

MISAWA

Annual Report 2007

Annual Report 2007

Profile

The Misawa Homes Group strives to stay one step ahead of the times in the technologies and designs it employs in customers' homes. Examples of our success include the development of the Misawa Governance System for Earthquake Oscillation Control (MGEO) and the invention of the *kura* concept of spacious home storage space. We have also been a Good Design Award recipient for 17 consecutive years.

In October 2007, we will celebrate the 40th anniversary of the founding of Misawa Homes. From our start in 1967, we have been a pioneering force in the housing industry, helping to shape the history of home building in Japan. Going forward, we will put forth every effort to contribute to building an affluent society by supplying quality homes based on our motto: "Lifelong commitment to customers through housing."

Contents

To Our Shareholders	1
Misawa Homes' Designs and Technologies	4
Financial Section	7
Trends in the Housing Market	36
Subsidiaries and Affiliated Company	37
Corporate Data	38

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

The Misawa Homes Group is setting the stage to shift from a period of rebuilding to a stage of dramatic growth. With this objective firmly in our sights, in August 2006 we formulated a Medium- to Long-Term Management Vision and a Medium-Term Management Plan (from the fiscal year ended March 31, 2007, through the year ending March 31, 2009). The ultimate objective of our Medium- to Long-Term Management Vision is to obtain thorough customer satisfaction and become the leading brand in housing that is at the forefront of our age. By maximizing the attractiveness of our homes and bolstering customer satisfaction, we aim to build a business portfolio that strikes an optimal balance between flows and stocks, and is not solely reliant on building single-family homes.



Outline of the Medium-Term Management Plan

The Medium-Term Management Plan forms the foundation for realizing our Medium- to Long-Term Management Vision and defines our development period. We have established six basic strategies as the core of this plan:

1. Product strategy: Build the product and technical characteristics of our brand and meet specific client needs
2. High-efficiency strategy: Completely review the operations of our headquarters, sales dealers and factories from a Group management perspective, with a view to creating a new management system by the year ending March 31, 2009
3. Personnel strategy: Support the ongoing growth of our employees, who form the nucleus of our corporate growth structure
4. Area strategy: Reinforce regional marketing and develop strategies that are tailored to specific market scales and characteristics
5. Customer satisfaction (CS) enhancement strategy: Formulate systems to create close-knit relationships with owners and incorporate their feedback into our management
6. Business synergy strategy: Forge stronger inter-business alliances that generate synergies

Group Reorganization

As one aspect of our high-efficiency strategy, a core tenet of the Medium-Term Management Plan, we plan to merge with Misawa Homes Co., Ltd., on October 1, 2007.

Since our formation as a holding company in August 2003, we have pursued Group restructuring, strengthened our asset base, curtailed interest-bearing debt and undergone a process of business selection and focus. Through this process, we have become convinced of our ability to meet our plan's objectives. Going forward, the Misawa Homes Group will rapidly address such remaining issues as strengthening the marketing of our core businesses and enhancing our governance structure. To this end, we will simplify our Group management structure to enable swifter and more efficient decision-making—one reason for our merger with Misawa Homes. As the surviving company, we will change our name to Misawa Homes Co., Ltd.

In line with the basic strategies of our Medium-Term Management Plan, especially the area strategy and the high-efficiency strategy, on October 1, 2007, we will merge Tohoku Misawa Homes Co., Ltd., with Misawa Homes Kitanihon Co., Ltd., and merge Misawa Homes Chugoku Co., Ltd., with Misawa Homes San-in Co., Ltd. These combinations are designed to strengthen our marketing foundation, develop region-specific products and approaches, and boost operating efficiencies. As the surviving companies, Tohoku

Misawa Homes and Misawa Homes Chugoku will pursue stock exchange listings; Tohoku Misawa Homes on the First Section of the Tokyo Stock Exchange and Misawa Homes Chugoku on JASDAQ.

Ahead of our Group restructuring activities, to enhance our regional strategy we refined our corporate organization on June 28, 2007. These efforts included the expansion from three to five and the realignment of the central administrative divisions that are responsible for providing management guidance to sales dealers and centrally coordinating Groupwide operations. We have also stationed staff in each region to determine client needs and local circumstances, to formulate regionally appropriate product and sales strategies.

Enhancing Corporate Governance

Misuzu Audit Corporation pointed out irregularities in the posting of sales during an accounting audit at Misawa Homes Kyushu Co., Ltd., our consolidated subsidiary, during interim accounting for the fiscal year ended March 31, 2007. Working backward, we uncovered inappropriate accounting processes. As a result, we revised the financial figures for the past five fiscal years, March 31, 2002 to 2006, for both Misawa Homes Kyushu and Misawa Homes Holdings. In December 2006, we submitted revised annual securities reports (*yukashouken houkokusho*) and released revised interim financial reports.

We recognize that this occurrence was a major inconvenience to all involved, and that as a parent company our management and supervisory processes were insufficient. In response, the Management Reform Committee, established in December 2006, is taking a leading role in completely overhauling the Group's awareness of compliance. We will reinforce our consolidated management structure, enhance governance and strive to conform with the internal control reporting system stipulated under the Financial Products Transaction Law. Through these efforts, we aim to prevent a recurrence and implement measures that will improve the entire Company.

In October 2007, we will celebrate the 40th anniversary of Misawa Homes' founding. From our start in 1967, we have been a pioneering force in the housing industry, helping to shape the history of home-building in Japan. We ask our shareholders to continue supporting the ongoing growth and development of the Misawa Homes Group. At this turning point, we will work together to set a firm foundation upon which to build the future of the Misawa Group.

August 2007

A handwritten signature in black ink that reads "Kazuo Mizutani". The signature is written in a cursive, flowing style.

Kazuo Mizutani
President and CEO

Misawa Homes' Designs and Technologies

Misawa Homes: Good Design Award Recipient for 17 Consecutive Years

The Good Design Award is Japan's only system for comprehensively evaluating and recommending designs. Covering all industrial products, these awards provide an overall evaluation that extends beyond design to cover all product aspects, including function, quality, safety and after-sales service. Since becoming the first in the industry to earn this award in 1990, Misawa Homes has been a Good Design Award recipient for 17 consecutive years with awards for 96 products, the most ever won by a business in this field.



GENIUS *Kura no Aru Ie*, our winner of the Good Design Award Grand Prix in 1996

Wooden Panel Adhesion Construction System

Misawa Homes' proprietary wooden panel adhesion construction system bonds adjoining surfaces of intersecting panels using adhesives and screw nails. The resulting solid monocoque structure lends our homes excellent safety because of its earthquake and wind resistance, superb insulation and airtightness, as well as superior energy efficiency.



A wall-floor joint of the panels from our wooden adhesion construction system

Misawa Governance System for Earthquake Oscillation Control (MGEO)

To further enhance the already high earthquake resistance of our homes, MGEO can be added to diminish the maximum energy impact of an earthquake by half, substantially reducing interior damage and structural deterioration. Attesting to their earthquake resistance, all our homes have escaped even partial collapse during past earthquakes. In recognition of its social contribution in earthquake-prone Japan, Misawa Homes won a Good Design Award in 2006 for MGEO.



Our MGEO earthquake oscillation control series

Showa Base in Antarctica

Demonstrating the excellent performance of our wooden panel adhesion construction system are the numerous facilities using this system that Misawa Homes has built for Japan's Showa Base in Antarctica. These living spaces remain safe and comfortable despite the harsh climate, and are well insulated, airtight, wind resistant and robust. Our contribution to the Showa Base includes the construction of 34 such facilities, having floor space totaling approximately 5,000 square meters. We introduce into Japan the advanced technologies we have perfected for the harsh Antarctic weather, resulting in homes that are more comfortable and energy-efficient.



Structures at Japan's Showa Base in Antarctica built using our wooden panel adhesion construction system

Kura, for Abundant Storage Space

Realizing that home storage space tends to be at a premium, more than 10 years ago we developed the *kura*, or "large storage space" concept of using the area between the first and second floors of a home or on either of these floors, situated to match individual homeowner lifestyles. For example, a first-floor *kura* can be installed to be accessible from the garden. *Kura* spaces offer other benefits in addition to storage. Putting these spaces between the upper and lower levels can provide 3.2-meter high ceilings, lending the home a sense of openness. The additional space between floors elevates the second story, providing more access to sunlight and a better view.



First-floor *kura* with access from living room

ECO Micro Climate Design

Immersed in a long home-building tradition in Japan, Misawa Homes has added its own expertise and techniques to create the all-new ECO micro climate design concept, integrating modern design and high-end technology with traditional elements. Carefully considered eave heights and window placement maximize the comfort of our homes, as well as the use of natural wind patterns, to remain cool in summer even without an air conditioner, and warm in winter. These homes excel at fitting into the surrounding landscape and conserving energy.



Sunlight warmth stored in the floor keeps this sunroom cozy warm in winter

Financial Section

Consolidated Six-Year Summary

Misawa Homes Holdings, Inc., and Subsidiaries

For the years ended March 31	Millions of yen						Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2002	2007
For the Year:							
Net Sales	¥ 414,566	¥ 383,941	¥ 389,595	¥ 403,127	¥ 412,121	¥ 481,419	\$ 3,511,784
Cost of Sales	314,582	286,703	289,192	289,030	288,087	350,684	2,664,822
Gross Profit	99,984	97,238	100,403	114,097	124,034	130,735	846,962
Selling, General and Administrative Expenses	86,918	79,356	81,542	83,733	92,841	106,665	736,284
Operating Income	13,066	17,882	18,861	30,364	31,193	24,070	110,678
Income (Loss) before Income Taxes and Minority Interests	10,947	123,827	(175,916)	(128,810)	6,517	(48,446)	92,734
Net Income	192	124,024	(203,252)	(129,134)	2,020	(19,166)	1,626
At Year-End:							
Total Assets	¥ 235,136	¥ 224,469	¥ 264,382	¥ 505,906	¥ 714,915	¥ 808,042	\$ 1,991,832
Total Net Assets	26,946	25,143	(161,286)	34,490	62,673	61,090	228,261
Per Share Amounts (yen):							
Net Income (Loss)	¥ 5.17	¥ 3,844.63	¥ (996.92)	¥ (695.12)	¥ 5.00	¥ (144.42)	\$ 0.04

Notes: (1) Figures for 2002 and 2003 show the consolidated financial statements of Misawa Homes Co., Ltd.

(2) Figures for 2004, 2005, 2006 and 2007 show the financial statements of Misawa Homes Holdings, Inc., which include the statements of Misawa Homes Co., Ltd.

(3) Total Net Assets for prior years have been reclassified to conform to the presentations for the year ended March 31, 2007.

Operating Performance

Business Environment

During the fiscal year ended March 31, 2007, the Japanese housing industry enjoyed increases in the rental housing and condominium sectors. As a result, new housing construction starts were up 2.8% from the preceding year, to 1.28 million homes. However, the rate of growth in demand for owner-occupied homes—the Misawa Homes Group's core area of business—was less, at only 0.9%, falling short of full-fledged recovery. In this operating environment, the Group pursued research on system-built homes that take the global environment into consideration. To enhance peace of mind for homeowners, we continued initiatives to extend our product quality and warranty systems.

Sales

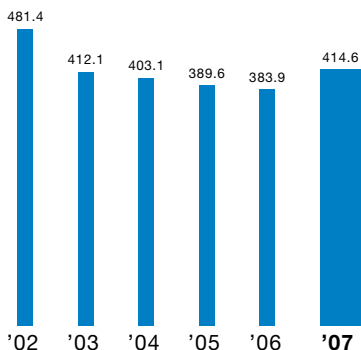
During the year, net sales increased 8.0%, to ¥414,566 million. One key factor behind this ¥30,625 million gain was the new inclusion of

Tohoku Misawa Homes Co., Ltd., as a consolidated subsidiary, which added ¥17,461 million to the Group's top line. An increase in the number of homes sold caused a ¥2,477 million increase, and a shift toward more midrange to high-end homes added approximately ¥300,000 to the average sale price of our homes, raising net sales ¥4,756 million. Sales from our renovation business contributed ¥3,100 million to the increase, and land sales another ¥2,448 million.

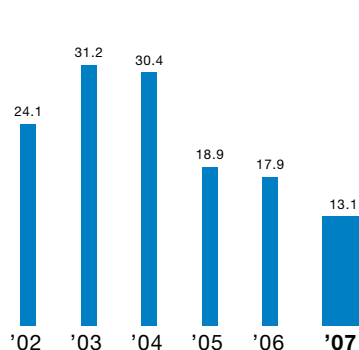
Operating Income

Operating income dropped ¥4,816 million, or 26.9% from the previous year, to ¥13,066 million. While an increase in the number of homes sold during the year had a ¥1,585 million positive effect on operating income, price revisions and sharply higher materials prices had negative effects of ¥2,252 million and ¥709 million, respectively. Another key factor was a 453-person increase in our sales force, pushing up human resource expenses ¥1,416 million.

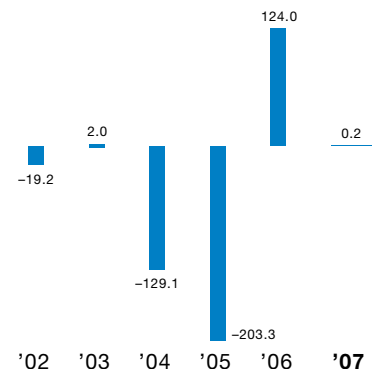
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Net Income
(Billions of yen)



Income Before Income Taxes and Minority Interest

During the fiscal year ended March 31, 2007, income before income taxes and minority interests fell 91.2%, to ¥10,947 million. The main reason for this difference was a ¥113,326 million gain during the previous year from forgiveness of debt by the financial institutions that support the Group.

Net Income

During the fiscal year ended March 31, 2007, net income fell 99.8%, to ¥192 million. Furthermore, recurring profit was ¥12,070 million lower than the ¥17,000 million we had forecast, resulting in a ¥10,624 million reduction in deferred tax assets.

Financial Position

As of March 31, 2007, total assets were ¥235,136 million, up ¥10,667 million from one year earlier. Most notably, the new consolidation of Tohoku Misawa Homes Co., Ltd., added ¥15,258 million in assets. The liquidation of deferred tax assets

reduced deferred tax assets ¥9,962 million.

Total liabilities on March 31, 2007, were ¥208,190 million, up ¥8,864 million from one year previously. The principal cause was the addition of ¥13,017 million in liabilities for Tohoku Misawa Homes Co., Ltd., which was newly consolidated.

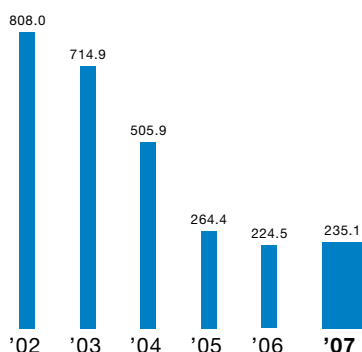
Cash Flows

During the year, net cash provided by operating activities was ¥5,226 million, ¥17,608 million less than in the previous term. The decrease in notes and accounts receivable provided cash, but the decrease in notes and accounts payable and an increase in inventories reduced the cash provided.

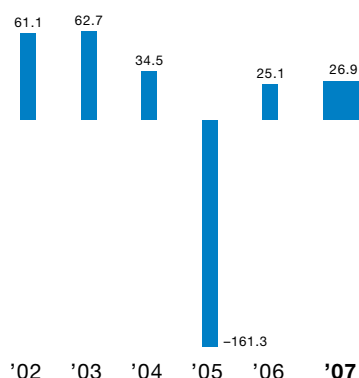
Net cash used in investing activities was ¥2,005 million, an ¥8,101 million difference from the net cash provided by these activities in the preceding term. Payments for purchases of property, plant and equipment were the main factor.

Net cash used in financing activities was ¥3,307 million, ¥41,999 million less than in the preceding term.

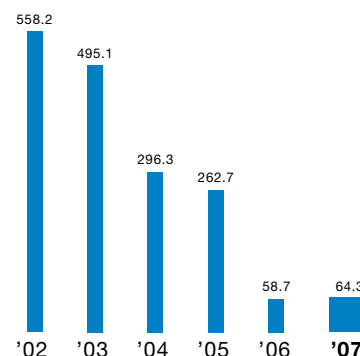
Total Assets
(Billions of yen)



Total Net Assets
(Billions of yen)



Interest-Bearing Debt
(Billions of yen)



Consolidated Balance Sheets

MISAWA HOMES HOLDINGS, INC. and Subsidiaries
March 31, 2006 and 2007

Assets	Millions of yen		Thousands of U.S. dollars
	March 31		(Note 4) March 31,
	2007	2006	2007
Current assets:			
Cash and deposits (Note 17)	¥ 40,606	¥ 40,906	\$ 343,973
Notes and accounts receivable, trade	11,218	15,328	95,024
Inventories	85,664	65,330	725,658
Deferred tax assets (Note 15)	6,094	7,066	51,621
Other current assets	10,900	7,570	92,336
Allowance for doubtful accounts	(896)	(1,208)	(7,590)
Total current assets	153,586	134,992	1,301,022
Property, plant and equipment (Note 7):			
Buildings and structures	33,487	28,883	283,664
Machinery and equipment	16,053	14,947	135,984
Land	26,410	24,917	223,721
Other	7,228	5,982	61,227
	83,178	74,729	704,596
Less: Accumulated depreciation	(33,718)	(30,090)	(285,620)
Net property, plant and equipment	49,460	44,639	418,976
Intangible assets:			
Goodwill	119	320	1,006
Other	5,750	5,710	48,712
Total intangible assets	5,869	6,030	49,718
Investments and other assets:			
Investment securities (Note 5)	5,087	5,705	43,089
Investments in affiliates	217	2,937	1,838
Deferred tax assets (Note 15)	13,666	22,656	115,766
Other assets	10,070	10,509	85,306
Allowance for doubtful accounts	(2,819)	(2,999)	(23,883)
Total investments and other assets	26,221	38,808	222,116
Total assets	¥235,136	¥224,469	\$1,991,832

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

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Current liabilities:			
Short-term bank loans (Note 8)	¥ 35,892	¥ 20,135	\$ 304,042
Current portion of long-term debt (Note 8)	13,542	12,775	114,709
Notes and accounts payable, trade	56,343	54,258	477,284
Accounts payable, other	7,681	8,256	65,068
Accrued bonuses	5,757	5,188	48,763
Allowance for claim expenses	2,496	2,272	21,145
Advance received on uncompleted contracts	33,639	31,507	284,958
Deposits received (Note 9)	16,072	18,156	136,142
Other current liabilities	5,202	4,664	44,064
Total current liabilities	176,624	157,211	1,496,175
Long-term liabilities:			
Long-term debt (Note 8)	14,832	25,820	125,641
Accrued pension and severance costs (Note 10)	5,598	5,873	47,420
Allowance for liabilities on guaranty	1,267	1,391	10,740
Deferred tax liabilities (Note 15)	106	215	897
Deferred tax liabilities from land revaluation	2,021	2,021	17,117
Other long-term liabilities	7,742	6,795	65,581
Total long-term liabilities	31,566	42,115	267,396
Net assets: (Note 3)			
Shareholders' equity (Note 11)			
Capital stock	23,413	23,413	198,331
	(Thousands of shares)		
	In 2007	In 2006	
Common stock—authorized	142,160	231,660	
—issued	38,739	38,739	
Preferred stock—authorized	7,840	48,340	
—issued	7,833	48,333	
Additional paid-in capital	13,546	67,689	114,745
Retained earnings (Accumulated deficit)	(14,706)	(68,744)	(124,570)
Treasury stock, at cost	(4,225)	(4,192)	(35,795)
Revaluation and translation adjustments			
Net unrealized gains on other securities (Note 5)	1,266	2,009	10,723
Land revaluation difference	2,178	2,178	18,454
Foreign currency translation adjustments	159	89	1,350
Minority interest in subsidiaries			
	5,315	2,701	45,023
Total net assets	26,946	25,143	228,261
Commitments and contingent liabilities (Note 19)			
Total liabilities and net assets	¥ 235,136	¥ 224,469	\$1,991,832

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

Consolidated Statements of Income

MISAWA HOMES HOLDINGS, INC. and Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Year ended March 31		Year ended March 31,
	2007	2006	2007
Net sales	¥ 414,566	¥ 383,941	\$3,511,784
Cost of sales	314,582	286,703	2,664,822
Gross profit	99,984	97,238	846,962
Selling, general and administrative expenses: (Notes 16 ,18)			
Salaries and wages	40,024	36,294	339,042
Advertising	12,344	12,168	104,566
Sales promotion	5,369	4,271	45,484
Addition to allowance for claim expenses	1,789	1,717	15,151
Accrued bonuses to employees	4,672	4,344	39,575
Depreciation expenses	3,306	3,181	28,003
Other selling expenses	6,039	5,261	51,156
Other general and administrative expenses	13,375	12,120	113,307
Total selling, general and administrative expenses	86,918	79,356	736,284
Operating income	13,066	17,882	110,678
Non-operating income:			
Interest income	53	39	451
Income from commissions	313	356	2,648
Other	1,289	1,763	10,925
Total non-operating income	1,655	2,158	14,024
Non-operating expenses:			
Interest expenses	1,571	3,609	13,305
Equity in losses of affiliates	—	12	—
Pension and severance costs	418	419	3,538
Other	662	1,435	5,614
Total non-operating expenses	2,651	5,475	22,457
Ordinary income	12,070	14,565	102,245
Other gains ("TOKUBETSU RIEKI"):			
Gain from forgiveness of debt	—	113,326	—
Gain on sales of investment securities	447	968	3,784
Gain on sales of property, plant and equipment (Note 12)	1,354	284	11,470
Reversal of allowance for doubtful accounts	438	495	3,717
Compensation received for the transfer of the facilities	441	—	3,736
Other	162	473	1,368
Total other gains	2,842	115,546	24,075
Other losses ("TOKUBETSU SONSHITSU"):			
Impairment loss on long-lived assets (Note 7)	2,061	1,907	17,457
Loss on devaluation of investment securities	638	58	5,406
Addition to allowance for doubtful accounts	60	775	505
Addition to allowance for liabilities on guarantee	—	730	—
Loss on disposal of property, plant and equipment (Note 13)	390	630	3,304
Loss on write-down of inventories	96	647	815
Loss on sales of investment securities	—	191	—
Other	720	1,346	6,099
Total other losses	3,965	6,284	33,586
Income before income taxes and minority interest	10,947	123,827	92,734
Income taxes: (Note 15):			
Current	667	446	5,652
Deferred	10,624	(805)	89,993
	11,291	(359)	95,645
Income (loss) before minority interest	(344)	124,186	(2,911)
Minority interest in subsidiaries	(536)	162	(4,537)
Net income	¥ 192	¥ 124,024	\$ 1,626
Per share:		Yen	U.S. dollars (Note 4)
Net income (Note 14)—Basic	¥ 5.17	¥3,844.63	\$ 0.04
—Diluted	¥ 3.14	¥2,149.50	\$ 0.03

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

Consolidated Statements of Changes in Net Assets

MISAWA HOMES HOLDINGS, INC. and Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of yen									
	Number of shares issued	Shareholders' equity				Revaluation and translation adjustments				Total net assets
		Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	
Balance at March 31, 2005	483,256,146	¥45,249	¥568	(¥210,147)	(¥4,838)	¥1,827	¥3,420	¥77	¥2,558	(¥161,286)
Net income	—	—	—	124,024	—	—	—	—	—	124,024
Allotment of common stock to a third party	12,913,000	12,913	12,913	—	—	—	—	—	—	25,826
Issuance of preferred stock due to execution of debt-equity swap arrangement	3,333,333	10,000	10,000	—	—	—	—	—	—	20,000
Gain on disposal and sale of treasury stock	—	—	16,150	—	—	—	—	—	—	16,150
Capital reduction	(179,997,720)	(44,749)	44,181	568	—	—	—	—	—	—
Reverse stock split	(232,433,232)	—	—	—	—	—	—	—	—	—
Transfer of additional paid-in capital	—	—	(16,123)	16,123	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	469	—	—	—	—	—	469
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	239	—	—	—	—	—	239
Transfer from revaluation reserve for land	—	—	—	(9)	—	—	—	—	—	(9)
Decrease due to exclusion of an affiliate accounted for by the equity method	—	—	—	(11)	—	—	—	—	—	(11)
Net changes during the year	—	—	—	—	646	182	(1,242)	12	143	(259)
Balance at March 31, 2006	87,071,527	23,413	67,689	(68,744)	(4,192)	2,009	2,178	89	2,701	25,143
Net income	—	—	—	192	—	—	—	—	—	192
Purchases of treasury stock	—	—	—	—	(33)	—	—	—	—	(33)
Reverse stock split	(40,499,352)	—	—	—	—	—	—	—	—	—
Transfer of additional paid-in capital	—	—	(54,143)	54,143	—	—	—	—	—	—
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	(297)	—	—	—	—	—	(297)
Items other than changes in shareholders' equity	—	—	—	—	—	(743)	—	70	2,614	1,941
Balance at March 31, 2007	46,572,175	¥23,413	¥13,546	(¥14,706)	(¥4,225)	¥1,266	¥2,178	¥159	¥5,315	¥26,946

	Thousands of U.S. dollars (Note 4)									
		Shareholders' equity				Revaluation and translation adjustments				Total net assets
		Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	
Balance at March 31, 2006	\$198,331	\$573,390	(\$582,330)	(\$35,512)	\$17,022	\$18,454	\$756	\$22,877	\$212,988	
Net income	—	—	1,626	—	—	—	—	—	1,626	
Purchases of treasury stock	—	—	—	(283)	—	—	—	—	(283)	
Transfer of additional paid-in capital	—	(458,645)	458,645	—	—	—	—	—	—	
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	(2,511)	—	—	—	—	—	(2,511)	
Items other than changes in shareholders' equity	—	—	—	—	(6,299)	—	594	22,146	16,441	
Balance at March 31, 2007	\$198,331	\$114,745	(\$124,570)	(\$35,795)	\$10,723	\$18,454	\$1,350	\$45,023	\$228,261	

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

Consolidated Statements of Cash Flows

MISAWA HOMES HOLDINGS, INC. and Subsidiaries

Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Year ended March 31		Year ended March 31,
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interest	¥10,947	¥123,827	\$ 92,734
Adjustments for:			
Depreciation and amortization	5,006	4,907	42,409
Amortization and write-off of goodwill	107	56	903
Decrease in allowance for doubtful accounts	(668)	(1,769)	(5,658)
(Decrease) increase in other allowances	(72)	1,041	(610)
Interest and dividend income	(119)	(185)	(1,010)
Interest expenses	1,571	3,609	13,305
Equity in net losses of affiliates	—	12	—
Gain on sales of investment securities	(447)	(777)	(3,784)
Impairment loss on long-lived assets	2,061	1,907	17,457
(Gain) loss on sales of property, plant and equipment	(964)	346	(8,166)
Gain from forgiveness of debt	—	(113,326)	—
Decrease (increase) in notes and accounts receivable, trade	2,978	(3,201)	25,228
(Increase) decrease in inventories	(11,388)	3,935	(96,470)
Increase in notes and accounts payable, trade	1,241	9,378	10,517
Other	(3,191)	(3,593)	(27,031)
Subtotal	7,062	26,167	59,824
Interest and dividends received	117	171	992
Interest paid	(1,554)	(3,011)	(13,166)
Income taxes paid	(399)	(493)	(3,382)
Net cash provided by operating activities	5,226	22,834	44,268
Cash flows from investing activities:			
Decrease of time deposits with maturity over three months	281	464	2,383
Payments for purchases of property, plant equipment and intangible assets	(9,026)	(8,773)	(76,458)
Proceeds from sales of property, plant equipment and intangible assets	2,858	6,915	24,207
Payments for purchases of investment securities	(756)	(188)	(6,401)
Proceeds from sales of investment securities	615	2,900	5,209
Effect results from the change of consolidation scope	3,429	2,194	29,050
Other	594	2,584	5,030
Net cash (used in) provided by investing activities	(2,005)	6,096	(16,980)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans	7,411	(67,480)	62,783
Proceeds from long-term debt	2,930	36,845	24,820
Repayments of long-term debt	(13,591)	(44,614)	(115,133)
Proceeds from issuance of common stock	—	25,826	—
Proceeds from sales of treasury stock	—	17,643	—
Payments for purchase of treasury stock	(33)	(131)	(283)
Cash dividends paid to minority interest	(24)	(25)	(202)
Other	—	(13,370)	—
Net cash used in financing activities	(3,307)	(45,306)	(28,015)
Effect of exchange rate changes on cash and cash equivalents	17	6	142
Net decrease in cash and cash equivalents	(69)	(16,370)	(585)
Cash and cash equivalents at the beginning of the year	39,966	55,937	338,548
Increase by change in the scope of consolidation	—	399	—
Cash and cash equivalents at the end of the year (Note 17)	¥39,897	¥ 39,966	\$337,963

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

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

Misawa Homes Holdings, Inc. (the "Company") and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile.

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

The Company has restated the consolidated financial statements to correct prior errors for the five-year periods. The restated financial statements were filed with the Ministry of Finance Japan on December 28, 2006. Major corrections were made in connection to errors in the cut-off of sales transaction which had taken place within Misawa Homes Kyushu Co., Ltd., a consolidated subsidiary. The accumulated deficit as of March 31, 2006 has increased ¥1,758 million in consequence of the restatement.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in

Japan, but which is provided herein as additional information. However, none of the reclassifications or rearrangements has a material effect on the financial statements.

2. Summary of significant accounting policies:

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

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

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

(2) Cash and cash equivalents

Cash and cash equivalents included in the consolidated financial statements are composed of

cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less and which present low risk of fluctuation in value.

(3) Investment securities

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

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

(4) Allowance for doubtful accounts

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

(5) Inventories

Finished goods, work in process and semi-finished goods are stated at cost, which is primarily determined using the weighted average cost method.

Real estate for sale and cost of uncompleted contracts are stated at cost, which is determined by the specific identification method.

(6) Property, plant and equipment

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

(7) Intangible assets

Amortization of intangible assets excluding goodwill is computed on the straight-line method over the period prescribed by the Japanese income tax laws.

(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 subsequent year 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) Allowance for liabilities on guaranty
Allowance for liabilities on guaranty is provided in an amount sufficient to cover probable losses on warranty or compensation agreements on hand when substantial losses in the future are anticipated and can be reasonably estimated.

(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. Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting transaction gains or losses are taken into income currently.

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

(13) Derivative financial instruments
Derivative instruments (i.e., forward exchange contracts) are recognized as either assets or liabilities at their respective fair value at the date of contract, and gains and losses arising from changes in fair value are recognized in current income in the corresponding fiscal period.

(14) 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.

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

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

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

(18) 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.

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

(20) Reclassifications
Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2007.

3. Change in accounting policies and adoption of new accounting standards:

(1) Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

"Net assets" in the balance sheets as of March 31, 2007 is presented according to the revision of "Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006. Furthermore, the Company presented its net assets in the balance sheets using the new presentation as of March 31, 2006.

In addition, the consolidated statements of changes in net assets for the year ended March 31, 2006 are presented under the new standard.

(2) Accounting Standard for Business Combinations
Effective from the year ended March 31, 2007, the Company applied "Accounting standard for business combinations" (Accounting standards issued on October 31, 2003 by the Business Accounting Council in Japan), "Accounting standard for business divestitures" (Accounting Standards Board of Japan Statement No.7) and "Implementation guidance on accounting standard for business combinations and accounting standard for business divestitures" (Accounting Standards Board of Japan Guidance No.10) both issued on December 27, 2005 by the Accounting Standards Board of Japan.

4. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers and are not audited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥118.05= U.S.\$1, the rate of exchange prevailing at March 31, 2007, has been used.

5. Investment securities:

Misawa Homes' management determined that all investment securities were other securities for the year ended March 31, 2007 and either held-to-maturity debt securities or other securities for the year ended March 31, 2006.

Net unrealized gains, net of tax, on securities categorized as other securities of ¥1,266 million (\$10,723 thousand) and ¥2,009 million at March 31, 2007 and 2006, respectively, were recorded as a component of net assets. A related deferred income tax liability thereon of ¥873 million (\$7,395 thousand) and ¥1,412 million was recorded against deferred income tax assets relating to other

temporary differences at March 31, 2007 and 2006, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2007 and 2006, were as follows:

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

	Millions of yen			
	March 31, 2006			
	Cost	Gross unrealized		Market value
		Gains	Losses	(carrying value)
Equity securities	¥1,730	¥3,482	(¥ 9)	¥5,203
Debt securities	125	—	(2)	123
Other	60	7	(0)	67
Total	¥1,915	¥3,489	(¥11)	¥5,393

	Thousands of U.S. dollars (Note 4)			
	March 31, 2007			
	Cost	Gross unrealized		Market value
		Gains	Losses	(carrying value)
Equity securities	\$19,069	\$19,202	(\$1,121)	\$37,150
Debt securities	1,100	0	(6)	1,094
Other	86	41	-	127
Total	\$20,255	\$19,243	(\$1,127)	\$38,371

As of March 31, 2007 and 2006, the carrying amount of unlisted equity securities, which were included in the investment securities account, was ¥688 million (\$5,825 thousand) and ¥436 million, respectively.

Proceeds from sales of other securities for the years ended March 31, 2007 and 2006, were ¥615 million (\$5,209 thousand) and ¥2,250 million,

respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥447 million (\$3,784 thousand) and nothing respectively, for the year ended March 31, 2007 and ¥924 million and ¥23 million respectively, for the year ended March 31, 2006.

The redemption schedule for securities with maturities as of March 31, 2007 and 2006, are as follows:

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

Millions of yen				
March 31, 2006				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥20	¥ 90	¥10	¥—
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
Others	—	50	—	—
Total	¥20	¥140	¥10	¥—

Thousands of U.S. dollars (Note 4)				
March 31, 2007				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	\$169	\$847	\$85	\$—
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
Others	—	—	—	—
Total	\$169	\$847	\$85	\$—

6. Derivative instruments:

Misawa Homes entered into foreign exchange contracts for the year ended March 31, 2007 and foreign exchange contracts, interest-rate options (Cap) for the year ended March 31, 2006. Derivative transactions entered into by Misawa Homes have been made in accordance with internal policies, which regulate the authorization of such transactions.

There was no balance of derivative transactions outstanding at March 31, 2007 and 2006.

7. Impairment loss on long-lived assets:

Misawa Homes recognized impairment loss on long-lived assets for the following assets for the years ended March 31, 2007 and 2006.

Assets written-off	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2007
	2007	2006	
Buildings and structures	¥ 254	¥ 243	\$ 2,150
Machinery and equipment	30	265	258
Land	620	1,136	5,252
Lease property	461	221	3,903
Goodwill	626	—	5,304
Other assets	70	42	590
Total	¥2,061	¥1,907	\$17,457

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

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

Recoverable amount of each group of assets is the higher amount of net selling price or value in use. Value in use was calculated by discounting future cash flows at an interest rate of 6.5% for the year ended March 31, 2007 and 7.0% for the year ended March 31, 2006.

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

Short-term bank loans at March 31, 2007 and 2006, comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Loans, principally from banks, with weighted-average interest rate of 2.1% at March 31, 2007	¥35,892	¥20,135	\$304,042

Long-term debt at March 31, 2007 and 2006, comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Loans, principally from banks and insurance companies, due 2007 to 2013 with weighted-average interest rate of 2.2% at March 31, 2007	¥27,374	¥37,195	\$231,880
Unsecured 0.47% bonds, due 2006	—	200	—
Unsecured 0.38% bonds, due 2006	—	200	—
Unsecured 0.65% bonds, due 2007	500	500	4,235
Unsecured 1.345% bonds, due 2008	500	500	4,235
	28,374	38,595	240,350
Less-portion due within one year	(13,542)	(12,775)	(114,709)
	¥14,832	¥25,820	\$125,641

The aggregate annual maturities of long-term debt outstanding at March 31, 2007, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2008	¥13,542	\$114,709
2009	14,456	122,453
2010	180	1,524
2011	129	1,096
2012	55	463
Thereafter	12	105
Total	¥28,374	\$240,350

Assets pledged as collateral for secured loans and debt at March 31, 2007 and 2006, were as follows:

Pledged assets	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Inventories	¥ 5,281	¥ 7,002	\$ 44,738
Other current assets	3	6	26
Buildings and structures	1,305	1,276	11,050
Land	5,472	6,139	46,352
Investment securities	141	394	1,197
Other fixed assets	3	—	26
Total	¥12,205	¥14,817	\$103,389

Secured loans and debt:	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Short-term bank loans	¥15,379	¥16,684	\$130,278
Long-term debt	994	720	8,416
Total	¥16,373	¥17,404	\$138,694

9. Deposits received:

Among deposits received, ¥8,700 million (\$73,698 thousand) at March 31, 2007 and 2006, were financing with transfers of contractual receivables.

10. Pension and severance costs:

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

The funded status of retirement benefit obligations at March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Projected benefit obligation	(¥25,902)	(¥22,445)	(\$219,416)
Plan assets at fair value	16,377	11,323	138,730
Unfunded status	(9,525)	(11,122)	(80,686)
Unrecognized items:			
Unrecognized net transition obligation	3,264	3,709	27,651
Actuarial losses	1,113	1,935	9,429
Prior service cost reduction due to plan amendment	(175)	(330)	(1,487)
Accrued pension and severance costs - net	(5,323)	(5,808)	(45,093)
Prepaid pension cost	275	65	2,327
Accrued pension and severance costs	(¥ 5,598)	(¥ 5,873)	(\$ 47,420)

The composition of net pension and severance costs for the years ended March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Year ended March 31		Year ended March 31,
	2007	2006	2007
Service cost	¥1,965	¥1,927	\$16,644
Interest cost	376	339	3,189
Expected return on plan assets	(235)	(118)	(1,989)
Amortization and expenses:			
Prior service costs	(38)	(49)	(322)
Actuarial losses	436	572	3,694
Transition obligation	418	419	3,538
Partial termination of tax-qualified retirement plan	—	(21)	—
Total	¥2,922	¥3,069	\$24,754

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2007 and 2006, were as follows:

	Year ended March 31	
	2007	2006
Discount rate	1.5%	1.5%
Long-term rate of return on plan assets	0.0-4.3%	0.0-4.0%

11. Shareholders' equity:

The Company issued the preferred stock as follows:

Class	Thousands of shares	Millions of yen	Date of issuance
A	58,333	35,000	August 1, 2003, transferred shares by Misawa Homes Co., Ltd. as establishment of the Company
B-1	41,666	25,000	February 25, 2004
B-2	41,666	25,000	February 25, 2004
B-3	41,666	25,000	February 25, 2004
B-4	41,666	25,000	February 25, 2004
C	3,333	20,000	June 10, 2005

As of June 1, 2005, the Company canceled the 58,333,000 (100%) Class A preferred shares, 41,666,000 (100%) of the first and second issuances of Class B preferred shares and 38,332,720 (92% of the 41,666,000 relevant shares) of the third issuance of Class B preferred shares, all without compensation.

As of July 18, 2006, the Company made 1-for-10 reverse stock split to reduce 2,999,952 shares (7% of the 41,666,000 relevant shares) of the third issuance of Class B preferred shares and 37,499,400 shares (90% of the 41,666,000 relevant shares) of the fourth issuance of Class B preferred shares.

The description of the preferred stock issued by the Company as of March 31, 2007, was as follows:

Classified stock	Class B-3	Class B-4	Class C
Number of outstanding shares	333,328 shares	4,166,600 shares	3,333,333 shares
Distribution of profit	1YTibor + 2.375%	1YTibor + 2.375%	1YTibor + 1.500% No dividend to be distributed until March 2008
Upper limit	¥600	¥600	¥600
Participatory clause	Nonparticipating	Nonparticipating	Nonparticipating
Accumulative clause	Noncumulative	Noncumulative	Noncumulative
Interim dividend	Yes	Yes	Yes
Voluntary purchase/ cancellation	Cancelable at any time	Cancelable at any time	Cancelable at any time
Mandatory redemption (Call)	None	None	Applied (always possible for 22 years after the issuance, with the issue price of ¥6,000 + preferred dividend per diem)
Claim of redemption (Put)	If unappropriated retained earnings for the year of the previous fiscal year exceed ¥20.0 billion in and after July 2008, the redemption may be requested within an upper limit of the amount	If unappropriated retained earnings for the year of the previous fiscal year exceed ¥20.0 billion in and after July 2008, the redemption may be requested within an upper limit of the amount	None

Classified stock	Class B-3	Class B-4	Class C
	that corresponds to 50% of such unappropriated retained earnings being deducted by the dividend paid for the year.	that corresponds to 50% of such unappropriated retained earnings being deducted by the dividend paid for the year.	
Conversion right to be requested by shareholders	Conversion to common stock	Conversion to common stock	Conversion to common stock
Conversion claimable period	16 years after the issuance or later: for 15 years (from July 2020 to June 2035)	19 years after the issuance or later: for 15 years (from July 2023 to June 2038)	22 years after the issuance or later: for 15 years (from July 2027 to June 2042)
Initial conversion price	¥1,300.40	¥1,300.40	To be determined based on the Company's stock price in the 22nd year after the issuance (the stock price at the time point when the claim for conversion started)
Revision to the conversion price	In and after July 2021, upward/downward revisions possible annually based on the stock price	In and after July 2024, upward/downward revisions possible annually based on the stock price	Upward/downward revisions possible annually based on the stock price
Lower limit of the conversion price	50% of the initial conversion price	50% of the initial conversion price	50% of the initial conversion price
Upper limit of the conversion price	200% of the initial conversion price	200% of the initial conversion price	None
Mandatory conversion right	Conversion to common stock	Conversion to common stock	Conversion to common stock
Date of conversion	A date to be determined by a Board of Directors meeting on and after the last day of the conversion claimable period (June 2035)	A date to be determined by a Board of Directors meeting on and after the last day of the conversion claimable period (June 2038)	A date to be determined by a Board of Directors meeting in the 37th year after the issuance or later
Conversion price	The average for 30 transaction days reckoning from the 45th transaction day prior to the date of conversion (provided lower limit to be ¥500)	The average for 30 transaction days reckoning from the 45th transaction day prior to the date of conversion (provided lower limit to be ¥500)	The average for 30 transaction days reckoning from the 45th transaction day prior to the date of conversion (provided lower limit to be ¥500)
Distribution of residual property	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit
Voting rights	None (provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion for the fiscal year ending March 2007 or later, plus when the distribution of the preferred dividend is ascertained to be impossible)	None (provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion for the fiscal year ending March 2007 or later, plus when the distribution of the preferred dividend is ascertained to be impossible)	None (except for the cases provided for by laws)

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

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

Under the Corporate Law of Japan, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held within three months after the balance sheet date, and accordingly such appropriations are recorded at the time of resolution.

The Company may pay interim dividends by resolution of the Board of Directors once during each fiscal year in accordance with the Corporate Law of Japan and the Company's Articles of Incorporation.

There were 1,631,104 shares and 1,622,077 shares of treasury stock at March 31, 2007 and 2006, respectively.

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

The following are the elements of "Gain on sales of property, plant and equipment" for the years ended March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Year ended March 31		Year ended March 31,
	2007	2006	2007
Buildings and structures	¥8	¥27	\$71
Machinery and equipment	2	1	16
Land	1,343	256	11,380
Other fixed assets	1	0	3
Total	¥1,354	¥284	\$11,470

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

The following are the elements of "Loss on disposal of property, plant and equipment" for the years ended March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Year ended March 31		Year ended March 31,
	2007	2006	2007
Buildings and structures	¥240	¥450	\$2,034
Machinery and equipment	56	38	473
Land	38	14	326
Other fixed assets	56	128	471
Total	¥390	¥630	\$3,304

14. Net income per share:

Calculation of net income per share for the years ended March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Year ended March 31		Year ended March 31,
	2007	2006	2007
Net income attributable to common shares	¥192	¥124,024	\$1,626
Weighted average number of common shares outstanding:			
—Basic	37,112,732	32,259,097	
—Diluted	61,167,584	57,699,202	
Net income per share:			
	Yen		U.S. dollars (Note 4)
—Basic	¥5.17	¥3,844.63	\$0.04
—Diluted	¥3.14	¥2,149.50	\$0.03

15. Income taxes:

Misawa Homes is subject to several income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.7 % for the years ended March 31, 2007 and 2006.

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Deferred tax assets:			
Devaluation of inventories	¥3,160	¥3,630	\$26,772
Tax loss carry-forwards	118,266	122,846	1,001,827
Others	11,891	11,648	100,730
Gross deferred tax assets	133,317	138,124	1,129,329
Less: valuation allowance	(112,701)	(107,135)	(954,692)
Total deferred tax assets	20,616	30,989	174,637
Deferred tax liabilities:			
Net unrealized gains on other securities	(873)	(1,412)	(7,395)
Others	(89)	(70)	(752)
Gross deferred tax liabilities	(962)	(1,482)	(8,147)
Net deferred tax assets	¥19,654	¥29,507	\$166,490

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 net change in the total valuation allowance for the year ended March 31, 2007, was increased by ¥5,566 million (\$47,156 thousand).

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

March 31	2007	2006
Statutory income tax rate	40.7%	40.7%
Reconciliation:		
Changes in valuation allowance	63.4	(44.6)
Entertainment expenses, etc. permanently non-tax deductible	2.8	0.2
Per capital inhabitant tax	2.0	0.2
Consolidation adjustment	(7.7)	2.9
Others	1.9	0.3
Income tax rate per consolidated statements of income	103.1%	(0.3)%

16. Research and development costs:

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥3,010 million (\$25,496 thousand) million and ¥2,276 million for the years ended March 31, 2007 and 2006, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2007 and 2006, were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2007
	2007	2006	
Cash and deposits	¥40,606	¥40,906	\$343,973
Less:			
Time deposits due over three months	(709)	(940)	(6,010)
Cash and cash equivalents	¥39,897	¥39,966	\$337,963

18. Leases:

As described in Note 2 (17) Misawa Homes, as a lessee, charges periodic finance lease payments to expense when paid. Such payments for the years ended March 31, 2007 and 2006 amounted to ¥2,308 million (\$19,547 thousand) and ¥1,992 million, respectively.

If finance leases which do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the finance lease assets at March 31, 2007 and 2006, would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Acquisition cost:			
Buildings and structures	¥7,641	¥4,699	\$64,725
Machinery and equipment	444	320	3,759
Other property, plant and equipment	2,687	2,896	22,759
Other intangible assets	336	435	2,849
	11,108	8,350	94,092
Less:			
Accumulated depreciation	(4,523)	(3,889)	(38,310)
Net book value	¥6,585	¥4,461	\$55,782

Depreciation expenses for these leased assets for the years ended March 31, 2007 and 2006, would have been ¥2,232 million (\$18,911 thousand) and ¥1,878 million, respectively, if they were computed in accordance with the straight-line method over the periods of these finance leases, assuming no residual value.

Interest expense for these finance leases for the years ended March 31, 2007 and 2006, would have been ¥153 million (\$1,298 thousand) and ¥116 million, respectively.

Impairment loss for these finance leases for the years ended March 31, 2007 and 2006 were ¥461 million (\$3,903 thousand) and ¥221 million, respectively.

Future lease payments for finance leases at March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Future lease payments			
Due within one year	¥2,389	¥1,689	\$20,240
Due after one year	4,324	2,761	36,628
Total	¥6,713	¥4,450	\$56,868

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2007	2006	2007
Future lease payments			
Due within one year	¥562	¥585	\$4,765
Due after one year	3,492	4,111	29,578
Total	¥4,054	¥4,696	\$34,343

19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2007 and 2006 were ¥47,732 million (\$404,333 thousand) and ¥46,296 million. Furthermore, the amount of trade notes endorsed at March 31, 2007 and 2006, were ¥25 million (\$215 thousand) and ¥50 million, respectively.

20. Related party transactions:

There were no material related party transactions for the years ended March 31, 2007 and 2006.

22. Subsequent event:

(1) Merger with Misawa Homes Co., Ltd.

A merger agreement (the scheduled merger date: October 1, 2007) has been made between the Company and Misawa Homes Co., Ltd. on May 24, 2007.

Purpose of the merger

By merging Misawa Homes Co., Ltd., the Company aims to enhance its residential business operation and its corporate governance through simplifying its group organization and efficient decision-making process.

Summary of the merger

The Company, merging company, merges with Misawa Homes Co., Ltd., absorbed company. Misawa Homes Co., Ltd will be dissolved after the merger. As Misawa Homes Co., Ltd. was a wholly-owned subsidiary of the Company, no shares are issued and no money is delivered due to this merger. Therefore, capital stock and additional paid-in capital of the Company are not increased.

21. Segment information:

(1) Business Segments

Information regarding business segments is omitted in consolidated financial reports for the years ended March 31, 2007 and 2006, because sales, operating income and total assets in the residential segment are more than 90% of all business segments.

(2) Geographical Segments

Information regarding geographical areas is omitted for the years ended March 31, 2007 and 2006, because sales and total assets in the Japan area are more than 90% of all geographical areas.

(3) Overseas Sales

Information regarding overseas sales is omitted for the years ended March 31, 2007 and 2006, because overseas sales represents less than 10% of total sales.

Corporate name after the merger

Misawa Homes Co., Ltd.

Information on absorbed company

(a) Corporate name:	Misawa Homes Co., Ltd.
(b) Head office:	Suginami ward, Tokyo
(c) Representative person:	Haruo Sato, CEO
(d) Business:	Housing construction
(e) Capital stock, net assets, total assets (March 31, 2007)	
Capital stock:	¥24,000 million (\$203,304 thousand)
Net assets:	¥16,151 million (\$136,819 thousand)
Total assets:	¥110,223 million (\$933,705 thousand)
Net sales:	¥136,953 million (\$1,160,135 thousand)
Net loss:	¥2,769 million (\$23,464 thousand)

(2) Merger of consolidated subsidiaries

A merger agreement (the scheduled merger date: October 1, 2007) has been made between TOHOKU MISAWA HOMES CO., LTD. and MISAWA HOMES KITANIHON CO., LTD. on May 25, 2007.

Purpose of the merger

Through this merger, these companies aim to strengthen the regional operations in the Tohoku area and make the operations more efficient to carry out the mid-term business plan.

Summary of the merger

TOHOKU MISAWA HOMES CO., LTD., merging company, merges with MISAWA HOMES KITANIHON CO., LTD., absorbed company. MISAWA HOMES KITANIHON CO., LTD. will be dissolved after the merger. The merger ratio would be 0.48 shares of TOHOKU MISAWA HOMES CO., LTD. for each MISAWA HOMES KITANIHON CO., LTD. share. TOHOKU MISAWA HOMES CO., LTD. issues 3,858,336 shares of common stock along with this merger.

Corporate name after the merger
TOHOKU MISAWA HOMES CO., LTD.

Information on the merging company and the absorbed company

(a) Company name of the merging company:	TOHOKU MISAWA HOMES CO., LTD.
(b) Head office:	Sendai, Miyagi Prefecture
(c) Representative:	Shinichi Kondo, CEO
(d) Business:	Housing construction
(e) Capital stock, net assets, total assets (March 31, 2007)	
Capital stock:	¥4,178 million (\$35,395 thousand)
Net assets:	¥5,935 million (\$50,279 thousand)
Total assets:	¥21,041 million (\$178,240 thousand)
Net sales:	¥25,927 million (\$219,632 thousand)
Net loss:	¥676 million (\$5,730 thousand)

(a) Company name of the absorbed company:	MISAWA HOMES KITANIHON CO., LTD
(b) Head office:	Akita, Akita Prefecture
(c) Representative:	Kunikazu Saino, CEO
(d) Business:	Housing construction
(e) Capital stock, net assets, total assets (March 31, 2007)	
Capital stock:	¥430 million (\$3,646 thousand)
Net assets:	¥202 million (\$1,716 thousand)
Total assets:	¥6,607 million (\$55,975 thousand)
Net sales:	¥7,723 million (\$65,428 thousand)
Net loss:	¥378 million (\$3,208 thousand)

A merger agreement (the scheduled merger date: October 1, 2007) has been made between MISAWA HOMES CHUGOKU CO., LTD. and MISAWA HOMES SAN-IN CO., LTD. on May 29, 2007.

Purpose of the merger

Through this merger, these companies aim to strengthen the regional operations in the Chugoku area and make the operations more efficient to carry out the mid-term business plan.

Summary of the merger

MISAWA HOMES CHUGOKU CO., LTD., merging company, merges with MISAWA HOMES SAN-IN CO., LTD., absorbed company. MISAWA HOMES SAN-IN CO., LTD. will be dissolved after the merger. The merger ratio would be 0.8 shares of MISAWA HOMES CHUGOKU CO., LTD. for each MISAWA HOMES SAN-IN CO., LTD. share. MISAWA HOMES CHUGOKU CO., LTD. issues 3,178,680 shares of common stock along with this merger.

Corporate name after the merger
MISAWA HOMES CHUGOKU CO., LTD.

Information on the merging company and the absorbed company

(a) Company name of the merging company:	MISAWA HOMES CHUGOKU CO., LTD.
(b) Head office:	Hiroshima, Hiroshima Prefecture
(c) Representative:	Kuniyoshi Doi, CEO
(d) Business:	Housing construction
(e) Capital stock, net assets, total assets (March 31, 2007)	
Capital stock:	¥1,369 million (\$11,604 thousand)
Net assets:	¥3,424 million (\$29,007 thousand)
Total assets:	¥15,743 million (\$133,362 thousand)
Net sales:	¥29,345 million (\$248,583 thousand)
Net loss:	¥413 million (\$3,503 thousand)

(a) Company name of the absorbed company:	MISAWA HOMES SAN-IN CO., LTD.
(b) Head office:	Tottori, Tottori Prefecture
(c) Representative:	Yasuji Kanazawa, CEO
(d) Business:	Housing construction
(e) Capital stock, net assets, total assets (March 31, 2007)	
Capital stock:	¥444 million (\$3,768 thousand)
Net assets:	¥1,572 million (\$13,322 thousand)
Total assets:	¥4,743 million (\$40,184 thousand)
Net sales:	¥4,105 million (\$34,776 thousand)
Net loss:	¥258 million (\$2,189 thousand)

23. Appropriation of retained earnings:

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2007, were approved at a shareholders' meeting held on June 28, 2007:

	Millions of yen	Thousands of U.S. dollars (Note 4)
Reversal of additional paid-in capital to offset accumulated deficit	¥8,066	\$68,327

Report of Independent Auditors

Misuzu Audit Corporation

A network firm of

PRICEWATERHOUSECOOPERS 

Misuzu Audit Corporation
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, JAPAN
Telephone 81-3-5532-2100
Facsimile 81-3-5532-2901

Report of Independent Auditors

To the Board of Directors and Shareholders of Misawa Homes Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Misawa Homes Holdings, Inc. and its subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Misawa Homes Holdings, Inc. and its subsidiaries as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

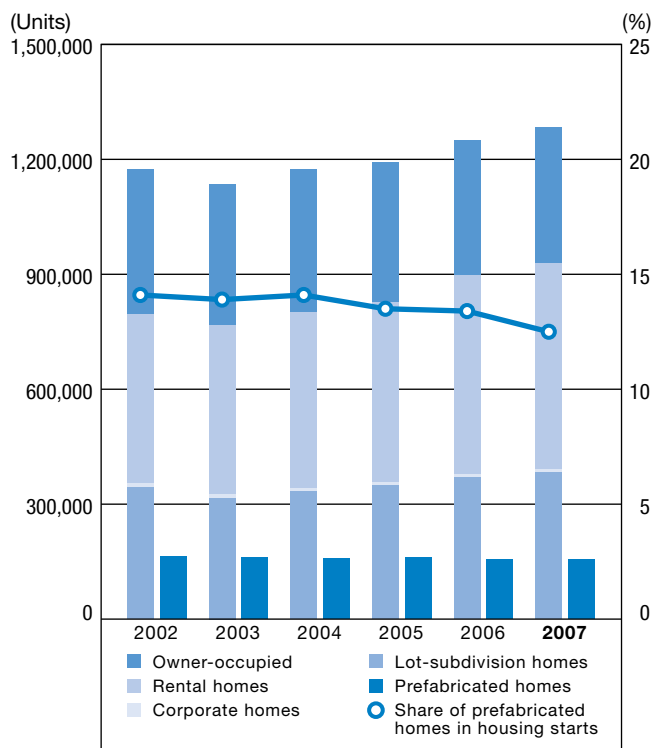
The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

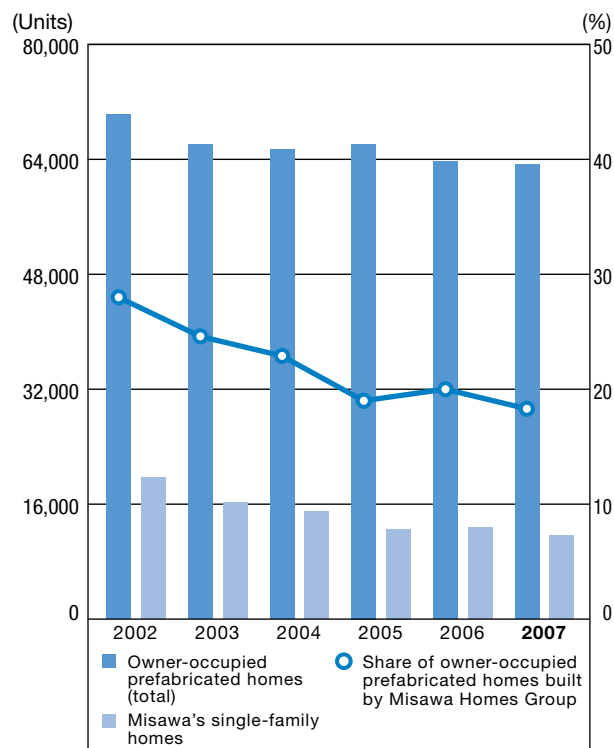
Misuzu Audit Corporation
Tokyo, Japan
June 28, 2007

Trends in the Housing Market

New Housing Starts by Usage



Owner-Occupied Prefabricated Home Construction



New Housing Starts by Usage

Years ended March 31	2002		2003		2004		2005		2006		(Units, %) 2007	
Owner-occupied homes	377,066	32.1	365,507	31.9	373,015	31.8	367,233	30.8	352,577	28.2	355,700	27.7
Rental homes	442,250	37.7	454,505	39.7	458,708	39.1	467,348	39.2	517,999	41.5	537,943	41.9
Corporate homes	9,936	0.8	9,539	0.8	8,101	0.7	9,413	0.8	8,515	0.7	9,100	0.7
Lot-subdivision homes	343,918	29.3	316,002	27.6	333,825	28.4	349,044	29.3	370,275	29.6	382,503	29.7
Total	1,173,170	100.0	1,145,553	100.0	1,173,649	100.0	1,193,038	100.0	1,249,366	100.0	1,285,246	100.0

Prefabricated Home Construction

Years ended March 31	2002		2003		2004		2005		2006		(Units, %) 2007	
Prefabricated homes	162,560	13.9	161,728	14.1	158,929	13.5	159,945	13.4	156,581	12.5	159,544	12.5
Housing starts (total)	1,173,170	100.0	1,145,553	100.0	1,173,649	100.0	1,193,038	100.0	1,249,366	100.0	1,285,246	100.0

Owner-Occupied Prefabricated Home Construction

Years ended March 31	2002		2003		2004		2005		2006		(Units, %) 2007	
Misawa's single-family homes*	19,662	28.0	16,240	24.6	14,981	22.9	12,534	19.0	12,700	20.0	11,676	18.3
Owner-occupied prefabricated homes (total)	70,192	100.0	65,974	100.0	65,353	100.0	66,129	100.0	63,586	100.0	63,725	100.0

*Home orders at the dealer stage

Source: Dwelling Construction Statistics, Ministry of Land, Infrastructure and Transport

Subsidiaries and Affiliated Company (As of March 31, 2007)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Holdings (%)	Primary Business
Consolidated subsidiaries:				
Misawa Homes Co., Ltd.	Suginami-ku, Tokyo	24,000	100.0	Development of system-built homes, provision of materials for system-built homes
Misawa Homes Hokkaido Co., Ltd.	Sapporo, Hokkaido Prefecture	988	75.5 (13.4)	Construction and sales of system-built homes
Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	4,178	52.3 (16.7)	Construction and sales of system-built homes
Misawa Homes Kitanihon Co., Ltd.	Akita, Akita Prefecture	430	78.4 (2.8)	Construction and sales of system-built homes
Misawa Homes Fukushima Co., Ltd.	Fukushima, Fukushima Prefecture	180	100.0	Construction and sales of system-built homes
Misawa Homes Nishikanto Co., Ltd.	Saitama, Saitama Prefecture	450	100.0	Construction and sales of system-built homes
Misawa Homes Higashikanto Co., Ltd.	Chiba, Chiba Prefecture	475	100.0	Construction and sales of system-built homes
Misawa Homes Tokyo Co., Ltd.	Suginami-ku, Tokyo	2,234	100.0	Construction and sales of system-built homes
Misawa Homes Shin-etsu Co., Ltd.	Niigata, Niigata Prefecture	537	99.9	Construction and sales of system-built homes
Misawa Homes Shizuoka Co., Ltd.	Shizuoka, Shizuoka Prefecture	300	100.0	Construction and sales of system-built homes
Misawa Homes Tokai Co., Ltd.	Nagoya, Aichi Prefecture	450	100.0	Construction and sales of system-built homes
Misawa Homes Kinki Co., Ltd.	Osaka, Osaka Prefecture	490	100.0	Construction and sales of system-built homes
Misawa Homes San-in Co., Ltd.	Tottori, Tottori Prefecture	444	55.1 (15.3)	Construction and sales of system-built homes
Misawa Homes Chugoku Co., Ltd.	Hiroshima, Hiroshima Prefecture	1,369	78.7 (2.0)	Construction and sales of system-built homes
Misawa Homes Kyushu Co., Ltd.	Fukuoka, Fukuoka Prefecture	701	88.5 (6.0)	Construction and sales of system-built homes
Misawa Techno Co., Ltd.	Matsumoto, Nagano Prefecture	50	100.0 (100.0)	Manufacture of home materials

35 others

Affiliated company:

Nomura Holdings, Inc.	Chuo-ku, Tokyo	182,800	[15.3] [(15.2)]	Securities operations
-----------------------	----------------	---------	--------------------	-----------------------

Notes: (1) Voting rights figures in parentheses, (), indicate indirect holdings.

(2) Square brackets, [], indicate holdings in Misawa Homes Holdings, Inc.

Corporate Data (As of March 31, 2007)

Corporate Name: Misawa Homes Holdings, Inc.
 Headquarters: 2-4-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0850, Japan
 Established: August 1, 2003
 Paid-in Capital: ¥23,413 million

Directors, Executive Officers and Corporate Auditors (As of June 28, 2007)

Directors

Kazuo Mizutani*¹
 Masahiro Nakagami*¹
 Haruo Sato
 Nobuo Takenaka
 Takeo Tokai
 Hitoshi Nishihira
 Michimasa Taga
 Hiroomi Tanaka
 Teiji Tachibana
 Yasuo Miyawaki

Corporate Auditors

Masakazu Miyamori*²
 Takayuki Kodama*²
 Shuntaro Moritani
 Tsukasa Yorifuji

Executive Officers

Kazuo Mizutani*³
 Masahiro Nakagami*⁴
 Haruo Sato*⁴
 Nobuo Takenaka*⁴
 Takeo Tokai*⁵
 Hitoshi Nishihira*⁵
 Kuniyoshi Doi*⁵
 Kosaku Miyagawa*⁵
 Tetsuo Akamatsu
 Michimasa Taga
 Hiromi Usui
 Hiroomi Tanaka
 Hideki Shimomura
 Hiroshi Sakaguchi
 Tetsuya Sakuo

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

Share Information

	Shares
Total number of shares authorized	150,000,000
Common stock	142,160,000
Class B preferred stock	4,500,000
Class C preferred stock	3,340,000
Total number of shares issued	46,572,175
Common stock	38,738,914
Third issue of Class B preferred stock	333,328
Fourth issue of Class B preferred stock	4,166,600
First issue of Class C preferred stock	3,333,333
Number of shareholders	
Common stock	18,879
Class B preferred stock	1
Class C preferred stock	1

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

Major shareholders	No. of shares	%
1 NPF-MG Investment Limited Partnership	5,593,000	14.4
2 Toyota Motor Corporation	5,191,100	13.4
3 The Master Trust Bank of Japan, Ltd. (Trust A/C)	2,531,200	6.5
4 Aioi Insurance Co., Ltd.	2,458,327	6.3
5 JP Morgan Chase Bank	1,172,900	3.0
6 I.L.S. Co., Ltd.	826,000	2.1
7 Bank of New York GCM Client Accounts EISG	822,516	2.1
8 Misawa Capital Co., Ltd.	734,900	1.8
9 Japan Securities Finance Co., Ltd.	702,100	1.8
10 Nippon Life Insurance Company	609,053	1.5

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

