

Annual Report 2017



CENTURY Primore—Commemorating Misawa Homes’ 50th anniversary

Corporate Profile

Misawa Homes Co., Ltd. is the pillar of today’s Misawa Homes Group, which has become a leading force 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, “Life-long commitment to customers through housing.”

Our core business is the sale of single-family detached and rental homes, and we have supplied more than 1.2 million homes in total. In addition to our core housing business, we are committed to our housing-related

businesses, such as remodeling, asset utilization and real estate brokerage services, that enhance our offerings to the market.

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 27 consecutive years.

Most of the facilities at Showa Base in Antarctica have been designed and manufactured by Misawa Homes, substantiating the high performance features inherent in Misawa-brand homes that make life pleasant and safe even in a harsh environment like Antarctica.

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Cautionary Statement with Regard to Forward-Looking Statements

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

To Our Shareholders

Expanding beyond homebuilding operations to offer housing-related solutions matched to changing lifestyles.



Capital and Business Alliance with Toyota Housing

In 2005, Misawa Homes signed a capital and business alliance agreement with the Toyota Group, specifically, Toyota Housing Corporation. Under this alliance structure, we have pursued joint procurement of materials and joint subdivisions for sales of single-family detached homes as well as enhanced collaboration, especially in backyard structures. However, management at both Misawa Homes and Toyota Housing came to the conclusion that an even greater emphasis on collaboration would be required to advance the new medium-term management plan forward, given that a falling birthrate and a decrease in the number of households will likely cause the domestic housing market to shrink still further. And so, through a private placement of new shares and a takeover bid, completed in January 2017, Toyota Housing raised its stake in Misawa Homes to 51 percent, from its previously held 28 percent. As a result, we became a consolidated subsidiary of Toyota Housing. We will make maximization of synergies with Toyota Housing one of our priority management strategies, and will work as a team to achieve the highest synergistic effects for both companies in six key areas:

technology and product development, design and construction, procurement, production and logistics, sales, and systems.

Formulation of New Medium-term Management Plan—New Step toward Next 50 Years

In the previous medium-term management plan, the underlying strategy was to expand the scope of corporate activity beyond our core homebuilding operations to cover all aspects of people's varied and changing lifestyle needs and to facilitate business diversification through vigorous investment in stock-type businesses. We embraced various approaches to reach our objectives, achieving favorable expansion in asset utilization services, including sales of rental homes and condominiums, and hitting our 50:50 sales ratio target for the homebuilding business and stock-type business in the previous fiscal year. We will mark our 50th anniversary in October 2017, and the recently drafted new medium-term management plan is the first three-year step toward sustained growth over the next 50 years. It will

also underpin the realization of higher corporate value through greater diversification of the businesses we have developed to date.

The Misawa Homes Group will create a structure that facilitates flexible responses to emerging conditions, namely, a smaller domestic housing market that parallels a shrinking population and fewer households, and the changing needs of society, away from new homes and toward stock-type businesses that seek to effectively utilize existing homes. Against this backdrop, we will continue to develop as a corporate group capable of sustainable growth.

The support of shareholders and all stakeholders is and always will be integral to our mutual success.

July 2017

A handwritten signature in black ink, reading "Masashi Isogai". The signature is fluid and cursive, with the first name "Masashi" and last name "Isogai" clearly distinguishable.

Masashi Isogai
President and CEO

Aim of the Medium-term Management Plan

We will maintain the scale of our homebuilding business while expanding existing businesses—asset utilization, hinging on rental homes, and remodeling—and aggressively invest in new residential community development and overseas businesses. This emphasis should lead to consolidated net sales of ¥445.0 billion in fiscal 2020.

Management Strategies

(1) Strive to maximize synergies with Toyota Housing

We will promote activities to maximize the synergistic effect generated collectively by Misawa Homes and Toyota Housing under the areas of technology and product development, design and construction, procurement, production and logistics, sales, and systems.

(2) Perpetuate Misawa Homes’ DNA, and maintain and improve brand power

We will reevaluate the spirit that permeates our corporate motto, “Lifelong commitment to customers through housing,” and our corporate DNA built over 50 years in business, and strive to maintain and enhance our corporate brand power.

(3) Reinforce financial base, mainly through cost reduction

We will promote value engineering and prefabrication, as we seek to cut costs by ¥7.5 billion over three years. We will also target a shareholders’ equity ratio of 24 percent, up from the current 20.2 percent, within three years’ time by building higher profits and thereby realizing a firmer financial base.

(4) Enhance employee satisfaction through appropriate human resources strategy and work-style reforms

We will strive to create systems and an environment that enable employees to enjoy their work, not only through proper human resources strategy and personnel assignments, in line with the market environment and business strategies, but also by initiating projects in-house that improve work-style reforms.

Strategies by Business Segment

1 Homebuilding

We will develop high-value-added custom-ordered homes incorporating solutions, such as Net Zero Energy Housing (ZEH) design, Internet of Things (IoT) and MISAWA-Life Continuity Performance (MISAWA-LCP), and enhance sales of homes in the mid- to high-price range by enriching the lineup of products, particularly rebuilt homes and multi-family dwellings.

2 Asset Utilization Services

We will raise our share of the rental home market by strengthening sales of medium-rise homes with fireproof features and by expanding the product lineup. Our main target will be customers seeking to rebuild in urban areas, which we see as a market with growth potential.

3 Remodeling

We will enhance our medium- and large-scale home remodeling capabilities and vigorously promote a building revitalization technique—refining architecture—that dramatically raises the structural integrity of existing non-residential buildings to make them more earthquake-resistant while also extending their useful service life.

4 Residential Community Development Business

We will invest aggressively in development, particularly office buildings and condominiums, and also actively promote the development of complexes that provide access to medical treatment, senior care and childcare support services in the same building, as well as compact city-style real estate development. In addition, we will work to create future-oriented communities geared to new needs, such as realizing a Smart Mobility Society, and to revitalize existing residential complexes.

5 Overseas Business

We will lay a solid business foundation through capital alliances—mergers and acquisitions—with local companies and advance at full speed to establish a presence overseas, especially in Australia.

6 Other Businesses

We will increase our involvement in the operation of nursing care facilities, from a social contribution perspective, and emphasize the childcare support business, including day services such as after-school care for school-aged children.

Business Summary for Fiscal 2017

Homebuilding

The Japanese government aims to install Net Zero Energy Housing (ZEH) design in the standard new homes by 2020. ZEH offsets energy consumption with energy generated by photovoltaic systems and other home-integrated renewable energy systems. At Misawa Homes, we drafted our roadmap to make ZEH the standard in fiscal 2017 and took steps to promote widespread awareness of the installation. In the custom-ordered home business, we developed and began sales of Familink ZERO, a wooden panel, prefabricated home that meets the ZEH standard even in terribly cold areas where thermal insulation performance is required. We also provided Granlink HIRAYA, an area-limited product geared to demand for *hiraya* one-story home construction prevalent in the Kyushu area, and set the price lower than usual as a way to help people impacted by the 2016 Kumamoto Earthquake. Granlink HIRAYA won a Good Design Award, marking the 27th consecutive year that Misawa Homes has been honored with No.1 status—most awards won—in the housing industry.

In the subdivision homes business, we completed and began sales of ALBIO COURT Kemigawahama, a large-scale subdivision home project

in Chiba, Chiba Prefecture, where a method to reduce the risk of soil liquefaction was applied to the entire housing area in consideration of enhanced safety.

We also welcomed first-stage sales at 7DAYS VILLA, a subdivision of single-family detached homes in Inzai, Chiba Prefecture, which was jointly developed with Toyota Housing. We aim to create safe, comfortable communities by combining our know-how with that of Toyota Housing.

In other activities, we unrolled joint development and subdivision with alliance partners for sales throughout Japan, and made progress on residential community development that draws on local characteristics and enables residents to live in comfort and with peace of mind.



Granlink HIRAYA

Remodeling

In fiscal 2017, we enhanced training for sales representatives to reinforce their sales capabilities for home remodeling. In addition, we promoted remodeling solutions that enhance energy-conservation and earthquake-resistant performances, including Marugoto Homeing, a full-renovation remodeling service for single-family detached homes. We took an equally active approach in condominium renovations and were recognized with a Good Design Award* for a room renovated in collaboration with an outside architect. In non-residential remodeling, we captured considerable attention, including for large-scale repairs at *ryokan* (Japanese inn) and hotels as well as requests for design work, thanks to stronger ties to the All Japan Ryokan Hotel Association. We also expanded our business activities through involvement in a remodeling project where empty

space inside a facility owned by a social welfare organization was converted into a workplace daycare.

*Awarded with corecipient, Tezzo Nishizawa Architects



Condominium renovation ROOM 907, recipient of G-mark status

Asset Utilization Services

Rental homes, condominium business

Anticipating city demand for medium-rise homes with fireproof features, we maintained the course set in the previous fiscal year and in fiscal 2017 built a model home for URBAN CENTURY, a home featuring a fireproof, heavy-gauge steel frame that allows for construction of



URBAN CENTURY—a heavy-gauge steel frame home with fireproof construction

up to five floors. With this product, we worked to attract the interest of customers in the urban rebuilding market. We also aggressively presented a solution for large-scale structures that takes advantage of a steel frame unit construction method previously used for homes, toward the construction and completion of a student dormitory at a university. This dormitory marked an all-time record for us with the largest number of units in one building, equivalent to 10 single-family detached homes. In other activities, we built a condominium under our ALBIO GARDEN brand, and broke ground in Tokyo on our first joint condominium project with Toyota Housing.



ANESIA TOKYO OKU—Misawa Homes' first joint condominium project with Toyota Housing

Senior care services

Guided by our 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. In fiscal 2017, a noteworthy project took place at a nursing care facility run by Motherth Co., Ltd., which handles the Group’s nursing care business. This project, developed by KONICA MINOLTA, INC. through the Ministry of

Real Estate Brokerage Services

In fiscal 2017, we embarked on new activities—ownership, management and operation of real estate other than homes through investment, remodeling and redevelopment, and conversion into revenue-generating structures—to complement existing real estate brokerage services and purchasing and reselling services. To promote these activities, in August 2016, we turned Argo Space Design into a wholly owned subsidiary. This company conducts planning, design and construction related to remodeling projects and other work to existing structures such as office buildings and stores. With this, Misawa Homes is in a better position to ensure the building and repair of real estate invested by the Group.

In other activities, we reinforced our medical care connections in Nagano, Nagano Prefecture, where the percentage of seniors in the population is trending above the national average, to better respond to the needs of seniors requiring medical and nursing care support. We also supervised a relocation plan for a



Concept drawing of relocated hospital in Nagano Prefecture

Health, Labour and Welfare, was conducted to promote a model in support of nursing care technology using nursing care robots. Applying a system designed to raise the efficiency of nursing care services with information and communication technology, such as nursing care robots and monitoring devices, the facility verified the impact of care robots on reducing the significant physical and emotional burden placed on staff providing care services.

local hospital aimed at bridging medical and nursing care services, and started on its construction. In Chiba Prefecture, we teamed up with a bank, medical practice and government office in a four-way alliance on a project to construct a complex facility that integrates several services, including medical treatment, senior care and daycare, with a hospital relocation plan, and began its construction in February 2017. For this project, Misawa Homes will also be involved in operations as owner of the complex facility integrating multiple functions. Also of note, this complex facility was selected by the Ministry of Land, Infrastructure, Transport and Tourism as a project to promote smart wellness facility, and we expect it to be used as a place for supporting the health of local residents and bringing them peace of mind.

Also, seeking to diversify our revenue sources through management of and investment in real estate, we initiated the management of a real estate fund jointly financed with B-Lot Company Limited, a real estate and financial consulting company.



Concept drawing of the first complex facility operated by Misawa Homes

Other Businesses

Childcare support business

Since its full-scale entry into the childcare support business back in 2009, the Misawa Homes Group has been involved in the design and construction as well as repairs of daycare centers at more than 20 locations. In addition, we have worked to deepen our knowledge related to the operation of facilities through interaction with several daycare center operators, universities and other organizations, and have actively supported the opening of centers. In fiscal 2017, the expertise of the Misawa Homes Group was applied mainly to the design and construction of six daycare centers. One of these



A daycare center constructed by Misawa Homes

centers ties in with a new measure implemented by the government, effective April 2016, to eliminate the problem of waitlisted children.

Exterior Business

In 1998, seeking to realize a resource-recycling society, Misawa Homes developed M-Wood2, a fully recycled material made from wood and plastic waste. M-Wood2 retains the appearance and texture of wood while offering more decay durability and weather resistance, and has been used mainly for residential exterior products as well as decks, fences and benches. Since it does not cause surface barbs or splinters, M-Wood2 is also ideal for playground equipment at kindergartens as well as decks at public and commercial facilities. In fiscal 2017, we developed a unitized deck, which simplifies installation, dramatically shortens the construction



Newly developed Unitized Deck

period and, because of greater flexibility in placement, facilitates the creation of nicely designed spaces.

Environmental and Social Contribution Activities

Since being commissioned in 1968 to build the 10th living hut at Japan’s Antarctic observation base, Misawa Homes has been receiving orders to construct structures in support of the activities and lives of the observation team. To date, we have been involved in the construction of 36 buildings, with floor space totaling 5,900m². In addition to providing structures, we seek to contribute to observation activities in Antarctica by seconding employees with specialized expertise to the National Institute of Polar Research as construction and maintenance members. Employees from Misawa Homes Group companies played an integral role in the construction of a sustainable energy hut—one of the largest structures built at Showa Base and began construction in 2011—working with other team members from different fields of specialization. In 2016, our work was recognized with an Award for Achievement in Polar Monitoring from the National Institute of Polar Research. This was our third time for earning such honors—the other two times being in 2010 and 2012. We have sustained a constant presence as part of the observation team, with a total of 17 employees from companies under the Group umbrella sent to Antarctica as construction and maintenance members over the years, from the 17th expedition in 1975 up to the 57th expedition, which returned to Japan in March 2017.

Since 2011, we have been providing a learning opportunity called Antarctic Class for children in Japan. Through this program, employees who have returned from their Antarctic assignments describe the amazing natural environment of the Earth’s southernmost continent, the activities undertaken by the observation team, and the importance of teamwork toward the success of a mission with limited participation. Antarctic Class has been presented at 963 schools, as of fiscal



Sustainable energy hut in Antarctica, completed in 2013

2017, and more than 110,000 students have attended. The schools have been very appreciative of this program, substantiated by student essays and letters of appreciation.



Topics

Consolidated Income

(Millions of yen)

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018 (Planned)
Net sales	¥409,795	¥399,337	¥399,853	¥400,000
Operating income	5,824	6,686	8,402	7,000
Profit attributable to owners of parent	3,309	3,438	4,423	4,000

Number of Homes Sold

(Units)

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018 (Planned)
Custom homes	7,182	7,213	6,713	6,840
Lot-subdivision homes	860	921	868	840
Home Building Subtotal	8,042	8,134	7,581	7,680
Rental homes (Buildings)	3,820 (1,299)	3,431 (1,267)	3,654 (1,294)	3,690
Multi-dwelling units and others	948	741	826	570
Asset Utilization Services Subtotal	4,768	4,172	4,480	4,260
Total	12,810	12,306	12,061	11,940

Breakdown of Employees (Consolidated)

(People)

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Misawa Homes	704	2,325	2,582
Sales companies	7,152	5,074	4,505
Factories	900	777	746
Other affiliates	631	1,002	1,084
Total	9,387	9,178	8,917

Employees in Sales (Consolidated)

(People)

	Fiscal 2015	Fiscal 2016	Fiscal 2017
New homes business	1,901	1,981	1,799
Home renovation business	996	980	937
Total	2,897	2,961	2,736

● Meeting the Needs of Stock-type Society

The Misawa Homes Group seeks to create a structure that ensures flexibility in view of the shrinking domestic housing market, which parallels the decrease in population and number of households, as well as the changing needs of society, with a shift in focus from newly built homes to effective utilization of existing stock. This will underpin our status as a corporate group offering sustainable growth potential. In the previous medium-term management plan, which ended in fiscal 2017, we aggressively invested in stock-type businesses to spur business diversification.

In September 2016, we were selected for a project offered by the government of Hokkaido to effectively utilize an old public housing site at Hatsudai, in the Shibuya district of Tokyo. Our winning proposal hinged on a building revitalization technique—refining architecture—to breathe new life into the four-floor, reinforced concrete structure owned by the government of Hokkaido, which was built more than 50 years ago as employee housing. The old structure will be transformed into a rental home that meets all the requirements of a newly built structure, and will be used as a Misawa-owned property. Refining architecture differs from remodeling and renovations in that changes to interior and exterior appearance as well as equipment and layout are accompanied by dramatically improved structural integrity to boost earthquake-resistance and extend useful service life, and a third party assesses status, mainly through structural performance evaluations. We studied estimates of the useful service life of this concrete structure and expect the post-refining physical life of this building to be extended for another 50 years or so with the necessary improvements. A third-party evaluation will confirm this. The plan is for a completely revised layout, turning the existing 18 units with three rooms and a dining/kitchen area into 21 units, most of which will be one room with a living room and a dining/kitchen area. The exterior stairs will be removed, in favor of newly installed interior stairs and an elevator.

Misawa Homes will strive to form safe, high-quality stock-type assets through refining architecture that revives declining asset values. At the same time, we will enhance our ability as a company to encourage wider seismic upgrades, which are supported at the national and local government level, and to present solutions to social issues, such as vacant homes.



Images of refining architecture, before and after construction

● Lifestyle Proposals Utilizing IoT

Misawa Homes and KDDI Corporation jointly developed GAINET, a device used to measure the extent of earthquake-caused damage of each home, based on the premise that a way of pinpointing structural damage on a building basis as quickly as possible would ensure homeowner safety and facilitate the reconstruction process. GAINET uses an earthquake acceleration sensor placed on the foundation of a home to detect early seismic vibrations. The sensor determines the magnitude of the event in real time at the house where the device is installed as well as the level of any structural damage and alerts the homeowner to status by displaying information on a monitor inside the home. Measurement data is routed through a network and collected instantaneously on a cloud server, thereby creating IoT inside the home. It

takes only a short time to determine the degree of damage, facilitating a swift response matched to the level of emergency. In addition, through a smartphone, PC or other network-connecting device, homeowners can access the server of a site specific to

owners of Misawa-brand homes and check the status of damages even when they are not at home.

Furthermore, Misawa Homes Institute of Research and Development Co., Ltd., a member of the Misawa Homes Group, initiated verification tests in fiscal 2017 on behalf of the Ministry of Economy, Trade and Industry to confirm secure connectivity of IoT devices in the home. In December 2016, working with several companies, including Sharp Corporation and KDDI, the institute mounted several IoT devices inside a Misawa-brand model home and held a workshop with demonstrations and discussions on how they would transform our daily lives.



Outline of earthquake damage measuring device GAINET



GAINET display monitor

Corporate Governance Structure

The Tokyo Stock Exchange formulated the Corporate Governance Code in 2015 with the aim to realize sustainable growth for companies and cultivate medium- to long-term corporate value. Misawa Homes set out its own Corporate Governance Guidelines, conforming to the code, and has posted the content on its website (Japanese only). The Company prepared its guidelines in line with the five pillars—guarantee of shareholder rights and equality, appropriate cooperation with stakeholders other than shareholders, guarantee of appropriate disclosure and transparency, responsibility of the Board of Directors, and dialogue with non-shareholder groups—described in the Corporate Governance Code, and provides an explanation of the Group’s governance practices.

To ensure shareholder rights and equality, we will take suitable steps to effectively ensure shareholder rights and create an environment that enables the appropriate exercise of those rights by shareholders. For minority shareholders and foreign shareholders, we will strive to prevent issues and concerns that could adversely affect the environment for exercising rights or erode effective equality.

To ensure appropriate cooperation with stakeholders other than shareholders, we duly acknowledge that sustainable corporate growth and the creation of corporate value over the medium to long term reflect the amount of resources provided and contributed by diverse stakeholder groups, including employees, customers, suppliers, creditors and local communities. We will strive to cooperate with these stakeholder groups in an appropriate manner. The Board of Directors and senior management will demonstrate leadership in cultivating a corporate culture and climate that respects the rights and positions of these stakeholders and acknowledges the importance of sound ethics in business practices.

To ensure appropriate disclosure and transparency, we will disclose the appropriate financial information, such as corporate financial status and business results as well as non-financial information, such as management strategies, management concerns, risks and governance issues. We do this in accordance with laws and regulations, and voluntarily engage in information disclosure beyond the content required by laws and regulations. Given that the information we disclose and provide also forms the basis of constructive conversations with shareholders, the Board of Directors will strive for accuracy and ease of understanding in determining the content of such information—particularly non-financial information—and make sure the content is highly useful for the shareholders.

Concerning responsibility of the Board of Directors, the Board will, in view of fiduciary duty to shareholders and associated accountability, strive to achieve sustainable corporate growth and improve corporate value over the medium to long term and work to boost profitability and capital efficiency. Specifically, the Board of Directors will indicate the major direction of corporate strategies, establish an environment that supports a suitable level of risk taken by senior management, and emphasize highly effective supervision of senior management and directors.

With regard to dialogue with shareholders, the Company will strive for constructive conversation with shareholders even at venues other than general meetings of shareholders aiming to achieve sustainable corporate growth and higher corporate value. Senior management and directors (including outside directors) will utilize these dialogue opportunities to listen to shareholders’ voices and identify their interests and concerns. These opportunities will also enable senior management and directors to clarify management policies in a format that is easy for shareholders to understand and to help them gain a deeper appreciation of our policies. The objective is to achieve a balanced perspective on the positions taken by stakeholders, including shareholders, and work toward appropriate responses based on this perspective.

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
	2012	2013	2014	2015	2016	2017	2017
For the Year:							
Net Sales	¥378,574	¥394,697	¥426,033	¥409,795	¥399,337	¥399,853	\$3,564,071
Cost of Sales	290,592	301,775	328,259	321,488	314,346	313,628	2,795,513
Gross Profit	87,982	92,922	97,774	88,307	84,991	86,225	768,558
Selling, General and Administrative Expenses	76,006	80,490	84,580	82,483	78,305	77,823	693,672
Operating Income	11,976	12,432	13,194	5,824	6,686	8,402	74,886
Profit before Income Taxes	11,147	11,488	11,854	3,962	6,100	6,069	54,098
Profit Attributable to Owners of Parent	6,919	9,920	10,401	3,309	3,438	4,423	39,423
At Year-End:							
Total Assets	¥197,759	¥212,725	¥228,775	¥224,617	¥231,998	¥247,069	\$2,202,242
Total Net Assets	32,623	35,552	37,834	42,747	42,845	52,309	466,260
Per Share Amounts (yen):							
Profit - Basic	¥ 180.95	¥ 254.55	¥ 279.91	¥ 88.73	¥ 92.05	¥ 114.37	\$ 1.02

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2017 of ¥112.19 = US\$1.

Financial Review

Operating Environment

In fiscal 2017, ended March 31, 2017, the domestic economy saw a gradual recovery tone in business conditions. This trend was fueled mainly by an improvement in the employment environment and better personal income status as well as a rally in personal spending, which offset signs of sluggishness in corporate earnings.

In the housing industry, housing starts increased 5.8 percent from the previous fiscal year, to about 970,000 units. This reflects the rising appeal of owning a home, spurred by low interest rates on mortgages and a successful government program in support of home purchases, and brisk demand for rental home construction, especially in cities.

Against this backdrop, the Misawa Homes Group steadily implemented various measures in the final year of its medium-term management plan on the theme “MISAWA do all,” which guided the Group toward a wider scope of corporate activity covering all aspects of people’s varied and changing lifestyle needs.

The results achieved through these efforts are described below.

Net Sales

Consolidated net sales edged up 0.1 percent, or ¥516 million, to ¥399,853 million. This is due to higher sales of rental homes and condominiums, which neutralized a drop in sales of single-family detached homes. Even though the home-building business posted a 3.1 percent decrease in sales year on year, steps to diversify business activities in line with the medium-term management plan drove sales up 7.2 percent for asset utilization services. Of note, in condominium sales, large condominiums—exceeding 350 units in total—made noteworthy contributions to sales.

Operating Income

Consolidated operating income jumped 25.6 percent, or ¥1,715 million, to ¥8,401 million. This result reflects contributions from sales of highly profitable, large condominiums as well as successful efforts to cut the cost of construction materials and products and to reduce selling, general and administrative expenses, especially advertising costs.

Profit before Income Taxes

Consolidated profit before income taxes slipped 0.5 percent, or ¥30 million, to ¥6,069 million.

Profit Attributable to Owners of Parent

Consolidated profit attributable to owners of parent climbed 28.6 percent, or ¥984 million, to ¥4,422 million.

Financial Position

As of March 31, 2017, total assets stood at ¥247,069 million, up ¥15,071 million from a year earlier. The change is largely due to an increase in cash and bank deposits and the purchase of buildings as real estate investments. Total liabilities reached ¥194,759 million, up ¥5,606 million from a year earlier, despite a decrease in notes and accounts payable, trade, mainly because of higher debt. Net assets amounted to ¥52,309 million, up ¥9,464 million, primarily due to the issue of new shares through a third-party allocation of shares and the disposal of treasury stock and also due to the booking of profit attributable to owners of parent.

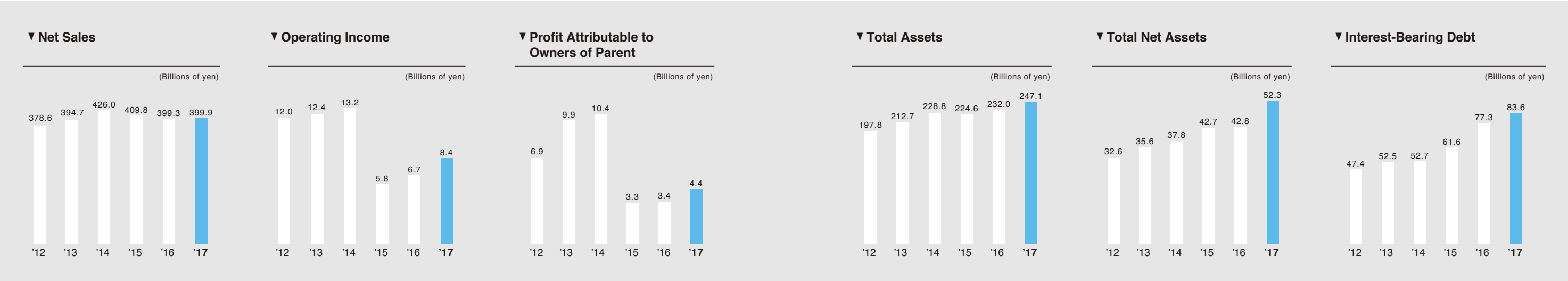
Cash Flow Status

Cash and cash equivalents at the end of March 2017 came to ¥54,343 million, up ¥7,260 million from a year earlier. This reflects inflow of ¥9,029 million from financing activities, which offset a combined outflow of ¥1,759 million from operating activities and investing activities.

Net cash provided by operating activities reached ¥11,534 million, up ¥16,238 million from its outflow position in fiscal 2016. This change was primarily due to the booking of profit before income taxes and an increase in advances received on uncompleted contracts, which offset the purchase of inventories.

Net cash used in investing activities amounted to ¥13,293 million, up ¥5,875 million from a year earlier. The primary component of this change was the purchase of fixed assets.

Net cash provided by financing activities reached ¥9,029 million, down ¥5,200 million from a year earlier, mainly due to new loans.



MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
<u>ASSETS</u>			
Current assets:			
Cash and bank deposits (Notes 8 and 20)	¥55,004	¥47,718	\$490,275
Notes and accounts receivable, trade (Notes 8 and 11)	8,138	7,922	72,539
Land and housing for sale (Note 11)	46,198	47,411	411,780
Cost of uncompleted contracts (Note 11)	34,778	32,822	309,994
Merchandise and finished goods	1,082	1,017	9,641
Work in process	274	222	2,441
Raw materials and supplies	1,718	1,907	15,311
Deferred tax assets (Note 17)	4,220	4,173	37,619
Other current assets	16,502	15,751	147,097
Allowance for doubtful accounts	(197)	(171)	(1,759)
Total current assets	167,717	158,772	1,494,938
Property, plant and equipment (Notes 10, 11 and 23):			
Buildings and structures	43,188	38,262	384,953
Machinery and equipment	6,669	6,656	59,449
Land	29,695	25,390	264,684
Other	6,189	6,278	55,166
	85,741	76,586	764,252
Less: Accumulated depreciation	(29,637)	(27,634)	(264,172)
Net property, plant and equipment	56,104	48,952	500,080
Intangible assets (Note 10):			
Other	9,066	9,330	80,809
Total intangible assets	9,066	9,330	80,809
Investments and other assets:			
Investment securities (Notes 7 and 8)	1,475	1,389	13,145
Deferred tax assets (Note 17)	1,986	2,221	17,703
Net defined benefit asset (Note 12)	1,729	1,353	15,414
Other (Notes 7 and 10)	10,650	11,678	94,933
Allowance for doubtful accounts	(1,658)	(1,697)	(14,780)
Total investments and other assets	14,182	14,944	126,415
Total assets	¥247,069	¥231,998	\$2,202,242

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 6)
	March 31		March 31,
	2017	2016	2017
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Short-term bank loans (Notes 8, 11 and 23)	¥26,073	¥24,308	\$232,399
Current portion of long-term debt (Notes 8, 11 and 23)	10,155	13,974	90,512
Notes and accounts payable, trade (Note 8)	42,430	44,402	378,198
Accounts payable, other	7,507	7,968	66,911
Accrued bonuses	5,890	5,512	52,503
Provision for warranties for completed contracts	3,440	2,158	30,659
Advances received on uncompleted contracts	30,671	29,526	273,389
Deposits received	6,083	6,238	54,222
Income taxes payable	1,233	645	10,995
Deferred tax liabilities (Note 17)	3	14	27
Asset retirement obligations	39	10	347
Other current liabilities (Note 11)	5,209	6,111	46,431
Total current liabilities	138,733	140,866	1,236,593
Long-term liabilities:			
Long-term debt (Notes 8, 11 and 23)	45,125	35,836	402,215
Deferred tax liabilities (Note 17)	932	765	8,311
Accrued pension and severance costs for directors and corporate auditors	601	581	5,354
Net defined benefit liability (Note 12)	2,214	3,033	19,732
Asset retirement obligations	1,305	1,321	11,635
Other long-term liabilities (Note 11)	5,850	6,751	52,142
Total long-term liabilities	56,027	48,287	499,389
Net assets:			
Shareholders' equity (Note 13):			
Capital stock:	11,893	10,000	106,005
	(Thousands of shares)		
	In 2017	In 2016	
Common stock			
Authorized	150,000	150,000	
Issued	43,070	38,739	
Additional paid-in capital	2,877	3,200	25,648
Retained earnings	34,665	30,989	308,982
Treasury stock, at cost	(1)	(3,430)	(8)
Accumulated other comprehensive income:			
Net unrealized gains on other securities (Note 7)	358	322	3,191
Land revaluation difference	(441)	(441)	(3,927)
Foreign currency translation adjustments	(16)	30	(143)
Remeasurements of defined benefit plans (Note 12)	504	(162)	4,495
Non-controlling interests	2,470	2,337	22,017
Total net assets	52,309	42,845	466,260
Commitments and contingent liabilities (Note 22)			
Total liabilities and net assets	¥247,069	¥231,998	\$2,202,242

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 6)
	Years ended March 31		Year ended March 31, 2017
	2017	2016	
Net sales	¥399,853	¥399,337	\$3,564,071
Cost of sales (Note 18)	313,628	314,346	2,795,513
Gross profit	86,225	84,991	768,558
Selling, general and administrative expenses (Notes 18 and 21):			
Salaries and wages	40,216	39,974	358,460
Advertising	8,139	8,377	72,543
Sales promotion	6,784	6,329	60,470
Provision for warranties for completed contracts	1,752	1,449	15,621
Provision for accrued bonuses	3,786	3,444	33,742
Depreciation expenses	2,992	3,379	26,673
Other selling expenses	3,447	3,880	30,726
Other general and administrative expenses	10,707	11,473	95,437
Total selling, general and administrative expenses	77,823	78,305	693,672
Operating income	8,402	6,686	74,886
Non-operating income:			
Interest income	40	66	360
Rent income	369	249	3,289
Income from commissions	96	123	858
Revenue from sales of electric power	263	217	2,343
Other	532	686	4,740
Total non-operating income	1,300	1,341	11,590
Non-operating expenses:			
Interest expenses	738	783	6,582
Commissions for syndicate loans	360	141	3,204
Stock issuance cost	187	-	1,663
Other	271	307	2,417
Total non-operating expenses	1,556	1,231	13,866
Ordinary income	8,146	6,796	72,610
Other gains (“TOKUBETSU RIEKI”):			
Gain on sales of property, plant and equipment (Note 14)	5	50	49
Gain on sales of investment securities	46	49	410
Gain on contribution of securities to retirement benefit trust	-	445	-
Other	-	45	-
Total other gains	51	589	459
Other losses (“TOKUBETSU SONSHITSU”):			
Business structure improvement expenses (Note 19)	-	616	-
Impairment loss on long-lived assets (Note 10)	870	455	7,759
Loss on disposal of property, plant and equipment (Note 15)	136	129	1,208
Provision for warranties for completed contracts	1,078	-	9,610
Other	44	85	394
Total other losses	2,128	1,285	18,971
Profit before income taxes	6,069	6,100	54,098
Income taxes (Note 17):			
Current	1,343	841	11,967
Deferred	106	1,805	949
	1,449	2,646	12,916
Profit	4,620	3,454	41,182

Profit attributable to non-controlling interests

197

16

1,759

Profit attributable to owners of parent

¥4,423

¥3,438

\$39,423

Yen

U.S. dollars
(Note 6)

Years ended March 31

Year ended
March 31,
2017

2017

2016

Per share (Note 16):

Profit— Basic

¥114.37

¥92.05

\$1.02

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Profit	¥4,620	¥3,454	\$41,182
Other comprehensive income (Note 26):			
Net unrealized gains (losses) on other securities	42	(445)	378
Foreign currency translation adjustments	(70)	(48)	(625)
Remeasurements of defined benefit plans	606	(2,105)	5,401
Total other comprehensive income	578	(2,598)	5,154
Comprehensive income	¥5,198	¥856	\$46,336
Total comprehensive income attributable to:			
Shareholders of MISAWA HOMES CO., LTD.	¥5,080	¥883	\$45,279
Non-controlling interests	118	(27)	1,057

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									
	Shareholders' equity			Accumulated other comprehensive income						
	Number of shares issued	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 12)	Non- controlling interests
Balance at April 1, 2015	38,738,914	¥10,000	¥3,203	¥28,306	(¥3,427)	¥751	(¥449)	¥63	¥1,931	¥2,369
Cash dividends	-	-	-	(747)	-	-	-	-	-	-
Profit attributable to owners of parent	-	-	-	3,438	-	-	-	-	-	-
Reversal of land revaluation difference	-	-	-	(8)	(3)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-
Change in net assets arising from transactions with non-controlling shareholders	-	-	(3)	-	-	-	-	-	-	-
Net changes in items other than those in shareholders' equity	-	-	-	-	-	(429)	8	(33)	(2,093)	(32)
Balance at March 31, 2016	38,738,914	¥10,000	¥3,200	¥30,989	(¥3,430)	¥322	(¥441)	¥30	(¥162)	¥2,337
Issuance of new stock	4,331,249	1,893	1,893	-	-	-	-	-	-	-
Cash dividends	-	-	-	(747)	-	-	-	-	-	-
Profit attributable to owners of parent	-	-	-	4,423	(2)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	(2)	-	-	-	-	-
Disposal of treasury stock	-	-	(2,216)	-	3,431	-	-	-	-	-
Change in net assets arising from transactions with non-controlling shareholders	-	-	0	-	-	-	-	-	-	-
Net changes in items other than those in shareholders' equity	-	-	-	-	-	36	-	(46)	666	133
Balance at March 31, 2017	43,070,163	¥11,893	¥2,877	¥34,665	(¥1)	¥358	(¥441)	(¥16)	¥504	¥2,470
Thousands of U.S. dollars (Note 6)										
Balance at April 1, 2015	889,134	16,871	-	276,217	(30,568)	2,870	(3,927)	\$362	(\$1,445)	\$20,835
Issuance of new stock	16,871	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(6,658)	-	-	-	-	-	-
Profit attributable to owners of parent	-	-	-	39,423	(16)	-	-	-	-	-
Purchase of treasury stock	-	-	(19,750)	-	30,576	-	-	-	-	-
Disposal of treasury stock	-	-	-	-	-	-	-	-	-	-
Change in net assets arising from transactions with non-controlling shareholders	-	-	4	-	-	-	-	-	-	-
Net changes in items other than those in shareholders' equity	-	-	-	321	-	(405)	5,940	(1,182)	7,038	1,182
Balance at March 31, 2017	106,005	25,648	88	31,911	(3,927)	3,191	4,995	22,017	22,017	22,017
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 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥6,069	¥6,100	\$54,098
Adjustments for:			
Depreciation and amortization	6,112	5,938	54,484
Amortization of goodwill	208	201	1,852
Decrease in allowance for doubtful accounts	(12)	(110)	(110)
Increase (decrease) in other allowances	1,342	(1,466)	11,962
Interest and dividend income	(91)	(134)	(809)
Interest expenses	738	783	6,582
Gain on sales of investment securities	(46)	(49)	(410)
Impairment loss on long-lived assets	870	455	7,759
Loss on sales and disposal of property, plant and equipment	131	79	1,159
Decrease (increase) in notes and accounts receivable, trade	21	(775)	185
(Increase) decrease in inventories	(678)	132	(6,040)
Decrease in notes and accounts payable, trade	(2,143)	(4,010)	(19,105)
Increase (decrease) in advances received on uncompleted contracts	1,146	(2,615)	10,214
Increase in operating loans receivable	(2,414)	(7,248)	(21,521)
Other	1,441	(756)	12,847
Subtotal	12,694	(3,475)	113,147
Interest and dividends received	80	116	712
Interest paid	(744)	(778)	(6,632)
Income taxes paid	(496)	(567)	(4,417)
Net cash provided by (used in) operating activities	11,534	(4,704)	102,810
Cash flows from investing activities:			
Decrease (increase) of time deposits with maturity over three months	34	(89)	307
Purchases of property, plant, equipment and intangible assets	(12,833)	(7,686)	(114,388)
Proceeds from sales of property, plant, equipment and intangible assets	38	379	338
Purchases of investment securities	(2)	(100)	(21)
Proceeds from sales of investment securities	7	99	65
Other	(538)	(22)	(4,796)
Net cash used in investing activities	(13,294)	(7,419)	(118,495)
Cash flows from financing activities:			
Increase in short-term bank loans	1,484	7,029	13,228
Proceeds from long-term debt	35,859	22,756	319,625
Repayments of long-term debt	(31,411)	(14,651)	(279,978)
Proceeds from issuance of bonds	-	977	-
Redemption of bonds	(150)	-	(1,337)
Cash dividends paid	(749)	(747)	(6,675)
Cash dividends paid to non-controlling interests	(16)	(16)	(145)
Proceeds from issuance of new stock	3,786	-	33,742
Proceeds from sales of treasury stock	1,215	-	10,826
Payments for purchase of treasury stock	(2)	(3)	(16)
Proceeds from non-controlling interests for additional shares	-	9	-
Other	(986)	(1,124)	(8,788)
Net cash provided by financing activities	9,030	14,230	80,482

Effect of exchange rate changes on cash and cash equivalents

Net increase in cash and cash equivalents

Cash and cash equivalents at the beginning of the year

Cash and cash equivalents at the end of the year (Note 20)

(9)	(16)	(77)
7,261	2,091	64,720
47,083	44,992	419,671
¥54,344	¥47,083	\$484,391

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 in 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 profit or loss of affiliates after elimination of unrealized inter-company profits. As of March 31, 2017 and 2016, the numbers of consolidated subsidiaries were 42 and 41, respectively. ARGO SPACE DESIGN CO., LTD. is included in consolidation through the share acquisition. MB INVESTMENT 1 LLC is included in consolidation through the capital contribution. HM QUEENSLAND No.2 PTY. LTD. is established and included in consolidation in the year ended March 31, 2017. MOTHER PALACE CO., LTD. is excluded from consolidation due to its liquidation. Misawa Homes Tokai Co., Ltd. is merged with other consolidated subsidiary and thus excluded from consolidation in the year ended March 31, 2017. There were no subsidiaries and affiliates accounted for by the equity method as of March 31, 2017 and 2016. Misawa Homes of Dongguan Ltd. (China), COCO Lab., Inc. and MD Victoria Pty. Ltd. are excluded from the application of the equity method since their profit (loss) and retained earnings, etc. are considered immaterial in the consolidated financial statements and were of little importance taken as a whole. The financial statements of Misawa Homes of Linyi Ltd. (China) whose closing date is December 31 are consolidated by using its financial statements as of the parent fiscal year end solely for consolidation purposes. The financial statements of MB INVESTMENT 1 LLC whose closing date is May 31 are consolidated by using its financial statements as of February 28 with necessary consolidation adjustments for significant transactions occurred from March 1 to 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 10 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 profit. 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 profit.

(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, 2017 and 2016 were ¥680 million (\$6,058 thousand) and ¥735 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 profit 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, 2017 and 2016 were ¥2 million (\$16 thousand) and ¥60 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 benefit formula method is used for attributing projected benefit obligation to the period through the end of the fiscal year. 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) Provision for warranties for completed contracts

Provision for warranties for completed contracts 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 profit 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 non-controlling interest in subsidiaries in net assets.

(13) Income taxes

The provision for income taxes is computed based on profit before income taxes 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.

As of March 31, 2017 and 2016, the fair value of the revaluated land was less than its carrying value by ¥56 million (\$502 thousand).

(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) Profit per share

Profit per share is computed by dividing profit attributable to owners of parent by 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, 2017.

(20) Recognition of revenues and costs on construction contracts

The percentage-of-completion method (the percentage of completion of construction activity is estimated by the incurred cost) 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.

(22) Consolidated taxation system

The Company and its certain domestic consolidated subsidiaries adopt the Japanese consolidated taxation system.

3. Changes in accounting policies:

Adoption of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Accounting Standards Board of Japan Practice Issue Task Force No. 32, June 17, 2016) from the year ended March 31, 2017 and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired on and after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change in the consolidated financial statements for the year ended March 31, 2017 is immaterial.

4. Changes in presentation method:

Consolidated statement of income

“Loss on devaluation of investment securities” that was separately presented in “Other losses” in the year ended March 31, 2016 is included in “Other” of “Other losses” in the year ended March 31, 2017 due to the decrease of the importance in its amount. In order to reflect this change in presentation method, the consolidated financial statement for the year ended March 31, 2016 has been reclassified.

As a result, ¥22 million that was presented as “Loss on devaluation of investment securities” of “Other losses” in the consolidated statement of income for the year ended March 31, 2016 has been reclassified to “Other”.

5. Additional information:

Adoption of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016) from the year ended March 31, 2017.

6. 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 ¥112.19 = U.S. \$1, the rate of exchange prevailing on March 31, 2017, has been used.

7. Investment securities:

Misawa Homes’ management classified all investment securities as other securities at March 31, 2017 and 2016.

Net unrealized gains of ¥358 million (\$3,191 thousand) and ¥322 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2017 and 2016, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥151 million (\$1,343 thousand) and ¥143 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2017 and 2016, respectively. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥56 million (\$497 thousand) and in “Other” of investments and other assets in the amount of ¥0 million (\$0 thousand) in the consolidated balance sheet as of March 31, 2017. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥102 million and in “Other” of investments and other assets in the amount of ¥0 million in the consolidated balance sheet as of March 31, 2016.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	March 31, 2017			
	Acquisition	Gross unrealized		Market value
	cost	Gains	Losses	(carrying value)
Equity securities	¥558	¥478	(¥8)	¥1,028
Debt securities	1,115	53	(2)	1,166
Other	12	5	-	17
Total	¥1,685	¥536	(¥10)	¥2,211

Millions of yen				
March 31, 2016				
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	¥557	¥365	(¥23)	¥899
Debt securities	2,354	130	-	2,484
Other	12	3	(0)	15
Total	¥2,923	¥498	(¥23)	¥3,398

Thousands of U.S. dollars (Note 6)				
March 31, 2017				
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	\$4,974	\$4,259	(\$73)	\$9,160
Debt securities	9,935	476	(14)	10,397
Other	103	44	-	147
Total	\$15,012	\$4,779	(\$87)	\$19,704

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, 2017 and 2016, the carrying values of these unlisted securities were ¥432 million (\$3,846 thousand) and ¥479 million, respectively.

Proceeds from sales of other securities for the years ended March 31, 2017 and 2016 were ¥1,216 million (\$10,843 thousand) and ¥99 million, respectively. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥46 million (\$410 thousand) and ¥2 million (\$16 thousand), respectively, for the year ended March 31, 2017 and ¥49 million and ¥0 million, respectively, for the year ended March 31, 2016.

Impairment losses of other securities for the years ended March 31, 2017 and 2016 were ¥5 million (\$40 thousand) and ¥22 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.

8. 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 9. 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, 2017 and 2016 were as follows:

Millions of yen		
March 31, 2017		
	Carrying value	Estimated fair value Difference
Cash and bank deposits	¥55,004	¥55,004 ¥—
Notes and accounts receivable, trade	8,138	8,138 —
Investment securities	2,211	2,211 —
Total assets	¥65,353	¥65,353 ¥—
Notes and accounts payable, trade	¥42,430	¥42,430 ¥—
Short-term bank loans	26,073	26,073 —
Long-term debt (excluding bonds)	54,279	54,419 140
Total liabilities	¥122,782	¥122,922 ¥140
Derivative transactions	—	— —

Millions of yen		
March 31, 2016		
	Carrying value	Estimated fair value Difference
Cash and bank deposits	¥47,718	¥47,718 ¥—
Notes and accounts receivable, trade	7,922	7,922 —
Investment securities	3,398	3,398 —
Total assets	¥59,038	¥59,038 ¥—
Notes and accounts payable, trade	¥44,402	¥44,402 ¥—
Short-term bank loans	24,308	24,308 —
Long-term debt (excluding bonds)	48,810	48,845 35
Total liabilities	¥117,520	¥117,555 ¥35
Derivative transactions	—	— —

	Thousands of U.S. dollars (Note 6)		
	March 31, 2017		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	\$490,275	\$490,275	\$—
Notes and accounts receivable, trade	72,539	72,539	—
Investment securities	19,704	19,704	—
Total assets	<u>\$582,518</u>	<u>\$582,518</u>	<u>\$—</u>
Notes and accounts payable, trade	\$378,198	\$378,198	\$—
Short-term bank loans	232,399	232,399	—
Long-term debt (excluding bonds)	483,814	485,060	1,246
Total liabilities	<u>\$1,094,411</u>	<u>\$1,095,657</u>	<u>\$1,246</u>
Derivative transactions	—	—	—

Note 1: Unlisted securities of ¥432 million (\$3,846 thousand) and ¥479 million whose fair value was extremely difficult to determine as of March 31, 2017 and 2016, 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 (\$8 thousand) and ¥0 million are included in other current assets as part of current assets as of March 31, 2017 and 2016, respectively. Government bonds used for deposits amounting to ¥1,166 million (\$10,397 thousand) and ¥2,484 million are included in other of investments and other assets as of March 31, 2017 and 2016, 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 9. 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 ¥10,155 million (\$90,512 thousand) and ¥13,974 million is included in long-term debt in the above table as of March 31, 2017 and 2016, 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, 2017 and 2016 is as follows:

	Millions of yen			
	March 31, 2017			
	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	¥54,935	¥—	¥—	¥—
Notes and accounts receivable, trade	8,138	—	—	—
Investment securities				
Other securities with maturities				
Government bonds	25	640	331	170
Total	<u>¥63,098</u>	<u>¥640</u>	<u>¥331</u>	<u>¥170</u>

	Millions of yen			
	March 31, 2016			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥47,510	¥—	¥—	¥—
Notes and accounts receivable, trade	7,922	—	—	—
Investment securities				
Other securities with maturities				
Government bonds	146	1,477	707	154
Total	<u>¥55,578</u>	<u>¥1,477</u>	<u>¥707</u>	<u>¥154</u>

	Thousands of U.S. dollars (Note 6)			
	March 31, 2017			
	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	\$489,656	\$ –	\$ –	\$ –
Notes and accounts receivable, trade	72,539	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	224	5,703	2,954	1,516
Total	\$562,419	\$5,703	\$2,954	\$1,516

9. 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, 2017 and 2016 were as follows:

	Hedged item	Millions of yen			Thousands of U.S. dollars (Note 6)		
		March 31, 2017			March 31, 2017		
		Notional amount	Maturing after one year	Fair value	Notional amount	Maturing after one year	Fair value
Interest rate related transaction							
Deferral method							
Interest rate swap agreement							
Receive floating/ Pay fix	Long-term debt	¥4,000	¥2,880	Note	\$35,654	\$25,671	Note

	Hedged item	Millions of yen		
		March 31, 2016		
		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	¥4,000	¥3,440	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, 2017 and 2016.

10. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2017 and 2016 were as follows.

Applicable assets	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Buildings and structures	¥286	¥234	\$2,555
Machinery and equipment	275	68	2,451
Land	266	18	2,369
Other	43	135	384
Total	¥870	¥455	\$7,759

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. Value in use was calculated by discounting future cash flows at an interest rate of 1.6% and 1.7% for the years ended March 31, 2017 and 2016, respectively. The recoverable amount of certain assets (land) was measured at the net sale value, which was estimated based on an appraisal value.

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

Short-term bank loans at March 31, 2017 and 2016 were composed of the following:

	Thousands of U.S. dollars (Note 6)	
	Millions of yen	March 31,
	March 31	2017
	2017	2016
Loans, principally from banks, with weighted-average interest rates of 0.6% at March 31, 2017 and 0.7% at March 31, 2016	¥26,073	¥24,308
		\$232,399

Long-term debt at March 31, 2017 and 2016 was composed of the following:

	Thousands of U.S. dollars (Note 6)	
	Millions of yen	March 31,
	March 31	2017
	2017	2016
Loans, principally from banks and insurance companies, due 2018 to 2026 with weighted-average interest rates of 0.7% at March 31, 2017 and 0.9% at March 31, 2016	¥52,379	¥48,810
		\$466,875
Non-recourse loans, due 2018 to 2021 with weighted-average interest rate of 0.7% at March 31, 2017	1,901	-
		16,938
Unsecured 0.60% bonds, due 2017	-	150
		-
Unsecured 0.37% bonds, due 2020	500	500
		4,457
Unsecured 0.36% bonds, due 2020	500	500
		4,457
	55,280	49,960
		492,727
Less portion due within one year	(10,155)	(14,124)
		(90,512)
	¥45,125	¥35,836
		\$402,215

Weighted-average interest rates are weighted-average interest rates on the balance of loans at year-end. Loans at March 31, 2017 and 2016 include syndicate loan of ¥26,929 million (\$240,030 thousand) and ¥19,800 million, respectively.

The aggregate annual maturities of long-term debt outstanding at March 31, 2017 were as follows:

	Thousands of U.S. dollars (Note 6)	
Year ending March 31,	Millions of yen	March 31,
		2017
2018	¥10,138	\$90,362
2019	10,259	91,439
2020	8,222	73,291
2021	8,134	72,501
2022	7,213	64,290
Thereafter	9,413	83,906
Total	¥53,379	\$475,789

The aggregate annual maturities of non-recourse long-term debt outstanding at March 31, 2017 were as follows:

	Thousands of U.S. dollars (Note 6)	
Year ending March 31,	Millions of yen	March 31,
		2017
2018	¥17	\$150
2019	19	170
2020	19	170
2021	19	170
2022	1,827	16,278
Thereafter	-	-
Total	¥1,901	\$ 16,938

The aggregate annual maturities of lease obligations included in other current liabilities and other long-term liabilities outstanding at March 31, 2017 were as follows:

	Thousands of U.S. dollars (Note 6)	
Year ending March 31,	Millions of yen	March 31,
		2017
2018	¥134	\$1,192
2019	135	1,200
2020	138	1,234
2021	104	927
2022	85	755
Thereafter	865	7,712
Total	¥1,461	\$13,020

Lease obligations are due 2018 to 2035 with weighted-average interest rates of 4.5% and 5.7% at March 31, 2017. Lease obligations recorded in the consolidated balance sheets include future lease payments before deducting deemed interest expenses, and such amounts are excluded in calculating weighted-average interest rates.

The aggregate annual maturities of other interest-bearing liabilities included in “Accounts payable, other” and “Other long-term liabilities” outstanding at March 31, 2017 were as follows:

	Thousands of U.S. dollars (Note 6)	
Year ending March 31,	Millions of yen	March 31,
		2017
2018	¥427	\$3,808
2019	216	1,922
2020	125	1,115
2021	17	151
2022	4	40
Thereafter	-	-
Total	¥789	\$7,036

Other interest-bearing liabilities are short-term and long-term payables for installment purchases of equipment.

Assets pledged as collateral for secured loans and debt at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Pledged assets			
Notes and accounts receivable, trade	¥–	¥50	\$–
Land and housing for sale	1,938	1,020	17,275
Cost of uncompleted contracts	231	251	2,056
Buildings and structures	3,912	1,963	34,871
Machinery and equipment	477	694	4,253
Land	5,529	4,567	49,280
Other fixed assets	90	-	802
Total	¥12,177	¥8,545	\$108,537

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Secured loans and debt			
Short-term bank loans	¥8,334	¥7,394	\$74,282
Long-term debt	5,720	2,767	50,984
Total	¥14,054	¥10,161	\$125,266

In addition to the above pledged assets, shares in subsidiaries of ¥34 million (\$307 thousand) and ¥28 million were also pledged as collateral as of March 31, 2017 and 2016, respectively.

12. Pension and severance costs:

The Company and its domestic consolidated subsidiaries have 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 years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Projected benefit obligation at beginning of year	¥31,677	¥28,455	\$282,348
Service cost	2,407	2,191	21,450
Interest cost	189	344	1,684
Actuarial (gains) losses	(179)	2,092	(1,598)
Retirement benefit paid	(1,605)	(1,482)	(14,301)
Prior service costs	(1,534)	–	(13,670)
Other	(57)	77	(506)
Projected benefit obligation at end of year	¥30,898	¥31,677	\$275,407

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 years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Plan assets at beginning of year	¥29,997	¥27,843	\$267,374
Expected return on plan assets	472	437	4,203
Actuarial losses	(827)	(564)	(7,364)
Contributions by the Company	2,354	2,574	20,982
Contribution of securities to retirement benefit trust	–	1,074	–
Retirement benefits paid	(1,583)	(1,367)	(14,106)
Plan assets at end of year	¥30,413	¥29,997	\$271,089

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2016 for the Company’s and the consolidated subsidiaries’ defined benefit retirement plans:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Funded projected benefit obligation	¥29,832	¥30,667	\$265,904
Plan assets at fair value	(30,413)	(29,997)	(271,089)
	(581)	670	(5,185)
Unfunded projected benefit obligation	1,066	1,010	9,503
Net liabilities and assets for retirement benefits in the balance sheet	¥485	¥1,680	\$4,318
Net defined benefit liability	¥2,214	¥3,033	\$19,732
Net defined benefit asset	(1,729)	(1,353)	(15,414)
Net liabilities and assets for retirement benefits in the balance sheet	¥485	¥1,680	\$4,318

The components of net pension and severance costs for the years ended March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Service cost (Note 1)	¥2,407	¥2,191	\$21,450
Interest cost	189	344	1,684
Expected return on plan assets	(472)	(437)	(4,203)
Amortization and expenses:			
Actuarial (gains) losses	49	(290)	436
Prior service costs	(106)	6	(943)
Other	(62)	5	(552)
Net pension and severance costs	¥2,005	¥1,819	\$17,872
Gain on contribution of securities to retirement benefit trust (Note 2)	¥-	¥445	\$-

Note 1: Net pension and severance costs of certain consolidated subsidiaries applying the simplified method are included in service cost.

Note 2: Gain on contribution of securities to retirement benefit trust is recorded under “Other gains (“TOKUBETSU RIEKI”)” in the consolidated statement of income.

Prior service costs and actuarial losses included in other comprehensive income (before tax effects) for the years ended March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Prior service costs	(¥1,428)	(¥6)	(\$12,727)
Actuarial losses	598	2,946	5,331
Total	(¥830)	¥2,940	(\$7,396)

Unrecognized prior service costs and unrecognized actuarial losses included in accumulated other comprehensive income (before tax effects) as of March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Unrecognized prior service costs	(¥1,408)	¥22	(\$12,554)
Unrecognized actuarial losses	749	126	6,679
Total	(¥659)	¥148	(\$5,875)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 were as follows.

	Years ended March 31	
	2017	2016
Debt securities	23%	23%
Equity securities	26	18
General accounts	41	48
Other	10	11
Total	100%	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:

	Years ended March 31	
	2017	2016
Discount rate	0.0-1.5%	0.0-1.5%
Expected long-term rate of return on plan assets	0.0-6.1%	0.0-5.4%

The Company and its domestic consolidated subsidiaries contributed ¥263 million (\$2,342 thousand) and ¥249 million to defined contribution pension plans for the years ended March 31, 2017 and 2016, respectively.

13. Shareholders' equity:

(1) Type and number of stock issued and treasury stock for the years ended March 31, 2017 and 2016 are as follows:

For the year ended March 31, 2017

Type of shares	Number of shares			
	April 1, 2016	Increase during the year	Decrease during the year	March 31, 2017
Stock issued:				
Common stock	38,738,914	4,331,249	-	43,070,163
Treasury stock				
Common stock	1,388,550	2,054	1,389,651	953

For the year ended March 31, 2016

Type of shares	Number of shares			
	April 1, 2015	Increase during the year	Decrease during the year	March 31, 2016
Stock issued:				
Common stock	38,738,914	-	-	38,738,914
Treasury stock				
Common stock	1,385,923	2,627	-	1,388,550

Notes:

1. Increase in the number of shares in stock issued for the year ended March 31, 2017 is due to the issuance of shares through a third-party allocation (4,331,249 shares).
2. Increase in the number of shares in treasury stock for the year ended March 31, 2017 is due to a purchase of odd-lot shares of less than one unit (2,054 shares).
3. Decrease in the number of shares in treasury stock for the year ended March 31, 2017 is due to the disposition of shares through a third-party allocation (1,389,651 shares).
4. Increase in the number of shares in treasury stock for the year ended March 31, 2016 is due to a purchase of odd-lot shares of less than one unit (2,627 shares).

(2) Dividends paid during the years ended March 31, 2017 and 2016

For the year ended March 31, 2017

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 29, 2016	Common stock	¥747	\$6,658	¥20	\$0.18	March 31, 2016	June 30, 2016

For the year ended March 31, 2016

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2015	Common stock	¥747	¥20	March 31, 2015	June 29, 2015

(3) Dividends with the cut-off date in the years ended March 31, 2017 and 2016, and the effective date in the year ending March 31, 2018 and 2017, respectively

For the year ended March 31, 2017

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 29, 2017	Common stock	¥1,077	\$9,597	Retained earnings	¥25	\$0.22	March 31, 2017	June 30, 2017

Note: Dividends per share of ¥25 (\$0.22) includes a special dividend of ¥5 (\$0.04).

For the year ended March 31, 2016

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2016	Common stock	¥747	Retained earnings	¥20	March 31, 2016	June 30, 2016

14. 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Buildings and structures	¥1	¥28	\$7
Machinery and equipment	4	4	41
Land	-	16	-
Other	0	2	1
Total	¥5	¥50	\$49

15. 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Buildings and structures	¥113	¥95	\$1,009
Machinery and equipment	5	11	39
Land	-	0	-
Other	18	24	160
Total	¥136	¥130	\$1,208

16. Per share information:

Basis for calculation of profit per share for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Basic EPS—Profit attributable to common shareholders of parent	¥4,423	¥3,438	\$39,423
Weighted average number of common shares outstanding:			
-Basic	38,669,668	37,351,780	
	Yen		U.S. dollars (Note 6)
Profit per share:			
-Basic	¥114.37	¥92.05	\$1.02

Basis for calculation of net assets per share as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	As of March 31		As of March 31,
	2017	2016	2017
Total net assets	¥52,309	¥42,845	\$466,260
Amounts deducted from total net assets:			
Non-controlling interests in subsidiaries	(2,470)	(2,337)	(22,017)
Net assets attributable to common shares	¥49,839	¥40,508	444,243
Number of common shares outstanding:	43,069,210	37,350,364	
	Yen		U.S. dollars (Note 6)
Net assets per share:	¥1,157.20	¥1,084.54	\$10.31

17. 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 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Deferred tax assets:			
Tax loss carry forwards	¥13,020	¥14,213	\$116,054
Devaluation of inventories	1,363	1,493	12,151
Accrued bonuses	1,898	1,783	16,921
Net defined benefit liability	940	1,152	8,379
Allowance for doubtful accounts	1,933	1,891	17,227
Goodwill	388	721	3,456
Provision for warranties for completed construction	1,076	682	9,589
Impairment loss	644	534	5,742
Others	2,933	2,637	26,144
Gross deferred tax assets	24,195	25,106	215,663
Less: valuation allowance	(17,543)	(18,302)	(156,373)
Total deferred tax assets	6,652	6,804	59,290
Deferred tax liabilities:			
Fair market valuation as a result of adoption of consolidated taxation system	(390)	(390)	(3,472)
Net unrealized gains on other securities	(151)	(143)	(1,343)
Net defined benefit asset	(583)	(390)	(5,197)
Expense related to asset retirement obligations	(149)	(160)	(1,327)
Others	(108)	(106)	(967)
Gross deferred tax liabilities	(1,381)	(1,189)	(12,306)
Net deferred tax assets	¥5,271	¥5,615	\$46,984

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 decreased by ¥758 million (\$6,760 thousand) for the year ended March 31, 2017 and increased by ¥454 million for the year ended March 31, 2016.

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, 2017 and 2016 were reconciled as follows:

	Years ended March 31	
	2017	2016
Statutory income tax rate	30.9%	33.1%
Reconciliation:		
Entertainment expenses, etc. permanently non-tax deductible	2.5	2.9
Per capita inhabitants tax	3.8	3.6
Changes in valuation allowance	(11.5)	10.4
Consolidation adjustment	0.8	(7.8)
Tax credit for research and development costs	(0.5)	(0.8)
Effect of change in statutory income tax rate	(2.8)	2.6
Others	0.8	(0.6)
Effective income tax rates	23.9%	43.4%

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016, a scheduled increase in the consumption tax rate to 10 percent was postponed from April 1, 2017 to October 1, 2019.

Accordingly, scheduled abolishment of special local corporation tax, reimposition of corporate enterprise tax, amendment of local corporation tax rate and amendment of corporation tax rate for inhabitant tax were also postponed from the fiscal years beginning on or after April 1, 2017 to the fiscal years beginning on or after October 1, 2019.

There was no change on the effective statutory tax rate that was utilized for the measurement of deferred tax assets and deferred tax liabilities. However, the reclassification of national tax rate and local tax rate was made.

The impact on profit or loss for the year ended March 31, 2017 was immaterial.

18. Cost of sales, general and administrative expenses:

Provision for loss on construction contracts, which are included in cost of sales, were ¥84 million (\$752 thousand) and ¥130 million for the years ended March 31, 2017 and 2016, respectively.

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥1,364 million (\$12,160 thousand) and ¥1,891 million for the years ended March 31, 2017 and 2016, respectively.

19. Business structure improvement expenses:

Business structure improvement expenses of ¥616 million for the year ended March 31, 2016 mainly consists of restructuring expenses to integrate four sales subsidiaries in Tokyo metropolitan area.

20. Cash flow information:

Cash and cash equivalents at March 31, 2017 and 2016 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Cash and bank deposits	¥55,004	¥47,718	\$490,275
Less:			
Time deposits due over three months	(660)	(635)	(5,884)
Cash and cash equivalents	¥54,344	¥47,083	\$484,391

21. Leases:

The Company leases groups of assets which are recorded in “Buildings and structures” as part of property, plant and equipment in the accompanying consolidated balance sheet as of March 31, 2017 and 2016.

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, 2017 and 2016 amounted to ¥2 million (\$19 thousand) and ¥6 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, 2017 and 2016 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Acquisition cost:			
Buildings and structures	¥26	¥26	\$236
Other property, plant and equipment	-	12	-
	26	38	236
Less:			
Accumulated depreciation	(13)	(24)	(122)
Net book value	¥13	¥14	\$114

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, 2017 and 2016.

Depreciation expenses for these leased assets for the years ended March 31, 2017 and 2016, would have been ¥1 million (\$13 thousand) and ¥5 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, 2017 and 2016, would have been ¥1 million (\$7 thousand) and ¥1 million, respectively.

Accumulated impairment loss as of March 31, 2017 and 2016, would have been ¥290 million (\$2,589 thousand) and ¥401 million, respectively, and the amount is deducted from the acquisition cost.

Future lease payments for finance leases at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Future lease payments			
Due within one year	¥1	¥2	\$12
Due after one year	15	16	129
Total	¥16	¥18	\$141

Future lease payments for non-cancelable operating leases at March 31, 2017 and 2016 were as follows:
(As a lessee)

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Future lease payments			
Due within one year	¥495	¥379	\$4,415
Due after one year	6,089	6,219	54,273
Total	¥6,584	¥6,598	\$58,688

(As a lessor)

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Future lease payments			
Due within one year	¥12	¥-	\$107
Due after one year	47	-	419
Total	¥59	¥-	\$526

22. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2017 and 2016 were ¥34,493 million (\$307,450 thousand) and ¥33,366 million, respectively.

23. Non-recourse loans:

Non-recourse loans at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Short-term bank loans	¥17	¥-	\$150
Long-term debt	1,884	-	16,788
Total	¥1,901	¥-	\$16,938

Assets correspond to the non-recourse loans at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	Years ended March 31		Year ended March 31,
	2017	2016	2017
Buildings and structures	¥2,034	¥-	\$18,128
Machinery and equipment	13	-	117
Land	1,070	-	9,540
Other	90	-	802
Total	¥3,207	¥-	\$28,587

The amount of the assets in the above table are included in pledged assets as collateral for secured loans and debt in Note 11. Short-term bank loans and long-term debt.

24. Investment and rental properties:

The Company owns office buildings (including land) for rental purpose in Tokyo and other areas. Net rent income (majority of rent income and rent expenses are recorded in “Net sales” and “Cost of sales”, respectively) related to rental properties for the year ended March 31, 2017 was ¥186 million (\$1,655 thousand). Net rent income (majority of rent income and rent expenses are recorded in “Net sales” and “Cost of sales”, respectively) and impairment loss (recorded in “Other losses (“TOKUBETSU SONSHITSU”))” related to rental properties for the year ended March 31, 2016 was ¥80 million and ¥32 million, respectively.

The carrying amounts, changes during the year, and fair values of such rental properties were as follows:

	Millions of yen			
	Carrying amount			Fair value
	April 1, 2016	Net increase	March 31, 2017	March 31, 2017
Rental properties	¥5,661	¥8,989	¥14,650	¥15,967

	Millions of yen			
	Carrying amount			Fair value
	April 1, 2015	Net increase	March 31, 2017	March 31, 2016
Rental properties	¥3,440	¥2,221	¥5,661	¥6,559

Thousands of U.S. dollars (Note 6)			
Carrying amount			Fair value
April 1, 2016	Net increase	March 31, 2017	March 31, 2017
\$50,460	\$80,122	\$130,582	\$142,317

Notes:

1. Carrying amount is shown as acquisition costs less accumulated depreciation and cumulative impairment losses.
2. Increase for the year ended March 31, 2017 is due mainly to acquisition of properties of ¥9,193 million (\$81,942 thousand) and decrease for the year ended March 31, 2017 is due mainly to decrease in rental floor space of ¥138 million (\$1,233 thousand).
3. Increase for the year ended March 31, 2016 is due mainly to acquisition of properties of ¥1,485 million and decrease for the year ended March 31, 2016 is due mainly to sales of properties of ¥237 million.
4. Fair value as of March 31, 2017 and 2016 was estimated based on the real estate appraisal standards or similar methods (including for those adjusted by index).

25. Related party transactions:

Significant transactions between the Company and related parties for the year ended March 31, 2017 were as follows:

(Transactions)

Category	Name	Location	Paid-in capital	Principal business	Share of voting rights	Relationship	Millions of Yen / Thousands of U.S. dollars (Note 6)			
							Details of transactions	Transaction amount	Account	Resulting account balances
Parent	Toyota Housing Corporation	Nagoya-city, Aichi	¥12,900 million (\$114,984 thousand)	Technology development, production, sales, construction, and after-sales service of housing	51.2%	Sales of housing components and system utilization Interlocking directorate	Issuance of common stock	¥3,786 (\$33,742)	-	-
							Disposition of treasury stock	¥1,215 (\$10,826)	-	-

As a result of issuance of common stocks through third party allocation and disposition of treasury stocks in January 2017, the attribute of Toyota Housing Corporation was changed to a parent company. Issuance of common stocks and disposition of treasury stocks were due to the third party allocation to Toyota Housing Corporation. Both issuance and disposition prices per share of ¥874 (\$7.79) was adapted from the closing price of the Company’s common stock on the Tokyo Stock Exchange at November 21, 2016, which was the day before resolution of the board of directors held on November 22, 2016.

There were no significant transactions between the consolidated subsidiaries of the Company and related parties for the year ended March 31, 2017.

There were no significant transactions between the company and related parties for the year ended March 31, 2106.

Significant transactions between the consolidated subsidiaries of the Company and related parties for the year ended March 31, 2016 were as follows:

(Transactions)

Name of related party	Type of transaction	Millions of yen
		Year ended March 31, 2016
Masako Kagawa	Housing construction contract	¥20
Masumi Sato	Housing remodeling contract	¥12

Consumption taxes were not included in the transaction amount. There was no outstanding balance with Masako Kagawa and Masumi Sato as of March 31, 2016. Masako Kagawa is a close relative of Takahiro Kagawa, a full-time corporate auditor of the Company and the contract amount was determined based on the employee's house ownership discount policy for housing construction contract. Masumi Sato is a close relative of Haruo Sato, a representative director and CEO of Misawa Homes Institute of Research and Development Co., Ltd. and the contract amount is determined based on transactions with third parties.

26. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	March 31		March 31,
	2017	2016	2017
Net unrealized gains (losses) on other securities			
Gains (losses) arising during the year	¥55	(¥468)	\$487
Reclassification adjustments	(4)	(49)	(33)
Before income tax effect	51	(517)	454
Income tax effect	(9)	72	(76)
Total	42	(445)	378
Foreign currency translation adjustments			
Adjustments arising during the year	(70)	(48)	(625)
Remeasurements of defined benefit plans			
Adjustments arising during the year	887	(2,656)	7,903
Reclassification adjustments	(57)	(284)	(507)
Before income tax effect	830	(2,940)	7,396
Income tax effect	(224)	835	(1,995)
Total	606	(2,105)	5,401
Total other comprehensive income	¥578	(¥2,598)	\$5,154

27. 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						
	2017						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥156,222	¥31,591	¥25,905	¥6,040	¥61,976	¥118,119	¥399,853
	Millions of yen						
	2016						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥160,701	¥31,338	¥29,532	¥6,178	¥59,747	¥111,841	¥399,337

	Thousands of U.S. dollars (Note 6)						
	2017						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	\$1,392,478	\$281,588	\$230,906	\$53,833	\$552,418	\$1,052,848	\$3,564,071

(3) Geographical segments

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

(4) Information by major customers

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

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

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

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

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

Report of Independent Auditors



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Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan
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, 2017, 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, 2017, 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 6.

Ernst & Young Shinnihon LLC

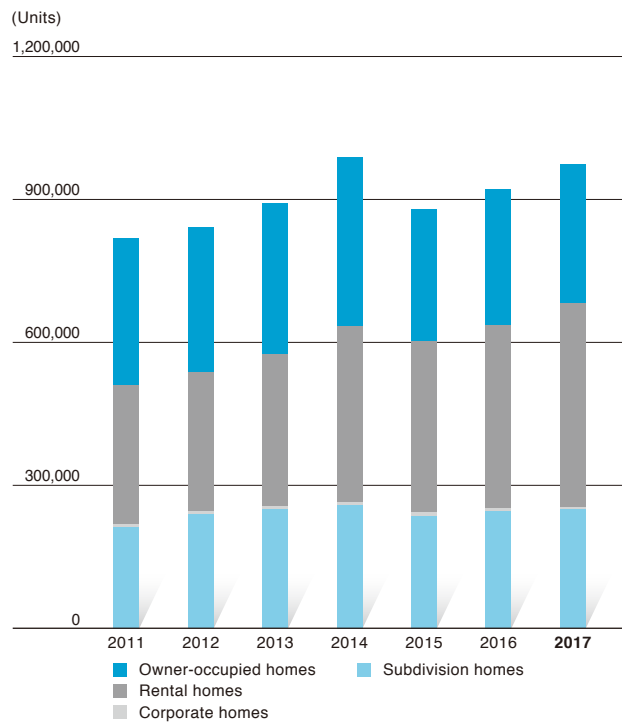
June 29, 2017
Tokyo, Japan

A member firm of Ernst & Young Global Limited

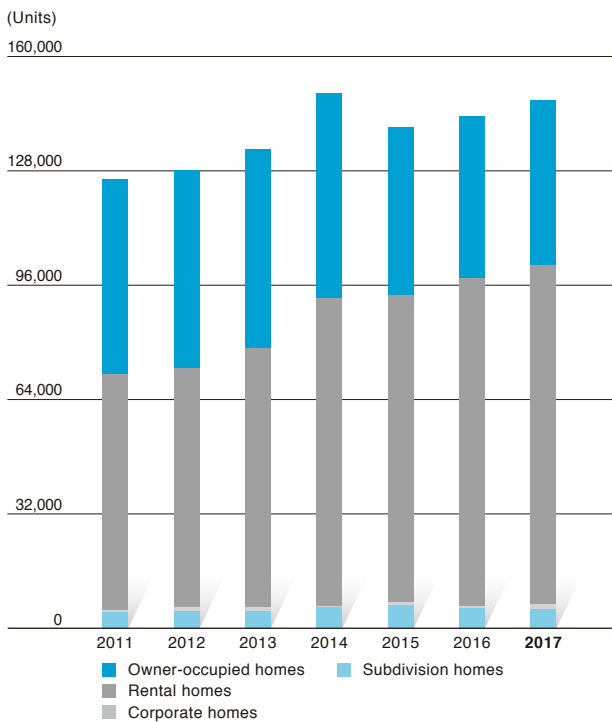
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Trends in the Housing Market in Japan

Housing Starts in Japan



Prefabricated Housing Starts in Japan



Housing Starts in Japan

Fiscal year ended March 31	2011	2012	2013	2014	2015	2016	2017
Owner-occupied homes	308,517	304,822	316,532	352,841	278,221	284,441	291,783
Rental homes	291,840	289,762	320,891	369,993	358,340	383,678	427,275
Corporate homes	6,580	7,576	5,919	5,272	7,867	5,832	5,793
Subdivision homes	212,083	239,086	249,660	259,148	236,042	246,586	249,286
Total	819,020	841,246	893,002	987,254	880,470	920,537	974,137

Prefabricated Housing Starts in Japan

Fiscal year ended March 31	2011	2012	2013	2014	2015	2016	2017
Owner-occupied homes	54,715	55,396	55,887	57,422	46,820	45,136	45,974
Rental homes	65,952	66,994	72,488	86,028	86,100	91,849	94,966
Corporate homes	533	1,009	373	540	792	534	1,221
Subdivision homes	4,502	4,817	5,339	5,766	6,445	5,645	5,433
Total	125,702	128,216	134,087	149,756	140,157	143,164	147,594

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

Subsidiaries and Affiliated Companies (As of March 31, 2017)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Co., Ltd. (%)	Primary Business
Consolidated subsidiaries:				
Misawa Homes Hokkaido Co., Ltd.	Sapporo, Hokkaido Prefecture	100	100.0	Construction and sales of prefabricated houses
Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Hokuetsu 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	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Kinki Co., Ltd.	Osaka, Osaka Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Chugoku Co., Ltd.	Okayama, Okayama Prefecture	1,369	72.9 (3.8)	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	100	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 Homes Construction Co., Ltd.	Chofu, Tokyo	50	100.0	Construction of prefabricated houses
Misawa Homeing Co., Ltd.	Suginami-ku, Tokyo	100	100.0	Home renovation
Techno Factories and Construction Co., Ltd.	Shinjuku-ku, Tokyo	50	85.1 (15.0)	Manufacture of house materials
CS Logistics Co., Ltd.	Suginami-ku, Tokyo	30	100.0	Procurement, manufacture and distribution of materials
Misawa Homes Real Estate Co., Ltd.	Shinjuku-ku, Tokyo	90	100.0	Real estate sales, brokerage, rental and management
Motherth Co., Ltd.	Shinjuku-ku, Tokyo	50	100.0	Fee-based operation of nursing homes and apartment housing complexes for seniors
Misawa Financial Service Co., Ltd.	Shinjuku-ku, Tokyo	500	100.0	Mortgage lending
25 others				

Affiliated companies:

Toyota Motor Corporation	Toyota, Aichi Prefecture	397,050	[51.2] [[51.2]]
Toyota Housing Corporation	Nagoya, Aichi Prefecture	12,900	[51.2]

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, 2017)

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: ¥11,892 million

Directors,
Executive
Officers and
Audit & Supervisory
Board Members
(As of June 29, 2017)

Directors	Executive Officers
Nobuo Takenaka ¹	Masashi Isogai ⁴
Masashi Isogai ²	Hideki Shimomura ⁵
Hideki Shimomura ²	Hideyuki Yoshimatsu ⁶
Hideyuki Yoshimatsu	Sumio Yokota ⁷
Sumio Yokota	Tetsuya Sakuo ⁷
Tetsuya Sakuo	Kengo Shoji ⁷
Kengo Shoji	Yukihiko Ishikawa ⁷
Tadashi Yamashina	Tetsuyuki Morita
Yuji Goto	Hidehiko Hara
Naoki Teramoto	Kazuyoshi Akimoto
Masahiro Sugino	Takashi Nakamura
Masakazu Iwaki	Saburo Yanagidani
	Hitoshi Shirahama
	Masanobu Hosono
	Shuichi Zaikawa
	Kazuhide Nanya
	Shinichi Tsutsumiuchi
Audit & Supervisory Board Members	
Takahiro Kagawa ³	
Hiroto Hase ³	
Hirohiko Fukatsu	
Nobuo Nagasaki	

¹Chairman of the Board
²Representative Director
³Standing Audit & Supervisory Board Member
⁴Chief Executive Officer
⁵Executive Vice President
⁶Senior Managing Executive Officer
⁷Managing Executive Officer

Share
Information

	Shares
Total number of shares authorized	150,000,000
Total number of shares issued	43,070,163
Number of shareholders	
Common stock	33,241

Major shareholders	No. of shares	%
1 Toyota Housing Corporation	21,965,898	51.0
2 Aioi Nissay Dowa Insurance Co., Ltd.	1,485,727	3.4
3 Misawa Homes Group Employee Shareholders Association	833,963	1.9
4 Japan Trustee Services Bank, Ltd. (Trust A/C9)	745,200	1.7
5 Nippon Life Insurance Company	609,053	1.4
6 Japan Trustee Services Bank, Ltd. (Trust A/C)	589,000	1.4
7 The Bank of Tokyo-Mitsubishi UFJ, Ltd.	559,912	1.3
8 The Master Trust Bank of Japan, Ltd. (Trust A/C)	546,000	1.3
9 Japan Trustee Services Bank, Ltd. (Trust A/C5)	485,800	1.1
10 CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	384,500	0.9

Note: Percentage shareholdings are calculated after deducting treasury stock.

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

