

MISAWA

Annual Report 2019  
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## 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."

Misawa-brand homes are well regarded for their innovative design features as well as their 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 29 consecutive years. Also, 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.

In the domestic market, 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. Going forward, we will strive to diversify our business activities by fully engaging in overseas housing markets, mainly through local companies in Australia and the United States that have been turned into subsidiaries, and by steadily putting into practice various strategies promoted to date under the current medium-term management plan, which moves into its final year in fiscal 2020.

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### Cautionary Statement with Regard to Forward-Looking Statements

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

## To Our Shareholders



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

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.

Fiscal 2019 was the second year of First Step For NEXT50, our medium-term management plan. Measures guided by our basic principles have begun to show results, fueling higher sales and higher profit. Fiscal 2020 will be the last year of this medium-term management plan, and we will continue to put various measures into practice to achieve the targets described in First Step For NEXT50.

The Misawa Homes Group seeks to provide solutions to social issues, particularly the super-graying of society and the declining birthrate. We are actively promoting community development based on the government's compact city policy that integrates medical treatment, senior care and childcare support services, thereby making residents' lives more comfortable and convenient. In addition, we tackled the matter of developing products suitable for small plots of land and for the designated fire-protection zones that are becoming increasingly common in Japan's

urban areas, and we worked to reinforce our competitiveness in single-family detached and rental homes.

To expand our business presence in the large-scale remodeling and renovation market, which includes repurposing existing buildings, including non-residential structures and condominiums, we invested in Daisue Construction Co., Ltd., a general construction company, turning it into an affiliate accounted for by the equity method. Going forward, we will collaborate with Daisue Construction to enhance efforts in such areas as condominium sales, compact city-style real estate development and the use of existing buildings for different purposes.

One key strategy outlined in the medium-term management plan is to strengthen our overseas presence. Toward this end, we invested in companies that build homes—one company in Australia and the other in the United States—to kick off global expansion.

In addition, as part of our approach to work-style reforms, we are promoting health management. In April 2018, we drafted a health declaration and, guided by

this declaration, implemented various in-house programs to help employees improve their health and maintain good health. These efforts garnered favorable attention, substantiated in February 2019 with our inclusion in the 2019 Health and Productivity Management Outstanding Organizations Recognition Program, run by the Ministry of Economy, Trade and Industry, in the large enterprise category, known as the "White 500."

Against the backdrop of a shrinking market, which parallels a long-term decrease in the population, as well as changing national and social needs that emphasize the effective use of existing buildings, the Misawa Homes Group considered the image that homebuilders will have to present to the market in the future. Seeking to ensure sustainable growth and improve corporate value, we decided to become a wholly owned subsidiary of Prime Life Technologies Corporation, a town-development company to be jointly established by Toyota Motor Corporation and Panasonic Corporation in January 2020. In cooperation with each company, we will integrate homes

and technologies, guided by the new town-development concept of creating innovative value in city living and enabling people to live more comfortably.

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

July 2019

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, centered 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 the Toyota Group

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 a 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 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 of 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 by revitalizing existing residential complexes and realizing the "Smart Mobility Society" connected to IoT technologies.

### 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 and the United States.

### 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 2019

## Homebuilding

In the custom-ordered homes business, we added CENTURY Primore3, a three-story urban-type dwelling, to the top-brand CENTURY series of wooden-panel prefabricated homes, and in the MJ Wood series of wooden framework homes with high earthquake resistance, we added MJ FRAME LC, with fireproof specifications and a courtyard that creates a sense of openness. We addressed diverse market needs even in urban areas with numerous restrictions on construction and strengthened the competitive edge with expanded lineups.

In response to the recent uptrend in demand for *hiraya* one-story homes, we created a lineup from the GF series of *hiraya* one-story homes that integrates the CENTURY MONOCOQUE method into the MISAWA ONE wooden-panel prefabricated home sold in certain areas. We have begun sales of this new lineup throughout Japan. Orders for homes built with this construction method, which provides the industry's highest level of building performance, were brisk, contributing to improved sales in the homebuilding business. Also of note, we launched sales of SMART STYLE H New Skip Kura, a wooden-panel prefabricated home featuring various solutions that support households where both the husband and wife work outside the home. Meanwhile, CENTURY Primore3 earned a Good Design Award 2018, extending Misawa Homes' winning streak

to 29 consecutive years and giving us the distinction of being the only company in the housing industry to have achieved this feat.

In the subdivision homes business, Misawa Homes introduced a new sales strategy—Misawa Life Design System<sup>\*1</sup> with non-recourse option<sup>\*2</sup>—and used it to direct concerted efforts into sales of subdivision lots, including ones in Hills Garden Shonan Hatori, in Fujisawa, Kanagawa Prefecture.

<sup>\*1</sup> Misawa Homes' own plan offering four residence utilization options—rent, sell, continue to reside or repay—if a portion of the home loan remains  
<sup>\*2</sup> Plan that utilizes the Japan Trans-Housing Institute's "ka-e-seru option" to create a home non-recourse loan (where redemption or repayment is not requested)



Interior view of MJ FRAME LC, a wooden framework home



SMART STYLE H New Skip Kura, a wooden-panel prefabricated home

## Asset Utilization Services

People today want to live life true to themselves. To address this growing trend, which reflects personal decisions not to marry or to marry later in life as well as diversifying lifestyles, Misawa Homes debuted Belle Lead SkipHigh, a wooden-panel rental home featuring Misawa Homes' own *kura* large storage space. In addition to extensive storage space, GAINET and delivery lockers come standard with this product, which meets Net Zero Energy Housing (ZEH) design specifications as well. GAINET is a device developed by Misawa Homes that measures the extent of earthquake damage at a home where it is installed. We endeavored to distinguish Belle Lead SkipHigh homes from neighboring buildings and were rewarded with an increase in orders. We also actively marketed medium-rise fireproof buildings combining stores and rental homes, particularly in urban areas.

We also presented asset utilization solutions, mainly to maximize idle corporate land, and worked to expand orders for structures such as company housing and employee dormitories, medical and nursing care facilities, and on-site daycare facilities. Of note, we won a Good Design Award for cha-cha town, a new community



Belle Lead SkipHigh

## Remodeling

In October 2018, Misawa Homeing Co., Ltd. changed its name to Misawa Reform Co., Ltd. We had used Misawa Homeing as the brand name for our remodeling business but decided on a new name that better reflects efforts to strengthen our presence in large-scale remodeling and renovation of structures like non-residential buildings and condominiums, in addition to the current focus on remodeling single-family detached homes. We established MA Refining Systems Co., Ltd., a wholly owned subsidiary, to strengthen business with Refining

in Futtsu, Chiba Prefecture, that comprises six structures centered around group homes for the disabled and on-site share houses for their families and caregivers as well as living quarters for the staff who work there. We also earned a Kids Design Award for two childcare support facilities plus Nursery Room Berry Bear Miyazakidai<sup>\*1</sup>, an urban-type compact daycare facility in Kawasaki, Kanagawa Prefecture.

<sup>\*1</sup> Award shared with NESS Corporation



cha-cha town—a community of six buildings



cha-cha town courtyard

Architecture<sup>\*1</sup>, a building revitalization technique that not only enhances such aspects as interiors and exteriors, installations and layouts, but also makes existing buildings dramatically more earthquake-resistant and significantly extends their useful service life. Going forward, we will widely promote businesses such as real estate revitalization consulting, purchase and resale as well as the rental income business with Company-owned properties. In 2018, we captured a Good Design Award for ASPRIME Chiyodafujimi, which are rental homes converted from a technical college building built 36 years

ago, using the Refining Architecture technique.<sup>\*2</sup>

Misawa Reform, a remodeling company covering metropolitan Tokyo, opened offices in Shinjuku, Komagome and Ikebukuro, in Tokyo, to capture the interest of customers in the urban core, as well as a showroom in Yokohama, Kanagawa Prefecture. In Aoyama, an area of Tokyo's Minato-ku, we welcomed the opening of Misawa Reform AOYAMA SALON, a consulting salon exclusively geared to designing remodeling options for society's upper classes. The salon emphasizes highly satisfying remodeling solutions with presentation competence utilizing virtual reality technology and collaboration with luxury furniture and home equipment manufacturers. In addition, we will vigorously promote forward-looking remodeling options to prepare for any nursing care needs in the future.

\*1 Registered trademark of Taiheiyo Cement Corporation and Shigeru Aoki Architect & Associates Inc.  
\*2 Award shared by Misawa Homes Co., Ltd. and Shigeru Aoki Architect & Associates Inc.

## ミサワリフォーム AOYAMA SALON

Misawa Reform logo

### Residential Community Development Business

Seeking to secure a new revenue source, Misawa Homes became involved in development projects of complexes that centered on medical treatment, senior care and daycare support, as well as compact city-style real estate development projects, by reinforcing corporate marketing to governments and the private sector. In April 2018, we opened ASMACI Urayasu, a commercial complex in Urayasu, Chiba Prefecture, that integrates multiple features, such as medical treatment, senior care and daycare, under the smart wellness concept promoted by national and local governments. On land adjacent to the complex, we began construction of LUMICIA Urayasu Maihama, a condominium for active seniors that will enable residents to enjoy the conveniences of ASMACI Urayasu. We are building another complex with medical treatment and senior care services, tentatively named ASMACI Urayasu Tomioka,



ASPRIME Chiyodafujimi



Misawa Reform AOYAMA SALON

within a kilometer of ASMACI Urayasu, to create a community where local citizens, including seniors, can live with peace of mind and in good physical and mental health. In addition, the ASMACI Mishima Project Consortium, which is headed by Misawa Homes, signed



Concept drawing of Mishima Station South Exit East District Redevelopment Project

a business cooperation agreement with the city of Mishima and others, as part of a project to redevelop Mishima Station in Mishima, Shizuoka Prefecture, and is moving forward on activities toward completion in 2025.

In the condominium business, the emphasis was on sales geared to local needs, especially in core regional cities. In fiscal 2019, we promoted condominium development and began sales of condominium units in Sendai, Shizuoka and Nagano, and in central Tokyo, we welcomed the start of construction of a condominium tower in Iidabashi, Chiyoda-ku. We expanded these approaches to increase the number of units sold and achieved higher sales in the residential community development business.

In the real estate assets business, we contributed capital for residences, offices, hotels and other investment-use properties, mainly in metropolitan

### Other Businesses

#### Overseas Business

In November 2018, through our wholly owned subsidiary Misawa Homes Australia Pty. Ltd., we made a capital contribution into Homecorp Constructions Pty Ltd. (HCC), which is engaged in the construction of homes in Queensland, Australia, to move solidly toward a full-scale presence there. Operations focus on the planning and design of custom-ordered and subdivision homes. Also, in January 2019, through our wholly owned subsidiary Misawa Homes America, Inc., we entered the U.S. housing market with a capital contribution into Impression Homes LLC (IH), a Texas-based homebuilder active in a wide range of businesses, from the purchase of land for real estate to the construction and sale of subdivision homes.

Going forward, we will draw on the business platforms and networks of HCC and IH and raise the synergistic effect of both companies, as we cement our presence in the housing markets of Australia and the United States. At the same time, we will actively promote the accumulation of expertise and human resources development related to overseas business to expand business there.

In other activities, Misawa Homes recorded an increase in net sales from the operation of nursing care facilities through Motherth Co., Ltd., which handles the Group's nursing care business, and also from the logistics business and the sale of construction materials.

Tokyo and other major cities in Japan. We also pushed ahead on sales, which added to business results.



Concept drawing of ASMACI Urayasu Tomioka building



Example of HCC home



Example of IH home

## Environmental and Social Contribution Activities

As a corporate group that benefits from forest resources, the Misawa Homes Group undertakes environmental conservation activities at home and abroad. In Japan, activities include Misawa Owners Forest Miyagi, in Miyagi Prefecture, which Tohoku Misawa Homes began in 2006. Here, forest improvement activities have been going on for more than 10 years, earning high marks for enhancing the community environment. In October 2018, the forest project won an achievement award in the forests and forestry category from Miyagi Prefecture. At Misawa Homes Forest Matsumoto, in Nagano Prefecture, which started in 2014, local citizens join us on improvement activities designed to renew the forest with native species. Also of note, in July 2018, we began Misawa Homes Forest Katsuura, in Chiba Prefecture, as a focal point for preserving the local forest and beach cleanup activities. A total of 82 people, including employees, their families and local residents, teamed up to collect trash along the beach. This activity promoted a deeper appreciation of maintaining a clean natural environment and also promoted positive interaction between employees and the community.



Beach cleanup activity

From the 17th expedition in 1975 through the 60th expedition, which returns to Japan in March 2020, a total of 22 employees from companies of the Misawa Homes Group have been seconded to the National Institute of Polar Research in Antarctica as members of the construction and maintenance team. In addition, Misawa Homes has been involved in the construction of buildings at the observation base, after being first commissioned in 1968 to build the 10th living hut and subsequently obtaining orders for structures that support the activities and lives of the observation team. To date, we have supplied 36 buildings, with floor space totaling 5,900 m<sup>2</sup>. Also, in association with school cooperatives in prefectures throughout

Japan and education-related organizations, and with the support of the National Institute of Polar Research, we run a program—Antarctic Class—in which employees who have returned from their Antarctic assignments visit elementary and junior high schools as guest speakers. This Company-directed learning opportunity for children has been in place since 2011. As of March 31, 2019, Misawa Homes has held Antarctic Class in about 1,500 schools, involving some 160,000 students. In 2018, children too sick to attend regular school and thus enrolled at the school attached to a Tokai University Hospital also took part in the program. Antarctic Class gives children an inside look at the environment at the Earth's southernmost continent, encourages them to have dreams and aspirations, and allows them to see the importance of teamwork in successfully accomplishing a mission with limited human resources.



Class for sick children

We established a Companywide resource recycling system, achieved zero emission status at factories and construction sites, and developed M-Wood2, a recycled material. Comprehensive initiatives to create homes that contribute to a sustainable society have been recognized and earned us an Eco Mark Award 2018 excellence prize—a first in the housing industry—from the Japan Environment Association.

Also, we looked at issues in society that require serious responses from the Misawa Homes Group and set these as priority CSR issues. These issues were set up with reference to the United Nations' 17 sustainable development goals and are described in our CSR Report. Going forward, we will continue to engage in responsible business activities designed to realize a sustainable society.



Eco Mark Award logo

## Topics

### Misawa Homes increases stake in Daisue Construction Co., Ltd. and turns company into affiliate accounted for by the equity method

In May 2018, to expand its remodeling and residential community development businesses, Misawa Homes formed a capital and business alliance with Daisue Construction, which has extensive expertise in large-scale architectural design and construction, and renewal of non-residential buildings. Once the alliance was formalized, Misawa Homes and Daisue Construction launched working groups for marketing, technology and construction, and procurement of materials, with an emphasis on the mutual use of marketing information and the sharing of construction technology. Daisue Construction handled the design and construction of such buildings as ASPRIME Chiyodafujimi with the Refining Architecture technique, which captured a Good Design Award 2018, as well as the welfare complex in Urayasu, Chiba Prefecture, which offers medical treatment and senior care services, and a condominium for active seniors, also in Urayasu. In March 2019, the partnership between Misawa Homes and Daisue Construction was reinforced with additional investment by Misawa Homes in Daisue Construction. This turned Daisue Construction into an affiliate accounted for by the equity method.

### Selected for 2019 Health and Productivity Management Outstanding Organizations Recognition Program

Misawa Homes aims to grow as a company that enables each and every employee to be healthy and demonstrate higher levels of performance, and also seeks to improve both work productivity and the quality of life of employees. In April 2018, the Company formulated a health declaration to guide its efforts. The president has been appointed chief health officer and, in cooperation with the Company's health insurance association, works on approaches to health management. In February 2019, Misawa Homes was selected for the 2019 Health and Productivity Management Outstanding Organizations Recognition Program, run by the Ministry of Economy, Trade and Industry, in the large enterprise category, known as the "White 500."

#### [Key Initiatives]

- Established health management office at head office and introduced full-time occupational health nurse system
- Initiated no-smoking policy during work hours
- Added two occupational health nurses to the team for health checks, secondary screening and thorough follow-up on specified health guidance
- Appointed health improvement officer at each workplace to promote good health practices
- Held walking events in which branch offices and divisions compete (with participation by 1,981 employees)



"White 500" logo

### Addressing issue of vacant homes

In parallel with the graying of society, communities in Japan face the growing problem of homes left vacant when elderly owners move into a care facility or pass away and the people who inherit the homes do nothing with the property. The increase in vacant homes has serious consequences, as an unoccupied and badly maintained house becomes a blemish in the neighborhood as well as a safety hazard. Japan needs concrete approaches to prevent this situation, make effective use of homes and ensure proper maintenance or management of properties. Since 2015, the Misawa Homes Group has responded by opening Smile-ring Desk consultation points nationwide to provide one-stop advice on various housing-related issues, including the problem of vacant homes.

Our approach has been well received. For the second straight year, we were selected by the Tokyo Metropolitan Government to promote public awareness and provide consultation services on topics that include utilization of vacant homes in Tokyo. We held seminars to raise awareness of the vacant home issue and encourage people to take a preventative approach to the problem and actively offered pertinent advice.



Smile-ring Desk logo

## 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 respect the rights and positions of these stakeholders and acknowledge 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 the 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
	2014	2015	2016	2017	2018	2019	2019
<b>For the Year:</b>							
Net Sales	¥426,033	¥409,795	¥399,337	¥399,853	¥388,552	¥399,347	\$3,598,049
Cost of Sales	328,259	321,488	314,346	313,628	303,890	313,074	2,820,739
Gross Profit	97,774	88,307	84,991	86,225	84,662	86,273	777,310
Selling, General and Administrative Expenses	84,580	82,483	78,305	77,823	77,177	77,865	701,552
Operating Income	13,194	5,824	6,686	8,402	7,485	8,408	75,758
Profit before Income Taxes	11,854	3,962	6,100	6,069	6,169	7,589	68,373
Profit Attributable to Owners of Parent	10,401	3,309	3,438	4,423	4,829	5,310	47,842
<b>At Year-End:</b>							
Total Assets	¥228,775	¥224,617	¥231,998	¥247,069	¥254,410	¥282,142	\$2,542,048
Total Net Assets	37,834	42,747	42,845	52,309	57,182	63,574	572,793
<b>Per Share Amounts (yen):</b>							
Profit - Basic	¥ 279.91	¥ 88.73	¥ 92.05	¥ 114.37	¥ 112.14	¥ 123.31	\$ 1.11

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2019 of ¥110.99 = U.S.\$1.

### Number of Homes Sold

	Fiscal 2017	Fiscal 2018	Fiscal 2019
			(Units)
Custom homes	6,713	6,309	6,492
Lot-subdivision homes	868	818	685
Home Building Subtotal	7,581	7,127	7,177
Rental homes (Buildings)	3,654 (1,294)	3,450 (1,096)	3,688 (1,205)
Multi-dwelling units and others	826	870	744
Asset Utilization Services Subtotal	4,480	4,320	4,432
Total	12,061	11,447	11,609

# Financial Review

## Operating Environment

In fiscal 2019, ended March 31, 2019, factors of instability overseas, notably trade friction between China and the United States and political issues in Europe, required careful watching, but overall, the domestic economy was favorable. The employment environment improved and personal incomes grew, government policies delivered positive results and a gradual recovery trend characterized business conditions.

In the housing industry, interest rates on mortgages remained low but housing starts were essentially flat, rising just 0.7 percent year on year, to 950,000 units. This is largely due to a drop in demand for rental homes used to minimize the burden of inheritance taxes.

Against this backdrop, the Misawa Homes Group implemented various strategies in line with First Step For NEXT50, the medium-term management plan that runs from fiscal 2018 through fiscal 2020. The results of these efforts are described below.

Net sales increased 2.8 percent, to ¥399.3 billion, and ordinary income climbed 18.8 percent, to ¥9.1 billion. Profit attributable to owners of parent rose 10.0 percent, to ¥5.3 billion.

## Net Sales

Consolidated net sales reached ¥399,347 million, up 2.8 percent, or ¥10,700 million, year on year. The homebuilding business and asset utilization services showed decreases, but these were offset by higher sales by the remodeling business and increased sales of condominiums by the residential community development business, as well as proceeds from the sale of investment real estate.

## Operating Income

Consolidated operating income climbed 12.3 percent year on year, to ¥8,408 million. In addition to larger contributions from the remodeling business and the residential community development business, selling prices of buildings were up and cost of sales was down. These factors led to a better profit ratio and, inevitably, improved operating income.

## Profit before Income Taxes

Consolidated profit before income taxes increased 23.0 percent year on year, to ¥7,588 million.

## Profit Attributable to Owners of Parent

Consolidated profit attributable to owners of parent rose 9.9 percent year on year, to ¥5,309 million.

## Financial Position

As of March 31, 2019, total assets stood at ¥282,141 million, up ¥27,731 million from a year earlier. The increase is mainly due to higher inventories and capital contribution into overseas subsidiaries, which offset lower cash and bank deposits and lower property, plant and equipment. Total liabilities settled at ¥218,567 million, up ¥21,338 million from a year earlier, reflecting higher notes and accounts payable, trade and higher debt. Net assets amounted to ¥63,574 million, up ¥6,392 million from a year earlier, mainly owing to the booking of profit attributable to owners of parent.

## Cash Flow Status

Cash and cash equivalents (“cash”) on a consolidated basis amounted to ¥48,658 million at the end of March 2019, down ¥10,132 million from a year earlier. The change reflects outflow of ¥20,100 million from operating activities and investing activities, which offset inflow of ¥10,058 million from financing activities.

Net cash provided by operating activities came to ¥1,543 million, down ¥11,118 million from a year earlier. The primary components of change were higher operating loans receivable and higher inventories.

Net cash used in investing activities amounted to ¥21,644 million, up ¥8,737 million from a year earlier. The main components of change were the purchase of fixed assets and capital contribution into overseas subsidiaries.

Net cash provided by financing activities reached ¥10,058 million, up ¥5,398 million from a year earlier. The change is largely due to new loans.

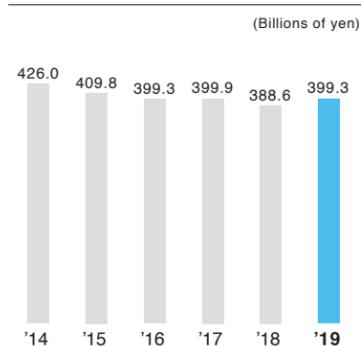
## Breakdown of Employees (Consolidated) (People)

	Fiscal 2017	Fiscal 2018	Fiscal 2019
Misawa Homes	2,582	2,544	2,605
Sales companies	4,505	4,441	4,364
Factories	746	740	678
Other affiliates	1,084	1,134	1,248
<b>Total</b>	<b>8,917</b>	<b>8,859</b>	<b>8,895</b>

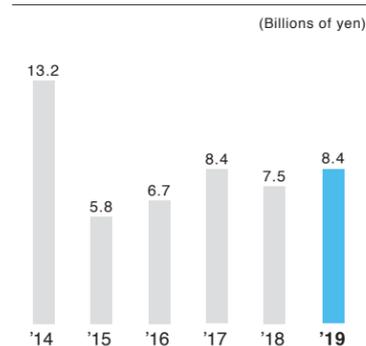
## Employees in Sales (Consolidated) (People)

	Fiscal 2017	Fiscal 2018	Fiscal 2019
New homes business	1,799	1,685	1,640
Home renovation business	937	907	898
<b>Total</b>	<b>2,736</b>	<b>2,592</b>	<b>2,538</b>

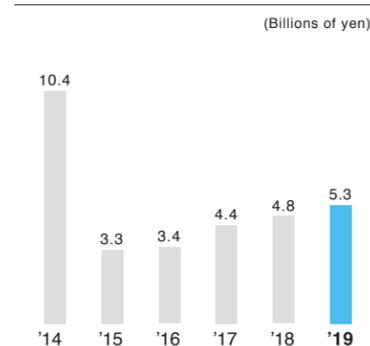
### ▼ Net Sales



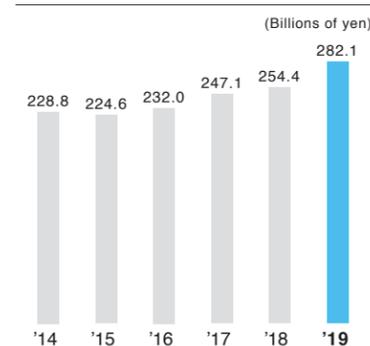
### ▼ Operating Income



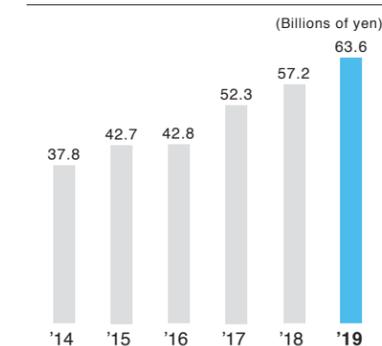
### ▼ Profit Attributable to Owners of Parent



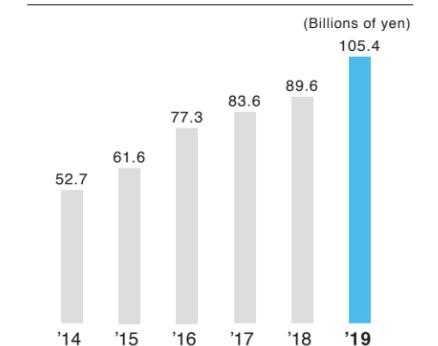
### ▼ Total Assets



### ▼ Total Net Assets



### ▼ Interest-Bearing Debt



## CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
<b>ASSETS</b>			
Current assets:			
Cash and bank deposits (Notes 7 and 18)	¥49,753	¥59,583	\$448,267
Notes and accounts receivable, trade (Note 7)	11,513	8,549	103,732
Operating loans receivable (Note 7)	16,319	9,683	147,035
Land and housing for sale (Note 10)	53,236	38,293	479,649
Cost of uncompleted contracts (Note 10)	44,881	36,955	404,369
Merchandise and finished goods	1,049	1,009	9,448
Work in process	229	239	2,065
Raw materials and supplies	1,894	1,826	17,065
Other current assets	7,303	7,287	65,790
Allowance for doubtful accounts	(140)	(181)	(1,262)
Total current assets	186,037	163,243	1,676,158
Property, plant and equipment (Notes 9, 10, 19, 21 and 23):			
Buildings and structures	48,736	48,684	439,097
Machinery and equipment	7,128	6,962	64,223
Land	30,459	31,951	274,431
Other	7,366	6,589	66,366
	93,689	94,186	844,117
Less: Accumulated depreciation	(33,946)	(31,852)	(305,847)
Net property, plant and equipment	59,743	62,334	538,270
Intangible assets (Note 9):			
Goodwill	5,805	636	52,302
Other	7,182	7,746	64,713
Total intangible assets	12,987	8,382	117,015
Investments and other assets:			
Investment securities (Notes 6, 7 and 10)	4,560	1,528	41,086
Deferred tax assets (Note 16)	3,981	5,963	35,871
Net defined benefit asset (Note 11)	3,917	3,549	35,290
Other (Notes 6, 7 and 9)	12,547	11,070	113,044
Allowance for doubtful accounts	(1,630)	(1,659)	(14,686)
Total investments and other assets	23,375	20,451	210,605
Total assets	¥282,142	¥254,410	\$2,542,048

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

## CONSOLIDATED BALANCE SHEET

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term debt (Notes 7 and 10)	¥41,874	¥28,702	\$377,275
Current portion of long-term debt (Notes 7, 10 and 21)	9,669	10,232	87,116
Notes and accounts payable, trade (Note 7)	39,971	37,341	360,135
Accounts payable, other (Note 10)	8,781	8,476	79,113
Accrued bonuses	5,937	5,809	53,490
Provision for warranties for completed contracts	3,883	3,370	34,989
Advances received on uncompleted contracts	31,892	30,056	287,337
Deposits received	6,221	6,010	56,048
Income taxes payable	1,749	1,114	15,759
Asset retirement obligations	72	58	651
Other current liabilities (Note 10)	5,954	5,790	53,644
Total current liabilities	156,003	136,958	1,405,557
Long-term liabilities:			
Long-term debt (Notes 7, 10 and 21)	52,224	48,732	470,526
Deferred tax liabilities (Note 16)	42	1,575	380
Accrued pension and severance costs for directors and corporate auditors	597	541	5,375
Net defined benefit liability (Note 11)	2,401	2,196	21,634
Asset retirement obligations	1,615	1,330	14,553
Other long-term liabilities (Note 10)	5,686	5,896	51,230
Total long-term liabilities	62,565	60,270	563,698
Net assets:			
Shareholders' equity (Note 12):			
Capital stock:	11,893	11,893	107,152
	(Thousands of shares)		
	In 2019	In 2018	
Common stock			
Authorized	150,000	150,000	
Issued	43,070	43,070	
Additional paid-in capital	2,878	2,878	25,934
Retained earnings	43,227	38,417	389,465
Treasury stock, at cost	(10)	(8)	(86)
Accumulated other comprehensive income:			
Net unrealized gains on other securities (Note 6)	282	425	2,541
Land revaluation difference	(441)	(441)	(3,969)
Foreign currency translation adjustments	(93)	36	(841)
Remeasurements of defined benefit plans (Note 11)	1,683	1,735	15,162
Non-controlling interests	4,155	2,247	37,435
Total net assets	63,574	57,182	572,793
Commitments and contingent liabilities (Note 20)			
Total liabilities and net assets	¥282,142	¥254,410	\$2,542,048

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

CONSOLIDATED STATEMENT OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31, 2019
	2019	2018	
Net sales (Note 23)	¥399,347	¥388,552	\$3,598,049
Cost of sales (Notes 17 and 23)	313,074	303,890	2,820,739
Gross profit	86,273	84,662	777,310
Selling, general and administrative expenses (Notes 17 and 19):			
Salaries and wages	39,875	40,321	359,264
Advertising	8,091	8,167	72,903
Sales promotion	6,726	6,773	60,601
Provision for warranties for completed contracts	1,407	1,336	12,681
Provision for accrued bonuses	3,830	3,704	34,503
Depreciation expenses	3,201	3,042	28,843
Other selling expenses	3,483	3,420	31,381
Other general and administrative expenses	11,252	10,414	101,376
Total selling, general and administrative expenses	77,865	77,177	701,552
Operating income	8,408	7,485	75,758
Non-operating income:			
Interest income	22	25	204
Rent income	231	350	2,078
Income from commissions	118	98	1,063
Revenue from sales of electric power	289	306	2,604
Share of profit of entities accounted for using equity method	457	-	4,117
Other	427	508	3,848
Total non-operating income	1,544	1,287	13,914
Non-operating expenses:			
Interest expenses	555	586	5,002
Commissions for syndicate loans	5	38	45
Other	278	476	2,509
Total non-operating expenses	838	1,100	7,556
Ordinary income	9,114	7,672	82,116
Other gains ("TOKUBETSU RIEKI"):			
Gain on sales of property, plant and equipment (Notes 13 and 23)	5	24	46
Gain on sales of investment securities	-	0	-
Other	-	6	-
Total other gains	5	30	46
Other losses ("TOKUBETSU SONSHITSU"):			
Impairment loss on long-lived assets (Note 9)	546	1,328	4,923
Loss on disposal of property, plant and equipment (Note 14)	69	205	625
Provision for warranties for completed contracts	717	-	6,460
Other	198	0	1,781
Total other losses	1,530	1,533	13,789
Profit before income taxes	7,589	6,169	68,373
Income taxes (Note 16):			
Current	1,806	1,223	16,270
Deferred	436	335	3,926
	2,242	1,558	20,196
Profit	5,347	4,611	48,177
Profit (loss) attributable to non-controlling interests	37	(218)	335
Profit attributable to owners of parent	¥5,310	¥4,829	\$47,842

Per share (Note 15):  
Profit—Basic

Yen		U.S. dollars (Note 5)
Years ended March 31		Year ended March 31, 2019
2019	2018	
¥123.31	¥112.14	\$1.11

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 5)
	Years ended March 31		Year ended March 31,
	2019	2018	2019
Profit	¥5,347	¥4,611	\$48,177
Other comprehensive income (Note 25):			
Net unrealized (losses) gains on other securities	(153)	64	(1,375)
Foreign currency translation adjustments	(150)	86	(1,355)
Remeasurements of defined benefit plans	(52)	1,224	(467)
Total other comprehensive income	(355)	1,374	(3,197)
Comprehensive income	¥4,992	¥5,985	\$44,980
Total comprehensive income attributable to:			
Shareholders of MISAWA HOMES CO., LTD.	¥4,985	¥6,179	\$44,920
Non-controlling interests	7	(194)	60

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

	Shareholders' equity		Accumulated other comprehensive income					Total net assets
	Number of shares issued		Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 11)	Non-controlling interests	
Balance at April 1, 2017			¥338	(¥441)	(¥16)	¥504	¥2,470	¥52,309
Cash dividends								(1,077)
Profit attributable to owners of parent								4,829
Purchase of treasury stock								(7)
Change in net assets arising from transactions with non-controlling shareholders								1
Net changes in items other than those in shareholders' equity			67		52	1,231	(223)	1,127
Balance at March 31, 2018			¥425	(¥441)	¥36	¥1,735	¥2,247	¥57,182
Cash dividends								(861)
Profit attributable to owners of parent								5,310
Purchase of treasury stock								(2)
Change in scope of application of equity method								361
Change in net assets arising from transactions with non-controlling shareholders								0
Net changes in items other than those in shareholders' equity			(143)			(62)	1,908	1,584
Balance at March 31, 2019			¥282	(¥441)	(¥10)	¥1,673	¥4,155	¥63,574

Thousands of U.S. dollars (Note 5)

	Shareholders' equity		Accumulated other comprehensive income					Total net assets
	Capital stock	Retained earnings	Treasury stock, at cost	Net unrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 11)	
Balance at March 31, 2018	\$107,152	\$346,134	(875)	\$327	(83,969)	\$20,244	\$15,633	\$515,198
Cash dividends	-	(7,760)	-	-	-	-	-	(7,760)
Profit attributable to owners of parent	-	47,842	-	-	-	-	-	47,842
Purchase of treasury stock	-	-	(11)	-	-	-	-	(11)
Change in scope of application of equity method	-	3,249	-	-	-	-	-	3,249
Change in net assets arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	6
Net changes in items other than those in shareholders' equity	-	-	-	(1,168)	(471)	17,191	(841)	14,269
Balance at March 31, 2019	\$107,152	\$389,465	(886)	(841)	(83,969)	\$37,435	\$15,162	\$572,793

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 5)
	Years ended March 31		Year ended March 31,
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes	¥7,589	¥6,169	\$68,373
Adjustments for:			
Depreciation and amortization	6,675	6,323	60,138
Amortization of goodwill	265	223	2,388
Decrease in allowance for doubtful accounts	(62)	(16)	(563)
Increase (decrease) in other allowances	530	(401)	4,773
Interest and dividend income	(65)	(68)	(589)
Interest expenses	555	586	5,002
Shares of profit of entities accounted for using equity method	(457)	-	(4,117)
Gain on sales of investment securities	-	(0)	-
Impairment loss on long-lived assets	546	1,328	4,923
Loss on sales and disposal of property, plant and equipment	64	181	579
Increase in notes and accounts receivable, trade	(2,784)	(399)	(25,082)
(Increase) decrease in inventories	(7,426)	5,741	(66,906)
Increase (decrease) in notes and accounts payable, trade	1,617	(5,105)	14,574
Increase (decrease) in advances received on uncompleted contracts	1,835	(615)	16,535
Increase in operating loans receivable	(6,636)	(21)	(59,789)
Other	1,238	563	11,155
Subtotal	3,484	14,489	31,394
Interest and dividends received	40	71	356
Interest paid	(627)	(635)	(5,646)
Income taxes paid	(1,353)	(1,263)	(12,196)
Net cash provided by operating activities	1,544	12,662	13,908
Cash flows from investing activities:			
Increase of time deposits with maturity over three months	(315)	(132)	(2,840)
Purchases of property, plant, equipment and intangible assets	(11,190)	(12,928)	(100,817)
Proceeds from sales of property, plant, equipment and intangible assets	15	244	137
Purchases of investment securities	(2,407)	(7)	(21,687)
Proceeds from sales of investment securities	0	1	0
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(6,489)	-	(58,462)
Payments for sales of investments in capital resulting in change in scope of consolidation	(116)	-	(1,051)
Payments for investments in capital	(1,193)	(0)	(10,750)
Other	51	(84)	461
Net cash used in investing activities	(21,644)	(12,906)	(195,009)
Cash flows from financing activities:			
Increase in short-term debt	8,751	2,602	78,849
Proceeds from long-term debt	13,933	15,084	125,536
Repayments of long-term debt	(11,328)	(11,408)	(102,063)
Cash dividends paid	(862)	(1,078)	(7,768)
Cash dividends paid to non-controlling interests	(17)	(19)	(154)
Payments for purchase of treasury stock	(2)	(7)	(11)
Other	(417)	(514)	(3,766)
Net cash provided by financing activities	10,058	4,660	90,623
Effect of exchange rate changes on cash and cash equivalents	(90)	30	(810)

Net (decrease) increase in cash and cash equivalents	(10,132)	4,446	(91,288)
Cash and cash equivalents at the beginning of the year	58,790	54,344	529,689
Cash and cash equivalents at the end of the year (Note 18)	¥48,658	¥58,790	\$438,401

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, 2019 and 2018, the numbers of consolidated subsidiaries were 58 and 44, respectively. Homecorp Constructions Pty Ltd., Impression Home LLC and other 12 companies have been included in consolidation through the capital contribution in the year ended March 31, 2019. Misawa Homes America, Inc. has been established and included in consolidation in the year ended March 31, 2019. Misawa Homes of Linyi Ltd. (China) is excluded from consolidation due to sales of its shares. DAISUE CONSTRUCTION CO., LTD. has been included in the application of the equity method due to acquisition of shares in the year ended March 31, 2019. FUJIGAOKA IKIHKORYU CO., LTD. and WOOD STATION CORPORATION 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 America, Inc. and other 18 overseas consolidated subsidiaries, the anonymous partnership under which MB INVESTMENT 1 LLC is a proprietor (the "Anonymous Partnership MBI 1") and the anonymous partnership under which SAPPORO NK DEVELOPMENT LLC is a proprietor (the "Anonymous Partnership SAPPORO NK") are December 31, May 31 and February 28, respectively. The 19 overseas consolidated subsidiaries are consolidated by using its financial statement as of December 31. The Anonymous Partnership SAPPORO NK is consolidated by using its financial statement as of February 28.

Misawa Homes Australia Pty. Ltd. has changed its closing date from March 31 to December 31. Accordingly, operating results for nine months from April 1, 2018 to December 31, 2018 have been included in consolidation. The Anonymous Partnership MBI 1 is consolidated by using its financial information as of February 28 which is prepared solely for the consolidation purpose. Necessary consolidation adjustments are made for significant transactions occurred 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, 2019 and 2018 were ¥661 million (\$5,960 thousand) and ¥931 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, 2019 and 2018 were ¥6 million (\$57 thousand) and ¥67 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, 2019 and 2018, the fair value of the revaluated land was less than its carrying value by ¥56 million (\$508 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, 2019.

#### (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:

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("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. Changes in presentation method:

#### Consolidated balance sheet

"Operating loans receivable" that was included in "Other current assets" of "Current assets" in the year ended March 31, 2018 has been separately presented in the year ended March 31, 2019 because it exceeded 5/100 of total assets. "Goodwill" that was included in "Other" of "Intangible assets" in the year ended March 31, 2018 has been separately presented in the year ended March 31, 2019 because it exceeded 1/100 of total assets. In order to reflect this change in presentation method, the consolidated financial statement for the year ended March 31, 2018 has been reclassified.

As a result, ¥16,970 million that was presented as "Other current assets" of "Current assets" in the consolidated balance sheet for the year ended March 31, 2018 has been reclassified to "Operating loans receivable" of ¥9,683 million and "Others" of ¥7,287 million. Also, ¥8,382 million that was presented as "Other" of "Intangible assets" in

the consolidated balance sheet in the year ended March 31, 2018 has been reclassified to “Goodwill” of ¥636 million and “Others” of ¥7,746 million.

**Changes due to adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”**

Upon application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018 (hereinafter, “Statement No. 28”)) from the beginning of the current fiscal year, the Company and its domestic subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of “Investments and other assets” and “Non-current liabilities”, respectively, and related notes.

As a result, deferred tax assets of ¥4,403 million classified as “Current assets” have been included in deferred tax assets of ¥5,963 million in “Investments and other assets”, and deferred tax liabilities of ¥3 million classified as “Current liabilities” have been included in deferred tax liabilities of ¥1,575 million classified as “Non-current liabilities” in the balance sheet as of March 31, 2018.

Certain information is added to Note 16. Income taxes as described in note 8 (excluding total amount of valuation allowance) and note 9 to the “Accounting Standard for Tax Effect Accounting” as prescribed in Paragraphs 3 through 5 of the Partial Amendments to Tax Effect Accounting. However, information for the year ended March 31, 2018 is not presented in accordance with the transitional treatment prescribed in Paragraph 7 of the Partial Amendments to Tax Effect Accounting.

**Consolidated statement of cash flows**

“Payments for investments in capital” that was included in “Other” of “Cash flows from investing activities” in the consolidated statement of cash flow for the year ended March 31, 2018 has been separately presented in the year ended March 31, 2019 due to the increase of consolidated statement of cash flows for the importance in its amount. In order to reflect this change in presentation method, the consolidated financial statement for the year ended March 31, 2018 has been reclassified. As a result, ¥(84) million that was presented as “Other” of “Cash flows from investing activities” in the consolidated statement of cash flows for the year ended March 31, 2018 has been reclassified to “Payments for investments in capital” of ¥(0) million and “Others” of ¥(84) million.

**5. U.S. dollar amounts:**

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥110.99 = U.S. \$1, the rate of exchange prevailing on March 31, 2019, has been used.

**6. Investment securities:**

Misawa Homes’ management classified all investment securities as other securities at March 31, 2019 and 2018. Net unrealized gains of ¥282 million (\$2,541 thousand) and ¥425 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2019 and 2018, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥138 million (\$1,241 thousand) and ¥182 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2019 and 2018, respectively. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥3,130 million (\$28,200 thousand) in the consolidated balance sheet as of March 31, 2019. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥3 million and in “Other” of investments and other assets in the amount of ¥0 million in the consolidated balance sheet as of March 31, 2018.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2019 and 2018 were as follows:

	Millions of yen			
	March 31, 2019			
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	¥3,592	¥449	(¥76)	¥3,965
Debt securities	1,118	45	(0)	1,163
Other	13	5	-	18
<b>Total</b>	<b>¥4,723</b>	<b>¥499</b>	<b>(¥76)</b>	<b>¥5,146</b>

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

	Thousands of U.S. dollars (Note 5)			
	March 31, 2019			
	Acquisition cost	Gross unrealized		Market value (carrying value)
		Gains	Losses	
Equity securities	\$32,364	\$4,044	(\$686)	\$35,722
Debt securities	10,075	408	(3)	10,480
Other	114	44	-	158
<b>Total</b>	<b>\$42,553</b>	<b>\$4,496</b>	<b>(\$689)</b>	<b>\$46,360</b>

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, 2019 and 2018, the carrying values of these unlisted securities were ¥578 million (\$5,206 thousand) and ¥378 million, respectively. Proceeds from sales of other securities for the years ended March 31, 2019 and 2018 were nil and ¥0 million, respectively. There were no gross realized gains and losses on the sales, for the year ended March 31, 2019. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥0 million and nil, respectively, for the year ended March 31, 2018.

**7. Financial instruments:**

(1) Policy for financial instruments

Misawa Homes utilizes short-term deposits for surplus funds. In addition, it raises funds through borrowings from financial institutions. Derivative transactions are only used to reduce risks, and it is Misawa Homes’ policy not to enter into derivative transactions for speculative purposes.

(2) Details of financial instruments, related risk and risk management system

Trade receivables such as notes and accounts receivable are exposed to credit risk. Misawa Homes monitors the due dates and manages credit risk under the credit management rules to mitigate this risk.

Investment securities mainly consist of equity securities and are exposed to market risk. Misawa Homes reviews the fair values of the listed equity securities quarterly.

Operating loans receivable consists of loans to the customers of the Company for construction costs, etc. and are exposed to credit risk. Misawa Homes manages credit risk by monitoring the credit situation periodically.

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, 2019 and 2018 were as follows:

	Millions of yen		
	March 31, 2019		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥49,753	¥49,753	¥—
Notes and accounts receivable, trade	11,513	11,513	—
Investment securities	5,146	5,146	—
Operating loans receivable	16,319	16,319	—
Total assets	¥82,731	¥82,731	¥—
Notes and accounts payable, trade	¥39,971	¥39,971	¥—
Short-term debt	41,874	41,874	—
Long-term debt (excluding bonds)	60,893	60,829	(64)
Total liabilities	¥142,738	¥142,674	(¥64)
Derivative transactions	—	—	—

	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	—
Operating loans receivable	9,683	9,683	—
Total assets	¥80,125	¥80,125	¥—
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	—	—	—

	Thousands of U.S. dollars (Note 5)		
	March 31, 2019		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	\$448,267	\$448,267	\$—
Notes and accounts receivable, trade	103,732	103,732	—
Investment securities	46,360	46,360	—
Operating loans receivable	147,035	147,035	—
Total assets	\$745,394	\$745,394	\$—
Notes and accounts payable, trade	\$360,135	\$360,135	\$—
Short-term debt	377,275	377,275	—
Long-term debt (excluding bonds)	548,632	548,057	(575)
Total liabilities	\$1,286,042	\$1,285,467	(\$575)
Derivative transactions	—	—	—

“Operating loans receivable” that was not separately presented in the year ended March 31, 2018 has been separately presented in the year ended March 31, 2019 due to increase in the significance in the amounts. In order to reflect this change in presentation method, the information for the year ended March 31, 2018 has also been presented.

Notes:

1. Unlisted securities of ¥578 million (\$5,206 thousand) and ¥378 million whose fair value was extremely difficult to determine as of March 31, 2019 and 2018, respectively, were not included in the above tables.

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 and operating loan receivable.  
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. Government bonds used for deposits amounting to ¥1,163 million (\$10,480 thousand) and ¥1,159 million are included in other of investments and other assets as of March 31, 2019 and 2018, 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 8. Derivative instruments. The fair value is based on the total amount of the principal and interest processed as an interest rate swap discounted by the interest rate if similar new loans were entered into. Long-term debt due within one-year amounting to ¥9,669 million (\$87,116 thousand) and ¥10,232 million is included in long-term debt in the above table as of March 31, 2019 and 2018, 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, 2019 and 2018 is as follows:

	Millions of yen			
	March 31, 2019			
	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	¥49,636	¥-	¥-	¥-
Notes and accounts receivable, trade	11,513	-	-	-
Investment securities				
Other securities with maturities				
Government bonds	300	516	113	234
Operating loans receivable	16,319			
<b>Total</b>	<b>¥77,768</b>	<b>¥516</b>	<b>¥113</b>	<b>¥234</b>

	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
Operating loans receivable	9,683			
<b>Total</b>	<b>¥77,668</b>	<b>¥744</b>	<b>¥191</b>	<b>¥198</b>

	Thousands of U.S. dollars (Note 5)			
	March 31, 2019			
	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	\$447,212	\$-	\$-	\$-
Notes and accounts receivable, trade	103,732	-	-	-
Investment securities				
Other securities with maturities				
Government bonds	2,700	4,648	1,023	2,109
Operating loans receivable	147,035			
<b>Total</b>	<b>\$700,679</b>	<b>\$4,648</b>	<b>\$1,023</b>	<b>\$2,109</b>

#### 8. Derivative instruments:

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

Material derivative transactions for which hedge accounting is applied at March 31, 2019 and 2018 were as follows:

	Hedged item	Millions of yen			Thousands of U.S. dollars (Note 5)		
		March 31, 2019			March 31, 2019		
		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	¥2,320	¥1,760	Note	\$20,903	\$15,857	Note

	Hedged item	Millions of yen		
		March 31, 2018		
		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

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, 2019 and 2018.

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

Impairment loss on long-lived assets for the years ended March 31, 2019 and 2018 were as follows.

Applicable assets	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2019	2018	2019
Buildings and structures	¥161	¥407	\$1,453
Machinery and equipment	-	-	-
Land	97	865	874
Goodwill	276	-	2,485
Other	12	56	111
<b>Total</b>	<b>¥546</b>	<b>¥1,328</b>	<b>\$4,923</b>

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. Misawa Homes recorded an impairment loss on goodwill, as a result of revising the future profitability projections made at the time of the stock acquisition, the Company recorded an impairment charge against the goodwill.

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 2.2-2.4% and 2.2-3.3% for the years ended March 31, 2019 and 2018, respectively. The recoverable amount of certain assets (land) was measured at the net sale value, which was estimated based on an appraisal value.

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

Short-term debt at March 31, 2019 and 2018 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2019
	2019	2018	
Loans, principally from banks, with weighted-average interest rates of 1.1% at March 31, 2019 and 0.4% at March 31, 2018	¥41,874	¥28,702	\$377,275

Long-term debt at March 31, 2019 and 2018 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2019
	2019	2018	
Loans, principally from banks and insurance companies, due 2019 to 2028 with weighted-average interest rates of 0.5% at March 31, 2019 and 0.6% at March 31, 2018	¥57,644	¥55,197	\$519,364
Non-recourse loans, due 2019 to 2023 with weighted-average interest rate of 0.8% at March 31, 2019 and 0.7% at March 31, 2018	3,249	2,767	29,268
Unsecured 0.37% bonds, due 2020	500	500	4,505
Unsecured 0.36% bonds, due 2020	500	500	4,505
	61,893	58,964	557,642
Less portion due within one year	(9,669)	(10,232)	(87,116)
	¥52,224	¥48,732	\$470,526

Weighted-average interest rates are weighted-average interest rates on the balance of loans at year-end. Loans at March 31, 2019 and 2018 include syndicate loan of ¥18,645 million (\$167,988 thousand) and ¥22,787 million, respectively.

The aggregate annual maturities of long-term debt outstanding at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 5)
2020	¥9,650	\$86,945
2021	9,436	85,015
2022	8,770	79,018
2023	19,814	178,525
2024	10,636	95,830
Thereafter	338	3,041
Total	¥58,644	\$528,374

The aggregate annual maturities of non-recourse long-term debt outstanding at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 5)
2020	¥19	\$171
2021	19	171
2022	1,820	16,393
2023	36	325
2024	1,355	12,208
Thereafter	-	-
Total	¥3,249	\$29,268

The aggregate annual maturities of lease obligations included in other current liabilities and other long-term liabilities outstanding at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 5)
2020	¥164	\$1,480
2021	129	1,162
2022	108	976
2023	102	917
2024	93	840
Thereafter	694	6,248
Total	¥1,290	\$11,623

Lease obligations are due 2019 to 2035 with weighted-average interest rates of 3.7% and 5.6% at March 31, 2019 for lease obligations which are due within 1 year and due greater than 1 year, respectively. Lease obligations recorded in the consolidated balance sheets include future lease payments before deducting deemed interest expenses, and such amounts are excluded in calculating weighted-average interest rates.

The aggregate annual maturities of other interest-bearing liabilities included in "Accounts payable, other" and "Other long-term liabilities" outstanding at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 5)
2020	¥194	\$1,748
2021	89	805
2022	73	657
2023	-	-
2024	-	-
Thereafter	-	-
Total	¥356	\$3,210

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

Assets pledged as collateral for secured loans and debt at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Pledged assets			
Land and housing for sale	¥3,006	¥1,604	\$27,078
Cost of uncompleted contracts	2,922	756	26,329
Buildings and structures	3,414	4,142	30,763
Machinery and equipment	474	476	4,273
Land	5,002	6,224	45,062
Other fixed assets	786	459	7,081
Total	¥15,604	¥13,661	\$140,586

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Secured loans and debt			
Short-term debt	¥11,620	¥7,726	\$104,696
Long-term debt	6,100	6,231	54,956
Other long-term liabilities	32	32	291
Total	¥17,752	¥13,989	\$159,943

In addition to the above pledged assets, shares in subsidiaries of ¥31 million (\$275 thousand) and ¥34 million were also pledged as collateral as of March 31, 2019 and 2018 respectively.

#### 11. 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Projected benefit obligation at beginning of year	¥32,063	¥30,898	\$288,884
Service cost	2,508	2,442	22,598
Interest cost	181	179	1,627
Actuarial (gains) losses	(310)	160	(2,794)
Retirement benefit paid	(2,138)	(1,649)	(19,258)
Prior service costs	-	30	-
Other	(5)	3	(46)
Projected benefit obligation at end of year	¥32,299	¥32,063	\$291,011

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Plan assets at beginning of year	¥33,415	¥30,413	\$301,067
Expected return on plan assets	448	478	4,033
Actuarial (losses) gains	(39)	1,948	(349)
Contributions by the Company	1,989	2,088	17,919
Retirement benefits paid	(1,998)	(1,511)	(18,003)
Plan assets at end of year	¥33,815	¥33,416	\$304,667

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit retirement plans:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Funded projected benefit obligation	¥31,024	¥30,959	\$279,521
Plan assets at fair value	(33,815)	(33,416)	(304,667)
	(2,791)	(2,457)	(25,146)
Unfunded projected benefit obligation	1,275	1,104	11,490
Net liabilities and assets for retirement benefits in the balance sheet	(¥1,516)	(¥1,353)	(\$13,656)
Net defined benefit liability	¥2,401	¥2,196	\$21,634
Net defined benefit asset	(3,917)	(3,549)	(35,290)
Net liabilities and assets for retirement benefits in the balance sheet	(¥1,516)	(¥1,353)	(\$13,656)

The components of net pension and severance costs for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Service cost	¥2,508	¥2,442	\$22,598
Interest cost	181	179	1,627
Expected return on plan assets	(448)	(478)	(4,033)
Amortization and expenses:			
Actuarial losses	(156)	148	(1,402)
Prior service costs	(149)	(140)	(1,346)
Other	6	(4)	50
Net pension and severance costs	¥1,942	¥2,147	\$17,494

Note: 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, 2019 and 2018 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Prior service costs	¥149	¥170	\$1,347
Actuarial gains	(115)	(1,936)	(1,043)
Total	(¥34)	(¥1,766)	(\$304)

Unrecognized prior service costs and unrecognized actuarial losses included in accumulated other comprehensive income (before tax effects) as of March 31, 2019 and 2018 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Unrecognized prior service costs	(¥1,089)	(¥1,239)	(\$9,816)
Unrecognized actuarial gains	(1,300)	(1,184)	(11,709)
Total	(¥2,389)	(¥2,423)	(\$21,525)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows.

	Years ended March 31	
	2019	2018
Debt securities	28%	28%
Equity securities	24	24
General accounts	32	36
Other	16	12
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	
	2019	2018
Discount rate	0.0-1.2%	0.0-1.2%
Expected long-term rate of return on plan assets	0.0-4.5%	0.0-6.1%

The Company and its domestic consolidated subsidiaries contributed ¥249 million (\$2,245 thousand) to defined contribution pension plans for the years ended March 31, 2019 and 2018.

## 12. Shareholders' equity:

(1) Type and number of stock issued and treasury stock for the years ended March 31, 2019 and 2018 are as follows:

For the year ended March 31, 2019

Type of shares	Number of shares			March 31, 2019
	April 1, 2018	Increase during the year	Decrease during the year	
Stock issued:				
Common stock	43,070,163	-	-	43,070,163
Treasury stock				
Common stock	8,308	1,408	-	9,716

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

Notes:

- Increase in the number of shares in treasury stock for the year ended March 31, 2019 is due to a purchase of odd-lot shares of less than one unit (1,408 shares).
- 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).

(2) Dividends paid during the years ended March 31, 2019 and 2018

For the year ended March 31, 2019

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 28, 2018	Common stock	¥861	\$7,760	¥20	\$0.18	March 31, 2018	June 29, 2018

For the year ended March 31, 2018

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

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

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

For the year ended March 31, 2019

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2019	Common stock	¥1,077	\$9,699	Retained earnings	¥25	\$0.23	March 31, 2019	June 28, 2019

For the year ended March 31, 2018

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 28, 2018	Common stock	¥861	Retained earnings	¥20	March 31, 2018	June 29, 2018

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

The following are the elements of “Gain on sales of property, plant and equipment” for the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2019	2018	2019
Buildings and structures	-	¥3	-
Machinery and equipment	¥1	7	\$9
Land	3	14	24
Other	1	0	13
<b>Total</b>	<b>¥5</b>	<b>¥24</b>	<b>\$46</b>

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

The following are the elements of “Loss on disposal of property, plant and equipment” for the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2019	2018	2019
Buildings and structures	¥55	¥124	\$497
Machinery and equipment	0	0	4
Other	14	81	124
<b>Total</b>	<b>¥69</b>	<b>¥205</b>	<b>\$625</b>

### 15. Per share information:

Basis for calculation of profit per share for the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31, 2019	2018	Year ended March 31, 2019
Basic EPS—Profit attributable to common shareholders of parent	¥5,310	¥4,829	\$47,842
Weighted average number of common shares outstanding:			
-Basic	43,061,218	43,064,791	
	Yen		U.S. dollars (Note 5)
Profit per share:			
-Basic	¥123.31	¥112.14	\$1.11

Basis for calculation of net assets per share as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	As of March 31		As of March 31,
	2019	2018	2019
Total net assets	¥63,574	¥57,182	\$572,793
Amounts deducted from total net assets:			
Non-controlling interests in subsidiaries	(4,155)	(2,247)	(37,435)
Net assets attributable to common shares	¥59,419	¥54,935	\$535,358
Number of common shares outstanding:	43,060,447	43,061,855	
	Yen		Yen
Net assets per share:	¥1,379.90	¥1,275.72	\$12.43

## 16. Income taxes:

Misawa Homes is subject to several types of income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018, respectively. The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Deferred tax assets:			
Tax loss carry forwards	¥9,539	¥11,676	\$85,948
Devaluation of inventories	1,182	1,238	10,647
Accrued bonuses	1,908	1,861	17,189
Net defined benefit liability	986	942	8,888
Allowance for doubtful accounts	1,921	1,926	17,304
Goodwill	69	84	620
Provision for warranties for completed construction	1,195	1,037	10,766
Impairment loss	747	852	6,733
Others	3,361	3,019	30,285
Gross deferred tax assets	20,908	22,635	188,380
Less: valuation allowance for tax loss carry forwards	(8,549)	-	(77,028)
Less: valuation allowance for temporary differences	(6,332)	-	(57,049)
Total valuation allowance	(14,881)	(16,227)	(134,077)
Total deferred tax assets	6,027	6,408	54,303
Deferred tax liabilities:			
Fair market valuation as a result of adoption of consolidated taxation system	(390)	(390)	(3,512)
Net unrealized gains on other securities	(138)	(182)	(1,241)
Net defined benefit asset	(1,272)	(1,150)	(11,457)
Expense related to asset retirement obligations	(143)	(147)	(1,293)
Others	(145)	(151)	(1,309)
Gross deferred tax liabilities	(2,088)	(2,020)	(18,812)
Net deferred tax assets	¥3,939	¥4,388	\$35,491

### Notes:

- The total valuation allowances decreased by ¥1,346 million (\$12,123 thousand) mainly due to reversal of valuation allowance on tax loss carry forwards of ¥747 million (\$6,730 thousands).
- Tax loss carry forwards and breakdown of deferred tax assets thereof by expiration dates are as follows:

	Millions of yen						Total
	March 31, 2019						
	Within one year	One to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	
Tax loss carry forwards (*1)	¥7,511	¥202	¥369	¥115	¥497	¥845	¥9,539
Valuation allowance	(6,713)	(202)	(369)	(89)	(396)	(780)	(8,549)
Deferred tax assets	798	0	0	26	101	65	(*2) 990

	Thousands of U.S. dollars (Note 5)						Total
	March 31, 2019						
	Within one year	One to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	
Tax loss carry forwards (*1)	\$67,677	\$1,818	\$3,327	\$1,034	\$4,473	\$7,619	\$85,948
Valuation allowance	(60,486)	(1,818)	(3,322)	(807)	(3,564)	(7,031)	(77,028)
Deferred tax assets	7,191	0	5	227	909	588	(*2) 8,920

(\*1) Tax loss carry forwards is calculated by applying the statutory income tax rate.

(\*2) Deferred tax assets of ¥990 million (\$8,920 thousand) are recognized for tax loss carry forwards of ¥9,539 million (\$85,948 thousand) (after applying the statutory income tax rate) for the year ended in March 31, 2019, which is mainly from recognizing a part of the remaining tax loss carry forwards of ¥6,523 million (\$58,775 thousand) of the company (after applying the statutory income tax rate). Such deferred tax assets on tax loss carry forwards are determined recoverable in calculation of valuation allowances considering the expected future taxable income.

Reconciliation between Misawa Homes statutory income tax rate and the effective income tax rate for the year ended March 31, 2019 is not disclosed because the total differences is less than 5% of the statutory income tax rate.

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

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

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

Provision for loss on construction contracts, which are included in cost of sales, were ¥58 million (\$518 thousand) and ¥61 million for the years ended March 31, 2019 and 2018, respectively.

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥1,474 million (\$13,280 thousand) and ¥1,383 million for the years ended March 31, 2019 and 2018, respectively.

### 18. Cash flow information:

Cash and cash equivalents at March 31, 2019 and 2018 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2019
	2019	2018	
Cash and bank deposits	¥49,753	¥59,583	\$448,267
Less:			
Time deposits due over three months	(1,095)	(793)	(9,866)
Cash and cash equivalents	¥48,658	¥58,790	\$438,401

The major components of assets and liabilities of Homecorp Constructions Pty Ltd and Impression Homes LLC at the time of consolidation for the year ended March 31, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 5)
	March 31	March 31, 2019
Current assets	¥9,399	\$84,682
Non-current assets	356	3,209
Total assets	9,755	87,891
Current liabilities	6,071	54,700
Non-current liabilities	279	2,512
Total liabilities	¥6,350	\$57,212

### 19. 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, 2019 and 2018.

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, 2019 and 2018 amounted to ¥2 million (\$18 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, 2019 and 2018 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note5)
	March 31		March 31, 2019
	2019	2018	
Acquisition cost:			
Buildings and structures	¥26	¥26	\$238
Less:			
Accumulated depreciation	(16)	(15)	(147)
Net book value	¥10	¥11	\$91

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, 2019 and 2018.

Depreciation expenses for these leased assets for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, would have been ¥1 million (\$6 thousand).

Accumulated impairment loss as of March 31, 2019 and 2018, would have been ¥116 million (\$1,049 thousand) and ¥176 million, respectively, and the amount is deducted from the acquisition cost.

Future lease payments for finance leases at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2019
	2019	2018	
Future lease payments			
Due within one year	¥1	¥2	\$13
Due after one year	12	13	105
Total	¥13	¥15	\$118

Future lease payments for non-cancelable operating leases at March 31, 2019 and 2018 were as follows: (As a lessee)

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2019
	2019	2018	
Future lease payments			
Due within one year	¥439	¥439	\$3,959
Due after one year	5,224	5,621	47,067
Total	¥5,663	¥6,060	\$51,026

(As a lessor)

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31, 2019
	2019	2018	
Future lease payments			
Due within one year	¥12	¥12	\$108
Due after one year	23	35	207
Total	¥35	¥47	\$315

### 20. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2019 and 2018 were ¥29,694 million (\$267,534 thousand) and ¥31,268 million, respectively.

### 21. Non-recourse loans:

Non-recourse loans at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31, 2019
	2019	2018	
Short-term debt	¥19	¥19	\$171
Long-term debt	3,229	2,748	29,097
Total	¥3,248	¥2,767	\$29,268

Assets correspond to the non-recourse loans at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	Years ended March 31		Year ended March 31,
	2019	2018	2019
Buildings and structures	¥2,068	¥2,123	\$18,631
Machinery and equipment	21	23	187
Land	2,336	2,336	21,051
Other	777	449	7,002
<b>Total</b>	<b>¥5,202</b>	<b>¥4,931</b>	<b>\$46,871</b>

The amount of the assets in the above table are included in pledged assets as collateral for secured loans and debt in Note 10. Short-term debt and long-term debt.

## 22. Business combinations:

(Business combination through acquisition)

The Company acquired 51% shares of Homecorp Constructions Pty. Ltd. ("HCC") through Misawa Homes Australia Pty. Ltd. ("MAU"), a wholly-owned subsidiary of the Company.

### (a) Overview of business combination

- (1) Name and description of business of the acquired company  
Name of the acquired company: Homecorp Constructions Pty. Ltd.  
Description of business: Construction of detached houses
  - (2) Main purpose of the business combination  
MAU and HCC have built relationships through the test projects of construction and sales of 5 houses built for sale in the state of Queensland.  
The purpose of the business combination is to strengthen mutual cooperative relationship and to expand the development of housing business in Australia.
  - (3) Date of the business combination  
November 14, 2018 (the date of acquisition of shares)  
September 30, 2018 (the deemed acquisition date)
  - (4) Legal form of the business combination  
Acquisition of shares by cash
  - (5) Company name after the business combination  
Unchanged
  - (6) Percentage of voting rights acquired  
51%
  - (7) Reasons for determining the acquired company  
MAU, a consolidated subsidiary of the Company, acquired the shares for a cash consideration.
- (b) Periods of the operating results of the acquired company included in the consolidated financial statements  
The operating results from October 1, 2018 to December 31, 2018 are included since the deemed acquisition date was September 30, 2018.

### (c) Details of acquisition cost and type of consideration

	Millions of yen	Thousands of U.S. dollars (Note 5)
Consideration	¥2,254	\$20,304
Acquisition cost	¥2,254	\$20,304

### (d) Details of major acquisition related costs

	Millions of yen	Thousands of U.S. dollars (Note 5)
Compensation and fees for advisory services, etc.	¥124	\$1,120

### (e) Detail of goodwill, reason for recognition, amortization method and period

- (1) Amount of goodwill  
¥1,691 million (\$15,235 thousand)  
The amount is provisional since identification of recognizable assets and liabilities and calculation of fair value have not been completed and the purchase price allocation has not been finalized as of March 31, 2019.
  - (2) Reason for recognition  
The acquisition costs exceeded the fair value of net assets at the time of acquisition
  - (3) Amortization method and period  
Straight-line method over 10 years
- (f) Details of assets acquired and liabilities assumed at the date of business combination

	Millions of yen	Thousands of U.S. dollars (Note 5)
Current assets	¥781	\$7,039
Non-current assets	22	196
<b>Total assets</b>	<b>803</b>	<b>7,235</b>
Current liabilities	512	4,617
Non-current liabilities	36	325
<b>Total liabilities</b>	<b>¥548</b>	<b>\$4,942</b>

- (g) Estimated amount and its calculation method of impact of business combination on the consolidated statements of income as if the business combination was completed at the beginning of the fiscal year  
The estimated amount of the impact is omitted since reasonable calculation is difficult.

(Business combination through acquisition)

The Company acquired 51% shares of Impression Homes LLC. ("IH") through Misawa Homes America Inc. ("MA"), a specified subsidiary of the Company.

### (a) Overview of business combination

- (1) Name and description of business of the acquired company  
Name of the acquired company: Impression Homes LLC.  
Description of business: Construction and sales of detached houses
- (2) Main purpose of the business combination  
IH is engaged in wide range of business including acquisition of real estate sites to construction and sales of the detached houses around Dallas and Fort Worth in the state of Texas and is expanding its business with community-based business development and strong growth and profitability. The Company believes that further business expansion is expected through generating synergies with deep understanding of business of the Company and maintaining a good relationship.
- (3) Date of the business combination  
January 25, 2019 (the date of acquisition of shares)  
December 31, 2018 (the deemed acquisition date)
- (4) Legal form of the business combination  
Purchase of shares by cash
- (5) Company name after the business combination  
Unchanged
- (6) Percentage of voting rights acquired  
51%
- (7) Reasons for determining the acquired company  
MA, a consolidated subsidiary of the Company, acquired the shares for a cash consideration.

- (b) Periods of the operating results of the acquired company included in the consolidated financial statements  
The operating results is not included since the deemed acquisition date was December 31, 2018 and only balance sheet is consolidated.

(c) Details of acquisition cost and type of consideration

		Millions of yen	Thousands of U.S. dollars (Note 5)
Consideration	Cash and bank deposits	¥5,626	\$50,687
Acquisition cost		¥5,626	\$50,687

(d) Details of major acquisition related costs

		Millions of yen	Thousands of U.S. dollars (Note 5)
Compensation and fees for advisory services, etc.		¥199	\$1,792

(e) Detail of goodwill, reason for recognition, amortization method and period

- (1) Amount of goodwill  
¥4,019 million (\$36,210 thousand)  
The amount is provisional since identification of recognizable assets and liabilities and calculation of fair value have not been completed and the purchase price allocation has not been finalized as of March 31, 2019.
- (2) Reason for recognition  
The acquisition costs exceeded the fair value of net assets at the time of acquisition
- (3) Amortization method and period  
Straight-line method over the period during which the influence of the goodwill shall apply.

(f) Details of assets acquired and liabilities assumed at the date of business combination

	Millions of yen	Thousands of U.S. dollars (Note 5)
Current assets	¥8,618	\$77,643
Non-current assets	334	3,013
Total assets	8,952	80,656
Current liabilities	5,559	50,083
Non-current liabilities	243	2,188
Total liabilities	¥5,802	\$52,271

- (g) Estimated amount and its calculation method of impact of business combination on the consolidated statements of income as if the business combination was completed at the beginning of the fiscal year  
The estimated amount of the impact is omitted since reasonable calculation is difficult.

**23. Investment and rental properties:**

The Company owns residential housing complexes (including land) for rental purpose in Hokkaido 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, 2019 was ¥519 million (\$4,674 thousand) and ¥3 million (\$23 thousand), respectively. 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 and ¥14 million, respectively.

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

	Millions of yen			Fair value March 31, 2019
	Carrying amount			
	April 1, 2018	Net increase	March 31, 2019	
Rental properties	¥22,522	¥(1,792)	¥20,730	¥22,059

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

	Thousands of U.S. dollars (Note 5)			Fair value March 31, 2019
	Carrying amount			
	April 1, 2018	Net increase	March 31, 2019	
Rental properties	\$202,922	\$(16,144)	\$186,778	\$198,745

Notes:

- Carrying amount is shown as acquisition costs less accumulated depreciation and cumulative impairment losses.
- Increase for the year ended March 31, 2019 is due mainly to acquisition of properties of ¥5,884 million (\$53,016 thousand) and decrease for the year ended March 31, 2019 is due mainly to transfer to real estate for sale of ¥7,479 million (\$67,380 thousand).
- Increase for the year ended March 31, 2018 is due mainly to acquisition of properties of ¥8,321 million and decrease for the year ended March 31, 2018 is due mainly to depreciation of ¥238 million.
- Fair value was estimated based on the real estate appraisal standards or similar methods (including for those adjusted by index).

**24. Related party transactions:**

Parent company and significant related parties as of March 31, 2019 and 2018 were as follows:

- (1) Information about the parent company  
Toyota Motor Corporation (listed on Tokyo, Nagoya, Fukuoka, Sapporo, New York and London Stock Exchange)  
Toyota Housing Corporation (not listed)
- (2) Information about summarized financial statements of the significant related parties  
Not applicable

Significant transactions between the Company and related parties for the year ended March 31, 2019 were as follows:

Name of related party	Type of transaction	Millions of yen	Thousands of U.S. dollars (Note 5)
		Year ended March 31, 2019	
Tadashi Yamashina	Condominium sales contract	¥120	\$1,077
Heizo Takenaka	Condominium sales contract	¥104	\$937
Shuhei Shoji	Housing construction contract	¥21	\$186

Consumption taxes were not included in the transaction amount. The contract amount was determined based on the transactions with third parties. Heizo Takenaka is close relative of Norio Takenaka, a chairman of directors of the Company. Shuhei Shoji is close relative of Kengo Shoji, a director and senior managing executive officer of the Company. Transaction with Tadashi Yamashina is condominium sales and contract and ¥36 million (\$323 thousand) that is multiplied by the ratio of joint venture is recorded in the consolidated statement of income. Transaction with Tadashi Yamashina is condominium sales and contract and ¥31 million (\$281 thousand) that is multiplied by the ratio of joint venture is recorded in the consolidated statement of income.

There were no significant transactions between the consolidated subsidiaries of the Company and related parties for the year ended March 31, 2019.

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.

## 25. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	March 31		March 31,
	2019	2018	2019
Net unrealized gains on other securities			
Gains arising during the year	¥(199)	¥95	\$(1,793)
Reclassification adjustments	-	(0)	-
Before income tax effect	(199)	95	(1,793)
Income tax effect	46	(31)	418
Total	(153)	64	(1,375)
Foreign currency translation adjustments			
Adjustments arising during the year	(141)	86	(1,275)
Reclassification adjustments	(9)	-	(80)
Total	(150)	86	(1,355)
Remeasurements of defined benefit plans			
Adjustments arising during the year	271	1,783	2,445
Reclassification adjustments	(305)	(17)	(2,749)
Before income tax effect	(34)	1,766	(304)
Income tax effect	(18)	(542)	(163)
Total	(52)	1,224	(467)
Total other comprehensive income	¥(355)	¥1,374	\$(3,197)

## 26. 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						
	2019						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥147,546	¥31,639	¥19,072	¥5,739	¥61,588	¥133,763	¥399,347
	Millions of yen						
	2018						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥152,265	¥34,250	¥24,070	¥6,026	¥61,091	¥110,850	¥388,552

	Thousands of U.S. dollars (Note 5)						
	2019						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	\$1,329,363	\$285,058	\$171,834	\$51,710	\$554,898	\$1,205,186	\$3,598,049

### (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.

### (7) Information about gain on negative goodwill by reportable segment

Information about gain on negative goodwill by reportable segment for the year ended March 31, 2019 is omitted because the Company's business is mostly residential and related business and practically considered one reportable segment. Information about gain on negative goodwill by reportable segment for the year ended March 31, 2018 is omitted because there was no gain on negative goodwill.

## 27. Subsequent event:

The Company becoming a wholly owned subsidiary of Toyota Housing Corporation

On May 9, 2019, the Company ("Misawa Homes") passed a resolution of the board of directors to conduct a share exchange (the "Share Exchange") in which Toyota Housing Corporation ("Toyota Housing") becomes the wholly owning parent company and Misawa Homes becomes the wholly owned subsidiary, and Toyota Housing and Misawa Homes entered into a share exchange agreement (the "Share Exchange Agreement") on the same date. The Share Exchange is scheduled to be conducted after being approved by an extraordinary general meeting of shareholders planned to be held around November 2019, and the common stock of the Company are scheduled to be delisted as of December 30, 2019 (the last trading day is expected to be December 27, 2019).

### 1. Purpose of the Share Exchange

In recent years, it has become imperative for housing manufacturers to respond to the tough operating environment faced by the housing industry due to factors such as long-term population decline and the associated shrinking of the domestic housing market and the shift from the previous preference for newly constructed housing to a preference for existing housing stock that aims to utilize effectively existing housing through means such as using vacant houses and renovation, as well as changes in the requirements of the Japanese government and needs of society, such as the strengthening of environmental regulations.

Additionally, with the concepts of "home" or "town" being subject to drastic change due to factors such as changes in customer's values and further advancements in mobility, such as in automated driving, and development of communication technology and other fields, the key element required to make a certain town competitive in the town development business may shift from the "location" of that town to "the degree of satisfaction with the service infrastructure for daily life" in that town.

Due to these major changes in the business environment of the housing business that Toyota Housing and Misawa Homes are facing, the Toyota group came to the conclusion that it was necessary to strengthen collaboration,

including a radical strengthening of capital ties between housing manufacturers, and around the middle of December 2018 began examining specific measures, including strengthening capital ties, together with Panasonic Corporation (“Panasonic”). As a result of multiple meetings with Panasonic, the necessity was recognized of establishing a new joint venture company relating to the town development business, integrating the housing businesses by placing under the joint venture company Panasonic Homes Co., Ltd. (“Panasonic Homes”), Matsumura-Gumi Corporation and Panasonic Construction Engineering Co., Ltd. (excluding certain businesses (construction work subcontracting from construction equipment distributors, etc.)), each consolidated subsidiaries of Panasonic (“Panasonic Group Subject Businesses”), as well as Toyota Housing and Misawa Homes (“Toyota Group Subject Businesses”)(\*1) (the “Integration”), and Misawa Homes becoming a wholly owned subsidiary of Toyota Housing as part of the Integration, in order to realize the provision of services leveraging the respective strengths and characteristics of the Panasonic Group Subject Businesses and Toyota Group Subject Businesses. In the housing business, in which market competition is anticipated to intensify in the future, both groups will reinforce the foundation of their housing business through collaboration and aim to achieve growth in the town development business, which is expected to continue to grow in the future, by making use of the strengths of both groups in the town development business.

As described above, making Misawa Homes a wholly owned subsidiary through the Share Exchange will be implemented as part of the Integration.

(Note 1\*) Please see Toyota’s May 9, 2019 press release “Panasonic and Toyota Agree to Establish Joint Venture Related to Town Development Business”

(Achieving advanced town development and housing development using Toyota group’s mobility technology and Panasonic’s lifestyle technology)

The Toyota group has been proceeding with the construction of a “mobility service platform” (MSPF)(\*2) while enhancing the development of “connected cars,” to realize an unrestricted, safe and comfortable mobility society for everyone, and promoting various big data initiatives to benefit both customers and society. In addition, Toyota group has also been collaborating with various domestic and overseas companies to create new mobility services.

Meanwhile, in the town development business, Panasonic group, together with various companies, has been engaged in the development of sustainable smart towns (SST)(\*3) in Fujisawa and Tsunashima as advanced models of town development, which were successful and drew considerable attention both inside and outside Japan as examples of cutting-edge town development.

As discussed above, it is imperative that Toyota Group Subject Businesses and Panasonic Group Subject Businesses reinforce the foundation of their housing business through collaboration, in which market competition is anticipated to intensify going forward, and we believe that fusion of the Panasonic group’s knowledge and digital technology for a sound life and the Toyota group’s mobility knowledge is essential for our initiatives to realize even more appealing town development.

Specifically, both groups are committed to realizing improvements in peoples’ lives through further growth and advancements in the town development business, which is expected to change rapidly due to the accelerating pace of advancement in IoT (\*4) for home appliances, household equipment, etc., as well as the development of CASE(\*5) and “MaaS (\*6),” which is a new concept of providing services by connecting means of transportation, such as vehicles or public transportation, through IT, in the mobility field, and other similar services.

(Note 2\*) “Mobility service platform” means the information infrastructure for connected cars, constructed by Toyota.

(Note 3\*) “Sustainable smart town” means a town that realizes its sustainable evolution in pursuing a better life by adopting state-of-the-art technologies and services.

(Note 4\*) “IoT” is an acronym that stands for “Internet of Things,” which means technologies and services to provide various electronic devices with communication functions, thereby allowing automatic control, remote operation, measuring or other various activities.

(Note 5\*) “CASE” is an acronym that stands for “Connected,” “Autonomous,” “Shared,” and “Electric.”

(Note 6\*) “MaaS” is an acronym that stands for “Mobility as a Service,” which means a service that realizes seamless transportation for people through the combination of public transportation, rental cars, taxis, rental bicycles and other means.

(Current state of Toyota Housing and Misawa Homes, and promotion of joint business through capital and business alliances and conversion to consolidated subsidiary until now)

Ever since its parent company, Toyota, entered the housing business in 1975, under the banner of “truly wanting to make Japanese homes better,” Toyota Housing has developed a lineup of detached housing products using a variety of different building techniques, and expanded its business to include such businesses as an existing housing stock business, a condominium business, a special building business and an international business. In terms of its relationship with Toyota, Toyota Housing was established in April 2003 by separating part of Toyota’s housing business division as the starting point for enhancement of the housing business, and in October 2010, Toyota conducted a company split causing Toyota Housing to succeed to the entirety of the housing business division. As a

result, as the company handling the Toyota group’s housing-related business, Toyota Housing offers housing incorporating the advanced technologies from each Toyota group company. In October 2018, Toyota Housing’s total quality management (TQM) initiatives were evaluated highly, and it was awarded the Deming Prize as a housing manufacturer for the first time. Toyota Housing values a lifelong relationship with its customers, and under the brand vision “Sincerely for You, Together for Life,” Toyota Housing strives to deliver peace of mind during construction, after construction, and through support, in order to help customers realize their ideal lifestyles throughout their lifetime. Peace of mind during construction means high quality through advanced technology, peace of mind after construction means the ability to guarantee the home in the long term, and peace of mind through support means the corporate strength of the Toyota group. In order to continue realizing an ideal lifestyle, Toyota Housing will promote initiatives diversifying its business in response to its customers’ needs.

Since its establishment in 1967, under its philosophy of “lifelong commitment to customers through housing” Misawa Homes has endeavored to develop its business with a focus on detached housing products emphasizing the customer’s perspective. Among other achievements, Misawa Homes is the only company in the housing industry to have won a Good Design Award for 29 consecutive years, has also won Kids Design Award for 12 consecutive years, and had no homes wholly or partially destroyed by earthquake tremors since its establishment. Since long ago, Misawa Homes has worked to expand its business from a focus on detached housing to a wider scope of corporate activity covering all aspects of people’s varied and changing lifestyle needs, and with a fundamental policy of promoting business diversification through such means as aggressive investment in stock asset related businesses, (\*7) Misawa Homes has been undertaking various initiatives. As a result of this, its asset utilization business, including rental housing and condominiums sales, as well as its town development business have grown strongly and the percentage of total sales contributed by its stock asset related businesses has grown to approximately 45%. The medium-term management plan covering the three years from 2017 to 2019 announced in May 2017 promoted ongoing diversification initiatives, and was positioned as a three-year plan towards the sustained growth for the next 50 years and further improvement of corporate value of Misawa Homes (First Step for NEXT 50), in commemoration of the 50th anniversary in October, 2017 of the founding of Misawa Homes. To that end, Misawa Homes aims to achieve further progress and continue to be capable of sustained growth in the future by creating a framework that can flexibly respond to changes in social needs such as the shrinking of the domestic housing market in connection with the decrease in population and number of households and the change from a focus on new homes to a focus on existing housing stock that aims to effectively utilize existing housing, expanding the existing asset utilization business and home remodeling business with a focus on rental housing while maintaining the size of its detached housing business, and making aggressive investments in its new town development business and its overseas business.

(Note 7\*) Misawa Homes has positioned its home remodeling business, its asset utilization business, and its town development business as its stock asset related businesses.

Toyota, Toyota Housing’s parent company, and Misawa Homes entered into a capital alliance agreement as of March 31, 2005. Based on it, Toyota Housing and Misawa Homes achieved a solid track record, through such means as joint business including joint materials purchasing and joint purchasing and sale of land. Thereafter, in order for both companies to strengthen their alliance and build an even closer relationship, on January 5, 2017 Toyota Housing made Misawa Homes a consolidated subsidiary through a tender offer for shares and a third-party allotment, and came to hold 21,965,898 shares of common stock of Misawa Homes (“Misawa Shares”) (51.00% of the 43,070,163 total issued shares as of March 31, 2019 (rounded to the 2nd decimal place. (Same hereinafter in calculation of shareholdings)). The aforementioned Misawa Homes medium-term management plan also lists its aim to maximize synergies with the Toyota group, including Toyota Housing, as one of its management strategies, and for each of the areas of technology and product development, design and construction, procurement, production and logistics, sales and systems, Misawa Homes is undertaking initiatives to maximize the synergies of both Misawa Homes and Toyota Housing.

(Making Misawa Homes a wholly owned subsidiary and further promotion of joint business through the integration) As explained above, for housing manufacturers, including Toyota Housing and Misawa Homes, it has become imperative to respond to changes in the requirements of the Japanese government and needs of society, such as the tough operating environment faced by the housing industry due to factors such as the long-term population decline and the associated shrinking of the domestic housing market and the shift from the previous preference for newly constructed housing to a preference for existing housing stock, aiming to utilize existing housing through means such as policies for abandoned housing and renovation, as well as the strengthening of environmental regulations. Additionally, with the concepts of “home” or “town” being subject to drastic change due to factors such as changes in customer’s values and further advancements in mobility, such as in automated driving, and development of communication technology and other fields, the key element required to make a certain town competitive in the town development business may shift from the “location” of that town to “the degree of satisfaction with the service infrastructure for daily life” in that town.

In response to such major changes in the business environment of the housing business that Toyota Housing and Misawa Homes are facing, Toyota came to the conclusion that it was necessary to create further synergies by sharing expertise and mutual cooperation through enhancement of collaboration, including a radical strengthening of capital ties between housing manufacturers, and as explained above, it came to recognize the necessity of implementing the Integration as a result of multiple meetings between Toyota and Panasonic. In particular, Toyota recognized the necessity of making Misawa Homes – the only listed company among the Toyota Group Subject Businesses and the Panasonic Group Subject Businesses – a wholly owned subsidiary of Toyota Housing as part of the Integration in order to make it possible to flexibly execute management strategies through rapid decision-making in response to the aforementioned changes in the government’s requirements and society’s needs, and to achieve efficient growth of the housing business through the Integration from a long-term, rather than short-term, perspective. Consequently, around the middle of March 2019, Toyota and Toyota Housing proposed the Share Exchange to Misawa Homes.

From Misawa Homes’ perspective as well, it has been carrying out initiatives such as further reinforcement of its stock asset related businesses, and proactive promotion of business diversification including the town development business and overseas business expansion, as set out in the aforementioned medium-term management plan, “First Step for NEXT 50,” in order to build a business portfolio that stops its reliance on the housing business, but under circumstances where the domestic detached housing market will contract irreversibly in the medium- to long-term as well, Misawa Homes recognizes the necessity of constructing new business models and creating synergies such as through thorough streamlining as further initiatives to ensure its survival and target sustained growth and evolution. Since Toyota and Toyota Housing proposed the Share Exchange, Misawa Homes has shared its understanding of the industry and the positioning of Toyota Housing, Misawa Homes and Panasonic Homes in the industry, and has held frequent discussions regarding the role it should play in the future.

Consequently, Misawa Homes came to the understanding that becoming a wholly owned subsidiary of Toyota Housing through the Share Exchange, as well as promoting the integration of Toyota Housing, Misawa Homes, and Panasonic Homes, etc. from a capital and a business perspective by Toyota and Panasonic together establishing a joint venture company (the “Joint Venture Company”) to carry out the integrated operation of the Toyota Group Subject Businesses and the Panasonic Group Subject Businesses and thereby strengthening their business foundations, and further, after the effective date of the Share Exchange, Misawa Homes becoming a direct, wholly owned subsidiary of the Joint Venture Company, would grow Misawa Homes’ enterprise value over the long term and also contribute to the improvement of the overall enterprise value of the Toyota group and the Panasonic group. Furthermore, not only would the Share Exchange contribute to the improvement of Misawa Homes’ enterprise value, but also providing the Toyota Shares that are the consideration in the Share Exchange would also make it possible to provide shareholders with the benefits of the Integration’s synergies. Therefore, Misawa Homes made the decision to conduct the Share Exchange and the Integration because the reorganization can also be regarded as being beneficial for shareholders. The reasons for this are that the integration from a capital and a business perspective not only delivers further benefits to all related parties as a traditional detached housing business operator, but also enables a fusion of management resources, such as the wealth of technology, expertise, and development resources possessed by each company – mainly from the perspectives of mobility services for the Toyota group, “lifestyle updates” and “lifestyle technology” such as IoT household appliances and equipment for the Panasonic group, and a town development business operator such as compact city-style real estate development for Misawa Homes – which Misawa Homes believes will enable its evolution and growth as a town development business operator through the provision of appealing services with even greater added value.

Misawa Homes believes that becoming a wholly owned subsidiary of Toyota Housing and the Integration will create the following specific synergies:

(i) Economies of scale in the housing business

The increased size of operations due to the Integration will create a group boasting a supply of approximately 17,000 houses. With housing business conducted under the management of the Joint Venture Company, As the geographic areas of respective strengths of Toyota Housing, Misawa Homes and Panasonic Homes are not redundant, it will be possible in terms of sales to enhance their competitive advantages while further increasing management efficiency on a Japan-wide scale by mutually complementing one another in their areas of strength.

(ii) Realization of efficient growth of housing business through accelerated execution of management strategies  
By aiming for acceleration of management strategies at each company through the Integration, we believe that Panasonic Homes’ participation will further accelerate the streamlining initiatives in the housing business currently underway with Toyota Housing, such as cost reduction and streamlining of operations in back-office departments through utilization of shared infrastructure as well as cost reduction through joint purchasing. Additionally, we believe that this will make it possible to carry out business activities efficiently through proactive sharing of information and personnel, which, as a listed company, had to be restricted to maintain independence.

(iii) Creation of new business models by combining real estate and technology

With the sources of value of housing changing from “location” to “the concept of the town” and from “the building itself” to its “functions and usability” in association with changes in individual lifestyles and the diversification of

values, we believe that the integration of management resources possessed by each company will enable the realization of town development based on the actual lifestyles of each individual resident. For example, we believe that urban design optimized for mobility services in anticipation of technological advancements such as self-driving vehicles or the provision of new services and technologies such as the provision of connected homes (8\*) that are constantly being updated, will enable the creation of new “lifestyle” value for the entire town, giving the whole area high added value, and promoting enhanced competitiveness. In addition, we believe that becoming an unlisted company through the Share Exchange will enable Misawa Homes to carry out agile decision-making without being distracted by how it is viewed by the stock market, and accelerated execution and expansion of management strategies will contribute to establishment of new business models, as explained above.

(Note 8\*) “Connected homes” means housing incorporating IoT technology, in which home appliances and security equipment, as well as various types of mobile devices, etc. are connected to the computer network at all times.

(iv) Acceleration of overseas expansion

With the town development business as the starting point, in the medium- to long-term, it will be possible to supplement vigorous town development needs centering on Asia and other countries where there is significant population growth. We believe that there is growing demand for urban infrastructure development that alleviates issues caused by urbanization, such as traffic jams, in association with the rapid growth of cities in such regions. Additionally, by becoming an unlisted company through the Share Exchange, it will become possible to flexibly leverage the track record and network that each company has cultivated thus far and also use it as a foothold to enhance the overseas town development business, without considering restriction to maintain independence as a listed company.

2. Outline of the Share Exchange

(1) Overview of wholly owning parent company resulting from the Share Exchange

Name:	Toyota Housing Corporation
Address:	23-22 Izumi 1 chome, Higashi ku, Nagoya City, Aichi, Japan
Name and title of representative:	Tadashi Yamashina, President
Capital:	¥12,902 million (\$116,249 thousand) (as of March 31, 2019)
Details of business:	Design, manufacture and sale, etc. of construction components and housing related equipment, planning, design, supervision, construction work and subcontracting for land development and town development, etc., sale and lease, etc. of real estate.

(2) Timeline of the Share Exchange

Date of the boards of directors’ resolutions regarding execution of the Share Exchange Agreement (Toyota Housing and Misawa Homes):	May 9, 2019
Execution date of the Share Exchange Agreement (Toyota Housing and Misawa Homes):	May 9, 2019
Announcement of the record date for the general meeting of shareholders (Misawa Homes):	September 13, 2019 (planned)
Record date for the general meeting of shareholders (Misawa Homes):	September 30, 2019 (planned)
Resolution date for the extraordinary general meeting of shareholders to approve the Share Exchange Agreement (Misawa Homes):	Around November 2019 (planned)
Last day of trading (Misawa Homes):	December 27, 2019 (planned)
Delisting date (Misawa Homes):	December 30, 2019 (planned)
Scheduled date of implementation of Share Exchange (effective date):	January 7, 2020 (planned)

(Note 1) The above timeline may be changed based on discussions between Toyota, Toyota Housing and Misawa Homes when necessary due to the progress status of procedures for the Share Exchange, etc.

(Note 2) Toyota Housing plans to obtain approval for the Share Exchange at the extraordinary general meeting of shareholders around November 2019.

(3) Method of the Share Exchange

This will be a share exchange wherein Toyota Housing will become the wholly owning parent company resulting from the Share Exchange and Misawa Homes will become the wholly owned subsidiary resulting from the Share Exchange. The Share Exchange is scheduled to be conducted with an effective date of January 7, 2020, after Toyota Housing and Misawa Homes obtain approval of the Share Exchange Agreement at their respective extraordinary general meetings of shareholders scheduled to be held around November 2019.

As described above in “1. Purpose of the Share Exchange,” the Share Exchange is for the purpose of the Integration, and will be implemented as part of the procedures for the Integration. Therefore, the Share Exchange Agreement provides that the Share Exchange will be suspended if it is decided by 10 business days before the aforementioned planned delisting date of Misawa Shares that the Integration will not be implemented. Accordingly, if it is decided by 10 business days before the aforementioned planned delisting date of Misawa Shares that the Integration will not be implemented, Misawa Homes will not be converted into a wholly owned subsidiary through the Share Exchange. The Share Exchange Agreement also provides that the effective date of the Share Exchange will also be changed if the planned effective date of the Integration (January 7, 2020) is changed by 10 business days before the aforementioned planned delisting date of Misawa Shares. Accordingly, if the scheduled implementation date of the Integration is changed by 10 business days before the aforementioned scheduled delisting date of Misawa Shares, the effective date of the Share Exchange will also change accordingly.

Please note that the Share Exchange is a so called “triangular share exchange” in order to achieve the purpose of the Share Exchange and to provide the shareholders of Misawa Homes with the benefit of the synergies due to the Share Exchange and the Integration, and common stock of Toyota (“Toyota Shares”) (Toyota is the wholly owning parent company of Toyota Housing) (\*) will be allotted as consideration in the Share Exchange rather than common stock of Toyota Housing (“Toyota Housing Shares”).

(Note\*) As of March 31, 2019, Toyota holds 342,799 Toyota Housing Shares (89.25% of the 384,089 total issued shares as of March 31, 2019) and Toyota’s group companies, etc. (“Group Companies, etc.”) hold 41,290 Toyota Housing Shares (10.75% of the 384,089 total issued shares as of March 31, 2019). Toyota plans to make Toyota Housing a wholly owned subsidiary by Toyota Housing acquiring treasury shares, etc. from Group Companies, etc. by the effective date of the Share Exchange.

#### (4) Details of allotment in the Share Exchange

	Toyota (wholly owning parent company of Toyota Housing, which is the wholly owning parent company resulting from the Share Exchange)	Misawa Homes (wholly owned subsidiary resulting from the Share Exchange)
Allotment ratio for the Share Exchange	1	0.155
Number of shares to be delivered through the Share Exchange	Toyota common stock: 3,269,655 shares (planned)	

#### (Note 1) Share allotment ratio

0.155 Toyota Shares will be allotted and delivered for each 1 (one) Misawa Share; provided, however, that no shares will be allotted through the Share Exchange for the 21,965,898 Misawa Shares held by Toyota Housing (as of March 31, 2019). The aforementioned share exchange ratio may be changed upon consultation among Toyota, Toyota Housing and Misawa Homes if any underlying conditions regarding the basis of valuation materially changes.

#### (Note 2) Number of shares to be delivered through the Share Exchange

Toyota Housing plans to allot and deliver 3,269,655 Toyota Shares (planned) to Misawa Homes’ shareholders (excluding Toyota Housing) at the time immediately before Toyota Housing acquires all Misawa Shares (the “Record Time”) (excluding Misawa Shares held by Toyota Housing).

The method by which Toyota Housing will acquire the Toyota Shares to be delivered through the Share Exchange is expected to be allotment of Toyota Shares to Toyota Housing for a fair price by means of disposal of treasury shares by a third-party allotment after a resolution at a meeting of Toyota’s board of directors to be held in the future. This acquisition method will be promptly announced once it is decided.

Misawa Homes plans to cancel as of the time immediately preceding the Record Time all treasury shares held by Misawa Homes (9,716 shares as of March 31, 2019) and all treasury shares that Misawa Homes will come to hold by the time immediately before the Record Time (including shares purchased by Misawa Homes upon demand from opposing shareholders for purchase of Misawa Shares in accordance with Article 785, Paragraph 1 of the Companies Act in relation to the Share Exchange), by resolution at a meeting of Misawa Homes’ board of directors that will be held no later than the day preceding the effective date of the Share Exchange. The number of shares allotted and delivered through the Share Exchange may be revised in the future due to Misawa Homes’ cancellation of treasury shares, etc.

#### (Note 3) Summary of issuer of shares constituting the consideration in the Share Exchange

(1) Name	Toyota Motor Corporation		
(2) Address	1 Toyota-cho, Toyota City, Aichi, Japan		
(3) Name and title of representative	Akio Toyoda, President		
(4) Details of business	Automotive business, financial service business and other businesses.		
(5) Capital	¥635,402 million (\$5,724,855 thousand) (as of March 31, 2019)		
(6) Date established	August 27, 1937		
(7) Number of issued shares	3,262,997,492 shares of common stock 47,100,000 First Series Model AA class shares		
(8) Fiscal year end	March 31		
(9) Number of employees	370,870 (consolidated basis) (as of March 31, 2019)		
(10) Main customers	—		
(11) Main bank	—		
(12) Major shareholders and shareholding ratios			
	Japan Trustee Services Bank, Ltd.		11.37%
	Toyota Industries Corporation		7.20%
	The Master Trust Bank of Japan, Ltd.		5.52%
	Nippon Life Insurance Company		3.36%
	JP Morgan Chase Bank (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)		3.05%
	Denso Corporation		2.72%
	State Street Bank and Trust Company (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)		2.60%
	Trust & Custody Services Bank, Ltd.		1.74%
	Mitsui Sumitomo Insurance Co., Ltd.		1.72%
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1.54%

#### (13) Relationship between the parties

Capital:	As of March 31, 2019 Toyota holds 89.25% of Toyota Housing’s total issued shares. Toyota also indirectly holds 51.00% of Misawa Homes’ total issued shares through Toyota Housing as of March 31, 2019.
Personnel:	As of March 31, 2019, Toyota has provided eight Directors and two Audit and Supervisory Board Members to Toyota Housing. Toyota has also seconded 212 employees to Toyota Housing, while Toyota Housing has provided five Directors and one Audit and Supervisory Board Member to Misawa Homes. Toyota has also seconded one employee to Misawa Homes.
Transactions:	Toyota lends funds to Toyota Housing. There are no noteworthy transactions between Toyota and Misawa Homes.
Related party	Toyota is the parent company of Toyota Housing and Misawa Homes, and qualifies as a related party.

status:

#### (14) Financial data for the recent three years

Fiscal year	Toyota (consolidated)		
	Millions of yen (unless otherwise noted) (Thousands of U.S. dollars (unless otherwise noted))		
	2019	2018	2017
Consolidated net assets	¥20,565,210 (\$185,288,854)	¥19,922,076 (\$179,494,332)	¥18,668,953 (\$168,203,919)
Consolidated total assets	¥51,936,949 (\$467,942,598)	¥50,308,249 (\$453,268,303)	¥48,750,186 (\$439,230,435)
Consolidated shareholders’ equity per share (in yen) (in U.S. dollars)	¥6,830.92 (\$61.55)	¥6,438.65 (\$58.01)	¥5,887.88 (\$53.05)
Consolidated revenues	¥30,225,681 (\$272,327,966)	¥29,379,510 (\$264,704,117)	¥27,597,193 (\$248,645,760)

Consolidated operating income	¥2,467,545 (\$22,232,138)	¥2,399,862 (\$21,622,326)	¥1,994,372 (\$17,968,934)
Net income attributable to owners of parent	¥1,882,873 (\$16,964,348)	¥2,493,983 (\$22,470,339)	¥1,831,109 (\$16,497,963)
Consolidated net income per share (in yen) (in U.S. dollars)	¥650.55 (\$5.86)	¥842.00 (\$7.59)	¥605.47 (\$5.46)
Dividend per share (in yen) (in U.S. dollars)			
Common stock	¥220 (\$1.98)	¥220 (\$1.98)	¥210 (\$1.89)
First Series Model AA class shares	¥211 (\$1.90)	¥158 (\$1.42)	¥105 (\$0.95)

(Note 4) Method of conversion of consideration in the Share Exchange

(1) Markets where the consideration is traded	First Section of the Tokyo Stock Exchange (“TSE”) and First Section of the Nagoya Stock Exchange
(2) Trading broker	Toyota’s common stock can be traded through any normal securities company
(3) Details of restrictions on assignment or other disposal of the consideration (if any)	Not applicable
(4) If the permission, etc. of a third party is required to transfer or exercise the rights in the consideration, the name and address of such person, and any other procedures relating to obtaining such permission, etc.	Not applicable
(5) If a market price exists for the consideration, matters relating to such price	The closing price of Toyota’s common stock on the last day of trading on the First Section of the TSE before the announcement date (May 9, 2019) of the Share Exchange is ¥6,759 (\$61). Please refer to the Japan Exchange Group Website ( <a href="https://www.jpx.co.jp/english/">https://www.jpx.co.jp/english/</a> ) or a similar resource for the latest market price, etc. of Toyota’s common stock on the First Section of the TSE.
(6) If the consideration is eligible for a refund by acquisition of treasury shares, refund of equity interest or another procedure equivalent thereto, matters relating to such method	Not applicable

(Note 5) Treatment of shares constituting less than one trading unit

It is expected that some shareholders will hold shares constituting less than one trading unit of Toyota stock (less than 100 shares of stock) as a result of the Share Exchange. In particular, Misawa Homes’ shareholders who hold less than 646 Misawa Shares are expected to hold shares constituting less than one trading unit of Toyota Shares. Such shareholders will be entitled to receive dividends of Toyota with a record date on or after the effective date of the Share Exchange in proportion to the number of shares held by them, but will not be able to sell such shares constituting less than one trading unit on any financial instruments exchange markets. Shareholders who will hold shares constituting less than one trading unit of Toyota Shares can utilize the share purchase system for shares constituting less than one trading unit in relation to Toyota Shares (the system under which shareholders can request Toyota to purchase their shares constituting less than one trading unit in accordance with Article 192, Paragraph 1 of the Companies Act.).

(Note 6) Treatment of fractional shares

If the number of the shares of Toyota common stock that will be delivered to any shareholder of Misawa Homes (excluding Toyota Housing) as a result of the Share Exchange includes a fraction of less than one share, Toyota Housing will pay cash in an amount calculated by multiplying the market value for one share of Toyota common stock by such fraction (fractions of a yen will be rounded up) to each such shareholder in lieu of delivery of such fractional number of shares of Toyota common stock.

The aforementioned “market value for one share of Toyota common stock” means the closing price for regular transactions of Toyota’s common stock on the last trading day on the TSE immediately preceding the effective date

of the Share Exchange (if there is no closing price on such immediately preceding trading day, the closing price will be the closing price on the closest trading day with a closing price (limited to those preceding the effective date)).

3. Basis, etc. for determining details of allotment in the Share Exchange

(1) Basis and reasons for determining details of allotment in the Share Exchange

The Share Exchange is a so called “triangular share exchange” in order to achieve the purpose of the Share Exchange and to provide the shareholders of Misawa Homes, which is the wholly owned subsidiary resulting from the share exchange, with the benefit of the synergies due to the Share Exchange and the Integration, and Toyota Shares (Toyota is the wholly owning parent company of Toyota Housing) will be allotted as consideration in the Share Exchange rather than Toyota Housing Shares.

In order to ensure the fairness and appropriateness of the valuation of the share allotment ratio used in the Share Exchange (“Share Exchange Ratio”) as described above in “2. Outline of the Share Exchange (4) Details of allotment in the Share Exchange,” Toyota and Misawa Homes separately selected third-party valuation institutions independent from Toyota, Toyota Housing and Misawa Homes to calculate the Share Exchange Ratio. Toyota selected Nomura Securities Co., Ltd. (“Nomura”) and Misawa Homes selected SMBC Nikko Securities, Inc. (“SMBC Nikko”) as their respective valuation institutions.

Toyota, Toyota Housing and Misawa Homes negotiated and discussed the Share Exchange Ratio based on due diligence, etc. by Toyota and Misawa Homes concerning one another, comprehensively taking into account factors such as Toyota’s and Misawa Homes’ financial condition, assets and future prospects, and making reference to the valuation analysis that they received from Toyota’s and Misawa Homes’ respective third-party valuation institutions. As a result of such negotiations and discussions, Toyota, Toyota Housing and Misawa Homes concluded that the Share Exchange Ratio was appropriate and that such ratio would not impair the interests of their respective shareholders, and therefore concluded that it is appropriate to conduct the Share Exchange using the Share Exchange Ratio. Please note that, in accordance with the Share Exchange Agreement, the Share Exchange Ratio may be changed upon discussions among Toyota, Toyota Housing and Misawa Homes if there is a material change in the various conditions on which the valuation is based.

(2) Relationships with valuation institutions

Both Nomura, which is acting as a third-party valuation institution to Toyota, and SMBC Nikko, which is acting as a third-party valuation institution to Misawa Homes, are not related parties of Toyota, Toyota Housing or Misawa Homes, are independent valuation institutions, and have no material relationship that should be disclosed in connection with the Share Exchange.

# Report of Independent Auditors



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## Independent Auditor's Report

The Board of Directors  
Misawa Homes Co., Ltd.

We have audited the accompanying consolidated financial statements of Misawa Homes Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, 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, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

As discussed in Note 27 to the consolidated financial statements, following the approval at the meeting of the Board of Directors held on May 9, 2019, Misawa homes Co., Ltd. entered into a share exchange agreement with Toyota Housing Corporation on the same date in which Misawa homes Co., Ltd. would become a wholly owned subsidiary of Toyota Housing Corporation. The share exchange is premised on the approval of the extraordinary general meeting of shareholders scheduled to be held around November 2019. Our opinion is not qualified in respect of this matter.

### *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.

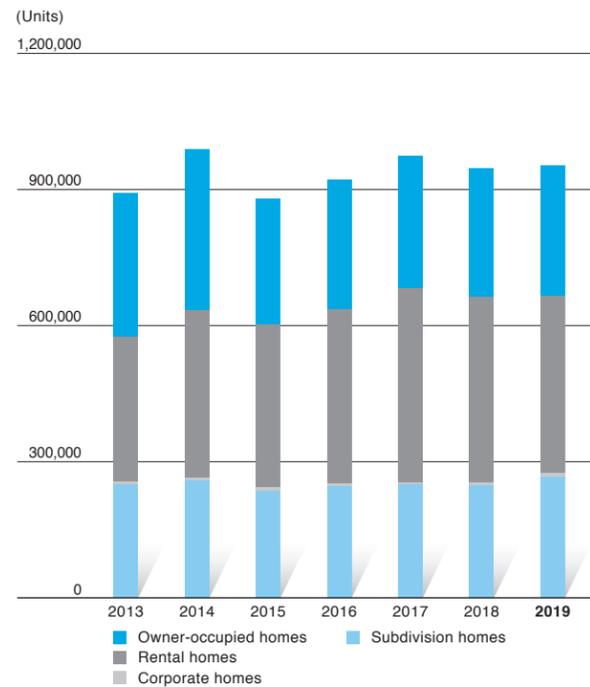
*Ernst & Young ShinNihon LLC*

June 27, 2019  
Tokyo, Japan

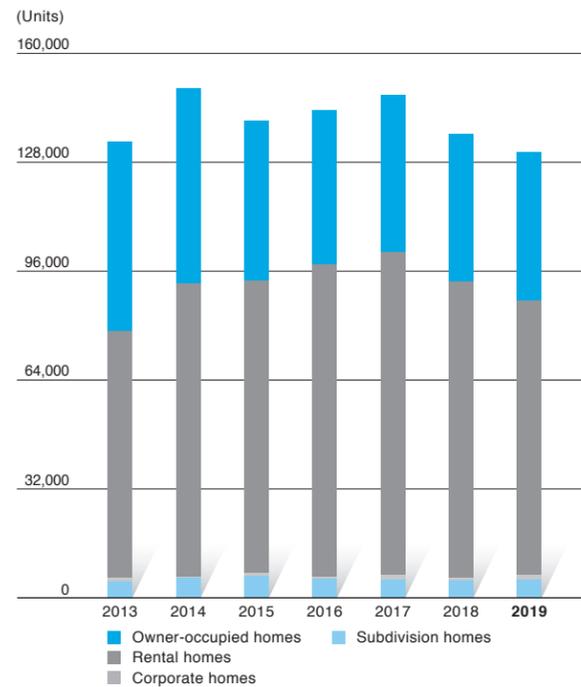
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## Trends in the Housing Market in Japan

### Housing Starts in Japan



### Prefabricated Housing Starts in Japan



### Housing Starts in Japan

Fiscal year ended March 31	2013	2014	2015	2016	2017	2018	2019
Owner-occupied homes	316,532	352,841	278,221	284,441	291,783	282,111	287,710
Rental homes	320,891	369,993	358,340	383,678	427,275	410,355	390,093
Corporate homes	5,919	5,272	7,867	5,832	5,793	5,435	7,958
Subdivision homes	249,660	259,148	236,042	246,586	249,286	248,495	267,175
<b>Total</b>	<b>893,002</b>	<b>987,254</b>	<b>880,470</b>	<b>920,537</b>	<b>974,137</b>	<b>946,396</b>	<b>952,936</b>

### Prefabricated Housing Starts in Japan

Fiscal year ended March 31	2013	2014	2015	2016	2017	2018	2019
Owner-occupied homes	55,887	57,422	46,820	45,136	45,974	43,319	43,604
Rental homes	72,488	86,028	86,100	91,849	94,966	87,131	80,401
Corporate homes	373	540	792	534	1,221	795	1,677
Subdivision homes	5,339	5,766	6,445	5,645	5,433	5,000	5,234
<b>Total</b>	<b>134,087</b>	<b>149,756</b>	<b>140,157</b>	<b>143,164</b>	<b>147,594</b>	<b>136,245</b>	<b>130,916</b>

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

## Subsidiaries and Affiliated Companies (As of March 31, 2019)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Co., Ltd. (%)	Primary Business
<b>Consolidated subsidiaries:</b>				
Misawa Homes Hokkaido Co., Ltd.	Sapporo, Hokkaido Prefecture	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	100.0	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	72.2 (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 Reform 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 and distribution of materials
Misawa Homes Construction Co., Ltd.	Suginami-ku, Tokyo	50	100.0	Construction of prefabricated houses
Misawa Homes Australia Pty. Ltd.	Queensland, Australia	2,790	100.0	Market research and construction of homes in Australia
Misawa Homes America, Inc.	Texas, United States	6,647	100.0	Planning and management of housing business in the United States
38 others				
<b>Affiliated companies:</b>				
Daisue Construction Co., Ltd.	Osaka, Osaka Prefecture	4,324	19.9	
Toyota Motor Corporation	Toyota, Aichi Prefecture	635,401	[51.2] [[51.2]]	
Toyota Housing Corporation	Nagoya, Aichi Prefecture	12,902	[51.2]	

Notes: (1) Voting rights figures in parentheses, ( ), indicate percentage of indirect holdings.  
(2) Square brackets, [ ], indicate percentage of holdings in Misawa Homes Co., Ltd.

## Corporate Data (As of March 31, 2019)

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 27, 2019)

#### Directors

Nobuo Takenaka<sup>1</sup>  
 Masashi Isogai<sup>2</sup>  
 Hideki Shimomura<sup>2</sup>  
 Tetsuya Sakuo  
 Kengo Shoji  
 Naoki Teramoto  
 Shinichi Tsutsumiuchi  
 Yasumi Furuya  
 Yuji Goto  
 Norio Kunishima  
 Masahiro Sugino  
 Masakazu Iwaki

#### Audit & Supervisory Board Members

Hiroto Hase<sup>3</sup>  
 Hirohiko Fukatsu<sup>3</sup>  
 Wakana Hitotsuyanagi

#### Executive Officers

Masashi Isogai<sup>4</sup>  
 Hideki Shimomura<sup>5</sup>  
 Tetsuya Sakuo<sup>6</sup>  
 Kengo Shoji<sup>7</sup>  
 Naoki Teramoto<sup>7</sup>  
 Shinichi Tsutsumiuchi<sup>7</sup>  
 Yasumi Furuya<sup>7</sup>  
 Takashi Shimoyama<sup>7</sup>  
 Saburo Yanagidani  
 Hitoshi Shirahama  
 Masanobu Hosono  
 Shuichi Zaikawa  
 Takayoshi Takagaki  
 Tetsu Sato  
 Minoru Yano  
 Shoji Ogura  
 Masaki Sakurazawa  
 Nobutoshi Karigome

<sup>1</sup>Chairman of the Board

<sup>2</sup>Representative Director

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

<sup>4</sup>Chief Executive Officer

<sup>5</sup>Executive Vice President

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

<sup>7</sup>Managing Executive Officer

### Share Information

	Shares
<b>Total number of shares authorized</b>	150,000,000
<b>Total number of shares issued</b>	43,070,163
<b>Number of shareholders</b>	
Common stock	20,731

### 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 The Master Trust Bank of Japan, Ltd. (Trust A/C)	1,120,400	2.6
4 Misawa Homes Group Employee Shareholders Association	973,739	2.2
5 Japan Trustee Services Bank, Ltd. (Trust A/C)	719,100	1.6
6 Nippon Life Insurance Company	609,053	1.4
7 MUFG Bank, Ltd.	559,912	1.3
8 DFA INTL SMALL CAP VALUE PORTFOLIO	544,300	1.2
9 Japan Trustee Services Bank, Ltd. (Trust A/C9)	527,000	1.2
10 GOVERNMENT OF NORWAY	490,200	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

