



Annual Report 2018
Annual Report 2018
Annual Report 2018

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 wooden panel adhesion system for prefabricated housing construction, the Company has consistently emphasized maintenance and improvement of asset value over the long term in the supply of quality homes—a position reflected in the corporate motto, "Lifelong commitment to customers through housing."

Our core business is the sale of single-family detached and rental homes, and we have supplied more than 1.3 million homes in total. In addition to our core housing business, we are committed to our housing-related businesses, such as asset utilization, remodeling and residential community development, which 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 28 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 that of Antarctica.

Contents

To Our Shareholders	01
Basic Principles of the Medium-term Management Plan	03
Business Summary for Fiscal 2018	05
Topics	10
Corporate Governance Structure	11
Financial Section	12
Financial Review	13
Consolidated Financial Statements	15
Report of Independent Auditors	51
Trends in the Housing Market in Japan	53
Subsidiaries and Affiliated Companies	54
Corporate Data	55

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.

On October 1, 2017, Misawa Homes celebrated its 50th anniversary. I would like to take this opportunity to extend my heartfelt appreciation to all stakeholders, including investors, for the constant support you have shown us over the years.

Internal factors have also supported growth over these 50 years, namely, original ideas—highlighted by a wooden panel adhesion system for prefabricated housing construction—and leading-edge technologies and product development capabilities designed to achieve industry firsts, domestic firsts and world firsts. These qualities are infused with a pioneering spirit—an ever-present mission to be an innovative company—and a strong desire to create comfortable lifestyles through housing. We have produced numerous innovations through the years, and I believe the corporate DNA that has characterized our

success to date must be passed down for future use.

We imagine a future Japan much different from that of today. Changes are already happening, as a shrinking population, due to a low birthrate, and the graying of society reshape the social structure, and lifestyles transform through the introduction of new technologies, particularly artificial intelligence (AI) and the Internet of Things (IoT). In this future, we too must evolve to match changing times but retain the pioneering spirit that defines our corporate DNA.

In fiscal 2018, we embarked on a new medium-term management plan and took our first step toward our next 50 years. With this plan, we will expand the scope of asset utilization services and remodeling, which are existing businesses, while pursuing aggressive investment in new business that will further diversify our business portfolio. We will strive to go beyond the boundaries of a

company that sells homes to become a corporate group that provides new services and value and designs consumer lifestyles.

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

July 2018



Masashi Isogai
President and CEO



Basic Principles 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 Corporation, our parent company

We will promote activities to maximize the synergistic effect generated collectively by Misawa Homes and Toyota Housing in 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 fills our corporate motto, "Lifelong commitment to customers through housing," and our corporate DNA, cultivated 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 by the end of fiscal 2020, up from 20.2 percent at the end of fiscal 2017, 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 in-house projects that promote 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 the prevention of disasters or reduction of the impact of disasters, and enhance sales of homes in the mid- to high-price range by enriching the lineup of products, particularly homes for rebuilding 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 of three to five floors 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 home remodeling capabilities for medium- and large-scale projects above ¥3 million 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 the "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 engage in the operation of nursing care facilities, from a social contribution perspective, and pursue a presence in the childcare support business, including regular after-school care for children and special after-school care for children with developmental disabilities.

Business Summary for Fiscal 2018

◆ Homebuilding

The Japanese government aims to install Net Zero Energy Housing (ZEH) design in the standard new homes by 2020. ZEH offsets energy consumed with energy generated by photovoltaic systems and other home-integrated renewable energy systems. Misawa Homes developed CENTURY MONOCOQUE, a new construction method having the housing industry's highest level of building performance while also meeting the ZEH standard set by the government even for designs with wide window openings. We applied the method to CENTURY Primore—a home in our 50th anniversary lineup—and began sales of this product in April 2017. We also expanded MJ Wood, our brand of wooden framework homes, with MJ FRAME, a new series that features wide window openings and wide views while retaining high earthquake resistance. We worked to expand orders with this product.

Of note, CENTURY MONOCOQUE and CENTURY Primore each earned a Good Design Award, giving Misawa Homes the distinction of being the only company in the housing industry to have captured a Good Design Award for 28 straight years. Also, Familink ZERO, a wooden-panel prefabricated home that debuted in 2016, captured a Kids Design Award, extending Misawa Homes' winning streak for this award to 11 straight years.

In home components, we developed LinkGates, a system using IoT to keep household energy use at

optimum levels and to provide various services related to the home, such as crime prevention, disaster prevention and security monitoring. Sales of this system were launched in fiscal 2018.

In the subdivision homes business, we worked to create communities with high asset value differentiated by townhouses and subdivision developments designed with a clear concept. The Owners' Hill Toda Ryoku Terrace subdivision, in Saitama Prefecture, was selected as an example of forward-thinking subdivision design by the prefectural government for its measures to deal with heat island effects.



MJ FRAME—a wooden framework home



CENTURY Primore—a wooden panel, prefabricated home

◆ Remodeling

In home remodeling, we emphasized “health” as a gateway to expanded orders. In addition to existing solutions to prevent shock from a sudden temperature change and to create barrier-free access, we presented residents with ideas for improving their air, light and sound environments to reduce mental and physical stress. We also developed a simulation tool that numerically expresses the effects of insulation improvements and presented solutions that make it easy to understand the benefits of insulation repairs and upgrades.

In condominium renovations, we enriched the lineup of Marm remodeling products with a per-square-meter fixed price, and we opened a model room to showcase these products. The model room also features a presentation tool that uses virtual reality to enable visitors to compare before and after remodeling.

We are working to increase stock-type assets of safe, high-quality structures through a building revitalization technique called Refining Architecture. This technique makes existing buildings, especially non-

◆ Asset Utilization Services

We worked to expand orders for rental homes and promoted solutions for non-residential and large-scale structures such as construction of buildings to utilize idle corporate land.

We also implemented various approaches to maximize asset value for property owners and endeavored to expand the scope of our services. In Chiba Prefecture, we completed a project hinged around a group home for the disabled with a same-site share house for families of residents of the group home as well as living quarters for the staff who work there. The idea behind this project was to create a new community that provides relaxing spaces and peace of mind to residents, families and caregivers.

Another project was a daycare facility that Akebono Brake Industry Co., Ltd., a major supplier to Toyota Motor Corporation, opened on the grounds of its head office. Misawa Homes designed and constructed the facility and created a daycare environment that is both safe and secure.

In other news, one of our products—a four-story, wooden combined store-and-rental-home structure built in a fire-protection zone—captured a Japan Wood Design Award in 2017. The award program is subsidized by

residential buildings, dramatically more earthquake-resistant and significantly extends their useful service life. In fiscal 2018, Misawa Homes applied this technique to two structures, a dormitory built more than 50 years ago for government workers and a technical college building built 36 years ago, transforming them into housing with performance features and a standard of quality equivalent to that of any newly built structure. Both buildings began operating as Company-owned rental homes.



Marm model room

Japan's Forestry Agency. The award-winning product is noteworthy in that it utilizes the Future Wood System, a new construction method for wooden adhesive composite panels developed by Misawa Homes Institute of Research and Development Co., Ltd., a member of the Misawa Homes Group.



Community with a group home for the disabled at its core

◆ Residential Community Development Business

ASMACHI Urayasu, a commercial complex in Urayasu, Chiba Prefecture, was completed in March 2018. Selected by the government as a project to promote smart wellness facilities in Japan, this complex will establish a framework for providing comprehensive community care support and service, enabling people to remain in familiar surroundings and live life as they like until the end of their days. For the Misawa Homes Group, ASMACHI Urayasu is the first project under the smart wellness concept integrating multiple features, such as medical treatment, senior care and daycare. Plans also call for the purchase of land adjacent to the complex to build condominiums for active seniors, with construction scheduled to start in November 2018.

In other activities, we are working with local banks in Akita Prefecture to start a project to establish a Continuing Care Retirement Community (CCRC) close to Akita Station. We are also involved in an upgrading project facilitated by Japan's Private Finance Initiative



Concept drawing of CCRC project in the city of Akita

under a basic agreement signed with other participants, including local construction companies, with the city of Fujisawa, Kanagawa Prefecture. Also, we teamed up with Misawa Homes Institute of Research and Development and Misawa Homes Chugoku Co., Ltd., to create a community based on a comprehensive partnership agreement for community development with the city of Bizen, Okayama Prefecture.

In the condominium business, sales companies of the Misawa Homes Group focused on sales of ALBIO-brand condominiums in local cities. Condominium projects jointly undertaken by Misawa Homes and Toyota Housing moved into the sales phase, with units in two buildings in Tokyo put on the market.



Concept drawing of upgrading project in the city of Fujisawa



Concept drawing of ANESIA TSUKIJI STATION RESIDENCE, joint condominium project with Toyota Housing

◆ Other Businesses

Senior care services, welfare services and childcare support business

Guided by the corporate motto “Lifelong commitment to customers through housing,” Misawa Homes and members of the Misawa Homes Group have been involved in senior care and welfare services for more than 20 years. In fiscal 2018, we welcomed the opening of Home Hospice Minami-Kashiwa, a private, residential-style nursing home for people in the last stage of cancer or afflicted by other incurable diseases. The facility is run by Motherth Co., Ltd., which handles the Group's nursing care business. While Home Hospice Minami-Kashiwa offers home-based care, nurses and caregivers are available 24 hours a day, and close ties with nearby medical facilities distinguish it from similar care homes. Motherth Minami-Kashiwa, a private nursing home also operated by Motherth, captured the highest award in the category that recognizes improvement in employee services and employee retention rate, in Living of the

Year 2017, a program sponsored by the Council of Senior Housing Industry Executives, an organization of managers who deal with senior housing.

In the childcare support business, Saint Staff Co., Ltd., handles staff assignments and facility operations for the Group, with a focus on senior care and daycare services. The company opened its third facility, which offers after-school care and other day services.

In other activities, we took part in a project to



Example of daycare center construction

integrate a daycare center into a vehicle showroom built by Tokyo Toyopet Motor Sales Co., Ltd., a dealership under Toyota Motor Corporation, by offering our wide range of know-how.

Environmental and Social Contribution Activities

After being commissioned in 1968 to build the 10th living hut at Japan's Antarctic observation base, Misawa Homes received subsequent orders to build structures that support the activities and lives of the observation team. To date, we have been involved in supplying 36 buildings, with floor space totaling 5,900 m². In addition to ordered structures, we have contributed to observation activities in Antarctica by seconding employees with specialized expertise in architecture to the National Institute of Polar Research as members of the construction and maintenance team. Of note, employees from Misawa Homes Group companies played an integral role in the construction of a sustainable energy hut—one of the largest structures at Showa Base—and worked on the project with other team members from different fields of specialization. Our track record has been recognized with the Award for Achievement in Polar Monitoring from the National Institute of Polar Research. The most recent award was the fourth time we earned the honor, a reflection of our constant presence as part of the observation team, with a total of 20 employees

from companies of the Group sent to Antarctica as members of the construction and maintenance team over the years from the 17th expedition in 1975 to the 58th expedition, which returned to Japan in March 2018.

Employees who have returned from their Antarctic assignments visit schools as guest speakers under a Company-directed learning opportunity for children called Antarctic Class. The lectures highlight the amazing natural environment of Earth's southernmost continent, the activities undertaken by the observation team and the importance of teamwork to ensure the success of a mission with a limited number of people. As of March 31, 2018, Misawa Homes had held Antarctic Class at 1,211 schools and presented it to more than



Basic observation tower in Antarctica

133,000 students. We receive many words of thanks, student essays and letters of appreciation from schools after holding each Antarctic Class.

Topics

Consolidated Income

(Millions of yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 (Planned)
Net sales	¥399,337	¥399,853	¥388,552	¥415,000
Operating income	6,686	8,402	7,485	8,000
Profit attributable to owners of parent	3,438	4,423	4,829	5,000

Number of Homes Sold

(Units)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 (Planned)
Custom homes	7,213	6,713	6,309	6,630
Lot-subdivision homes	921	868	818	860
Home Building Subtotal	8,134	7,581	7,127	7,490
Rental homes (Buildings)	3,431 (1,267)	3,654 (1,294)	3,450 (1,096)	3,230
Multi-dwelling units and others	741	826	870	910
Asset Utilization Services Subtotal	4,172	4,480	4,320	4,140
Total	12,306	12,061	11,447	11,630

Breakdown of Employees (Consolidated)

(People)

	Fiscal 2016	Fiscal 2017	Fiscal 2018
Misawa Homes	2,325	2,582	2,544
Sales companies	5,074	4,505	4,441
Factories	777	746	740
Other affiliates	1,002	1,084	1,134
Total	9,178	8,917	8,859

Employees in Sales (Consolidated)

(People)

	Fiscal 2016	Fiscal 2017	Fiscal 2018
New homes business	1,981	1,799	1,685
Home renovation business	980	937	907
Total	2,961	2,736	2,592

Proposal Selected by JAXA for Technology Applicable to Space Exploration Business

The Space Exploration Innovation Hub Center—nicknamed TansaX—under the Japan Aerospace Exploration Agency (JAXA) initiated its Request for Proposal, and a proposal from Misawa Homes applying technology to the space exploration business was selected. TansaX is a structure for developing new technology through a fusion of excellent terrestrial technology and space exploration technology accumulated by JAXA. For the research project presented to TansaX, Misawa Homes intends to draw on prefabrication technology polished through its involvement in the construction of numerous buildings for Showa Base in Antarctica as well as R&D insights related to homes with energy-saving features. The Company will promote joint research with JAXA to construct a sustainable new housing system by developing construction methods and technology that reduce the workload and by developing an independent energy and resource recycling system. As a pioneer in the housing industry, Misawa Homes has pursued forward-looking technology development and the creation of dream-inspired homes. In this new R&D effort with JAXA, the Company remains committed to maximizing accumulated know-how, boldly embracing challenges and contributing to the progress of Japan's space development.



TansaX logo

Synergies with Toyota Group

The Misawa Homes Group is promoting activities in six areas—technology and product development, design and construction, procurement, production and logistics, sales, systems—to maximize synergies with the Toyota Group, particularly the connection with Toyota Housing. In addition, we began efforts to create communities utilizing future-oriented mobility. Together, Misawa Homes, Misawa Homes Institute of Research and Development and Toyota Motor's Frontier Research Center, which engages in a wide range of research topics, including robots and self-driving systems, are working to create a social system that uses robotics technology to support coexistence in the community. The Misawa Homes Group actively strives to build homes as well as communities with an emphasis on a safe, comfortable environment that gives people peace of mind.

Three New Brands in Residential Community Development Business

Under the medium-term management plan, we are investing in development, particularly office buildings and condominiums, and promoting the development of complexes that provide access to medical treatment, senior care and childcare support services in the same building. The aim is to solve social issues. We are also promoting compact city-style real estate development that addresses the needs of the graying members of the community. Such complexes and real estate development are the components of future-oriented communities. In addition, to encourage greater utilization of stock properties, we are reinforcing capabilities in Refining Architecture, which dramatically raises the structural integrity of existing buildings to boost earthquake resistance, extend their useful service life and revitalize them as new buildings.

Against this backdrop, three new brands were established using the letters AS—evoking the idea of *asu* (“tomorrow” in Japanese) and *mirai* (“future”)—and MACI—representing *machi* (“town”)—in an effort to heighten the appeal of future-oriented community development by Misawa Homes.

ASMACI

ASMACI: Brand used for multi-function commercial complexes developed and owned by Misawa Homes that attract interest across several age groups. The first product is ASMACI Urayasu, in Urayasu, Chiba Prefecture.



Concept drawing of ASMACI Urayasu

ASMACI MAISON

ASMACI MAISON: Brand used for rental homes built above ASMACI commercial complex space that enables residents to take advantage of the closeness to commercial tenants. The first release is a rental home inside ASMACI Urayasu.



Concept drawing of ASMACI MAISON

ASPRIME

ASPRIME: Brand used for rental homes owned by Misawa Homes. The first product is ASPRIME Hatsudai, a residential building in Shibuya-ku, Tokyo, renovated using the Refining Architecture method.



Concept drawing of ASPRIME Hatsudai

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
	2013	2014	2015	2016	2017	2018	2018
For the Year:							
Net Sales	¥394,697	¥426,033	¥409,795	¥399,337	¥399,853	¥388,552	\$3,657,305
Cost of Sales	301,775	328,259	321,488	314,346	313,628	303,890	2,860,409
Gross Profit	92,922	97,774	88,307	84,991	86,225	84,662	796,896
Selling, General and Administrative Expenses	80,490	84,580	82,483	78,305	77,823	77,177	726,441
Operating Income	12,432	13,194	5,824	6,686	8,402	7,485	70,455
Profit before Income Taxes	11,488	11,854	3,962	6,100	6,069	6,168	58,065
Profit Attributable to Owners of Parent	9,920	10,401	3,309	3,438	4,423	4,829	45,458
At Year-End:							
Total Assets	¥212,725	¥228,775	¥224,617	¥231,998	¥247,069	¥254,410	\$2,394,676
Total Net Assets	35,552	37,834	42,747	42,845	52,309	57,181	538,232
Per Share Amounts (yen):							
Profit - Basic	¥ 254.55	¥ 279.91	¥ 88.73	¥ 92.05	¥ 114.37	¥ 112.14	\$ 1.06

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2018 of ¥106.24 = US\$1.

Financial Review

Operating Environment

In fiscal 2018, ended March 31, 2018, the domestic economy was characterized by an overall recovery tendency in business conditions, reflected mainly in recovering personal spending and a gradual improvement in capital investment.

In the housing industry, interest rates on mortgages remained low but construction demand for homes to be owned or rented was weak. As a result, housing starts slipped 2.8 percent year on year, to about 940,000 units.

Against this backdrop, the Misawa Homes Group embarked on First Step For NEXT50, a three-year medium-term management plan that started in fiscal 2018 and implements various strategies.

The results of these efforts are described below.

Net Sales

Consolidated net sales decreased 2.8 percent year on year, to ¥388,552 million. This was due to lower sales in the homebuilding business and a drop in the number of condominium units sold. However, efforts to diversify business, based on the medium-term management plan, led to a 5.6 percent year-on-year improvement in sales by asset utilization services. Of note, higher sales through an increase in rental homes, which presents a high number of units per building, contributed ¥1.0 billion to net sales.

Operating Income

Consolidated operating income fell 10.9 percent year on year, to ¥7,485 million. The profit ratio improved, mainly due to reduced cost of sales, and offset lower sales by the homebuilding business. However, this achievement was inevitably overshadowed by a reactionary drop in sales of large condominiums, which had made a notable contribution to sales in fiscal 2017.

Profit before Income Taxes

Consolidated profit before income taxes edged up 1.6 percent year on year, to ¥6,168 million.

Profit Attributable to Owners of Parent

Consolidated profit attributable to owners of parent rose 9.2 percent year on year, to ¥4,829 million.

Financial Position

As of March 31, 2018, total assets stood at ¥254,410 million, up ¥7,340 million from a year earlier. This is primarily due to increased cash and bank deposits and the purchase of buildings as real estate investments. Total liabilities reached ¥197,228 million, up ¥2,468 million from a year earlier, largely owing to an increase in debt to acquire land for subdivision homes and income property. Net assets amounted to ¥57,181 million, up ¥4,872 million from a year earlier, reflecting the booking of profit attributable to owners of parent.

Cash Flow Status

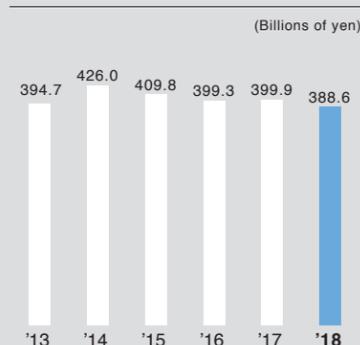
Cash and cash equivalents ("cash") on a consolidated basis at the end of March 2018 came to ¥58,790 million, up ¥4,446 million from a year earlier. The change reflects inflow of ¥4,659 million from financing activities, which offset a combined outflow of ¥244 million from operating activities and investing activities.

Net cash provided by operating activities amounted to ¥12,662 million, up ¥1,127 million from a year earlier. This change is mainly due to the booking of profit before income taxes and a decrease in inventories.

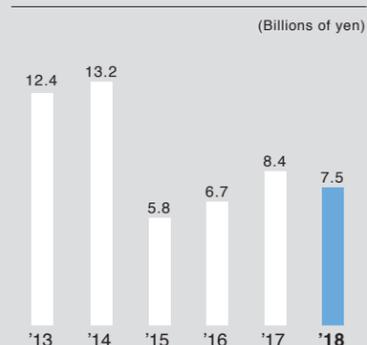
Net cash used in investing activities reached ¥12,906 million, down ¥387 million from a year earlier. This change is primarily due to the purchase of fixed assets.

Net cash provided by financing activities came to ¥4,659 million, down ¥4,369 million from a year earlier. The change is mainly due to new loans.

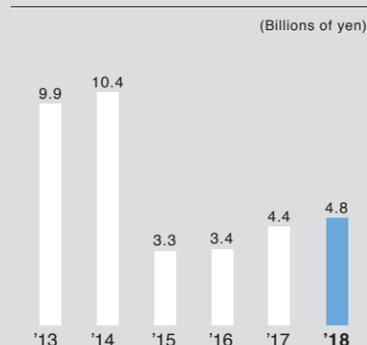
Net Sales



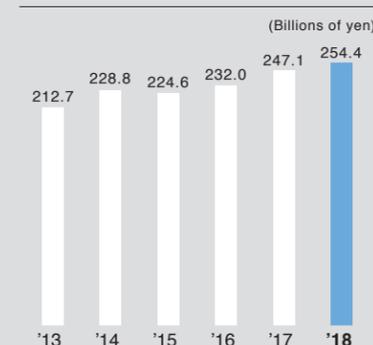
Operating Income



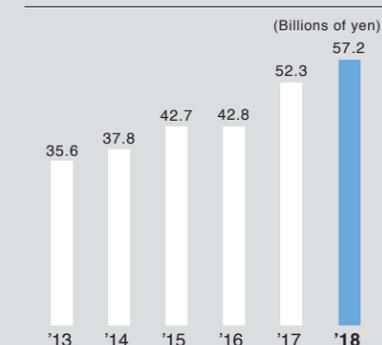
Profit Attributable to Owners of Parent



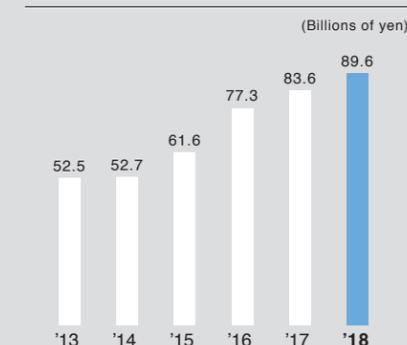
Total Assets



Total Net Assets



Interest-Bearing Debt



CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
ASSETS			
Current assets:			
Cash and bank deposits (Notes 6 and 17)	¥59,583	¥55,004	\$560,837
Notes and accounts receivable, trade (Notes 6 and 9)	8,549	8,138	80,466
Land and housing for sale (Note 9)	38,293	46,198	360,436
Cost of uncompleted contracts (Note 9)	36,955	34,778	347,850
Merchandise and finished goods	1,009	1,082	9,499
Work in process	239	274	2,249
Raw materials and supplies	1,826	1,718	17,188
Deferred tax assets (Note 15)	4,403	4,220	41,443
Other current assets	16,970	16,502	159,732
Allowance for doubtful accounts	(181)	(197)	(1,703)
Total current assets	167,646	167,717	1,577,997
Property, plant and equipment (Notes 8, 9 and 20):			
Buildings and structures	48,684	43,188	458,243
Machinery and equipment	6,962	6,669	65,527
Land	31,951	29,695	300,743
Other	6,589	6,189	62,020
	94,186	85,741	886,533
Less: Accumulated depreciation	(31,852)	(29,637)	(299,808)
Net property, plant and equipment	62,334	56,104	586,725
Intangible assets (Note 8):			
Other	8,382	9,066	78,894
Total intangible assets	8,382	9,066	78,894
Investments and other assets:			
Investment securities (Notes 5 and 6)	1,528	1,475	14,387
Deferred tax assets (Note 15)	1,560	1,986	14,683
Net defined benefit asset (Note 10)	3,549	1,729	33,403
Other (Notes 5 and 8)	11,070	10,650	104,201
Allowance for doubtful accounts	(1,659)	(1,658)	(15,614)
Total investments and other assets	16,048	14,182	151,060
Total assets	¥254,410	¥247,069	\$2,394,676

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

CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt (Notes 6, 9 and 20)	¥28,702	¥26,073	\$270,160
Current portion of long-term debt (Notes 6, 9 and 20)	10,232	10,155	96,308
Notes and accounts payable, trade (Note 6)	37,341	42,430	351,482
Accounts payable, other (Note 9)	8,476	7,507	79,779
Accrued bonuses	5,809	5,890	54,683
Provision for warranties for completed contracts	3,370	3,440	31,717
Advances received on uncompleted contracts	30,056	30,671	282,911
Deposits received	6,010	6,083	56,567
Income taxes payable	1,114	1,233	10,487
Deferred tax liabilities (Note 15)	3	3	31
Asset retirement obligations	58	39	544
Other current liabilities (Note 9)	5,790	5,209	54,498
Total current liabilities	136,961	138,733	1,289,167
Long-term liabilities:			
Long-term debt (Notes 6, 9 and 20)	48,732	45,125	458,701
Deferred tax liabilities (Note 15)	1,572	932	14,792
Accrued pension and severance costs for directors and corporate auditors	541	601	5,089
Net defined benefit liability (Note 10)	2,196	2,214	20,674
Asset retirement obligations	1,330	1,305	12,517
Other long-term liabilities (Note 9)	5,896	5,850	55,504
Total long-term liabilities	60,267	56,027	567,277
Net assets:			
Shareholders' equity (Note 11):			
Capital stock:	11,893	11,893	111,942
	(Thousands of shares)		
	In 2018	In 2017	
Common stock			
Authorized	150,000	150,000	
Issued	43,070	43,070	
Additional paid-in capital	2,878	2,877	27,088
Retained earnings	38,417	34,665	361,609
Treasury stock, at cost	(8)	(1)	(78)
Accumulated other comprehensive income:			
Net unrealized gains on other securities (Note 5)	425	358	3,995
Land revaluation difference	(441)	(441)	(4,146)
Foreign currency translation adjustments	36	(16)	342
Remeasurements of defined benefit plans (Note 10)	1,735	504	16,331
Non-controlling interests	2,247	2,470	21,149
Total net assets	57,182	52,309	538,232
Commitments and contingent liabilities (Note 19)			
Total liabilities and net assets	¥254,410	¥247,069	\$2,394,676

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

CONSOLIDATED STATEMENT OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2018
	2018	2017	
Net sales	¥388,552	¥399,853	\$3,657,305
Cost of sales (Note 16)	303,890	313,628	2,860,409
Gross profit	84,662	86,225	796,896
Selling, general and administrative expenses (Notes 16 and 18):			
Salaries and wages	40,321	40,216	379,523
Advertising	8,167	8,139	76,869
Sales promotion	6,773	6,784	63,753
Provision for warranties for completed contracts	1,336	1,752	12,577
Provision for accrued bonuses	3,704	3,786	34,869
Depreciation expenses	3,042	2,992	28,636
Other selling expenses	3,420	3,447	32,188
Other general and administrative expenses	10,414	10,707	98,026
Total selling, general and administrative expenses	77,177	77,823	726,441
Operating income	7,485	8,402	70,455
Non-operating income:			
Interest income	25	40	240
Rent income	350	369	3,292
Income from commissions	98	96	923
Revenue from sales of electric power	306	263	2,879
Other	508	532	4,785
Total non-operating income	1,287	1,300	12,119
Non-operating expenses:			
Interest expenses	586	738	5,517
Commissions for syndicate loans	38	360	363
Stock issuance cost	-	187	-
Other	476	271	4,479
Total non-operating expenses	1,100	1,556	10,359
Ordinary income	7,672	8,146	72,215
Other gains ("TOKUBETSU RIEKI"):			
Gain on sales of property, plant and equipment (Note 12)	24	5	224
Gain on sales of investment securities	0	46	0
Other	6	-	53
Total other gains	30	51	277
Other losses ("TOKUBETSU SONSHITSU"):			
Impairment loss on long-lived assets (Note 8)	1,328	870	12,499
Loss on disposal of property, plant and equipment (Note 13)	205	136	1,925
Provision for warranties for completed contracts	-	1,078	-
Other	0	44	3
Total other losses	1,533	2,128	14,427
Profit before income taxes	6,169	6,069	58,065
Income taxes (Note 15):			
Current	1,223	1,343	11,510
Deferred	335	106	3,153
	1,558	1,449	14,663
Profit	4,611	4,620	43,402
(Loss) profit attributable to non-controlling interests	(218)	197	(2,056)
Profit attributable to owners of parent	¥4,829	¥4,423	\$45,458

Per share (Note 14):
Profit—Basic

Yen		U.S. dollars (Note 4)
Years ended March 31		Year ended March 31, 2018
2018	2017	
¥112.14	¥114.37	\$1.06

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2018	2017	2018
Profit	¥4,611	¥4,620	\$43,402
Other comprehensive income (Note 23):			
Net unrealized gains on other securities	64	42	602
Foreign currency translation adjustments	86	(70)	805
Remeasurements of defined benefit plans	1,224	606	11,522
Total other comprehensive income	1,374	578	12,929
Comprehensive income	¥5,985	¥5,198	\$56,331
Total comprehensive income attributable to:			
Shareholders of MISAWA HOMES CO., LTD.	¥6,179	¥5,080	\$58,161
Non-controlling interests	(194)	118	(1,830)

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					Net unrealized gains on other securities			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 10)	Non-controlling interests	Total net assets
Balance at April 1, 2016	38,738,914	¥10,000	¥3,200	¥30,989	(¥3,450)	¥322	(¥441)	¥30	(¥162)	¥2,337	¥42,845
Issuance of new stock	4,331,249	1,893	1,893	-	-	-	-	-	-	-	3,786
Cash dividends	-	-	-	(747)	-	-	-	-	-	-	(747)
Profit attributable to owners of parent	-	-	-	4,423	(2)	-	-	-	-	-	4,423
Purchase of treasury stock	-	-	(2,216)	-	3,431	-	-	-	-	-	(2)
Disposal of treasury stock	-	-	-	-	-	-	-	-	-	-	1,215
Change in net assets arising from transactions with non-controlling shareholders	-	-	0	-	-	36	-	(46)	666	133	0
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	-	-	-	-	789
Balance at March 31, 2017	43,070,163	¥11,893	¥2,877	¥34,665	(¥1)	¥358	(¥441)	(¥16)	¥504	¥2,470	¥52,309
Cash dividends	-	-	-	-	(81)	(1,077)	-	-	-	-	(1,077)
Profit attributable to owners of parent	-	-	-	-	-	4,829	-	-	-	-	4,829
Purchase of treasury stock	-	-	-	-	-	-	(7)	-	-	-	(7)
Change in net assets arising from transactions with non-controlling shareholders	-	-	-	-	1	-	-	-	-	1,231	1
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	67	-	52	(223)	1,127
Balance at March 31, 2018	43,070,163	\$27,085	\$361,609	(89)	\$2,878	(84,146)	(842)	(441)	536	1,735	\$57,182

	Thousands of U.S. dollars (Note 4)										
	Shareholders' equity					Net unrealized gains on other securities			Accumulated other comprehensive income		
	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 10)	Non-controlling interests	Total net assets	
Balance at March 31, 2017	\$111,942	\$27,085	\$361,609	(89)	\$2,878	(84,146)	(842)	(441)	536	1,735	\$57,182
Cash dividends	-	-	(10,135)	-	-	-	-	-	-	-	(10,135)
Profit attributable to owners of parent	-	-	45,458	(69)	-	-	-	-	-	-	45,458
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(69)
Change in net assets arising from transactions with non-controlling shareholders	-	3	-	-	-	-	-	-	-	1,231	3
Net changes in items other than those in shareholders' equity	-	-	-	-	626	(84,146)	493	(2,101)	52	(223)	1,127
Balance at March 31, 2018	\$111,942	\$27,088	\$361,609	(878)	\$3,995	(84,146)	(342)	(2,101)	578	1,735	\$58,232

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2018
	2018	2017	
Cash flows from operating activities:			
Profit before income taxes	¥6,169	¥6,069	\$58,065
Adjustments for:			
Depreciation and amortization	6,323	6,112	59,517
Amortization of goodwill	223	208	2,097
Decrease in allowance for doubtful accounts	(16)	(12)	(148)
(Decrease) increase in other allowances	(401)	1,342	(3,772)
Interest and dividend income	(68)	(91)	(643)
Interest expenses	586	738	5,517
Gain on sales of investment securities	(0)	(46)	(0)
Impairment loss on long-lived assets	1,328	870	12,499
Loss on sales and disposal of property, plant and equipment	181	131	1,701
(Increase) decrease in notes and accounts receivable, trade	(399)	21	(3,751)
Decrease (increase) in inventories	5,741	(678)	54,040
Decrease in notes and accounts payable, trade	(5,105)	(2,143)	(48,055)
(Decrease) increase in advances received on uncompleted contracts	(615)	1,146	(5,790)
Increase in operating loans receivable	(21)	(2,414)	(201)
Other	563	1,441	5,306
Subtotal	14,489	12,694	136,382
Interest and dividends received	71	80	668
Interest paid	(635)	(744)	(5,981)
Income taxes paid	(1,263)	(496)	(11,885)
Net cash provided by operating activities	12,662	11,534	119,184
Cash flows from investing activities:			
(Increase) decrease of time deposits with maturity over three months	(132)	34	(1,241)
Purchases of property, plant, equipment and intangible assets	(12,928)	(12,833)	(121,688)
Proceeds from sales of property, plant, equipment and intangible assets	244	38	2,294
Purchases of investment securities	(7)	(2)	(70)
Proceeds from sales of investment securities	1	7	9
Other	(84)	(538)	(786)
Net cash used in investing activities	(12,906)	(13,294)	(121,482)
Cash flows from financing activities:			
Increase in short-term debt	2,602	1,484	24,491
Proceeds from long-term debt	15,084	35,859	141,980
Repayments of long-term debt	(11,408)	(31,411)	(107,374)
Redemption of bonds	-	(150)	-
Cash dividends paid	(1,078)	(749)	(10,147)
Cash dividends paid to non-controlling interests	(19)	(16)	(180)
Proceeds from issuance of new stock	-	3,786	-
Proceeds from sales of treasury stock	-	1,215	-
Payments for purchase of treasury stock	(7)	(2)	(69)
Other	(514)	(986)	(4,839)
Net cash provided by financing activities	4,660	9,030	43,862

Effect of exchange rate changes on cash and cash equivalents	30	(9)	288
Net increase in cash and cash equivalents	4,446	7,261	41,852
Cash and cash equivalents at the beginning of the year	54,344	47,083	511,519
Cash and cash equivalents at the end of the year (Note 17)	¥58,790	¥54,344	\$553,371

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, 2018 and 2017, the numbers of consolidated subsidiaries were 44 and 42, respectively. An anonymous partnership under which SAPPORO NK DEVELOPMENT LLC is a proprietor (the "Anonymous Partnership SAPPORO NK") has been included in consolidation through the capital contribution in the year ended March 31, 2018. MISAWA KOUSHIN CONSTRUCTION CO., LTD. has been established and included in consolidation in the year ended March 31, 2018. There were no subsidiaries and affiliates accounted for by the equity method as of March 31, 2018 and 2017. Misawa Homes of Dongguan Ltd. (China), COCO Lab., Inc., MD Victoria Pty. Ltd. and FUJIGAOKA IKIHKIKORYU CO., 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 closing dates of the financial statements of Misawa Homes of Linyi Ltd. (China), the anonymous partnership under which MB INVESTMENT 1 LLC is a proprietor (the "Anonymous Partnership MBI 1") and the Anonymous Partnership SAPPORO NK are December 31, May 31 and February 28, respectively. Misawa Homes of Linyi Ltd. (China) is consolidated by using its financial information as of the parent fiscal year end which is prepared solely for consolidation purposes. The Anonymous Partnership MBI 1 is consolidated by using its financial information as of February 28 which is prepared solely for the consolidation purpose and the Anonymous Partnership SAPPORO NK is consolidated by using its financial statement as of February 28, with necessary consolidation adjustments for significant transactions occurred from March 1 to the parent fiscal year end.

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, 2018 and 2017 were ¥931 million (\$8,768 thousand) and ¥680 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, 2018 and 2017 were ¥67 million (\$631 thousand) and ¥2 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, 2018 and 2017, the fair value of the revaluated land was less than its carrying value by ¥56 million (\$531 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, 2018.

(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. Standard issued but not yet effective::

- "Revised Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 28, February 16, 2018)
- "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, February 16, 2018)

(1) Overview

In the course of transferring practical guidance related to tax effect accounting prescribed by Japanese Institute of Certified Public Accountant to ASBJ, the ASBJ basically followed the contents and made required modifications to the "Implementation Guidance on Tax Effect Accounting," etc.

(Major modified accounting treatments)

- Treatment of taxable temporary differences relating to subsidiary shares in non-consolidated financial statements
- Treatment of recoverability of deferred tax assets for entities fall under Category 1

(2) Date of application

The Company and its domestic subsidiaries expect to apply them from the beginning of the year ending March 31, 2019.

(3) Effect of application

The effect of applying the "Implementation Guidance on Tax Effect Accounting," etc. on the consolidated financial statements is currently under assessment.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

International Accounting Standards Board ("IASB") and Financial Accounting Standards Board of the United States of America ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS No. 15, issued by IASB and Topic 606 issued by FASB) in May 2014. Considering the situation that IFRS No. 15 has become applicable from the fiscal year beginning on and after January 1, 2018 and Topic 606 from the fiscal year beginning after December 15, 2017, ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance. ASBJ's basic policy in developing the accounting standard for revenue recognition was to establish accounting standards as a starting point to adopt basic principles of IFRS No. 15 from the viewpoint of comparability of financial statements which is one of benefits of maintaining consistency with IFRS No. 15, and to add alternative treatments to the extent not to impair comparability in cases where previous practices in Japan and others should be considered.

(2) Date of application

The Company and its domestic subsidiaries expect to apply them from the beginning of the year ending March 31, 2022.

(3) Effect of application

The effect of applying the “Accounting Standard for Revenue Recognition,” etc. on the consolidated financial statements is currently under assessment.

4. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥106.24 = U.S. \$1, the rate of exchange prevailing on March 31, 2018, has been used.

5. Investment securities:

Misawa Homes’ management classified all investment securities as other securities at March 31, 2018 and 2017. Net unrealized gains of ¥425 million (\$3,995 thousand) and ¥358 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2018 and 2017, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥182 million (\$1,713 thousand) and ¥151 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2018 and 2017, respectively. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥3 million (\$28 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, 2018. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥56 million and in “Other” of investments and other assets in the amount of ¥0 million in the consolidated balance sheet as of March 31, 2017.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	March 31, 2018			
	Acquisition cost	Gross unrealized		Market value (carrying value)
Equity securities	¥561	¥581	(¥11)	¥1,131
Debt securities	1,115	46	(1)	1,160
Other	12	7	-	19
Total	¥1,688	¥634	(¥12)	¥2,310

	Millions of yen			
	March 31, 2017			
	Acquisition cost	Gross unrealized		Market value (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

	Thousands of U.S. dollars (Note 4)			
	March 31, 2018			
	Acquisition cost	Gross unrealized		Market value (carrying value)
Equity securities	\$5,286	\$5,469	(\$106)	\$10,649
Debt securities	10,492	432	(10)	10,914
Other	117	65	-	182
Total	\$15,895	\$5,966	(\$116)	\$21,745

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, 2018 and 2017, the carrying values of these unlisted securities were ¥378 million (\$3,556 thousand) and ¥432 million, respectively. Proceeds from sales of other securities for the years ended March 31, 2018 and 2017 were ¥0 million (\$1 thousand) and ¥1,216 million, respectively. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥0 million (\$0 thousand) and nil, respectively, for the year ended March 31, 2018. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥46 million and ¥2 million, respectively, for the year ended March 31, 2017.

Impairment loss of other securities for the year ended March 31, 2017 was ¥5 million. Impairment loss is 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.

6. 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 debt is mainly used for the working capital and for the purchase of land and housing for sale.

Some long-term debt is exposed to interest rate fluctuation risk. Certain long-term debt exposed to interest rate fluctuation risk is hedged by interest swap agreements to fix interest payments.

(3) Supplemental explanation of the estimated fair value of financial instruments

As well as the fair values based on market prices, the fair values of financial instruments include reasonably estimated amounts in case there are no quoted market prices available. As the estimation of those fair values relies on certain assumptions, different assumptions and factors could result in different fair values. Also, the notional amount of derivative transactions described in Note 7. Derivative instruments, is not necessarily indicative of the actual market risk involved in the derivative transactions.

Estimated fair value and others of financial instruments as of March 31, 2018 and 2017 were as follows:

	Millions of yen		
	March 31, 2018		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥59,583	¥59,583	¥—
Notes and accounts receivable, trade	8,549	8,549	—
Investment securities	2,310	2,310	—
Total assets	¥70,442	¥70,442	¥—
Notes and accounts payable, trade	¥37,341	¥37,341	¥—
Short-term debt	28,702	28,702	—
Long-term debt (excluding bonds)	57,964	57,935	(29)
Total liabilities	¥124,007	¥123,978	(¥29)
Derivative transactions	—	—	—

	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 debt	26,073	26,073	—
Long-term debt (excluding bonds)	54,279	54,419	140
Total liabilities	¥122,782	¥122,922	¥140
Derivative transactions	—	—	—

	Thousands of U.S. dollars (Note 4)		
	March 31, 2018		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	\$560,837	\$560,837	\$—
Notes and accounts receivable, trade	80,466	80,466	—
Investment securities	21,745	21,745	—
Total assets	\$663,048	\$663,048	\$—
Notes and accounts payable, trade	\$351,482	\$351,482	\$—
Short-term debt	270,160	270,160	—
Long-term debt (excluding bonds)	545,597	545,319	(278)
Total liabilities	\$1,167,239	\$1,166,961	(\$278)
Derivative transactions	—	—	—

Note 1: Unlisted securities of ¥378 million (\$3,556 thousand) and ¥432 million whose fair value was extremely difficult to determine as of March 31, 2018 and 2017, 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 are included in other current assets as part of current assets as of March 31, 2017. Government bonds used for deposits amounting to ¥1,159 million (\$10,914 thousand) and ¥1,166 million are included in other of investments and other assets as of March 31, 2018 and 2017, respectively.

Notes and accounts payable, trade, and short-term debt

The carrying value approximates fair value since these items are settled in a short period of time.

Long-term debt

The fair value is based on the net present value of the total of the principal and interest discounted by the interest rate to be applied if similar new loans were entered into. Long-term floating rate loans are accounted for by the special treatment. Please refer to the Note 7. Derivative instruments. The fair value is based on the total amount of the principal and interest processed as an interest rate swap discounted by the interest rate if similar new loans were entered into. Long-term debt due within one-year amounting to ¥10,232 million (\$96,308 thousand) and ¥10,155 million is included in long-term debt in the above table as of March 31, 2018 and 2017, 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, 2018 and 2017 is as follows:

Millions of yen				
March 31, 2018				
	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	¥59,410	¥-	¥-	¥-
Notes and accounts receivable, trade	8,549	-	-	-
Investment securities				
Other securities with maturities				
Government bonds	26	744	191	198
Total	¥67,985	¥744	¥191	¥198

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	¥63,098	¥640	¥331	¥170

Thousands of U.S. dollars (Note 4)

March 31, 2018				
	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	\$559,203	\$-	\$-	\$-
Notes and accounts receivable, trade	80,466	-	-	-
Investment securities				
Other securities with maturities				
Government bonds	246	7,003	1,804	1,861
Total	\$639,915	\$7,003	\$1,804	\$1,861

7. Derivative instruments:

Misawa Homes enters into interest rate swap agreements and foreign exchange forward contracts only for hedging risks from fluctuation in interest rates and foreign exchange rates. The derivative transactions entered into by Misawa Homes are made in accordance with internal policies, which regulate the authorization of such transactions.

Material derivative transactions for which hedge accounting is applied at March 31, 2018 and 2017 were as follows:

	Hedged item	Millions of yen			Thousands of U.S. dollars (Note 4)		
		March 31, 2018			March 31, 2018		
		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	¥2,880	¥560	Note	\$27,108	\$5,271	Note

	Hedged item	Millions of yen		
		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

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, 2018 and 2017.

8. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2018 and 2017 were as follows.

Applicable assets	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2018	2017	March 31, 2018
Buildings and structures	¥407	¥286	\$3,830
Machinery and equipment	-	275	-
Land	865	266	8,145
Other	56	43	524
Total	¥1,328	¥870	\$12,499

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 2.2-3.3% and 1.6% for the years ended March 31, 2018 and 2017, respectively. The recoverable amount of certain assets (land) was measured at the net sale value, which was estimated based on an appraisal value.

9. Short-term debt and long-term debt:

Short-term debt at March 31, 2018 and 2017 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Loans, principally from banks, with weighted-average interest rates of 0.4% at March 31, 2018 and 0.6% at March 31, 2017	¥28,702	¥26,073	\$270,160

Long-term debt at March 31, 2018 and 2017 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Loans, principally from banks and insurance companies, due 2019 to 2026 with weighted-average interest rates of 0.6% at March 31, 2018 and 0.7% at March 31, 2017	¥55,197	¥52,379	\$519,547
Non-recourse loans, due 2019 to 2023 with weighted-average interest rate of 0.7% at March 31, 2018 and 2017	2,767	1,901	26,050
Unsecured 0.37% bonds, due 2020	500	500	4,706
Unsecured 0.36% bonds, due 2020	500	500	4,706
	58,964	55,280	555,009
Less portion due within one year	(10,232)	(10,155)	(96,308)
	¥48,732	¥45,125	\$458,701

Weighted-average interest rates are weighted-average interest rates on the balance of loans at year-end. Loans at March 31, 2018 and 2017 include syndicate loan of ¥22,787 million (\$214,486 thousand) and ¥26,929 million, respectively.

The aggregate annual maturities of long-term debt outstanding at March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 4)
2019	¥10,213	\$96,129
2020	9,467	89,106
2021	7,451	70,130
2022	7,344	69,131
2023	18,362	172,836
Thereafter	3,360	31,627
Total	¥56,197	\$528,959

10. 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Projected benefit obligation at beginning of year	¥30,898	¥31,677	\$290,831
Service cost	2,442	2,407	22,982
Interest cost	179	189	1,680
Actuarial losses (gains)	160	(179)	1,503
Retirement benefit paid	(1,649)	(1,605)	(15,514)
Prior service costs	30	(1,534)	286
Other	3	(57)	31
Projected benefit obligation at end of year	¥32,063	¥30,898	\$301,799

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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Plan assets at beginning of year	¥30,413	¥29,997	\$286,272
Expected return on plan assets	478	472	4,495
Actuarial gains (losses)	1,948	(827)	18,335
Contributions by the Company	2,088	2,354	19,644
Retirement benefits paid	(1,511)	(1,583)	(14,218)
Plan assets at end of year	¥33,416	¥30,413	\$314,528

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit retirement plans:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Funded projected benefit obligation	¥30,959	¥29,832	\$291,404
Plan assets at fair value	(33,416)	(30,413)	(314,528)
	(2,457)	(581)	(23,124)
Unfunded projected benefit obligation	1,104	1,066	10,395
Net liabilities and assets for retirement benefits in the balance sheet	(¥1,353)	¥485	(\$12,729)
Net defined benefit liability	¥2,196	¥2,214	\$20,674
Net defined benefit asset	(3,549)	(1,729)	(33,403)
Net liabilities and assets for retirement benefits in the balance sheet	(¥1,353)	¥485	(\$12,729)

The components of net pension and severance costs for the years ended March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Service cost (Note 1)	¥2,442	¥2,407	\$22,982
Interest cost	179	189	1,680
Expected return on plan assets	(478)	(472)	(4,495)
Amortization and expenses:			
Actuarial losses	148	49	1,390
Prior service costs	(140)	(106)	(1,309)
Other	(4)	(62)	(37)
Net pension and severance costs	¥2,147	¥2,005	\$20,211

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

Prior service costs and actuarial (gains) losses included in other comprehensive income (before tax effects) for the years ended March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Prior service costs	¥170	(¥1,428)	\$1,595
Actuarial (gains) losses	(1,936)	598	(18,222)
Total	(¥1,766)	(¥830)	(\$16,627)

Unrecognized prior service costs and unrecognized actuarial losses included in accumulated other comprehensive income (before tax effects) as of March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Unrecognized prior service costs	(¥1,239)	(¥1,408)	(\$11,662)
Unrecognized actuarial (gains) losses	(1,184)	749	(11,143)
Total	(¥2,423)	(¥659)	(\$22,805)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 were as follows.

	Years ended March 31	
	2018	2017
Debt securities	28%	23%
Equity securities	24	26
General accounts	36	41
Other	12	10
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	
	2018	2017
Discount rate	0.0-1.2%	0.0-1.5%
Expected long-term rate of return on plan assets	0.0-6.1%	0.0-6.1%

The Company and its domestic consolidated subsidiaries contributed ¥249 million (\$2,346 thousand) and ¥263 million to defined contribution pension plans for the years ended March 31, 2018 and 2017, respectively.

11. Shareholders' equity:

(1) Type and number of stock issued and treasury stock for the years ended March 31, 2018 and 2017 are as follows:

For the year ended March 31, 2018

Type of shares	Number of shares			March 31, 2018
	April 1, 2017	Increase during the year	Decrease during the year	
Stock issued:				
Common stock	43,070,163	-	-	43,070,163
Treasury stock				
Common stock	953	7,355	-	8,308

For the year ended March 31, 2017

Type of shares	Number of shares			March 31, 2017
	April 1, 2016	Increase during the year	Decrease during the year	
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

Notes:

- Increase in the number of shares in treasury stock for the year ended March 31, 2018 is due to a purchase of odd-lot shares of less than one unit (7,355 shares).
- 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).
- 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).
- 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).

(2) Dividends paid during the years ended March 31, 2018 and 2017

For the year ended March 31, 2018

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, 2017	Common stock	¥1,077	\$10,135	¥25	\$0.24	March 31, 2017	June 29, 2017

Note: Dividends per share of ¥25 (\$0.24) includes a special dividend of ¥5 (\$0.05).

For the year ended March 31, 2017

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 29, 2016	Common stock	¥747	¥20	March 31, 2016	June 30, 2016

(3) Dividends with the cut-off date in the years ended March 31, 2018 and 2017, and the effective date in the year ending March 31, 2019 and 2018, respectively

For the year ended March 31, 2018

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 28, 2018	Common stock	¥861	\$8,107	Retained earnings	¥20	\$0.19	March 31, 2018	June 29, 2018

For the year ended March 31, 2017

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, 2017	Common stock	¥1,077	Retained earnings	¥25	March 31, 2017	June 30, 2017

Note: Dividends per share of ¥25 includes a special dividend of ¥5.

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

The following are the elements of "Gain on sales of property, plant and equipment" for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2018
	2018	2017	
Buildings and structures	¥3	¥1	\$23
Machinery and equipment	7	4	67
Land	14	-	131
Other	0	0	3
Total	¥24	¥5	\$224

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

The following are the elements of "Loss on disposal of property, plant and equipment" for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2018
	2018	2017	
Buildings and structures	¥124	¥113	\$1,163
Machinery and equipment	0	5	4
Other	81	18	758
Total	¥205	¥136	\$1,925

14. Per share information:

Basis for calculation of profit per share for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31, 2018	2017	Year ended March 31, 2018
Basic EPS—Profit attributable to common shareholders of parent	¥4,829	¥4,423	\$45,458
Weighted average number of common shares outstanding:			
-Basic	43,064,791	38,669,668	
	Yen		U.S. dollars (Note 4)
Profit per share:			
-Basic	¥112.14	¥114.37	\$1.06

Basis for calculation of net assets per share as of March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	As of March 31		As of March 31, 2018
	2018	2017	
Total net assets	¥57,182	¥52,309	\$538,232
Amounts deducted from total net assets:			
Non-controlling interests in subsidiaries	(2,247)	(2,470)	(21,149)
Net assets attributable to common shares	¥54,935	¥49,839	\$517,083
Number of common shares outstanding:	43,061,855	43,069,210	
	Yen		U.S. dollars (Note 4)
Net assets per share:	¥1,275.72	¥1,157.20	\$12.01

15. Income taxes:

Misawa Homes is subject to several types of income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 30.9% for the years ended March 31, 2018 and 2017.

The significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Deferred tax assets:			
Tax loss carry forwards	¥11,676	¥13,020	\$109,898
Devaluation of inventories	1,238	1,363	11,657
Accrued bonuses	1,861	1,898	17,518
Net defined benefit liability	942	940	8,870
Allowance for doubtful accounts	1,926	1,933	18,128
Goodwill	84	388	792
Provision for warranties for completed construction	1,037	1,076	9,758
Impairment loss	852	644	8,016
Others	3,019	2,933	28,415
Gross deferred tax assets	22,635	24,195	213,052
Less: valuation allowance	(16,227)	(17,543)	(152,736)
Total deferred tax assets	6,408	6,652	60,316
Deferred tax liabilities:			
Fair market valuation as a result of adoption of consolidated taxation system	(390)	(390)	(3,666)
Net unrealized gains on other securities	(182)	(151)	(1,713)
Net defined benefit asset	(1,150)	(583)	(10,829)
Expense related to asset retirement obligations	(147)	(149)	(1,383)
Others	(151)	(108)	(1,422)
Gross deferred tax liabilities	(2,020)	(1,381)	(19,013)
Net deferred tax assets	¥4,388	¥5,271	\$41,303

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 allowances decreased by ¥1,317 million (\$12,394 thousand) and ¥758 million for the years ended March 31, 2018 and 2017, respectively.

The differences between Misawa Homes' statutory income tax rate and the effective income tax rates reflected in the consolidated statements of income for the years ended March 31, 2018 and 2017 were reconciled as follows:

	Years ended March 31	
	2018	2017
Statutory income tax rate	30.9%	30.9%
Reconciliation:		
Entertainment expenses, etc. permanently non-tax deductible	2.1	2.5
Per capita inhabitants tax	3.5	3.8
Changes in valuation allowance	(8.9)	(12.4)
Consolidation adjustment	0.1	0.1
Tax credit for research and development costs	(1.1)	(0.5)
Others	(1.5)	(0.4)
Effective income tax rates	25.3%	23.9%

16. Cost of sales, general and administrative expenses:

Provision for loss on construction contracts, which are included in cost of sales, were ¥61 million (\$578 thousand) and ¥84 million for the years ended March 31, 2018 and 2017, respectively.

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥1,383 million (\$13,022 thousand) and ¥1,364 million for the years ended March 31, 2018 and 2017, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2018 and 2017 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Cash and bank deposits	¥59,583	¥55,004	\$560,837
Less:			
Time deposits due over three months	(793)	(660)	(7,466)
Cash and cash equivalents	¥58,790	¥54,344	\$553,371

18. 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, 2018 and 2017.

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, 2018 and 2017 amounted to ¥2 million (\$19 thousand).

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, 2018 and 2017 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Acquisition cost:			
Buildings and structures	¥26	¥26	\$249
Less:			
Accumulated depreciation	(15)	(13)	(141)
Net book value	¥11	¥13	\$108

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, 2018 and 2017.

Depreciation expenses for these leased assets for the years ended March 31, 2018 and 2017, would have been ¥1 million (\$12 thousand) 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, 2018 and 2017, would have been ¥1 million (\$7 thousand).

Accumulated impairment loss as of March 31, 2018 and 2017, would have been ¥176 million (\$1,655 thousand) and ¥290 million, respectively, and the amount is deducted from the acquisition cost.

Future lease payments for finance leases at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2018
	2018	2017	
Future lease payments			
Due within one year	¥2	¥1	\$13
Due after one year	13	15	124
Total	¥15	¥16	\$137

Future lease payments for non-cancelable operating leases at March 31, 2018 and 2017 were as follows:
(As a lessee)

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2018
	2018	2017	
Future lease payments			
Due within one year	¥439	¥495	\$4,134
Due after one year	5,621	6,089	52,905
Total	¥6,060	¥6,584	\$57,039

(As a lessor)

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2018
	2018	2017	
Future lease payments			
Due within one year	¥12	¥12	\$113
Due after one year	35	47	329
Total	¥47	¥59	\$442

19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2018 and 2017 were ¥31,268 million (\$294,317 thousand) and ¥34,493 million, respectively.

20. Non-recourse loans:

Non-recourse loans at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2018
	2018	2017	
Short-term debt	¥19	¥17	\$179
Long-term debt	2,748	1,884	25,871
Total	¥2,767	¥1,901	\$26,050

Assets correspond to the non-recourse loans at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2018
	2018	2017	
Buildings and structures	¥2,123	¥2,034	\$19,986
Machinery and equipment	23	13	212
Land	2,336	1,070	21,993
Other	449	90	4,225
Total	¥4,931	¥3,207	\$46,416

The amount of the assets in the above table are included in pledged assets as collateral for secured loans and debt in Note 9. Short-term debt and long-term debt.

21. 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) and gain on sales of property, plant and equipment (recorded in "Other gains ("TOKUBETSU RIEKI")") related to rental properties for the year ended March 31, 2018 was ¥459 million (\$4,325 thousand) and ¥14 million (\$133 thousand), respectively. 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.

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

	Millions of yen			Fair value
	Carrying amount		March 31, 2018	March 31, 2018
	April 1, 2017	Net increase		
Rental properties	¥14,650	¥7,872	¥22,522	¥23,791

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

	Thousands of U.S. dollars (Note 4)			Fair value
	Carrying amount		March 31, 2018	March 31, 2018
	April 1, 2017	Net increase		
Rental properties	\$137,895	\$74,099	\$211,994	\$223,936

Notes:

- Carrying amount is shown as acquisition costs less accumulated depreciation and cumulative impairment losses.
- Increase for the year ended March 31, 2018 is due mainly to acquisition of properties of ¥8,321 million (\$78,322 thousand) and decrease for the year ended March 31, 2018 is due mainly to depreciation of ¥238 million (\$2,240 thousand).
- Increase for the year ended March 31, 2017 is due mainly to acquisition of properties of ¥9,193 million and decrease for the year ended March 31, 2017 is due mainly to decrease in rental floor space of ¥138 million.
- Fair value was estimated based on the real estate appraisal standards or similar methods (including for those adjusted by index).

22. Related party transactions:

There were no significant transactions between the company and related parties for the year ended March 31, 2018.

There were no significant transactions between the consolidated subsidiaries of the Company and related parties for the year ended March 31, 2018.

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			Resulting account balances
							Details of transactions	Transaction amount	Account	
Parent	Toyota Housing Corporation	Nagoya-city, Aichi	¥12,900 million	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	-	-
							Disposition of treasury stock	¥1,215	-	-

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 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.

23. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2018	2017	2018
Net unrealized gains on other securities			
Gains arising during the year	¥95	¥55	\$895
Reclassification adjustments	(0)	(4)	(0)
Before income tax effect	95	51	895
Income tax effect	(31)	(9)	(293)
Total	64	42	602
Foreign currency translation adjustments			
Adjustments arising during the year	86	(70)	805
Remeasurements of defined benefit plans			
Adjustments arising during the year	1,783	887	16,784
Reclassification adjustments	(17)	(57)	(157)
Before income tax effect	1,766	830	16,627
Income tax effect	(542)	(224)	(5,105)
Total	1,224	606	11,522
Total other comprehensive income	¥1,374	¥578	\$12,929

24. 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						Total
	2018	2018	2018	2018	2018	2018	
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	
Sales to third parties	¥152,265	¥34,250	¥24,070	¥6,026	¥61,091	¥110,850	¥388,552

	Millions of yen						Total
	2017	2017	2017	2017	2017	2017	
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	
Sales to third parties	¥156,222	¥31,591	¥25,905	¥6,040	¥61,976	¥118,119	¥399,853

	Thousands of U.S. dollars (Note 4)						Total
	2018	2018	2018	2018	2018	2018	
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	
Sales to third parties	\$1,433,218	\$322,387	\$226,560	\$56,723	\$575,025	\$1,043,392	\$3,657,305

(3) Geographical segments

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

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

(4) Information by major customers

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

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

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

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

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

Report of Independent Auditors



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 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, 2018, 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, 2018, 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 4.

Ernst & Young ShinNihon LLC

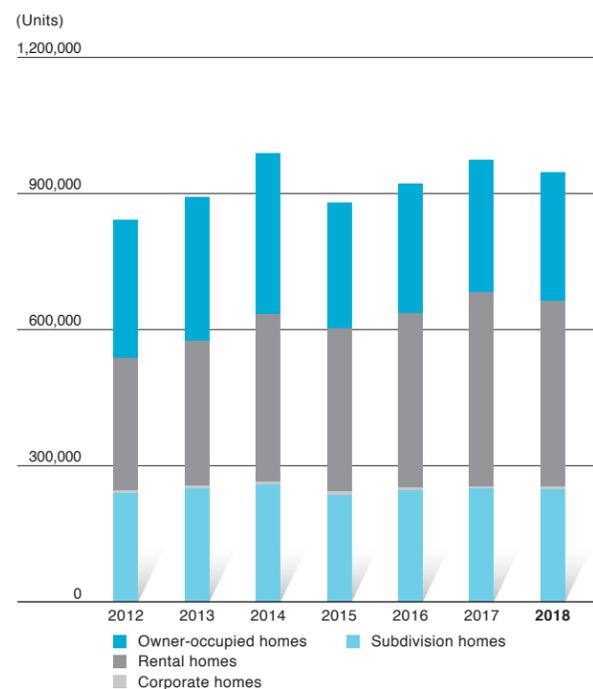
June 28, 2018
Tokyo, Japan

A member firm of Ernst & Young Global Limited

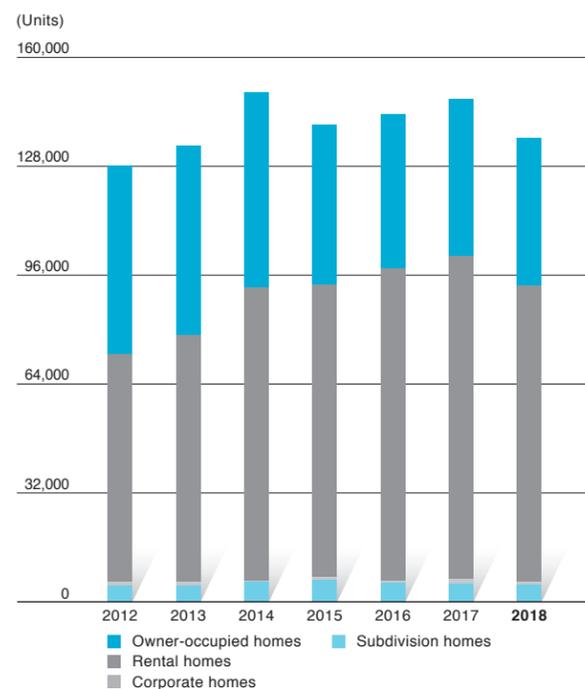
[THIS PAGE INTENTIONALLY LEFT BLANK]

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	2012	2013	2014	2015	2016	2017	2018
Owner-occupied homes	304,822	316,532	352,841	278,221	284,441	291,783	282,111
Rental homes	289,762	320,891	369,993	358,340	383,678	427,275	410,355
Corporate homes	7,576	5,919	5,272	7,867	5,832	5,793	5,435
Subdivision homes	239,086	249,660	259,148	236,042	246,586	249,286	248,495
Total	841,246	893,002	987,254	880,470	920,537	974,137	946,396

Prefabricated Housing Starts in Japan

Fiscal year ended March 31	2012	2013	2014	2015	2016	2017	2018
Owner-occupied homes	55,396	55,887	57,422	46,820	45,136	45,974	43,319
Rental homes	66,994	72,488	86,028	86,100	91,849	94,966	87,131
Corporate homes	1,009	373	540	792	534	1,221	795
Subdivision homes	4,817	5,339	5,766	6,445	5,645	5,433	5,000
Total	128,216	134,087	149,756	140,157	143,164	147,594	136,245

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

Subsidiaries and Affiliated Companies (As of March 31, 2018)

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 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
Misawa Homes Institute of Research and Development Co., Ltd.	Suginami-ku, Tokyo	100	100.0	Research and development regarding housing and life
Misawa Homes Real Estate Co., Ltd.	Shinjuku-ku, Tokyo	90	100.0	Real estate sales, brokerage, rental and management
Misawa Financial Service Co., Ltd.	Shinjuku-ku, Tokyo	500	100.0	Mortgage lending
Motherth Co., Ltd.	Shinjuku-ku, Tokyo	50	100.0	Fee-based operation of nursing homes and apartment housing complexes for seniors
CS Logistics Co., Ltd.	Suginami-ku, Tokyo	30	100.0	Procurement, manufacture and distribution of materials
Misawa Homes Construction Co., Ltd.	Chofu, Tokyo	50	100.0	Construction of prefabricated houses
26 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, 2018)

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 28, 2018)

Directors

Nobuo Takenaka¹
 Masashi Isogai²
 Hideki Shimomura²
 Hideyuki Yoshimatsu
 Tetsuya Sakuo
 Sumio Yokota
 Kengo Shoji
 Tadashi Yamashina
 Yuji Goto
 Naoki Teramoto
 Masahiro Sugino
 Masakazu Iwaki

Audit & Supervisory Board Members

Hiroto Hase³
 Hirohiko Fukatsu
 Wakana Hitotsuyanagi

Executive Officers

Masashi Isogai⁴
 Hideki Shimomura⁵
 Hideyuki Yoshimatsu⁶
 Tetsuya Sakuo⁶
 Sumio Yokota⁷
 Kengo Shoji⁷
 Yukihiro Ishikawa⁷
 Tetsuyuki Morita
 Hidehiko Hara
 Kazuyoshi Akimoto
 Saburo Yanagidani
 Hitoshi Shirahama
 Masanobu Hosono
 Shuichi Zaikawa
 Kazuhide Nanya
 Shinichi Tsutsumiuchi

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	22,872

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	893,022	2.0
4 Japan Trustee Services Bank, Ltd. (Trust A/C9)	766,800	1.7
5 The Master Trust Bank of Japan, Ltd. (Trust A/C)	707,000	1.6
6 Japan Trustee Services Bank, Ltd. (Trust A/C)	674,400	1.5
7 Nippon Life Insurance Company	609,053	1.4
8 The Bank of Tokyo-Mitsubishi UFJ, Ltd.	559,912	1.3
9 DFA INTL SMALL CAP VALUE PORTFOLIO	482,100	1.1
10 GOVERNMENT OF NORWAY	480,221	1.1

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

