

Annual Report 2014  
Annual Report 2014



GENIUS GATE

## 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 consistently emphasized maintenance and improvement of asset value over the long term in the supply of quality homes—a position 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 in excess of 1.2 million homes in total. We are striving to maximize the revenue potential of our core business, which also includes such housing-related pursuits as remodeling, 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 24 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 demonstrates the sophistication characteristic of Misawa-brand homes that make life pleasant and safe even in a harsh environment like Antarctica.

## Contents

To Our Shareholders	01
Basic Direction of the New Medium-term Management Plan	03
Business Summary for Fiscal 2014	06
Topics	11
Financial Section	12
Financial Review	13
Trends in the Housing Market in Japan	49
Subsidiaries and Affiliated Company	50
Corporate Data	51

### 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



Ultimately, our goal is to be able to deliver all kinds of housing-related solutions through the products and services of the Group.

### Looking Back on the Previous Medium-term Management Plan

During the three-year medium-term management plan launched in 2011, our goals were to maximize the revenue potential of existing operations and diversify sources of revenue to fuel growth in all business segments. We saw these three years as a time to lay a foundation for generating new approaches for growth into the future, and we pursued activities in line with this direction. Efforts yielded tangible rewards, as we achieved initial targets for net sales and operating income in each of the three years under the plan. In fact, we posted consecutively higher sales and income as the plan unfolded. We also launched measures to boost corporate value. Key developments were the purchase and cancellation of ¥47.0 billion in preferred stock—an issue at the top of management's to-do list—and progress on the dividend front, resuming distribution in fiscal 2012, at ¥10 per share, then increasing the dividend to ¥20 in fiscal 2013, and adding on a special dividend in fiscal 2014 for a ¥25 per share payout.

Other noteworthy accomplishments are listed below:

- Invested in two companies that provide senior care services, and expanded business presence in this sector.

- Invested in condominium construction and sales projects in Sapporo, Kumamoto, and other regional urban centers.
- Set up a company to specialize in the design, construction and sale of conventional post-and-beam houses.
- Installed large-scale photovoltaic power systems at four locations of the Misawa Homes Group and began selling electricity back to the power grid.
- Opened a shared service center where administration of personnel and accounting for Group companies is centrally processed.
- With the Toyota Group, demonstrated synergies in such pursuits as joint purchasing and logistics as well as reciprocal access to housing components, operation of a jointly established company specializing in the development and sale of exterior products, and joint development of a fan filter capable of removing particles measuring 2.5 microns or even smaller.

### New Medium-term Management Plan

New housing starts are likely to drop over the medium to long term, as Japan's population shrinks and the number of households declines. The Misawa Homes Group relies heavily on the home-building business—comprising nearly 60 percent of net sales—so we, as a group, will have to pursue greater diversification of our revenue sources to ensure sustainable growth and viability amid declining demand prospects.

Against this backdrop, we drafted a new medium-term management plan for the Group, with fiscal 2015 as the first year. The theme for the new three-year plan is “MISAWA do all,” and the underlying strategy is to expand the scope of corporate activity beyond our core home-building operations to encompass all aspects of people's varied and changing lifestyle needs and to facilitate business diversification through vigorous investment in stock-based business areas, particularly home remodeling, asset utilization and real estate services. Ultimately, our goal is to be able to deliver all kinds of housing-related solutions through the products and services of the Group.

The Misawa Homes Group will continue to develop high-value-added products and technologies and highlight comprehensive expertise in home-related businesses. We will, of course, strive to fulfill our social

obligations as a builder of sturdy homes that protect the lives of the people inside them when disaster, such as earthquakes or fire, occur. We will also direct concerted efforts into constructing homes that are safer, more secure and more comfortable, with particular weight given to 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.

July 2014



Nobuo Takenaka  
President and CEO

# Basic Direction of the New Medium-term Management Plan

We seek to be a company that can deliver all kinds of housing-related solutions by adding asset utilization services to the Smile-ring System\*, expanding corporate activity to encompass all aspects of people's varied and changing lifestyle needs, and diversifying our business activities.

- Maintain number of units sold, despite shrinking market for houses, by raising Misawa Homes' share.
- Invest aggressively in stock-based businesses, such as home remodeling, asset utilization and real estate services,
- Get sales ratio for home-building business and stock-based businesses closer to 50:50 (now at 60:40)
- Visualize profits and losses in each business segment and optimize allocation of management resources.

## \*Smile-ring System

The Misawa Homes Group structure of services is a circle, beginning with construction of new homes, moving through after-sales services and maintenance to remodeling, and then support for real estate-related activities, such as sales and property rental and management. We call this concept the Smile-ring System. Under the medium-term management plan, we will expand the system menu by adding asset utilization services and extending the range of our business activities.



## The New Medium-term Management Plan

The underlying theme of the new plan—"MISAWA do all"—carries with it our desire to achieve all that we have yet to achieve and to do all that we should do by the time we reach our 50th anniversary, in October 2017. To realize our objective, we have five tasks, or missions, to complete, and steady progress will lead us to our final-year target of ¥500 billion in consolidated net sales in fiscal 2017.

- do all **Design** (Enrich product lineup)
- do all **Life Stage** (Reinforce stock-based services, such as home remodeling)
- do all **Area** (Enhance area presence and boost market share)
- do all **Correct** (Optimize Group structure)
- do all **Satisfaction** (Raise level of customer satisfaction)

### I do all Design (Enrich product lineup)

We will develop products in four specific solution categories, and strive to enrich the product lineup, while offering a variety of construction methods to meet market needs.

- Develop products by promoting technology-driven solutions in four categories: environment, disaster-management, health and long-term use.
- Develop and introduce new products matched to market needs, such as premium homes custom-designed by in-house certified designers working to special design guidelines.
- Promote new construction methods, such as our very own Future Wood System and fire-resistant construction, and strive to realize commercial application of these methods.

### II do all Life Stage (Reinforce stock-based services, such as home remodeling)

Position home remodeling, asset utilization and real estate services as stock-based businesses and reinforce associated operations.

- Add personnel and expand sales office network to extend reach of the home remodeling business to a wider market and strive for sales of ¥100 billion by the end of March 2016.
- Strengthen consulting capabilities and maximize know-how gained in the home-building business to develop asset utilization services, particularly for medical, nursing care and condominium sectors.
- Showcase ALBIO COURT to raise brand profile of MJ Wood conventional post-and-beam homes.
- Enhance real estate services, such as brokerage and the purchase and resale of existing homes.
- Expand property management operations and initiate asset management services.

### III do all Area (Enhance area presence and boost market share)

Reinforce marketing and strive to boost share in areas where the Group must expand its presence, especially metropolitan regions.

- Seek a higher share of the single-family home market, mainly through structural improvements and enhanced sales, design and construction activities among dealers of homes in metropolitan areas.
- Realign sales dealers and review respective operating areas.
- Actively open offices under head office control in areas where market share is low.
- Send employees overseas to expedite future business development in selected countries.

# Business Summary for Fiscal 2014

## IV do all Correct (Optimize Group structure)

Implement fundamental review of Group structure so that activities can be better adapted to changes in the social environment, and strive to cut costs while maintaining product quality by optimizing the allocation of management resources.

- Create flexible system for construction activities by concentrating and integrating construction capabilities in metropolitan regions.
- Promote systemized construction sites and encourage construction workers to diversify their skills.
- Shift role of factories from production for Group companies to the supply of diversified services and functions encompassing production, construction and external sales.
- Review production and delivery formats, and promote cost reduction through such measures as standardization.
- Promote widespread use of shared services.

## V do all Satisfaction (Raise level of customer satisfaction)

Achieve higher level of satisfaction among all stakeholders (customers, employees, shareholders, business partners, society and, by extension, the environment) by pushing forward with CSR management and fulfilling our social responsibility as a company.

- Make customer satisfaction a management priority of the highest level, and earn customers' trust.
- Actively implement measures to enhance returns to shareholders, particularly in regard to dividends and shareholder incentives.
- Seek corporate growth through initiatives that promote diversity, including measures to create a comfortable office environment for women and to support women keen to take on managerial responsibilities.
- Build win-win connections with business partners, mainly through alliances.
- Promote SUSTAINABLE 2015, a five-year environmental action plan, and strive to apply approaches that will contribute to a better environment on a global scale.

## » Homes

In the mainstay business, we continued to enrich our lineup of homes to match market needs and develop high-value-added system-built homes at reasonable prices. In August 2013, we began sales of the Solar Max home series, which features a 10 kW and higher photovoltaic power-generating system. This takes advantage of the feed-in-tariff system—fixed prices over a specific period—for renewable energy, introduced by the government in July 2012, to raise the country's energy self-sufficiency ratio and allows homeowners to achieve greater revenue from the sale of energy back to the grid. In October 2013, we began sales of GENIUS GATE, a two-family home. This home is a response to the rise in double-income families and the larger number of older persons living on their own, as it offers layouts that make the flow of household tasks more efficient, facilitates at-home care for the elderly, and allows for future partitioning of the building to rent out for added family income. GENIUS GATE won a Good Design Award in 2013, and it was also recognized among the most excellent—the Good Design BEST 100—as a design that anticipates the future, one with the potential to shape tomorrow.

To keep people from rushing to buy property before the April 1 increase in the consumption tax, which might have caused demand to plummet immediately after implementation, and to reduce the risk of a business slump,

the government drafted measures, including enhanced tax breaks on home loans and a subsidy to home-buyers at the time of home purchase. In October 2013, we began sales of the SUPER LIMITED home series, a very reasonably priced brand product to maximize the merits of these home-buyer support initiatives.

To capture a share of the post-and-beam construction market, which represents nearly 80 percent of Japan's newly built single-family homes, 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. The scale of active interest grew in fiscal 2014, leading to sales of more than 1,600 units, largely thanks to the debut of new products and the establishment of Misawa MJ Home that specializes in sales of MJ Wood homes. Going forward, we will continue to grow our sales channels, especially in large urban centers, to boost sales still further.

In the subdivision homes business, we are expanding residential community development operations, a forte field that draws on the strengths of the Misawa Homes Group. Our emphasis is on the metropolitan Tokyo area and the Kansai and Chukyo regions, centered on Osaka and Nagoya, respectively, which present considerable market scale. In fiscal 2014, we endeavored to promote the environment-conscious "smart town" business in each geographical region.



Solar Max home, equipped with a large-capacity photovoltaic power-generating system

### » Asset Utilization

We have put together a varied menu of proposals to help property owners best utilize their assets, including rental homes, condominiums and dwellings with shops. Renting a home is an effective use of the asset as it will provide stable rental income for households and present tax advantages. Revisions to Japan's inheritance tax system, effective January 2015, will raise the tax rate and squeeze



Rental home with shop built in Tokyo (Good Design Award)

the basic deduction, which could increase the applicable tax burden for many people, especially those with property in city centers. In fiscal 2014, we saw a rapid increase in demand for construction of rental homes as a way to utilize property and lessen the inheritance tax burden.

In the condominium business, we launched the brand ALBIO GARDEN and promoted it in Sapporo, on Japan's northern island of Hokkaido.



ALBIO GARDEN, under construction in Sapporo, Hokkaido

### » Real Estate Brokerage Services

Demand for pre-owned homes and interest in remodeling is expected to grow in Japan, fueled by the government's strategy to double the pre-owned home market as well as the remodeling market by 2020 and thereby build an inventory of quality homes for these markets. However, under prevailing home assessment methods in Japan, the asset value of homes is falling with every passing year, and the value of homes built 20 years ago hovers near zero. Within the Misawa Homes Group, we record and maintain the history on all Misawa-brand homes, including inspection and repair data, and we have tangible proof to showcase the qualities of our homes. In addition, we are involved in creating a reliable property transaction framework for sellers and buyers, underpinned by the establishment of new assessment criteria by the top nine home-builders and the introduction of appropriate pricing. We are also involved in HOMEVER, a system through which we purchase Misawa-brand homes, undertake any necessary maintenance and remodeling work, and then resell the homes with the Misawa quality guarantee. We will utilize the features of all these methods 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 more than 20 years, extending beyond the operation of nursing homes to include planning, design and consulting, as well as the planning, design, and construction of day service centers and group 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 gray-ing society are expected to increase. In April 2013, we opened a new hub for at-home care services in Chiba Prefecture and worked to reinforce the care network with the intention of achieving regional, comprehensive care linked to several nursing care facilities.

### » Home remodeling

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 2014, seeking to expand sales of environment-related remodeling services still further, we presented homeowners with solutions that turn existing homes into smart homes through such options as the installation of photovoltaic power-generating systems and energy-saving features.

To broaden the reach of the home remodeling business beyond homes, we marketed Marm, a flat-rate condominium remodeling service that dismantles everything except the structure and completely revamps room layout, interior finishing as well as fixtures and appliances. In January 2014, we opened a showroom—the Condominium Remodeling Plaza—in Tokyo where we display mock remodeling made possible through Marm.

Elsewhere, we are actively involved in barrier-free remodeling services for seniors as well as projects at hotels and Japanese *ryokan* (inns). In fiscal 2014, a Misawa Homes-designed remodeling plan for a *ryokan* won a Good Design Award.



Condominium Remodeling Plaza showcasing Marm



Remodeled *ryokan* (inn), winner of Good Design Award



At-home care service hub in Chiba Prefecture

## » Life Care and Daycare Services

A priority segment in the business of life care services is daycare services. Currently, we are working with a



A daycare center in Tokyo

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 or remodeling of seven 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 is an issue, especially for women who would like to join the workforce but have no one to care for their children during the day. In 2013, we built daycare centers in key urban areas where the need for 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.

## » Environmental and Social Contribution Activities

Through the activities of Japan's Antarctic Observation Team, a national program that has continued for more than 50 years, research is undertaken in wide-ranging



Antarctica Class for elementary and junior high school students

disciplines. Misawa Homes was commissioned to build many of the structures at Showa Base, beginning with living quarters in 1968. To date, the Company has been involved in the construction of 35 buildings with floor space totalling 5,500 m<sup>2</sup>. Also, for six straight years as of 2013, employees of Misawa Homes Group companies have been selected as members of the observation team with responsibility primarily for guiding the construction work and for executing repairs.

In fiscal 2012, we launched Antarctica Class as a way to introduce the natural environment of Earth's southernmost continent and geographic South Pole to children and to highlight the team's activities. Group employees with experience on the observation team are sent to give lectures, and in fiscal 2014, they addressed more than 20,000 children at 162 locations, mainly elementary and junior high schools. Antarctica Class has garnered a favorable reputation, substantiated by an award at the Seventh Kids' Design Awards as well as a Good Design Award in 2013.

## Consolidated Income

(Millions of yen)

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015 (Planned)
Net sales	¥378,574	¥394,697	¥426,033	¥440,000
Operating income	11,976	12,432	13,194	10,000
Net income	6,919	9,920	10,401	9,000

## Number of Homes Sold

(Units)

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015 (Planned)
Custom homes	6,361	6,527	6,780	7,040
Subdivision single-family homes	663	729	775	750
Multi-family homes	1,874	1,724	1,910	1,800
Other	652	650	619	630
System-built homes	9,550	9,630	10,084	10,220
Post-and-beam and 2x4 construction systems	1,008	1,110	1,612	1,780
Total	10,558	10,740	11,696	12,000

## Number of Staff Employed

(Number of persons)

	Fiscal 2012	Fiscal 2013	Fiscal 2014
New home business	2,035	2,050	2,042
Home remodeling business	917	968	983
Design, construction, management	3,891	4,003	4,109
All sales companies	6,843	7,021	7,134
Misawa Homes	694	673	669
Production companies	983	991	977
Affiliated companies	398	621	616
Total	8,917	9,306	9,396

## 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 June 2013. Going forward, we will delve more deeply into R&D



Newly built subsidiary offices using Future Wood System

of this method to expand activities related to the construction of large post-and-beam buildings, especially educational facilities and nursing care facilities.

In addition, in 2013, we installed clean-energy photovoltaic power-generating systems at four Group locations in Japan. With these installations, we will derive revenue from the sale of power to the grid and also, from April 2014, supply some of the output to Group companies.



Showcasing large-scale photovoltaic power-generating facilities of the Misawa Homes Group

### Smart Town Activities

Events linked to 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 and the government itself promotes smart town initiatives as one of its administration’s policies. In a smart town, the entire community, not just individual households, embraces measures to optimize energy. We are keen to see smart towns pop up all over Japan. Sales have already started in the prefectures of Niigata and Nara, and sales are scheduled to start in Saitama Prefecture in fiscal 2015.

In Japan, temperatures, humidity, wind direction and other variables differ considerably

depending on geographical location. As a result 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 in order to apply such information to the creation of smart towns. It is what distinguishes a Misawa-brand smart town from the rest. We will continue to actively promote the smart town concept to enable our customers to realize a comfortable lifestyle in a safe and secure setting.



Conceptual drawing of a “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
	2014	2013	2012	2011	2010	2009	2014
<b>For the Year:</b>							
Net Sales	¥426,033	¥394,697	¥378,574	¥341,388	¥353,621	¥401,204	\$4,139,459
Cost of Sales	328,259	301,775	290,592	260,755	274,510	311,111	3,189,455
Gross Profit	97,774	92,922	87,982	80,633	79,111	90,093	950,004
Selling, General and Administrative Expenses	84,580	80,490	76,006	71,909	70,385	81,412	821,803
Operating Income	13,194	12,432	11,976	8,724	8,726	8,681	128,201
Income before Income Taxes and Minority Interests	11,854	11,488	11,147	3,877	4,862	759	115,175
Net Income (Loss)	10,401	9,920	6,919	3,133	3,044	(2,984)	101,055
<b>At Year-End:</b>							
Total Assets	¥228,775	¥212,725	¥197,759	¥176,628	¥180,306	¥194,934	\$2,222,840
Total Net Assets	37,834	35,552	32,623	25,528	23,461	21,244	367,606
<b>Per Share Amounts (yen):</b>							
Net Income (Loss)	¥ 279.91	¥ 254.55	¥ 180.95	¥ 84.60	¥ 82.15	¥ (80.43)	\$ 2.72

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2014 of ¥102.92=US\$1.

# Financial Review

## Results Operating Environment

In fiscal 2014, ended March 31, 2014, the domestic economy saw gradual recovery in business conditions, reflecting an uptick in stock prices and a drop in the yen that came about through fiscal policies by the government and monetary policy by the Bank of Japan.

In the housing industry, the impending increase in consumption tax ignited a surge in demand ahead of the April 2014 effective date, and the interest rate on mortgages remained at a historical low. Buoyed by such market developments, housing starts rose 10.6 percent over the previous fiscal year to 987,254 units nationwide.

In this context, the Misawa Homes Group approached the final year of the medium-term management plan “Home Step Jump” with various measures designed to wrap up all the little successes of the past three years—fiscal 2012 to fiscal 2014—into an impressively large achievement.

The results derived from these efforts, revealed in fiscal 2014’s performance, are described below.

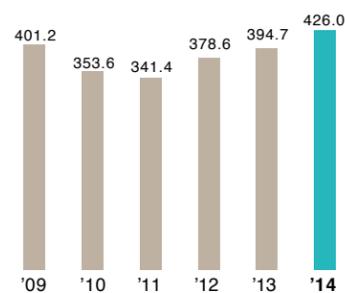
## Net Sales

Consolidated net sales reached ¥426,033 million, up 7.9 percent, or ¥31,336 million, over the previous fiscal year. This is primarily due to sustained improvement in 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 but also fueled by a surge in demand preceding implementation of the higher consumption tax. These factors underpinned a year-on-year increase in the number of system-built homes sold. Additionally, sales from the home remodeling and asset utilization businesses shifted favorably, paralleling progress in business diversification, which further contributed to higher net sales.

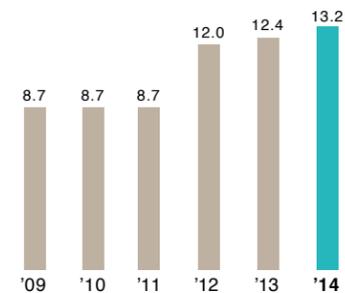
## Operating Income

Consolidated operating income in fiscal 2014 amounted to ¥13,194 million, up 6.1 percent, or ¥762 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 rising construction costs.

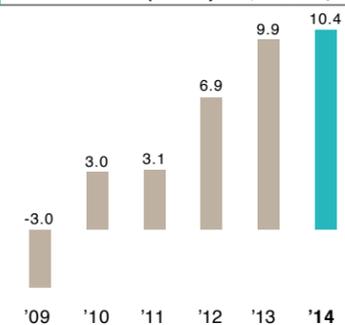
**Net Sales** (Billions of yen)



**Operating Income** (Billions of yen)



**Net Income (Loss)** (Billions of yen)



## Income before Income Taxes and Minority Interests

Consolidated income before income taxes and minority interests grew 3.2 percent, or ¥365 million, to ¥11,854 million.

## Net Income

Consolidated net income edged up 4.8 percent, or ¥480 million, to ¥10.4 billion.

## Financial Position

Total assets at the end of March 2014 stood at ¥228,775 million, up ¥16,049 million from a year earlier, primarily because of increases in order backlog and land and housing for subdivision use.

Current liabilities at the end of March 2014 stood at ¥190,940 million, up ¥13,767 million from a year earlier, mainly because the higher order backlog caused advances received on uncompleted contracts to rise.

Net assets reached ¥37,834 million as of March 31, 2014, an increase of ¥2,281 million from a year earlier, despite a ¥7.7 billion decrease caused by the purchase and cancellation of preferred stock, because net income more than offset the drop.

## Cash Flow Status

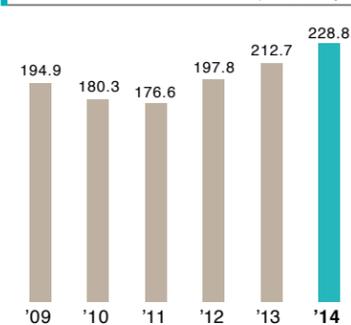
Cash and cash equivalents at March 31, 2014 amounted to ¥54,586 million, down ¥607 million from a year earlier. The change reflects combined inflow of ¥9,146 million from net cash provided by operating activities and investing activities, which more than covered ¥9,803 million used in financing activities.

Net cash provided by operating activities was ¥15,381 million, down ¥2,733 million. This decrease resulted not only from higher inventories but also from the booking of net income before income taxes and minority interests and an increase in advances received on uncompleted contracts caused by a higher order backlog.

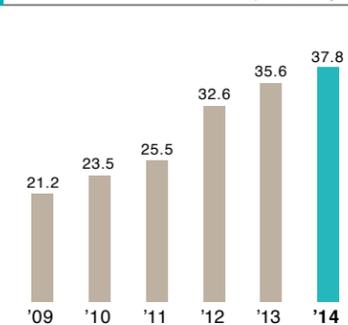
Net cash used in investing activities was ¥6,235 million, down ¥101 million from a year earlier. The primary application of funds was the purchase of fixed assets under property, plant and equipment, including construction of model homes for display purposes and large-scale photovoltaic power-generating facilities.

Net cash used in financing activities was ¥9,803 million, up ¥5,187 million from a year earlier. The main use of funds was to purchase preferred stock and to pay dividends.

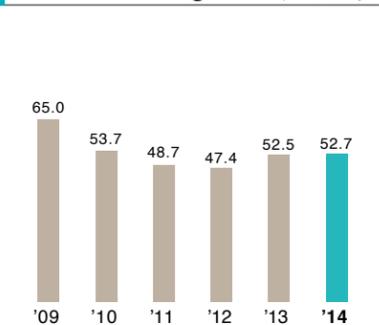
**Total Assets** (Billions of yen)



**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,
	2014	2013	2014
<b>ASSETS</b>			
Current assets:			
Cash and bank deposits (Notes 7 and 18)	¥54,902	¥55,512	\$533,441
Notes and accounts receivable, trade (Note 7)	7,556	7,016	73,412
Land and housing for sale (Note 10)	45,311	42,006	440,253
Cost of uncompleted contracts (Note 10)	31,113	23,732	302,307
Merchandise and finished goods	1,310	973	12,730
Work in process	266	284	2,591
Raw materials and supplies	2,151	1,784	20,899
Deferred tax assets (Note 16)	7,238	6,966	70,324
Other current assets	9,619	7,711	93,464
Allowance for doubtful accounts	(215)	(159)	(2,091)
Total current assets	159,251	145,825	1,547,330
Property, plant and equipment (Notes 9 and 10):			
Buildings and structures	34,849	32,160	338,604
Machinery and equipment	5,958	4,393	57,888
Land	24,430	24,718	237,365
Other	6,901	7,090	67,057
	72,138	68,361	700,914
Less: Accumulated depreciation	(24,420)	(21,856)	(237,276)
Net property, plant and equipment	47,718	46,505	463,638
Intangible assets (Note 9):			
Other	8,281	7,632	80,458
Total intangible assets	8,281	7,632	80,458
Investments and other assets:			
Investment securities (Notes 6 and 7)	2,567	2,835	24,938
Deferred tax assets (Note 16)	1,255	794	12,197
Net defined benefit asset (Note 11)	1,138	-	11,056
Other (Note 9)	10,258	10,848	99,673
Allowance for doubtful accounts	(1,693)	(1,714)	(16,450)
Total investments and other assets	13,525	12,763	131,414
Total assets	¥228,775	¥212,725	\$2,222,840

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,
	2014	2013	2014
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term bank loans (Notes 7 and 10)	¥14,159	¥26,563	\$137,578
Current portion of long-term debt (Notes 7 and 10)	14,191	7,704	137,880
Notes and accounts payable, trade (Note 7)	52,629	48,119	511,362
Accounts payable, other	8,380	7,743	81,422
Accrued bonuses	6,426	5,905	62,437
Allowance for claim expenses	3,178	2,807	30,881
Advances received on uncompleted contracts	43,376	33,428	421,451
Deposits received	5,711	5,938	55,485
Income taxes payable	1,063	2,753	10,332
Deferred tax liabilities (Note 16)	17	-	166
Asset retirement obligations	24	35	233
Other current liabilities	4,319	4,537	41,964
Total current liabilities	153,473	145,532	1,491,191
Long-term liabilities:			
Long-term debt (Notes 7 and 10)	20,466	15,339	198,856
Accrued pension and severance costs (Note 11)	-	5,562	-
Deferred tax liabilities (Note 16)	1,009	519	9,800
Accrued pension and severance costs for directors and corporate auditors	824	816	8,009
Net defined benefit liability (Note 11)	5,054	-	49,103
Asset retirement obligations	1,171	1,148	11,380
Other long-term liabilities	8,944	8,257	86,895
Total long-term liabilities	37,468	31,641	364,043
Net assets:			
Shareholders' equity (Note 12):			
Capital stock:	10,000	10,000	97,163
	(Thousands of shares)		
	In 2014	In 2013	
Common stock			
Authorized	150,000	150,000	
Issued	38,739	38,739	
Preferred stock			
Authorized	0	0	
Issued	-	0	
Additional paid-in capital	3,400	11,340	33,033
Retained earnings	24,989	15,824	242,800
Treasury stock, at cost	(3,783)	(4,071)	(36,752)
Accumulated other comprehensive income:			
Net unrealized gains on other securities (Note 6)	617	773	5,993
Land revaluation difference	(449)	(449)	(4,361)
Foreign currency translation adjustments	91	(8)	887
Remeasurements of defined benefit plans (Note 11)	471	-	4,571
Minority interest in subsidiaries	2,498	2,143	24,272
Total net assets	37,834	35,552	367,606
Commitments and contingent liabilities (Note 20)			
Total liabilities and net assets	¥228,775	¥212,725	\$2,222,840

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, 2014
	2014	2013	
Net sales	¥426,033	¥394,697	\$4,139,459
Cost of sales (Note 17)	328,259	301,775	3,189,455
Gross profit	97,774	92,922	950,004
Selling, general and administrative expenses (Notes 17 and 19):			
Salaries and wages	40,980	39,223	398,175
Advertising	10,910	9,992	106,008
Sales promotion	6,578	6,140	63,911
Addition to allowance for claim expenses	1,228	2,444	11,929
Provision for accrued bonuses	4,016	3,779	39,020
Depreciation expenses	3,093	2,859	30,053
Other selling expenses	4,573	4,266	44,437
Other general and administrative expenses	13,202	11,787	128,270
Total selling, general and administrative expenses	84,580	80,490	821,803
Operating income	13,194	12,432	128,201
Non-operating income:			
Interest income	51	70	492
Income from commissions	197	242	1,914
Other	937	858	9,102
Total non-operating income	1,185	1,170	11,508
Non-operating expenses:			
Interest expenses	877	932	8,518
Pension and severance costs	352	352	3,419
Commission for syndicate loan	289	145	2,812
Other	162	143	1,574
Total non-operating expenses	1,680	1,572	16,323
Ordinary income	12,699	12,030	123,386
Other gains ("TOKUBETSU RIEKI"):			
Gain on sales of property, plant and equipment (Note 13)	152	20	1,474
Gain on sales of investment securities	8	17	79
Compensation income	49	-	475
Other	26	-	256
Total other gains	235	37	2,284
Other losses ("TOKUBETSU SONSHITSU"):			
Addition to allowance for claim expenses	453	-	4,403
Loss on disposal of property, plant and equipment (Note 14)	106	92	1,026
Impairment loss on long-lived assets (Note 9)	455	318	4,420
Loss on devaluation of investment securities	15	106	146
Other	51	63	500
Total other losses	1,080	579	10,495
Income before income taxes and minority interest	11,854	11,488	115,175
Income taxes (Note 16):			
Current	1,758	3,179	17,080
Deferred	(454)	(1,796)	(4,414)
	1,304	1,383	12,666
Income before minority interest	10,550	10,105	102,509
Minority interest in subsidiaries	149	185	1,454
Net income	¥10,401	¥9,920	\$101,055

Per share:

Net income (Note 15) — Basic  
— Diluted

Yen		U.S. dollars (Note 5)
Years ended March 31,		Year ended March 31,
2014	2013	2014
¥279.91	¥254.55	\$2.72
¥-	¥183.93	\$-

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, 2014
	2014	2013	
Income before minority interest	¥10,550	¥10,105	\$102,509
Other comprehensive income (Note 22):			
Net unrealized gains (losses) on other securities	(162)	689	(1,574)
Foreign currency translation adjustments	157	96	1,522
Total other comprehensive income	(5)	785	(52)
Comprehensive income	¥10,545	¥10,890	\$102,457
Total comprehensive income attributable to:			
Shareholders of MISAWA HOMES CO., LTD.	¥10,344	¥10,664	\$100,508
Minority interest	201	226	1,949

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	Treasury stock, at cost	Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 11)	Minority interest in subsidiaries	Total net assets
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)	(¥88)	¥-	¥2,143	¥35,552
Cash dividends	-	-	-	-	(1,236)	-	-	-	-	-	-	(1,236)
Purchase of preferred stock	-	-	-	-	-	(7,759)	-	-	-	-	-	(7,759)
Retirement of preferred stock	-	-	-	(7,759)	-	7,759	-	-	-	-	-	-
Net income	-	-	-	-	10,401	-	-	-	-	-	-	10,401
Purchase of treasury stock	-	-	-	-	-	(42)	-	-	-	-	-	(42)
Disposal of treasury stock	-	(75)	-	(181)	-	330	-	-	-	-	-	149
Net changes in items other than those in shareholders' equity	-	-	-	-	(1,156)	-	(156)	-	99	471	355	769
Balance at March 31, 2014	38,738,914	-	¥10,000	¥3,400	¥24,989	(¥3,783)	¥617	(¥449)	¥91	¥471	¥2,498	¥37,834

Thousands of U.S. dollars (Note 5)

	Shareholders' equity						Accumulated other comprehensive income					
	Additional paid-in capital		Retained earnings	Treasury stock, at cost	Net unrealized gains on other securities	Remeasurements of defined benefit plans (Note 11)	Foreign currency translation adjustments		Land revaluation difference	Minority interest in subsidiaries	Total net assets	
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Net unrealized gains on other securities	Remeasurements of defined benefit plans (Note 11)	Foreign currency translation adjustments	Land revaluation difference	Minority interest in subsidiaries	Total net assets		
Balance at March 31, 2013	\$97,163	\$110,183	\$153,746	(\$39,550)	\$7,511	\$-	(\$88)	(\$449)	\$20,825	\$345,434		
Cash dividends	-	-	(12,001)	-	-	-	-	-	-	(12,001)		
Purchase of preferred stock	-	-	-	(75,390)	-	-	-	-	-	(75,390)		
Retirement of preferred stock	-	(75,390)	-	75,390	-	-	-	-	-	-		
Net income	-	-	101,055	-	-	-	-	-	-	101,055		
Purchase of treasury stock	-	-	(408)	-	-	-	-	-	-	(408)		
Disposal of treasury stock	-	(1,760)	-	3,206	-	-	-	-	-	1,446		
Net changes in items other than those in shareholders' equity	-	-	-	-	(1,518)	-	970	4,571	3,447	7,470		
Balance at March 31, 2014	\$97,163	\$33,033	\$242,800	(\$36,752)	\$5,993	\$4,571	\$887	(\$4,571)	\$24,272	\$367,606		

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,
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interest	¥11,854	¥11,488	\$115,175
Adjustments for:			
Depreciation and amortization	5,134	4,504	49,879
Amortization of goodwill	248	203	2,411
Increase (decrease) in allowance for doubtful accounts	35	(863)	345
Increase in other allowances	298	1,565	2,897
Interest and dividend income	(107)	(101)	(1,037)
Interest expenses	877	932	8,518
Gain on sales of investment securities	(8)	(17)	(79)
Impairment loss on long-lived assets	455	318	4,420
(Gain) loss on sales and disposal of property, plant and equipment	(46)	72	(448)
(Increase) decrease in notes and accounts receivable, trade	(509)	6,683	(4,946)
Increase in inventories	(11,269)	(4,828)	(109,491)
Increase in notes and accounts payable, trade	4,510	565	43,816
Increase in advances received on uncompleted contracts	9,947	3,894	96,654
Other	(1,610)	(4,126)	(15,640)
Subtotal	19,809	20,289	192,474
Interest and dividends received	108	99	1,051
Interest paid	(886)	(886)	(8,608)
Income taxes paid	(3,650)	(1,387)	(35,467)
Net cash provided by operating activities	15,381	18,115	149,450
Cash flows from investing activities:			
Decrease of time deposits with maturity over three months	10	120	95
Purchases of property, plant, equipment and intangible assets	(8,071)	(5,683)	(78,416)
Proceeds from sales of property, plant, equipment and intangible assets	1,305	167	12,680
Purchases of investment securities	(40)	-	(392)
Proceeds from sales of investment securities	56	45	543
Purchases of investments in subsidiaries	(2)	(0)	(17)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	-	(725)	-
Other	507	(260)	4,924
Net cash used in investing activities	(6,235)	(6,336)	(60,583)
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans	(12,518)	8,776	(121,621)
Proceeds from long-term debt	24,103	7,544	234,194
Repayments of long-term debt	(12,436)	(11,750)	(120,833)
Proceeds from issuance of bonds	-	244	-
Redemption of bonds	(230)	(668)	(2,235)
Cash dividends paid	(1,229)	(583)	(11,942)
Cash dividends paid to minority interest	(16)	(16)	(157)
Proceeds from sales of treasury stock	149	83	1,446
Payments for purchase of treasury stock	(7,801)	(7,454)	(75,798)
Proceeds from issuance to minority shareholders	143	-	1,389
Proceeds from sale and leaseback	1,054	-	10,242
Other	(1,023)	(792)	(9,940)
Net cash used in financing activities	(9,804)	(4,616)	(95,255)

Effect of exchange rate changes on cash and cash equivalents	50	7	486
Net (decrease) increase in cash and cash equivalents	(608)	7,170	(5,902)
Cash and cash equivalents at the beginning of the year	55,194	48,024	536,278
Cash and cash equivalents at the end of the year (Note 18)	¥54,586	¥55,194	\$530,376

The accompanying notes are an integral part of these 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, 2014 and 2013, the numbers of consolidated subsidiaries were 45 and 44, respectively. There were no subsidiaries and affiliates accounted for by the equity method as of March 31, 2014 and 2013. 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. "Goodwill" and "negative goodwill", which incurred on or before March 31, 2010, 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, 2014 and 2013 were ¥1,181 million (\$11,470 thousand) and ¥1,019 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, 2014 and 2013 were ¥141 million (\$1,373 thousand) and ¥19 million, respectively.

(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

The straight-line method is used for attributing projected benefit obligations to the period through the end of the fiscal year. Transition amounts resulting from the initial adoption of the new accounting method for employees' retirement benefits are amortized over 15 years. Prior service costs are amortized on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods. 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.

#### (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, 2014.

#### (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:

#### Adoption of Accounting Standard for Retirement Benefits

Effective from the end of the year ended March 31, 2014, the Company has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, dated May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, dated May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance). These accounting standards require entities to apply a revised method for recording the retirement benefit obligations, after deducting plan assets, as net defined benefit asset and net defined benefit liability. In addition, unrecognized actuarial gains and losses and unrecognized prior service costs are recorded as net defined benefit asset and net defined benefit liability. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in remeasurements of defined benefit plans through accumulated other comprehensive income.

As a result of this change, net defined benefit asset and net defined benefit liability were recognized in the amounts of ¥1,138 million (\$11,056 thousand) and ¥5,054 million (\$49,103 thousand), respectively, and accumulated other comprehensive income and minority interest in subsidiaries increased by ¥471 million (\$4,571 thousand) and ¥52 million (\$508 thousand), respectively, as of March 31, 2014.

### 4. Additional information:

#### Adoption of the consolidated taxation system

Effective from the year ended March 31, 2014, the Company and its certain domestic consolidated subsidiaries have adopted the Japanese consolidated taxation system.

#### 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.

#### (1) Overview

The standard provides guidance for the accounting for unrecognized actuarial gains and losses and unrecognized prior service costs, the calculation methods for projected benefit obligations and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

## (2) Scheduled date of adoption

Revisions to the calculation methods for the projected benefit obligations and service costs are scheduled to be adopted from the beginning of the year ending March 31, 2015. Retroactive application will not be made to the prior periods based on transitional provisions.

## (3) Impact of adopting revised accounting standard and guidance

The Company is currently evaluating the effect these revisions 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 ¥102.92= U.S. \$1, the rate of exchange prevailing on March 31, 2014, has been used.

## 6. Investment securities:

Misawa Homes' management classified all investment securities as other securities at March 31, 2014 and 2013. Net unrealized gains of ¥617 million (\$5,993 thousand) and ¥773 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2014 and 2013, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥190 million (\$1,850 thousand) and ¥286 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2014 and 2013, respectively.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2014 and 2013 were as follows:

	Millions of yen			
	March 31, 2014			
	Acquisition cost	Gross unrealized		Market value (carrying value)
Equity securities	¥1,414	¥767	(¥19)	¥2,162
Debt securities	2,353	71	(1)	2,423
Other	11	2	(0)	13
Total	¥3,778	¥840	(¥20)	¥4,598

	Millions of yen			
	March 31, 2013			
	Acquisition cost	Gross unrealized		Market value (carrying value)
Equity securities	¥1,395	¥1,017	(¥22)	¥2,390
Debt securities	2,079	82	(0)	2,161
Other	11	2	(2)	11
Total	¥3,485	¥1,101	(¥24)	¥4,562

	Thousands of U.S. dollars (Note 5)			
	March 31, 2014			
	Acquisition cost	Gross unrealized		Market value (carrying value)
Equity securities	\$13,742	\$7,448	(\$181)	\$21,009
Debt securities	22,864	686	(5)	23,545
Other	106	22	(5)	123
Total	\$36,712	\$8,156	(\$191)	\$44,677

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, 2014 and 2013, the carrying values of these unlisted securities were ¥381 million (\$3,701 thousand) and ¥424 million, respectively. Proceeds from sales of other securities for the years ended March 31, 2014 and 2013, were ¥56 million (\$543 thousand) and ¥45 million, respectively. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥8 million (\$79 thousand) and nil, respectively, for the year ended March 31, 2014 and ¥17 million and nil, respectively, for the year ended March 31, 2013. Impairment losses of other securities for the years ended March 31, 2014 and 2013 were ¥15 million (\$146 thousand) and ¥106 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, 2014 and 2013 were as follows:

	Millions of yen		
	March 31, 2014		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥54,902	¥54,902	¥—
Notes and accounts receivable, trade	7,556	7,556	—
Investment securities	4,598	4,598	—
Total assets	¥67,056	¥67,056	¥—
Notes and accounts payable, trade	¥52,629	¥52,629	¥—
Short-term bank loans	14,159	14,159	—
Long-term debt (excluding bonds)	34,407	34,418	11
Total liabilities	¥101,195	¥101,206	¥11
Derivative transactions	—	—	—

	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	—	—	—

Thousands of U.S. dollars (Note 5)

	March 31, 2014		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	\$533,441	\$533,441	\$—
Notes and accounts receivable, trade	73,412	73,412	—
Investment securities	44,677	44,677	—
Total assets	\$651,530	\$651,530	\$—
Notes and accounts payable, trade	\$511,362	\$511,362	\$—
Short-term bank loans	137,578	137,578	—
Long-term debt (excluding bonds)	334,307	334,415	108
Total liabilities	\$983,247	\$983,355	\$108
Derivative transactions	—	—	—

Note 1: Unlisted securities of ¥381 million (\$3,701 thousand) and ¥424 million whose fair value was extremely difficult to determine as of March 31, 2014 and 2013, 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 (\$14 thousand) are included in other current assets as part of current assets as of March 31, 2014 and 2013. Government bonds used for deposits amounting to ¥2,413 million (\$23,446 thousand) and ¥2,151 million are included in other of investments and other assets as of March 31, 2014 and 2013, 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 ¥14,091 million (\$136,908 thousand) and ¥7,474 million is included in long-term debt in the above table as of March 31, 2014 and 2013, 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, 2014 and 2013 is as follows:

	Millions of yen			
	March 31, 2014			
	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	¥54,715	¥-	¥-	¥-
Notes and accounts receivable, trade	7,556	-	-	-
Investment securities				
Other securities with maturities				
Government bonds	43	439	1,639	69
Total	¥62,314	¥439	¥1,639	¥69

	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

Thousands of U.S. dollars (Note 5)

	March 31, 2014			
	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	\$531,630	\$-	\$-	\$-
Notes and accounts receivable, trade	73,412	-	-	-
Investment securities				
Other securities with maturities				
Government bonds	417	4,265	15,925	670
Total	\$605,459	\$4,265	\$15,925	\$670

#### 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, 2014 and 2013 were as follows:

	Hedged item	Millions of yen		Thousands of U.S. dollars (Note 5)			
		March 31, 2014		March 31, 2014			
		Notional amount	Maturing after one year	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	¥897	¥653	Note	\$8,716	\$6,345	Note

	Hedged item	Millions of yen		
		March 31, 2013		
		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

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 were immaterial at March 31, 2014 and 2013.

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

Impairment loss on long-lived assets for the years ended March 31, 2014 and 2013 were as follows.

Applicable assets	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2014	2013	2014
Buildings and structures	¥438	¥278	\$4,258
Machinery and equipment	1	3	13
Land	-	18	-
Other	16	19	149
Total	¥455	¥318	\$4,420

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

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

The recoverable amount of each group of assets was primarily measured at the value in use. The value in use was calculated by discounting future cash flows at an interest rate of 2.6% and 4.7% for the years ended March 31, 2014 and 2013, respectively. The recoverable amount of certain assets (land) was measured at the net sale value, which was estimated based on an appraisal value.

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

Short-term bank loans at March 31, 2014 and 2013 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2014	2013	2014
Loans, principally from banks, with weighted-average interest rates of 1.1% at March 31, 2014 and 1.3% at March 31, 2013	¥14,159	¥26,563	\$137,578

Long-term debt at March 31, 2014 and 2013 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2014	2013	2014
Loans, principally from banks and insurance companies, due 2015 to 2023 with weighted-average interest rates of 1.3% at March 31, 2014 and 1.7% at March 31, 2013	¥34,407	¥22,563	\$334,307
Unsecured semiannual TIBOR+0.15% bonds, due 2013	-	30	-
Unsecured 0.82% bonds, due 2014	-	200	-
Unsecured 0.41% bonds, due 2014	100	100	972
Unsecured 0.60% bonds, due 2017	150	150	1,457
	34,657	23,043	336,736
Less portion due within one year	(14,191)	(7,704)	(137,880)
	¥20,466	¥15,339	\$198,856

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)
2015	¥14,191	\$137,880
2016	7,314	71,068
2017	6,832	66,383
2018	3,908	37,972
2019	1,871	18,178
Thereafter	541	5,255
Total	¥34,657	\$336,736

Assets pledged as collateral for secured loans and debt at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2014
	2014	2013	
<b>Pledged assets</b>			
Land and housing for sale	¥1,224	¥2,331	\$11,891
Cost of uncompleted contracts	410	683	3,981
Buildings and structures	2,641	1,768	25,663
Machinery and equipment	794	733	7,719
Land	6,564	6,122	63,781
Other fixed assets	4	6	32
Other intangible assets	-	2	-
<b>Total</b>	<b>¥11,637</b>	<b>¥11,645</b>	<b>\$113,067</b>

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2014
	2014	2013	
<b>Secured loans and debt</b>			
Short-term bank loans	¥9,931	¥9,328	\$96,490
Long-term debt	4,462	4,768	43,359
<b>Total</b>	<b>¥14,393</b>	<b>¥14,096</b>	<b>\$139,849</b>

#### 11. Pension and severance costs:

##### For the year ended March 31, 2014

The Company and its domestic consolidated subsidiaries have introduced defined benefit retirement plans, the lump-sum retirement payment plan and defined contribution pension plans. Certain domestic consolidated subsidiaries use the Smaller Enterprise Retirement Allowance Mutual Aid Plan.

Certain domestic consolidated subsidiaries apply the simplified method in computing net defined benefit liability and net pension and severance costs for their defined benefit retirement plans and the lump-sum retirement payment plans.

The changes in the projected benefit obligation during the year ended March 31, 2014 were as follows:

	Thousands of U.S. dollars (Note 5)	
	Millions of yen	March 31, 2014
Projected benefit obligation at April 1, 2013	¥27,591	\$268,077
Service cost	2,162	21,002
Interest cost	344	3,342
Actuarial gains	(112)	(1,086)
Retirement benefit paid	(1,627)	(15,804)
Other	25	248
<b>Projected benefit obligation at March 31, 2014</b>	<b>¥28,383</b>	<b>\$275,779</b>

Note: Net pension and severance costs of certain consolidated subsidiaries applying the simplified method are included in service cost.

The changes in plan assets during the year ended March 31, 2014 were as follows:

	Thousands of U.S. dollars (Note 5)	
	Millions of yen	March 31, 2014
Plan assets at April 1, 2013	¥21,227	\$206,251
Expected return on plan assets	280	2,722
Actuarial gains	1,471	14,292
Contributions by the Company	2,885	28,030
Retirement benefits paid	(1,396)	(13,563)
<b>Plan assets at March 31, 2014</b>	<b>¥24,467</b>	<b>\$237,732</b>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit retirement plans:

	Thousands of U.S. dollars (Note 5)	
	Millions of yen	March 31, 2014
Funded projected benefit obligation	¥27,493	\$267,132
Plan assets at fair value	(24,467)	(237,732)
	3,026	29,400
Unfunded projected benefit obligation	890	8,647
Net liabilities and assets for retirement benefits in the balance sheet	¥3,916	\$38,047
Net defined benefit liability	¥5,054	\$49,103
Net defined benefit asset	(1,138)	(11,056)
Net liabilities and assets for retirement benefits in the balance sheet	¥3,916	\$38,047

The components of net pension and severance costs for the year ended March 31, 2014 were as follows.

	Thousands of U.S. dollars	
	Millions of yen	(Note 5)
	Year ended March 31, 2014	
Service cost	¥2,162	\$21,002
Interest cost	344	3,342
Expected return on plan assets	(280)	(2,721)
Amortization and expenses:		
Actuarial losses	238	2,314
Prior service costs	(6)	(55)
Net retirement benefit obligation at transition	352	3,419
Other	28	276
Net pension and severance costs	¥2,838	\$27,577

Note: Net pension and severance costs of certain consolidated subsidiaries applying the simplified method are included in service cost.

Unrecognized prior service costs, unrecognized actuarial losses and unrecognized net retirement benefit obligation at transition included in accumulated other comprehensive income (before tax effects) as of March 31, 2014 were as follows.

	Thousands of U.S. dollars	
	Millions of yen	(Note 5)
	March 31, 2014	
Unrecognized prior service costs	¥28	\$278
Unrecognized actuarial losses	(1,227)	(11,926)
Unrecognized net retirement benefit obligation at transition	355	3,449
Total	(¥844)	(\$8,199)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 were as follows.

	Year ended March 31, 2014
Debt securities	25%
Equity securities	27
General accounts	42
Other	6
Total	100%

The expected long-term rate of return on plan asset was estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	Year ended March 31, 2014
Discount rate	0.7-1.5%
Expected long-term rate of return on plan assets	0.0-4.1%

The Company and its domestic consolidated subsidiaries contributed ¥260 million (\$2,522 thousand) to defined contribution pension plans.

### For the year ended March 31, 2013

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 was as follows:

	Millions of yen March 31, 2013
Projected benefit obligation	¥(27,590)
Plan assets at fair value	21,227
Unfunded status	(6,363)
Unrecognized items:	
Net retirement benefit obligation at transition	710
Actuarial losses	587
Prior service cost reduction due to plan amendment	21
Accrued pension and severance costs - net	(5,045)
Prepaid pension cost	517
Accrued pension and severance costs	¥(5,562)

The composition of net pension and severance costs for the year ended March 31, 2013 was as follows:

	Millions of yen Year ended March 31, 2013
Service cost	¥2,163
Interest cost	368
Expected return on plan assets	(189)
Amortization and expenses:	
Prior service costs	(60)
Actuarial losses	574
Net retirement benefit obligation at transition	352
Total	¥3,208

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

	Year ended March 31, 2013
Discount rate	Mainly 1.5%
Long-term rate of return on plan assets	0.0-3.7%

12. Shareholders' equity:

(1) Dividends paid during the year ended March 31, 2014

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 27, 2013	Common stock	¥748	\$7,265	¥20	\$0.19	March 31, 2013	June 28, 2013
Annual general meeting of the shareholders on June 27, 2013	Class D preferred stock	¥488	\$4,736	¥6,500,000	\$63,155.85	March 31, 2013	June 28, 2013

Total dividends on common stocks include ¥6 million (\$54 thousand) of dividends to the ESOP Trust.

(2) Dividends with the cut-off date in the year ended March 31, 2014 and the effective date in the year ending March 31, 2015

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, 2014	Common stock	¥934	\$9,074	Retained earnings	¥25	\$0.24	March 31, 2014	June 30, 2014

Total dividends on common stocks include ¥4 million (\$35 thousand) of dividends to the ESOP Trust.

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, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2014	2013	2014
Buildings and structures	¥111	¥5	\$1,076
Machinery and equipment	14	2	131
Land	27	13	266
Other	0	0	1
Total	¥152	¥20	\$1,474

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, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2014	2013	2014
Buildings and structures	¥69	¥83	\$667
Machinery and equipment	4	2	43
Land	1	-	4
Other	32	7	312
Total	¥106	¥92	\$1,026

15. Net income per share:

Calculation of net income per share for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2014	2013	2014
Basic EPS—Net income attributable to common shares	¥10,401	¥9,433	\$101,055
Effect of dilutive securities—Preferred stock	-	487	-
Diluted EPS—Net income for computation	¥10,401	¥9,920	\$101,055
Weighted average number of common shares outstanding:			
-Basic	37,156,627	37,057,833	
-Diluted	-	53,934,820	
Net income per share:	Yen		U.S. dollars (Note 5)
-Basic	¥279.91	¥254.55	\$2.72
-Diluted	¥-	¥183.93	\$-

#### 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% for the years ended March 31, 2014 and 2013.

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		(Note 5)
	2014	2013	March 31, 2014
<b>Deferred tax assets:</b>			
Tax loss carry forwards	¥16,658	¥23,503	\$161,853
Devaluation of inventories	2,206	2,566	21,435
Accrued bonuses	2,333	2,248	22,670
Net defined benefit liability	1,614	-	15,680
Accrued pension and severance costs	-	2,020	-
Allowance for doubtful accounts	2,045	1,803	19,868
Goodwill	1,219	1,477	11,841
Provision for warranties for completed construction	1,143	1,075	11,107
Impairment loss	926	886	8,994
Others	3,002	3,167	29,175
Gross deferred tax assets	31,146	38,745	302,623
Less: valuation allowance	(22,600)	(30,318)	(219,590)
Total deferred tax assets	8,546	8,427	83,033
<b>Deferred tax liabilities:</b>			
Fair market valuation loss	(451)	(453)	(4,378)
Expense related to asset retirement obligations	(153)	(148)	(1,488)
Net defined benefit asset	(138)	-	(1,340)
Prepaid pension cost	-	(184)	-
Net unrealized gains on other securities	(190)	(286)	(1,850)
Others	(147)	(115)	(1,422)
Gross deferred tax liabilities	(1,079)	(1,186)	(10,478)
Net deferred tax assets	¥7,467	¥7,241	\$72,555

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, 2014 and 2013 decreased by ¥7,718 million (\$74,984 thousand) and ¥24,359 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, 2014 and 2013 were reconciled as follows:

	Years ended March 31	
	2014	2013
Statutory income tax rate	38.0%	38.0%
<b>Reconciliation:</b>		
Entertainment expenses, etc. permanently non-tax deductible	2.4	2.0
Per capita inhabitants tax	1.6	1.7
Changes in valuation allowance	(27.1)	(27.7)
Consolidation adjustment	(6.2)	(1.2)
Tax credit for research and development costs	(0.6)	(0.6)
Others	(0.6)	(0.2)
Effect of change in statutory income tax rate	3.5	-
Effective income tax rates	11.0%	12.0%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the statutory income tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory income tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥412 million (\$3,999 thousand) and increase income taxes – deferred by the same amount as of and for the year ended March 31, 2014.

#### 17. Cost of sales, general and administrative expenses:

Provision for loss on construction contracts, which are included in cost of sales, were ¥52 million (\$508 thousand) and ¥225 million for the years ended March 31, 2014 and 2013, respectively.

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥2,669 million (\$25,936 thousand) and ¥2,691 million for the years ended March 31, 2014 and 2013, respectively.

#### 18. Cash flow information:

Cash and cash equivalents at March 31, 2014 and 2013 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		(Note 5)
	2014	2013	March 31, 2014
Cash and bank deposits	¥54,902	¥55,512	\$533,441
Less:			
Time deposits due over three months	(316)	(318)	(3,065)
Cash and cash equivalents	¥54,586	¥55,194	\$530,376

#### 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, 2014 and 2013.

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, 2014 and 2013 amounted to ¥17 million (\$163 thousand) and ¥132 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, 2014 and 2013 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2014	2013	2014
Acquisition cost:			
Buildings and structures	¥26	¥35	\$257
Machinery and equipment	18	18	175
Other property, plant and equipment	71	324	686
Other intangible assets	0	6	3
	115	383	1,121
Less:			
Accumulated depreciation	(66)	(324)	(649)
Net book value	¥49	¥59	\$472

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, 2014 and 2013.

Depreciation expenses for these leased assets for the years ended March 31, 2014 and 2013, would have been ¥11 million (\$103 thousand) and ¥121 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, 2014 and 2013, would have been ¥1 million (\$13 thousand) and ¥3 million, respectively.

Impairment loss for these finance leases for the years ended March 31, 2014 and 2013 were nil and ¥3 million.

Future lease payments for finance leases at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2014	2013	2014
Future lease payments			
Due within one year	¥14	¥18	\$135
Due after one year	38	46	372
Total	¥52	¥64	\$507

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2014	2013	2014
Future lease payments			
Due within one year	¥215	¥415	\$2,093
Due after one year	4,032	5,950	39,172
Total	¥4,247	¥6,365	\$41,265

## 20. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of third parties at March 31, 2014 and 2013 were ¥41,690 million (\$405,072 thousand) and ¥40,797 million, respectively.

## 21. Related party transactions:

Significant transactions between the consolidated subsidiaries of the Company and related parties for the years ended March 31, 2014 and 2013 were as follows:

(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,
		2014	2013	2014
Kenzo Yoshida Noriko Yoshida	Housing construction contract	¥40	¥-	\$392
Shintaro Kyoguro Masayo Kyoguro	Housing construction contract	¥21	¥-	\$209
	Real estate sales contract	¥-	¥13	\$-
Yuji Enomoto Haruka Enomoto	Housing purchase and sale agreement	¥24	¥-	\$231
Nobuo Takenaka Masataka Takenaka	Housing construction contract	¥-	¥44	\$-

There was no outstanding balance with Kenzo Yoshida, Noriko Yoshida, Nobuo Takenaka, Masataka Takenaka, Shintaro Kyoguro, Masayo Kyoguro, Yuji Enomoto and Haruka Enomoto as of March 31, 2014 and 2013. Kenzo Yoshida and Noriko Yoshida are close relatives of Hideki Shimonomura, a managing executive officer 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 the employee's house ownership discount policy for housing construction contract and based on an arm's length basis similar to transactions with third parties for real estate sale contract. Haruka Enomoto is a close relative of Yuji Enomoto, a representative director and CEO of Misawa Homes Shizuoka Co., Ltd. and the contract amount is determined based on an arm's length basis similar to transactions with third parties. 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.

22. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2014	2013	2014
Net unrealized gains (losses) on other securities			
Gains (losses) arising during the year	(¥250)	¥861	(\$2,429)
Reclassification adjustments for gains (losses) included in the income statement	(8)	3	(78)
Before income tax effect	(258)	864	(2,507)
Income tax effect	96	(175)	933
Total	(162)	689	(1,574)
Foreign currency translation adjustments			
Adjustments arising during the year	157	96	1,522
Total other comprehensive income	(¥5)	¥785	(\$52)

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						
	2014						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥196,837	¥22,945	¥28,062	¥8,039	¥64,706	¥105,444	¥426,033

	Millions of yen						
	2013						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥183,905	¥20,027	¥25,624	¥8,073	¥58,261	¥98,807	¥394,697

	Thousands of U.S. dollars (Note 5)						
	2014						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	\$1,912,520	\$222,936	\$272,656	\$78,115	\$628,702	\$1,024,530	\$4,139,459

(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



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo, Japan 100-0011  
Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## 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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

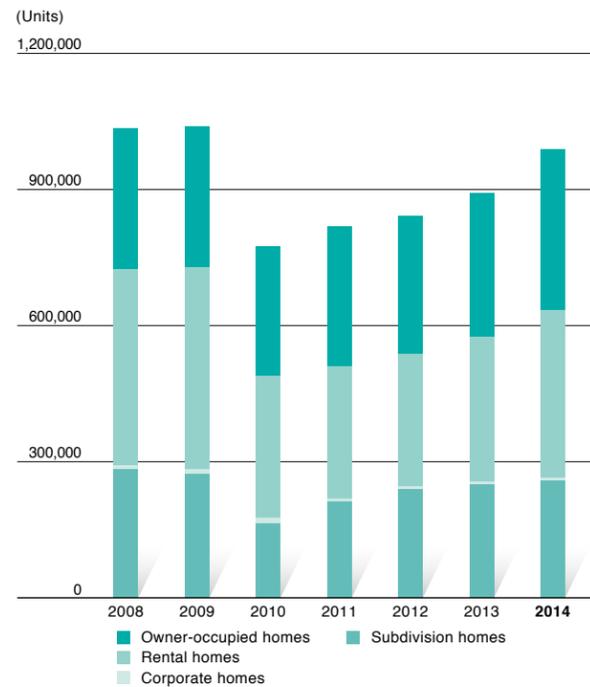
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

*Ernst & Young ShinNihon LLC*

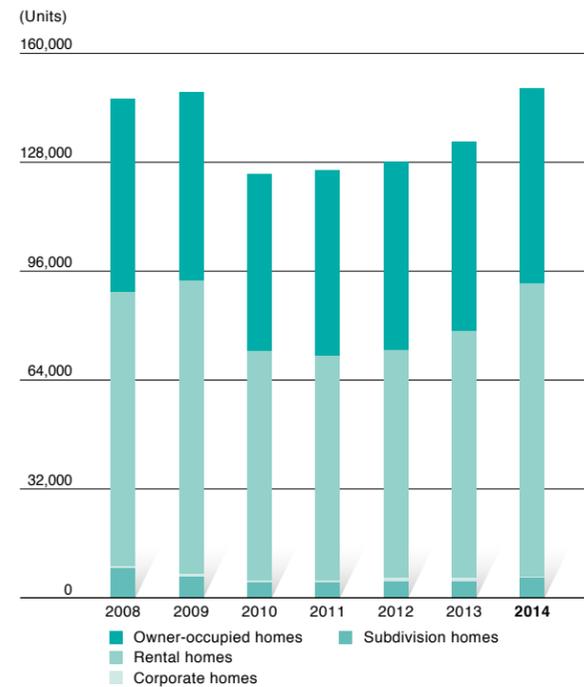
June 27, 2014  
Tokyo, Japan

# 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	2008	2009	2010	2011	2012	2013	2014
Owner-occupied homes	311,800	310,670	286,993	308,517	304,822	316,532	352,841
Rental homes	430,855	444,848	311,463	291,840	289,762	320,891	369,993
Corporate homes	10,311	11,089	13,231	6,580	7,576	5,919	5,272
Subdivision homes	282,632	272,607	163,590	212,083	239,086	249,660	259,148
<b>Total</b>	<b>1,035,598</b>	<b>1,039,214</b>	<b>775,277</b>	<b>819,020</b>	<b>841,246</b>	<b>893,002</b>	<b>987,254</b>

## Prefabricated Housing Starts in Japan

Fiscal year ended March 31	2008	2009	2010	2011	2012	2013	2014
Owner-occupied homes	56,724	55,317	51,819	54,715	55,396	55,887	57,422
Rental homes	80,662	86,253	67,415	65,952	66,994	72,488	86,028
Corporate homes	557	802	749	533	1,009	373	540
Subdivision homes	8,662	6,220	4,378	4,502	4,817	5,339	5,766
<b>Total</b>	<b>146,605</b>	<b>148,592</b>	<b>124,361</b>	<b>125,702</b>	<b>128,216</b>	<b>134,087</b>	<b>149,756</b>

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

# Subsidiaries and Affiliated Company (As of March 31, 2014)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Co., Ltd. (%)	Primary Business
<b>Consolidated subsidiaries:</b>				
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
27 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, 2014)

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 Audit & Supervisory Board Members

(As of June 27, 2014)

### Directors

Teiji Tachibana<sup>1</sup>  
 Nobuo Takenaka<sup>2</sup>  
 Masashi Isogai<sup>2</sup>  
 Toshitsugu Hirata<sup>2</sup>  
 Hiroomi Tanaka  
 Sumio Yokota  
 Tetsuya Sakuo  
 Takeo Tokai  
 Yuji Goto

### Audit & Supervisory Board Members

Seiji Urita<sup>3</sup>  
 Takahiro Kagawa<sup>3</sup>  
 Yasuhiko Naruse  
 Shuzo Kameda

### Executive Officers

Nobuo Takenaka<sup>4</sup>  
 Tadashi Isogai<sup>5</sup>  
 Toshitsugu Hirata<sup>6</sup>  
 Hiroomi Tanaka<sup>7</sup>  
 Sumio Yokota<sup>7</sup>  
 Tetsuya Sakuo<sup>7</sup>  
 Hiroshi Sakaguchi<sup>7</sup>  
 Yoichiro Dokan<sup>7</sup>  
 Kazuaki Uchida<sup>7</sup>  
 Hideki Shimonomura<sup>7</sup>  
 Tetsuyuki Morita  
 Kengo Shoji  
 Hidehiko Hara  
 Kengo Uemura  
 Kazuyoshi Akimoto  
 Naoto Shimada  
 Takashi Nakamura  
 Saburo Yanagidani  
 Hitoshi Shirahama

<sup>1</sup>Chairman

<sup>2</sup>Representative Directors

<sup>3</sup>Standing Audit & Supervisory Board Members

<sup>4</sup>Chief Executive Officer

<sup>5</sup>Executive Vice President

<sup>6</sup>Senior Managing Executive Officer

<sup>7</sup>Managing Executive Officers

## Share Information

	Shares
<b>Total number of shares authorized</b>	150,000,000
Common stock	149,999,855
Class D preferred stock	145

<b>Total number of shares issued</b>	38,738,989
Common stock	38,738,914

### Number of shareholders

Common stock	18,828
--------------	--------

### 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)	1,001,800	2.58
4 Japan Trustee Services Bank, Ltd. (Trust A/C)	833,200	2.15
5 Nippon Life Insurance Company	609,053	1.57
6 Misawa Homes Group Employee Shareholders Association	564,450	1.45
7 The Bank of Tokyo-Mitsubishi UFJ, Ltd.	559,912	1.44
8 THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	406,600	1.05
9 MSIP CLIENT SECURITIES	368,300	0.95
10 STATE STREET BANK AND TRUST COMPANY	353,500	0.91

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

