation at transition	710	1,065	7,550
Actuarial losses	587	2,363	6,240
Prior service cost reduction due to plan amendment	21	(39)	223
Accrued pension and severance costs - net	(5,045)	(5,288)	(53,644)
Prepaid pension cost	517	211	5,496
Accrued pension and severance costs	¥(5,562)	¥(5,499)	\$(59,140)

The composition of net pension and severance costs for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Service cost	¥2,163	¥2,110	\$23,000
Interest cost	368	387	3,917
Expected return on plan assets	(189)	(173)	(2,008)
Amortization and expenses:			
Prior service costs	(60)	(122)	(637)
Actuarial losses	574	709	6,101
(Gain) loss related to transfer from simplified method	-	(14)	-
Net retirement benefit obligation at transition	352	355	3,741
Total	¥3,208	¥3,252	\$34,114

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2013 and 2012 were as follows:

	Years ended March 31	
	2013	2012
Discount rate	Mainly 1.5%	Mainly 1.5%
Long-term rate of return on plan assets	0.0-3.7%	0.0-3.8%

12. Shareholders' equity:

(1) Dividends paid during the year ended March 31, 2013

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 28, 2012	Common stock	¥370	\$3,938	¥10	\$0.11	March 31, 2012	June 29, 2012
Annual general meeting of the shareholders on June 28, 2012	Class D preferred stock	¥217	\$2,312	¥1,500,000	\$15,948.96	March 31, 2012	June 29, 2012

(2) Dividends with the cut-off date in the year ended March 31, 2013 and the effective date in the year ending March 31, 2014

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2013	Common stock	¥742	\$7,891	Retained earnings	¥20	\$0.21	March 31, 2013	June 28, 2013
Annual general meeting of the shareholders on June 27, 2013	Class D preferred stock	¥488	\$5,183	Retained earnings	¥6,500,000	\$69,112.17	March 31, 2013	June 28, 2013

Total dividends on common stocks do not include ¥6 million (\$59 thousand) of dividends to the ESOP Trust because the stocks held by the ESOP Trust are recognized as treasury stocks.

13. 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, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Buildings and structures	¥5	¥6	\$50
Machinery and equipment	2	3	22
Land	13	10	137
Other	0	0	4
Total	¥20	¥19	\$213

14. 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, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Buildings and structures	¥83	¥172	\$882
Machinery and equipment	2	3	19
Other	7	9	77
Total	¥92	¥184	\$978

15. Net income per share:

Calculation of net income per share for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2013	2012	2013
Basic EPS—Net income attributable to common shares	¥9,433	¥6,702	\$100,297
Effect of dilutive securities—Preferred stock	487	217	5,183
Diluted EPS—Net income for computation	¥9,920	¥6,919	\$105,480
Weighted average number of common shares outstanding:			
-Basic	37,057,833	37,035,748	
-Diluted	53,934,820	58,148,153	
	Yen		U.S. dollars (Note 5)
Net income per share:			
-Basic	¥254.55	¥180.95	\$2.71
-Diluted	¥183.93	¥118.99	\$1.96

16. 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 38.0% and 40.7% for the years ended March 31, 2013 and 2012, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Deferred tax assets:			
Tax loss carry forwards	¥23,503	¥47,476	\$249,900
Devaluation of inventories	2,566	2,757	27,287
Accrued bonuses	2,248	2,073	23,903
Accrued pension and severance costs	2,020	2,032	21,473
Allowance for doubtful accounts	1,803	1,911	19,172
Goodwill	1,477	-	15,700
Provision for warranties for completed construction	1,075	-	11,435
Impairment loss	886	-	9,424
Others	3,167	4,400	33,664
Gross deferred tax assets	38,745	60,649	411,958
Less: valuation allowance	(30,318)	(54,677)	(322,355)
Total deferred tax assets	8,427	5,972	89,603
Deferred tax liabilities:			
Fair market valuation loss	(453)	-	(4,813)
Expense related to asset retirement obligations	(148)	(128)	(1,577)
Prepaid pension cost	(184)	(66)	(1,961)
Net unrealized gains on other securities	(286)	(110)	(3,039)
Others	(115)	(48)	(1,224)
Gross deferred tax liabilities	(1,186)	(352)	(12,614)
Net deferred tax assets	¥7,241	¥5,620	\$76,989

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, 2013 and 2012 decreased by ¥24,359 million (\$259,003 thousand) and ¥66,617 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, 2013 and 2012 were reconciled as follows:

	Years ended March 31	
	2013	2012
Statutory income tax rate	38.0%	40.7%
Reconciliation:		
Entertainment expenses, etc. permanently non-tax deductible	2.0	2.4
Per capita inhabitants tax	1.7	1.7
Changes in valuation allowance	(33.4)	(13.1)
Consolidation adjustment	4.2	1.7
Tax credit for research and development costs	(0.6)	-
Others	0.1	0.1
Effect of change in income tax rate	-	3.7
Effective income tax rates	12.0%	37.2%

17. Cost of sales, general and administrative expenses:

Provision for loss on construction contracts, which are included in cost of sales, were ¥225 million (\$2,395 thousand) and ¥77 million for the years ended March 31, 2013 and 2012, respectively.

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥2,691 million (\$28,609 thousand) and ¥2,443 million for the years ended March 31, 2013 and 2012, respectively.

18. Cash flow information:

Cash and cash equivalents at March 31, 2013 and 2012 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Cash and bank deposits	¥55,512	¥48,452	\$590,238
Less:			
Time deposits due over three months	(318)	(428)	(3,383)
Cash and cash equivalents	¥55,194	¥48,024	\$586,855

19. Leases:

A consolidated subsidiary leases groups 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, 2013 and 2012.

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, 2013 and 2012 amounted to ¥132 million (\$1,403 thousand) and ¥422 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, 2013 and 2012 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Acquisition cost:			
Buildings and structures	¥35	¥951	\$370
Machinery and equipment	18	36	192
Other property, plant and equipment	324	521	3,445
Other intangible assets	6	260	69
	383	1,768	4,076
Less:			
Accumulated depreciation	(324)	(1,578)	(3,446)
Net book value	¥59	¥190	\$630

Acquisition costs and future lease payments are calculated using the inclusive of interest method since future lease payments do not constitute significant proportion of property, plant and equipment as of March 31, 2013 and 2012.

Depreciation expenses for these leased assets for the years ended March 31, 2013 and 2012, would have been ¥121 million (\$1,285 thousand) and ¥403 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, 2013 and 2012, would have been ¥3 million (\$36 thousand) and ¥10 million, respectively.

Impairment loss for these finance leases for the years ended March 31, 2013 and 2012 were ¥3 million (\$32 thousand).

Future lease payments for finance leases at March 31, 2013 and 2012 were as follows:

Future lease payments	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Due within one year	¥18	¥157	\$194
Due after one year	46	44	490
Total	¥64	¥201	\$684

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2013 and 2012 were as follows:

Future lease payments	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Due within one year	¥415	¥365	\$4,415
Due after one year	5,950	6,335	63,265
Total	¥6,365	¥6,700	\$67,680

20. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2013 and 2012 were ¥40,797 million (\$433,782 thousand) and ¥34,616 million, respectively.

21. Related party transactions:

Significant transactions with related parties for the years ended March 31, 2013 and 2012 were as follows:

(1) Significant transactions between the Company and related parties

(Transactions)

Name of related party	Type of transaction	Millions of yen		Thousands of U.S. dollars (Note 5)
		Years ended March 31		Year ended March 31,
		2013	2012	2013
Toyota Finance Corporation	Repayment of loans	¥-	¥2,200	\$-

There was no transaction with Toyota Finance Corporation for the year ended March 31, 2013.

There was no outstanding balance with Toyota Finance Corporation as of March 31, 2013 and 2012.

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.

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

Name of related party	Type of transaction	Millions of yen		Thousands of U.S. dollars (Note 5)
		Years ended March 31		Year ended March 31, 2013
		2013	2012	
Nobuo Takenaka Masataka Takenaka	Housing construction contract	¥44	¥-	\$473
Shintaro Kyoguro Masayo Kyoguro	Real estate sales contract	¥13	¥-	\$134
Kazuo Hattori	Housing construction contract	¥-	¥21	\$-
Haruo Igarashi	Real estate sales contract	¥-	¥26	\$-

There was no outstanding balance with Nobuo Takenaka, Masataka Takenaka, Shintaro Kyoguro, Masayo Kyoguro, Kazuo Hattori and Haruo Igarashi as of March 31, 2013 and 2012.

Masataka Takenaka is a close relative of Nobuo Takenaka, a representative director and CEO of Misawa Homes Co.,Ltd. and the contract amount was determined based on the employee's house ownership discount policy. Shintaro Kyoguro and Masayo Kyoguro are close relatives of Kazuhiro Kawakami, a representative director and senior managing executive officer of Misawa Chugoku Construction Co.,Ltd. and the contract amount is determined based on transactions with third parties. Kazuo Hattori is a close relative of Kazuhiro Watanabe, a representative director of Misawa Homeing Co., Ltd. and the contract amount is determined based on transactions with third parties.

Haruo Igarashi is a close relative of Tatsuo Sugita, a representative director of Misawa Homes Niigata Co., Ltd. and the contract amount is determined based on transactions with third parties.

22. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2013	2012	2013
Net unrealized gains on other securities			
Gains (losses) arising during the year	¥861	(¥83)	\$9,156
Reclassification adjustments for gains included in the income statement	3	158	32
Before income tax effect	864	75	9,188
Income tax effect	(175)	80	(1,863)
Total	689	155	7,325
Foreign currency translation adjustments			
Adjustments arising during the year	96	(50)	1,025
Total other comprehensive income	¥785	¥105	\$8,350

23. Segment information:

(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					
		2013					
Sales to third parties	Custom-built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
	¥183,905	¥20,027	¥25,624	¥8,073	¥58,261	¥98,807	¥394,697
		Millions of yen					
		2012					
Sales to third parties	Custom-built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
	¥179,524	¥19,633	¥30,831	¥7,852	¥54,508	¥86,226	¥378,574
		Thousands of U.S. dollars (Note 5)					
		2013					
Sales to third parties	Custom-built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
	\$1,955,393	\$212,944	\$272,450	\$85,837	\$619,469	\$1,050,576	\$4,196,669

(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 because the Company's business is mostly residential and related business and practically considered one reportable segment.

Report of Independent Auditors



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Independent Auditor's Report

The Board of Directors
Misawa Homes Co., Ltd.

We have audited the accompanying consolidated financial statements of Misawa Homes Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and notes to consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Misawa Homes Co., Ltd. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

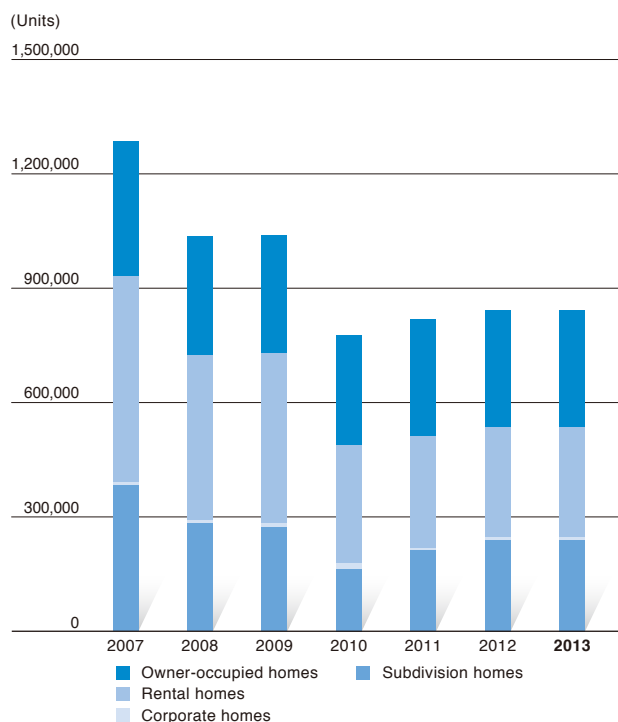
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

Ernst & Young ShinNihon LLC

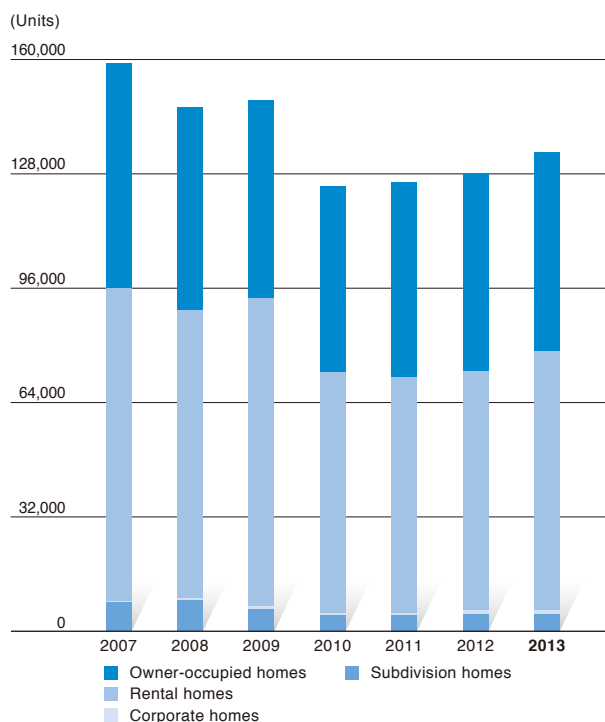
June 27, 2013
Tokyo, Japan

Trends in the Housing Market in Japan

Housing Starts in Japan



Prefabricated Housing Starts in Japan



Housing Starts in Japan

Fiscal year ended March 31	2007	2008	2009	2010	2011	2012	(Units, %) 2013
Owner-occupied homes	355,700	311,800	310,670	286,993	308,517	304,822	316,532
Rental homes	537,943	430,855	444,848	311,463	291,840	289,762	320,891
Corporate homes	9,100	10,311	11,089	13,231	6,580	7,576	5,919
Subdivision homes	382,503	282,632	272,607	163,590	212,083	239,086	249,660
Total	1,285,246	1,035,598	1,039,214	775,277	819,020	841,246	893,002

Prefabricated Housing Starts in Japan

Fiscal year ended March 31	2007	2008	2009	2010	2011	2012	(Units, %) 2013
Owner-occupied homes	63,725	56,724	55,317	51,819	54,715	55,396	55,887
Rental homes	87,370	80,662	86,253	67,415	65,952	66,994	72,488
Corporate homes	413	557	802	749	533	1,009	373
Subdivision homes	8,036	8,662	6,220	4,378	4,502	4,817	5,339
Total	159,544	146,605	148,592	124,361	125,702	128,216	134,087

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

Subsidiaries and Affiliated Company (As of March 31, 2013)

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 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	2,000	100.0	Construction and sales of prefabricated houses
Misawa Homes Niigata Co., Ltd.	Niigata, Niigata Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Koushin Co., Ltd.	Matsumoto, Nagano Prefecture	100	99.8	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	300	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.	Shinjuku-ku, Tokyo	50	85.1 (30.0)	Manufacture of house materials
Misawa-Mrd Co., Ltd.	Shinjuku-ku, Tokyo	90	100.0	Real estate sales, brokerage, rental and management
Motherth Co., Ltd.	Shinjuku-ku, Tokyo	260	100.0	Fee-based operation of nursing homes and apartment housing complexes for seniors
26 others				
Affiliated company:				
Toyota Motor Corporation	Toyota, Aichi Prefecture	397,050	[29.0] [(29.0)]	

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, 2013)

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: ¥10,000 million

Directors, Executive Officers and Corporate Auditors

(As of June 27, 2013)

Directors

Teiji Tachibana*¹
 Nobuo Takenaka*²
 Takeo Tokai*²
 Toshitsugu Hirata*²
 Shigeharu Wakatsuki
 Hiroomi Tanaka
 Sumio Yokota
 Masahiro Inoue
 Yuji Goto

Corporate Auditors

Seiji Urita*³
 Takahiro Kagawa*³
 Yasuhiko Naruse
 Shuzo Kameda

Executive Officers

Nobuo Takenaka*⁴
 Takeo Tokai*⁵
 Toshitsugu Hirata*⁵
 Shigeharu Wakatsuki*⁶
 Hiroomi Tanaka*⁶
 Sumio Yokota*⁶
 Tetsuya Sakuo*⁶
 Hideki Shimonomura*⁶
 Hiroshi Sakaguchi*⁶
 Yoichiro Dokan
 Kazuaki Uchida
 Tetsuyuki Morita
 Kengo Shoji
 Hidehiko Hara
 Kengo Uemura
 Kazuyoshi Akimoto
 Naoto Shimada

*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	149,999,855
Class D preferred stock	75
Total number of shares issued	38,738,989
Common stock	38,738,914
Class D preferred stock	75
Number of shareholders	
Common stock	11,881
Class D preferred stock	1

Note: The Development Bank of Japan (DBJ) holds shares of Class D preferred stock.

Major shareholders	No. of shares	%
1 Toyota Housing Corporation	10,784,100	27.83
2 Aioi Nissay Dowa Insurance Co., Ltd.	2,058,327	5.31
3 The Master Trust Bank of Japan, Ltd. (Trust A/C)	1,516,700	3.91
4 Japan Trustee Services Bank, Ltd. (Trust A/C)	1,170,800	3.02
5 Goldman, Sachs & Co. Reg.	940,012	2.42
6 Nippon Life Insurance Company	609,053	1.57
7 The Bank of Tokyo-Mitsubishi UFJ, Ltd.	559,912	1.44
8 JP Morgan Chase Bank 380084	558,200	1.44
9 Misawa Homes Group Employee Shareholders Association	492,253	1.27
10 Mizuho Securities Co., Ltd.	318,000	0.82

Note: 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

