MISAWA

Annual Report 2009

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MISAWA HOMES CO., LTD.

Corporate Profile

Misawa Homes Co., Ltd., the pillar of today's Misawa Homes Group, is a leading company in Japan's housing industry. Established in 1967 with a pioneering wood panel adhesion system for prefabricated housing construction, the Company has maintained a next-generation perspective in the construction of quality homes, reflected in the corporate motto "Lifelong commitment to customers through housing."

Our core business is the sale of single-family custom homes, as well as rental homes. We complement these operations with housing-related pursuits, including home renovation and senior living businesses.

The design, innovative thinking and technological capabilities that go into our homes have earned us a solid reputation. Our design excellence has been substantiated by the Good Design Award, sponsored by the Japan Industrial Design Promotion Organization. We have been a Good Design Award recipient for 19 consecutive years. But our most distinguished accomplishment was the 1996 Good Design Grand Prix— given to the most outstanding entry in all categories—for GENIUS *kura-no-aru-ie*, a housing model featuring a large storage area.

On the technological front, we have achieved many firsts in the industry as well, including the world's first "zero-energy" home, and have won numerous awards for our housing technologies.

Since 1968, we have been involved in the design and construction of facilities for Japan's Showa Station in Antarctica, where the climate is extremely harsh. These facilities include an administration building and living quarters as well as a broadcasting studio for Japan Broadcasting Corporation (NHK), and cover a total of about 5,000 square meters.

Contents

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.

2008-2009 Good Design Award – SMART STYLE A –

To Our Shareholders

The global recession had a negative impact on most industries in fiscal 2009, ended March 31, 2009, and the domestic housing industry was no exception. The downturn prompted fears of unemployment and reduced personal income, which dampened consumer interest in buying a home.

Housing starts rallied, but only 0.3 percent to 1.03 million, essentially unchanged from the number recorded in fiscal 2008, when the revised Building Standards Law precipitated a drop in housing starts to a level not seen in 41 years. The improvement in fiscal 2009 was certainly welcome, but it was not the recovery that the industry had hoped for.

Faced with challenging business conditions, the Misawa Homes Group undertook sales activities more fine-tuned to market needs. Specifically, we focused on expanding the lineup of high cost-performance SMART STYLE homes aimed at next-generation baby boomers—a premium market segment. We also launched a campaign to promote the installation of solar power generation systems. This move was made to capitalize on the public's growing "green" awareness and greater interest in such systems following the reintroduction of homeowner subsidies at the national and local levels.

Unfortunately, the economic environment deteriorated much more than management had anticipated. As a result, consolidated net sales slipped 2.0 percent year on year to ¥401,204 million. Despite the lower starting point, consolidated operating income rebounded 11.3 percent to ¥8,681 million, as did ordinary income, up 8.9 percent to ¥7,002 million, thanks to meticulous cost-cutting and lower selling, general and administrative expenses. Unfortunately, other losses amounted to ¥6,690 million, stemming largely from a valuation loss on inventory assets caused by the application of the lower of cost or market method, the booking of costs associated with business organization improvement efforts to

expand future profitability, and impairment loss on fixed assets with diminished profit-making potential. The Group also reversed ¥4,290 million in deferred tax assets, following a review of the consolidated tax plan, which led to a net loss of ¥2,984 million in fiscal 2009, compared with a net income of ¥389 million in fiscal 2008.

It is clear that downward demographic changes and the subsequent reduction in the number of households in Japan will cause the housing market to shrink. It is also possible that housing starts will fall below the one-million mark within the next few years. The global recession happened to be the catalyst for last year's major drop, but a decline was inevitable, and current conditions are merely an accelerated manifestation of what would have undoubtedly occurred 10 or 20 years down the road.

In May 2008, the Group embarked on a redrafted Medium-term Management Plan with strategies designed to reorganize business operations and optimize the business portfolio to capitalize on whatever opportunities arise during these difficult times. We intend to accelerate implementation of necessary measures to achieve our new objectives.

First, in regard to the reorganization of business operations, we are reviewing our production and sales structures with an eye toward a streamlined and therefore more efficient operating framework. Specifically, we are preparing to close two plants that manufacture housing materials in the autumn of 2009, which will remove about 200 people from plant payrolls. In addition, we will be closing down underperforming model homes at multicompany display sites around the country and plan to cut about 450 jobs at our sales companies. Costs associated with these structural improvements amounted to ¥1,840 million in fiscal 2009 and were booked under other losses.

To optimize our business portfolio, we will strive to maximize existing management resources by applying such resources to certain fields, especially the renovation business and senior living business, where demand is expected to grow. This shift in focus attests to our ability to address market changes, particularly those of an aging society with fewer children.

Fortunately, the national government's economic stimulus plans include several provisions that will benefit the domestic housing industry. These include the largest tax incentives ever for new mortgage holders and enhanced tax breaks for homeowners who undertake renovations to make their homes more energy efficient or barrier free.

The tax-trimming advantage of these provisions should spur greater home-related investment. The Group will ride this tail wind, actively promoting associated products and services to capitalize on expanded demand, which will in turn underpin steady progress toward medium-term targets and expeditiously lay a cornerstone for corporate survival in an increasingly competitive environment.

Since its establishment, the Company has maintained that homes are places where children develop their character. Therefore, one underlying principle that guides the activities of the Company—and the Group as a whole—is to build homes from a child's perspective to ensure the healthy development of children in both mind and body.

Giving serious thought to the kind of world that should exist for tomorrow's children, management articulated four concepts in January of 2009: care for the environment, cultivate comfortable lifestyles, provide for families, and nourish the soul of Japan. These give the Group's home-building operations a multifaceted social perspective, from protecting the environment to preserving the quintessential spirit of Japan. With these four concepts firmly in mind, we will pursue sales activities and product development with an emphasis on more comfortable living environments with less harm to the planet.

We will also enthusiastically answer the call of the Ministry of Land, Infrastructure, Transport and Tourism to popularize construction of high-quality homes with excellent durability and earthquake resistance. We will endeavor to standardize specifications in accordance with certification benchmarks set forth in a new law, effective June 4, 2009, that encourages homebuilders to offer long-life, high-quality housing. We will strive to build homes that can be passed down in good condition from one generation to the next with sustained asset value.

Everyone under the Misawa Homes Group umbrella is committed to progress in home building, as we push ahead with our mission to be a comprehensive lifestyle provider that delivers quality homes and safe, relaxing living environments.

On behalf of the Board, I ask for the continued encouragement and support of shareholders and all stakeholders as we strive to meet our goals.

June 2009

Nobuo Takenaka
President and CEO

Business Strategies for Fiscal 2010

In May 2008, Misawa Homes reformulated the Medium-term Management Plan to guide the Group over the period from fiscal 2009 through fiscal 2011. The main thrust of this plan is a two-point strategy designed to optimize the Group's business portfolio and reorganize business operations, and all members of the Group are united in their efforts to achieve the stated targets.

The current worldwide recession has become far more serious than initially projected, leading to an increasingly tougher operating environment for the Misawa Homes Group. To mitigate these challenges, the Company will expedite the measures outlined in the Group's Medium-term Management Plan.

I. Optimize the Business Portfolio

Currently, about 50 percent of consolidated net sales of the Group come from the sale of custom homes. That is to say, the Group has been relying on one specific profit source.

Huge changes have befallen the economy and altered customers' value perceptions. In addition, an aging society with fewer children presents obstacles for medium- to long-term business expansion. Given these factors, the time has definitely come for Misawa Homes to promptly address the risk that comes with relying too much on one profit source.

As soon as possible, Misawa Homes will abandon its existing business model and will reorient its business portfolio around six strategic segments—single-family custom homes, lot-subdivision single-family homes, asset utilization, real estate, home renovation and senior living. The Company also aims to generate new business opportunities as soon as possible.

• Single-family custom homes

Utilizing the opportunities arising from measures taken by national and local governments, Misawa Homes will run eco campaigns spotlighting solar panel systems to foster wider interest in homes incorporating this element. Already in April 2009, the Company debuted SMART STYLE ZERO, a design that makes photovoltaic systems a standard feature in residences. Such environmentally friendly power systems are attracting considerable attention these days, largely because of homeowner subsidies reintroduced by the government at both national and local levels.

A law aimed at encouraging homebuilders to direct more effort into the construction of long-life, high-quality housing went into effect on June 4, 2009. Misawa Homes has standardized the specifications for all homes that employ its mainstay construction methods to conform to the long-life, high-quality housing specifications set forth under this new law.

For homeowners, having a house certified as a long-life, high-quality housing presents certain advantages, such as eligibility for tax deductions and favorable appraisals when putting the home up for sale at some future date. Such certification will make a Misawa-brand home far more attractive, thereby boosting our order balance.

• Lot-subdivision single-family homes

Falling land prices, paralleling the sluggish state of the real estate market, eroded operating income and ordinary income on lot-subdivision property held by members of the Misawa Homes Group to the tune of ¥1,364 million in fiscal 2009.

In fiscal 2010, we implemented a temporary freeze on the purchase of lot-subdivision property, and we will ambitiously step up sales of completed lot-subdivision inventory, which represents not only the land but also the house upon it or plans to build a house. We will also use ready-built, lot-subdivision single-family homes as showrooms and resourcefully sell off the buildings later. Because we are closing underperforming model homes at multicompany display sites, we plan to utilize ready-built, lot-subdivision single-family homes for promotional purposes instead.

• Asset utilization

Misawa Homes established an asset utilization division to oversee the entire Tokyo metropolitan area, where the need for services to facilitate effective use of property assets is high. The division will present proposals for asset utilization and enrich the Company's product line in accordance with market requirements.

For example, the division will be involved in the sale of rental homes in which occupants can enjoy the benefits of electricity generated by solar panels. The division will also oversee the construction and management of rental homes targeted for seniors, with barrier-free designs and emergency response systems already installed.

• Real estate

As experts expound upon the inescapable need to create a recycling society, efforts within the housing industry to reenergize the resale market have taken on greater significance. Toward this end, the Group will actively promote HOMEVER, a system for the purchase, remodeling and resale of homes built or renovated and certified by Misawa Homes.

• Home renovation

About 500,000 homeowners have been served by the Misawa Homes Group. Through regular visits, our sales divisions will strive to secure more renovation orders while improving customer satisfaction and generating repeat orders, as well as more orders through customer introductions.

• Senior living

For 16 years Misawa Homes has been involved in the construction and operation of various senior care and welfare facilities, including Motherth Minami-Kashiwa, a nursing home, as well as senior daycare centers and group homes. With demand expected to steadily climb, we plan to build and operate facilities that will eventually function as hubs with various satellite care and welfare facilities set up nearby.

The Daily Life Support Services Business Project, launched by the Company, considers new business opportunities and goes about establishing these new sources of revenue. Potential businesses include moving services, cleaning services and the operation of child daycare centers.

II. Reorganize Business Operations

We aim to lower our break-even point by raising productivity and efficiency and trimming total costs. In fiscal 2009, we booked other losses of ¥1,840 million in business restructuring expenses, associated with a decision to shutter two plants that manufacture housing materials and to close underperforming model homes at multicompany display sites.

Efforts to improve productivity and marketing capabilities and to cut costs are continuing in fiscal 2010. We expect the steps outlined below to shrink costs and expenses by ¥11,381 million over fiscal 2009.

• Retool the sales mechanism

We will shift personnel to those segments, such as renovations and senior living, that present good growth potential.

In the renovation business, we have already met the manpower goal we set for fiscal 2011, the final year of our Medium-term Management Plan. As of April 30, 2009, we had 981 sales representatives in this segment, up 89 from a month earlier.

But as we shift personnel into profit-making businesses, we will streamline our workforce, cutting about 450 positions, particularly at our sales subsidiaries. In addition, we will close down those model homes where visitors were few and contract ratios low. In fiscal 2010, we will withdraw from about 20 locations.

We will also curb promotional activities, mainly through a decrease in advertisements and television commercials, and methodically whittle down overall expenses, especially office supply costs and travel expenses.

• Retool the production mechanism

Misawa Homes has 15 factories, including subcontracted facilities, in various parts of Japan. In the autumn of 2009, we will close the Shizuoka and Komagane factories.

At the remaining production sites, output capacity will be brought down 20–30 percent from a year earlier to 10,000 homes' worth of prefabricated housing materials per year to match market demand. The facility operating rate should improve to 90 percent, from the current 82 percent.

Closure of the Shizuoka and Komagane factories will cut about 200 jobs from the production roster, reducing personnel expenses. We will further reduce operating expenses by emphasizing cost cutting and production leveling in accordance with our cost plans.

Topics

Complementing Photovoltaic Systems

For more than 30 years Misawa Homes has been involved in the development of homes that can harness solar energy.

Our progress is marked by several achievements. In 1974, we announced our Eco Energy Plan, aimed at lowering the environmental impact of homes. In 1994, we began selling a rooftop solar panel system, and in 1997, we debuted *Taiyo-no-ie*, an all-electric home design powered by a solar panel system. In 1998, we launched HYBRID-Z, the world's first "zero-energy" home. This home incorporates energy-generating and saving technology using solar panels to realize an energy balance of zero when the home is in use. The revolutionary zero-energy concept has evoked high praise and has led to several awards including the Good Design Gold Award.

We have built an experimental, next-generation zero-energy home that not only realizes a zero-energy balance as a dwelling-in-use but also recovers carbon dioxide generated during the construction process. We are now pursuing research to help bring this model to market.

We have been steadily promoting the installation of photovoltaic systems for our homes. In April 2009, we started marketing our newest green model, SMART STYLE ZERO, a home that attracts people to the zero-energy concept and is available at roughly the same price as our standard two-story model with the same total floor area.

SMART STYLE ZERO

HYBRID-Z

Misawa Homes' Four Nurturing Concepts

Thinking seriously about the future as we build for the children of today and tomorrow.

Misawa Homes' Four Nurturing Concepts

We promise to create residential environments imbued with long-lasting value and with features that contribute to healthy lifestyles in safe and secure surroundings while preserving the gifts of the Earth and the essence of Japanese culture.

1 Care for the environment

We promise homes that maximize nature's gifts and impart a sense that nothing is wasted. We will develop various activities, based on Sustainable 2010, an environment action plan with specific targets to be reached by 2010, and introduce more energy-efficient features into our homes to encourage occupants to actively embrace environment-conscious lifestyles.

2 Cultivate comfortable lifestyles

We promise living environments replete with timeless charm and vitality—qualities that will ensure continued occupancy for generations. Focusing on a 200-year dwelling livability, we will design and construct homes with the potential to meet all its occupants' needs, regardless of family structure or stage of life, and advocate the idea of home reuse to promote houses as long-term social assets.

3 Provide for families

We promise homes able to withstand natural and man-made disasters so that occupants are always safe and comfortable. We will install vibration control systems, which reduce the impact of earthquakes, as a standard feature in all of our homes. We will expand the scope of Kids Design—a concept that fosters wholesome child development—and push ahead with other options, such as Happy Design, which supports comfortable living.

4 Nourish the soul of Japan

We promise a refreshing new outlook on a lifestyle that respects the traditional spirit of Japan. We will promote ECO Microclimate Design, which allows people to appreciate the gifts and benefits of nature, especially the changing splendor of the four seasons. We will implement a development plan that is fine-tuned to each geographical region, and create innovative designs, based on the unique traditions of Japanese home life.

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
	2009	2008	2007	2006	2005	2004	**2009**
For the Year:							
Net Sales	**¥ 401,204**	¥ 409,246	¥ 414,566	¥ 383,941	¥ 389,595	¥ 403,127	**$4,084,337**
Cost of Sales	**311,111**	317,244	314,582	286,703	289,192	289,030	**3,167,172**
Gross Profit	**90,093**	92,002	99,984	97,238	100,403	114,097	**917,165**
Selling, General and Administrative Expenses	**81,412**	84,204	86,918	79,356	81,542	83,733	**828,795**
Operating Income	**8,681**	7,798	13,066	17,882	18,861	30,364	**88,370**
Income (Loss) before Income Taxes and Minority Interest	**759**	4,989	10,947	123,827	(175,916)	(128,810)	**7,727**
Net (Loss) Income	**(2,984)**	389	192	124,024	(203,252)	(129,134)	**(30,373)**
At Year-End:							
Total Assets	**¥ 194,934**	¥ 227,894	¥ 235,136	¥ 224,469	¥ 264,382	¥ 505,906	**$1,984,462**
Total Net Assets	**21,244**	26,346	26,946	25,143	(161,286)	34,490	**216,262**
Per Share Amounts (yen):							
Net Income (Loss)	**¥ (80.43)**	¥ 10.50	¥ 5.17	¥ 3,844.63	¥ (996.92)	¥ (695.12)	**$ (0.82)**

Notes: (1) Figures for 2004, 2005, 2006 and 2007 show the financial statements of Misawa Homes Holdings, Inc., which include the statements of Misawa Homes Co., Ltd.
(2) Total Net Assets for prior years have been reclassified to conform to the presentations for the year ended March 31, 2007.

Financial Review

Operating Environment

The global recession had a negative impact on most industries in fiscal 2009, ended March 31, 2009, and the domestic housing industry was no exception. The downturn prompted fears of unemployment and reduced personal income, which dampened consumer interest in buying a home. Housing starts rallied, but only to 1.03 million, and fell far short of anticipated recovery.

Faced with challenging business conditions, the Misawa Homes Group undertook vigorous sales activity through product development and marketing campaigns matched to market needs, while meticulously working to reduce selling, general and administrative expenses. Toward this end, the Group closed underperforming model homes at multicompany display sites and worked to trim advertising and promotional expenses and curb personnel expenses through limited hiring and a review of bonuses.

• Net Sales

Net sales slipped 2.0 percent or ¥8,042 million to ¥401,204 million year on year. The home renovation business performed well and the price of homes was up per unit, but these positive factors were overshadowed by fewer homes delivered—a decrease of 278 units compared with fiscal 2008—resulting in a year-on-year decrease in net sales.

• Operating Income

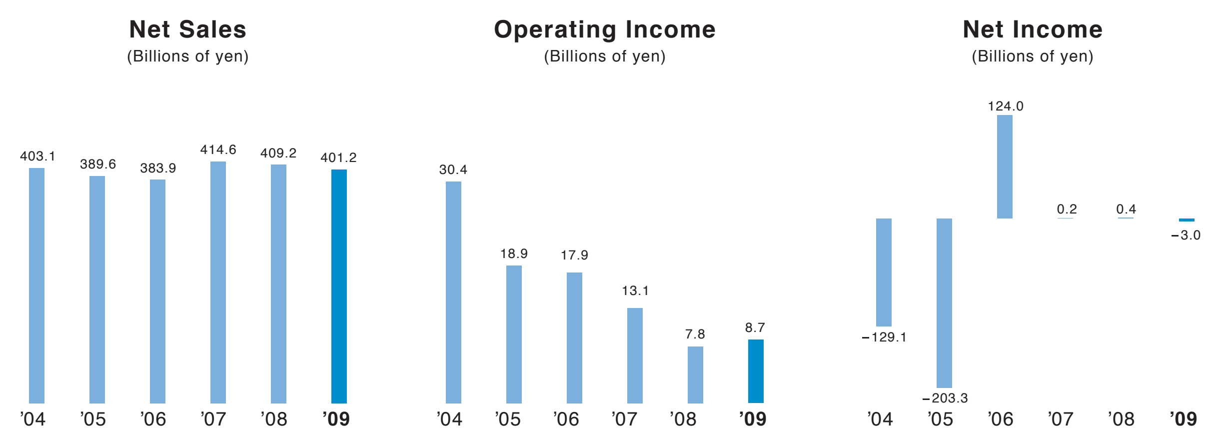
Operating income grew 11.3 percent or ¥883 million to ¥8,681 million, as cost-cutting efforts and lower selling, general and administrative expenses negated the drop in net sales.

Gross profit was ¥90,093 million, down ¥1,909 million from a year earlier. The decrease includes ¥1,092 million less from the sale of homes due to fewer units sold and ¥2,818 million less in the value of inventories following application of the lower of cost or market accounting method on the income side, and ¥1,416 million less on the expenses side through cost-cutting in line with cost plans.

Selling, general and administrative expenses settled at ¥81,412 million, down ¥2,792 million. The improvement was gained primarily through ¥1,095 million less in selling expenses owing to a withdrawal from certain model home display sites and a reduction in advertising and promotional costs, as well as ¥1,324 million less in personnel costs achieved through a review of bonuses and workforce reduction.

• Income before Income Taxes and Minority Interests

Income before income taxes and minority interests retreated ¥4,230 million year on year to ¥759 million. The Company booked other losses, which included a loss of ¥2,536 million on the write-down of inventories caused by the application of the lower of cost or market method, ¥1,840 million in costs associated with improvements



to production and sales structures planned for fiscal 2009, and a loss of ¥347 million on the devaluation of investment securities.

• Net Loss

The Company posted a consolidated net loss of ¥2,984 million, a drop of ¥3,373 million from the net income position recorded in fiscal 2008. One of the main reasons for the steep decline was a reversal of ¥4,290 million in deferred tax assets, following a review of the consolidated tax plan.

• Financial Position

Total assets stood at ¥194,934 million as of March 31, 2009, down ¥32,960 million from a year earlier. The decrease is primarily due to lower cash and time deposits, paralleling reduced trade accounts payable, as well as a decline in inventories owing to the application of the lower of cost or market method, and a drop in deferred tax assets.

Total liabilities amounted to ¥173,690 million as of March 31, 2009, down ¥27,858 million from a year earlier. This change is mainly due to continued decreases in trade accounts payable and advances received from customers, which mirrored the lower order balance caused by sluggish order activity.

Net assets reached ¥21,244 million, down ¥5,102 million, largely owing to the aforementioned net loss as well as lower unrealized gain on available-for-sale securities and a smaller contribution from minority interest in subsidiaries.

• Cash Flow Status

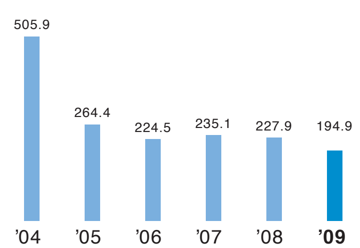
Cash and cash equivalents at March 31, 2009, amounted to ¥28,472 million. This reflects ¥76 million in net cash provided by operating activities and a combined ¥12,470 million in net cash used in investing and financing activities.

The ¥76 million from cash flows from operating activities was ¥2,848 million less than the amount generated in fiscal 2008. This was caused primarily by the increased outflow due to retreating trade accounts payable and a drop in advances received from customers that nearly negated cash freed by lower inventories and sales receivables.

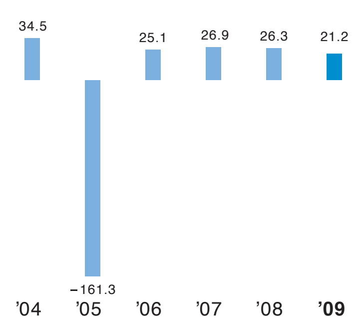
Net cash used in investing activities was ¥3,393 million, up ¥1,023 million. This was mainly because more funds were applied to the purchase of fixed assets, namely property, plant and equipment, and intangible assets than were provided through the sale of such assets.

Net cash used in financing activities came to ¥9,077 million, up ¥9,505 million. This change from a positive cash flow position in fiscal 2008 can be attributed to a decrease in short-term bank loans and disbursement toward the elimination of outstanding construction contract amounts, which together overshadowed inflow from an increase in long-term debt.

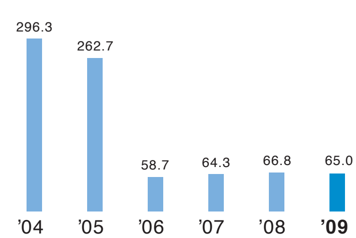
Total Assets
(Billions of yen)



Total Net Assets
(Billions of yen)



Interest-Bearing Debt
(Billions of yen)



Consolidated Balance Sheets

Misawa Homes Co., Ltd. and Subsidiaries
March 31, 2008 and 2009

Assets	Millions of yen March 31 2009	Millions of yen March 31 2008	Thousands of U.S. dollars (Note 3) March 31, 2009
Current assets:			
Cash and bank deposits (Notes 8 and 17)	¥ 28,826	¥ 41,372	$ 293,452
Notes and accounts receivable, trade	7,802	10,349	79,427
Land and housing for sale (Note 8)	61,938	65,521	630,536
Cost of uncompleted contracts (Note 8)	14,206	18,722	144,618
Merchandise and finished goods	2,081	3,014	21,190
Work in process	267	301	2,720
Raw materials and supplies	2,391	2,422	24,344
Deferred tax assets (Note 15)	4,301	5,816	43,790
Other current assets (Note 8)	5,830	6,981	59,352
Allowance for doubtful accounts	(240)	(608)	(2,453)
Total current assets	127,402	153,890	1,296,976
Property, plant and equipment (Notes 6, 7 and 8):			
Buildings and structures	34,826	33,841	354,536
Machinery and equipment	15,735	16,514	160,186
Land	25,077	26,237	255,284
Other	7,152	7,070	72,817
	82,790	83,662	842,823
Less: Accumulated depreciation	(36,992)	(35,825)	(376,588)
Net property, plant and equipment	45,798	47,837	466,235
Intangible assets (Note 6):			
Other	5,329	5,458	54,247
Total intangible assets	5,329	5,458	54,247
Investments and other assets:			
Investment securities (Notes 4 and 8)	2,779	3,668	28,292
Investments in affiliates	15	183	149
Deferred tax assets (Note 15)	7,389	10,375	75,219
Other (Notes 6)	9,824	10,263	100,017
Allowance for doubtful accounts	(3,602)	(3,780)	(36,673)
Total investments and other assets	16,405	20,709	167,004
Total assets	¥ 194,934	¥ 227,894	$ 1,984,462

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

Liabilities and Net Assets	Millions of yen March 31 2009	2008	Thousands of U.S. dollars (Note 3) March 31, 2009
Current liabilities:			
Short-term bank loans (Note 8 and 20)	¥ 29,970	¥ 46,328	$ 305,097
Current portion of long-term debt (Note 8)	10,328	15,130	105,138
Notes and accounts payable, trade	45,651	54,785	464,733
Accounts payable, other	6,284	7,255	63,979
Accrued bonuses	4,321	5,366	43,990
Allowance for claim expenses	2,470	2,404	25,141
Advance received on uncompleted contracts	23,967	31,838	243,995
Deposits received (Note 9)	5,509	12,989	56,080
Deferred tax liabilities	34	-	343
Other current liabilities	4,821	4,186	49,087
Total current liabilities	133,355	180,281	1,357,583
Long-term liabilities:			
Short-term debt (Note 8 and 20)	24,749	5,358	251,948
Accrued pension and severance costs (Note 10)	5,117	5,162	52,091
Deferred tax liabilities (Note 15)	85	88	866
Deferred tax liabilities from land revaluation	1,814	1,984	18,463
Accrued pension and severance costs for directors and corporate auditors	1,091	1,001	11,106
Other long-term liabilities	7,479	7,674	76,143
Total long-term liabilities	40,335	21,267	410,617
Net assets:			
Shareholders' equity (Note 11)			
Capital stock	23,413	23,413	238,349
(Thousands of shares) In 2009 / In 2008			
Common stock — authorized 142,160 / 142,160			
— issued 38,739 / 38,739			
Preferred stock — authorized 7,840 / 7,840			
— issued 7,833 / 7,833			
Additional paid-in capital	5,480	5,480	55,783
Accumulated deficit	(9,071)	(6,325)	(92,350)
Treasury stock, at cost	(4,239)	(4,234)	(43,157)
Revaluation and translation adjustments			
Net unrealized gains on other securities (Note 4)	143	841	1,458
Land revaluation difference	2,017	2,253	20,531
Foreign currency translation adjustments	28	157	290
Minority interest in subsidiaries	3,473	4,761	35,358
Total net assets	21,244	26,346	216,262
Commitments and contingent liabilities (Note 19)			
Total liabilities and net assets	¥ 194,934	¥ 227,894	$ 1,984,462

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

Consolidated Statements of Income

Misawa Homes Co., Ltd. and Subsidiaries
Years ended March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2009	2008	2009
Net sales	¥401,204	¥409,246	$4,084,337
Cost of sales (Note 16)	311,111	317,244	3,167,172
Gross profit	90,093	92,002	917,165
Selling, general and administrative expenses (Notes 16 and 18):			
Salaries and wages	38,885	38,925	395,859
Advertising	10,887	12,538	110,831
Sales promotion	5,520	4,965	56,193
Addition to allowance for claim expenses	2,234	1,535	22,743
Provision for accrued bonuses	2,701	3,986	27,498
Depreciation expenses	3,237	3,534	32,955
Other selling expenses	4,625	5,606	47,081
Other general and administrative expenses	13,323	13,115	135,635
Total selling, general and administrative expenses	81,412	84,204	828,795
Operating income	8,681	7,798	88,370
Non-operating income:			
Interest income	60	69	612
Income from commissions	287	300	2,926
Insurance dividend	187	181	1,902
Other	852	893	8,673
Total non-operating income	1,386	1,443	14,113
Non-operating expenses:			
Interest expenses	1,879	1,864	19,128
Pension and severance costs	416	418	4,236
Commission for syndicate loan	370	87	3,762
Other	400	442	4,080
Total non-operating expenses	3,065	2,811	31,206
Ordinary income	7,002	6,430	71,277
Other gains (“TOKUBETSU RIEKI”):			
Reversal of allowance for liabilities on guaranty	-	846	-
Gain from liquidation of a subsidiary	-	254	-
Gain on changes of share ownership in subsidiaries	105	193	1,071
Gain on sales of investment securities	56	154	568
Gain on sales of property, plant and equipment (Note 12)	36	56	370
Reversal of allowance for doubtful accounts	152	206	1,544
Reversal of provision for loss on litigation	70	-	717
Other	28	97	285
Total other gains	447	1,806	4,555
Other losses (“TOKUBETSU SONSHITSU”):			
Impairment loss on long-lived assets (Note 6)	1,186	1,511	12,076
Loss on devaluation of investment securities	347	232	3,529
Addition to allowance for doubtful accounts	-	722	-
Addition to allowance for pension and severance costs for directors and corporate auditors	-	301	-
Loss on disposal of property, plant and equipment (Note 13)	306	173	3,112
Loss on write-down of inventories	2,536	5	25,812
Business restructuring expenses (Note 7)	1,840	-	18,737
Other	475	303	4,839
Total other losses	6,690	3,247	68,105
Income before income taxes and minority interest	759	4,989	7,727
Income taxes (Note 15):			
Current	565	618	5,753
Deferred	4,290	4,326	43,667
	4,855	4,944	49,420
(Loss) income before minority interest	(4,096)	45	(41,693)
Minority interest in subsidiaries	(1,112)	(344)	(11,320)
Net (loss) income	(¥2,984)	¥ 389	($30,373)

Per share:		Yen		U.S. dollars (Note 3)
Net (loss) income (Note 14)	—Basic	(¥80.43)	¥ 10.50	($0.82)
	—Diluted	-	¥ 6.00	-

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

Consolidated Statements of Changes in Net Assets

Misawa Homes Co., Ltd. and Subsidiaries
Years ended March 31, 2008 and 2009

Millions of yen

	Number of shares issued		Shareholders' equity				Revaluation and translation adjustments				
	Common stock	Preferred stock	Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net nrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	Total net asset
Balance at March 31, 2007	38,738,914	7,833,261	23,413	13,546	(14,706)	(4,225)	1,266	2,178	159	5,315	26,946
Net income	-	-	-	-	389	-	-	-	-	-	389
Transfer of additional paid-in capital	-	-	-	(8,066)	8,066	-	-	-	-	-	-
Reversal of land revaluation difference	-	-	-	-	(136)	-	-	-	-	-	(136)
Transfer from land revaluation difference	-	-	-	-	62	-	-	-	-	-	62
Purchases of treasury stock	-	-	-	-	-	(9)	-	-	-	-	(9)
Items other than changes in shareholders' equity	-	-	-	-	-	-	(425)	75	(2)	(554)	(906)
Balance at March 31, 2008	38,738,914	7,833,261	¥23,413	¥ 5,480	(¥6,325)	(¥4,234)	¥ 841	¥ 2,253	¥ 157	¥ 4,761	¥26,346
Net loss	-	-	-	-	(2,984)	-	-	-	-	-	(2,984)
Reversal of land revaluation difference	-	-	-	-	238	-	-	-	-	-	238
Purchase of treasury stock	-	-	-	-	-	(5)	-	-	-	-	(5)
Items other than changes in shareholders' equity	-	-	-	-	-	-	(698)	(236)	(129)	(1,288)	(2,351)
Balance at March 31, 2009	38,738,914	7,833,261	¥23,413	¥ 5,480	(¥9,071)	(¥4,239)	¥ 143	¥ 2,017	¥ 28	¥ 3,473	¥21,244

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

Thousands of U.S. dollars (Note 3)

	Shareholders' equity				Revaluation and translation adjustments				
	Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net nrealized gains on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	Total net asset
Balance at March 31, 2008	$238,349	$ 55,783	($64,390)	($43,104)	$ 8,561	$ 22,940	$ 1,598	$ 48,467	$268,204
Net loss	-		(30,373)	-	-	-	-	-	(30,373)
Reversal of land revaluation difference	-	-	2,413	-	-	-	-	-	2,413
Purchase of treasury stock	-	-	-	(53)	-	-	-	-	(53)
Items other than changes in shareholders' equity	-	-	-	-	(7,103)	(2,409)	(1,308)	(13,109)	(23,929)
Balance at March 31, 2009	$238,349	$ 55,783	($92,350)	($43,157)	$ 1,458	$ 20,531	$ 290	$ 35,358	$216,262

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

Consolidated Statements of Cash Flows

Misawa Homes Co., Ltd. and Subsidiaries
Years ended March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31
	2009	2008	2009
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 759	¥ 4,989	$ 7,727
Adjustments for:			
Depreciation and amortization	4,985	5,203	50,744
Amortization and write-off of goodwill	77	56	780
(Decrease) increase in allowance for doubtful accounts	(535)	645	(5,446)
Decrease in other allowances	(1,032)	(2,118)	(10,504)
Interest and dividend income	(124)	(135)	(1,262)
Interest expenses	1,878	1,864	19,116
Gain on sales of investment securities	(55)	(154)	(557)
Impairment loss on long-lived assets	2,164	1,511	22,030
Loss on sales of property, plant and equipment	269	117	2,742
Decrease in notes and accounts receivable, trade	2,258	763	22,991
Decrease (increase) in inventories	9,045	(4,388)	92,079
Decrease in notes and accounts payable, trade	(9,254)	(1,627)	(94,203)
Decrease in advances received on uncompleted contract	(8,175)	(2,002)	(83,226)
Other	341	536	3,471
Subtotal	2,601	5,260	26,482
Interest and dividends received	121	139	1,235
Interest paid	(2,088)	(1,761)	(21,257)
Income taxes paid	(558)	(714)	(5,680)
Net cash provided by operating activities	76	2,924	780
Cash flows from investing activities:			
Decrease of time deposits with maturity over three months	143	358	1,451
Payments for purchases of property, plant equipment and intangible assets	(4,173)	(3,662)	(42,484)
Proceeds from sales of property, plant equipment and intangible assets	386	882	3,934
Payments for purchases of investment securities	(507)	(66)	(5,160)
Proceeds from sales of investment securities	130	176	1,327
Effect results from the change of consolidation scope	(30)	(87)	(314)
Other	658	29	6,700
Net cash used in investing activities	(3,393)	(2,370)	(34,546)
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans	(16,358)	10,354	(166,527)
Proceeds from long-term debt	30,232	6,122	307,769
Repayments of long-term debt	(16,130)	(14,314)	(164,204)
Proceeds from issuance of bonds	-	198	-
Payments for purchase of treasury stock	(5)	(9)	(53)
Cash dividends paid to minority interest	(16)	(23)	(160)
Disbursement for liquidation of construction contract amount	(6,800)	(1,900)	(69,226)
Net cash (used in) provided by financing activities	(9,077)	428	(92,401)
Effect of exchange rate changes on cash and cash equivalents	(13)	0	(133)
Net (decrease) increase in cash and cash equivalents	(12,407)	982	(126,300)
Cash and cash equivalents at the beginning of the year	40,879	39,897	416,155
Cash and cash equivalents at the end of the year (Note 17)	¥ 28,472	¥ 40,879	$289,855

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

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

MISAWA HOMES CO., LTD. (the “Company”) and its subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted 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 Law of Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in Japan, but which is provided herein as additional information. However, none of the reclassifications or rearrangements has a material effect on the financial statements.

2. Summary of significant accounting policies:

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

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

As of March 31, 2009, the numbers of consolidated subsidiaries and subsidiaries and affiliates accounted for by the equity method were 45 and 0 (47 and 0 in 2008), respectively. The financial statements of ILS Co., Ltd. and one other subsidiary are consolidated by using their financial statements as of the parent fiscal year end which are prepared solely for consolidation purposes.

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

(2) Cash and cash equivalents
Cash and cash equivalents included in the consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with original maturities of three months or less and which present low risk of fluctuation in value.

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

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

(4) Allowance for doubtful accounts
To provide for losses from bad debit 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.

Effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied “Accounting Standards for Measurement of Inventories” (Accounting Standards Board of Japan (“ASBJ”) Statement No.9, issued on July 5, 2006). Due to the application, operating income and ordinary income decreased by ¥1,364 million ($13,887 thousand), respectively, and income before income taxes and minority interest decreased by ¥3,900 million ($39,699 thousand).

The write-down of inventories recognized as an expense and included in cost of sales amounts to ¥3,287 million ($33,460 thousand).

(6) Property, plant and equipment (Excluding lease assets)
Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Depreciation of property, plant and equipment is mainly computed based on the declining-balance method over the period prescribed by the Corporate Tax Law.

Effective from the fiscal year ended March 31, 2009, triggered by amendment to the Corporate Tax Law, the Company and its domestic consolidated subsidiaries have changed the useful life of machinery and equipment in accordance with the amended law. As a result, for the year ended March 31, 2009, operating income, ordinary income and income before income taxes and minority interest decreased by ¥171 million ($1,741 thousand), respectively, compared to the previous period.

(7) Intangible assets (Excluding lease 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

Accrued pension and severance costs are provided based on the estimated amount of projected benefit obligation and fair value of the pension assets at the balance sheet date. Transition amounts resulting from the initial adoption of the new accounting method for employees' retirement benefits are amortized over 15 years.

Unrecognized actuarial gains and losses are amortized starting from the beginning of the 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.

Prior service costs are amortized 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 are recorded as reserve for director and corporate auditor retirement benefits at the required amount at the end of the fiscal year, based on internally established standards.

(11) Allowance for claim expenses

Allowance for claim expenses is provided in amounts sufficient to cover possible claim expenses on completed contracts. It is provided based on the estimated amount of payments for future claims, which may be filed, on contracts completed during the year.

(12) Foreign currency translation and transactions

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting transaction gains or losses are taken into income currently.

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

(13) Income taxes

The provision for income taxes is computed based on income before income taxes and minority interest in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

(14) Research and development costs

Research and development costs are expensed as incurred.

(15) Land revaluation

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

(16) Leases

Leased assets procured by finance lease transaction in which ownership are not transferred to lessees, which were acquired on and after April 1, 2008, are depreciated by the straight-line method to residual value of zero.

However, leased assets procured by finance lease transactions in which ownership are not transferred to lessees, which were acquired prior to April 1, 2008, and previously accounted for as operating leases, are being accounted for operating leases as well.

Effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied the “Accounting Standard for Lease Transactions” (ASBJ Statement No.13, issued on June 17, 1993 (First Commitee of Business Accounting Council), revised on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16, issued on January 18, 1994 (Accounting System Committee of the Japan Institute of Certified Public Accountants), revised on March 30, 2007), and finance lease transactions in which ownership are not transferred to lessees, previously accounted for as operating leases, are now being accounted for based on purchase transactions.

Because of no such financial lease transaction having occurred during this fiscal year, there was no effect on the consolidated financial statements of the Company due to the application.

(17) Net income per share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal period.

(18) Appropriations of retained earnings

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

(19) Reclassifications

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2009.

3. 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 ¥98.23 = U.S. $1, the rate of exchange prevailing on March 31, 2009, has been used.

4. Investment securities:

Misawa Homes’ management determined that all investment securities were other securities for the year ended March 31, 2009 and 2008.

Net unrealized gains, net of tax, on securities categorized as other securities of ¥143 million ($1,458 thousand) and ¥841 million at March 31, 2009 and 2008, respectively, were recorded as a component of net assets. A related deferred tax liability thereon of ¥134 million ($1,357 thousand) and ¥61 million was recorded against deferred tax assets relating to other temporary differences at March 31, 2009 and 2008, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2009 and 2008, were as follows:

	Millions of yen			
	March 31, 2009			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	¥ 1,815	¥ 440	(¥179)	¥ 2,076
Debt securities	129	1	-	130
Other	11	-	(4)	7
Total	¥ 1,955	¥ 441	(¥183)	¥ 2,213

	Millions of yen			
	March 31, 2008			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	¥ 2,096	¥ 1,051	(¥161)	¥ 2,986
Debt securities	144	1	-	145
Other	11	1	(1)	11
Total	¥ 2,251	¥ 1,053	(¥162)	¥ 3,142

	Thousands of U.S. dollars (Note 3)			
	March 31, 2009			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	$ 18,468	$ 4,482	($1,820)	$ 21,130
Debt securities	1,317	10	-	1,327
Other	111	-	(42)	69
Total	$ 19,896	$ 4,492	($1,862)	$ 22,526

As of March 31, 2009 and 2008, the carrying amounts of unlisted equity securities, which were included in the investment securities account, were ¥695 million ($7,076 thousand) and ¥658 million, respectively.

Proceeds from sales of other securities for the years ended March 31, 2009 and 2008, were ¥145 million ($1,472 thousand) and ¥176 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥56 million ($568 thousand) and ¥1 million ($10 thousand), respectively, for the year ended March 31, 2009 and ¥154 million and ¥0 million, respectively, for the year ended March 31, 2008.

The redemption schedule for securities with maturities as of March 31, 2009 and 2008, are as follows:

	Millions of yen			
	March 31, 2009			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥ -	¥ 120	¥ 10	¥ -
Total	¥ -	¥ 120	¥ 10	¥ -

	Millions of yen			
	March 31, 2008			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥ 20	¥ 115	¥ 10	¥ -
Corporate bonds	15	-	-	-
Total	¥ 35	¥ 115	¥ 10	¥ -

	Thousands of U.S. dollars (Note 3)			
	March 31, 2009			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	$ -	$ 1,222	$ 102	$ -
Total	$ -	$ 1,222	$ 102	$ -

5. Derivative instruments:

Misawa Homes entered into interest rate swap agreement and forward foreign exchange contracts only for hedging risks from fluctuation in interest rates and foreign exchange rates for the year ended March 31, 2009 and 2008. These derivative transactions entered into by Misawa Homes have been made in accordance with internal policies, which regulate the authorization of such transactions.

Misawa Homes does not disclose the derivative contracts at March 31, 2009 and 2008 as they are accounted for as hedges.

6. Impairment loss on long-lived assets:

Misawa Homes recognized impairment loss on long-lived assets for the following assets for the years ended March 31, 2009 and 2008.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
Assets written-off	2009	2008	2009
Buildings and structures	¥ 323	¥ 49	$ 3,284
Machinery and equipment	298	-	3,037
Land	1,038	209	10,570
Lease property	107	474	1,094
Goodwill	359	745	3,655
Other assets	39	34	390
Total	¥ 2,164	¥ 1,511	$ 22,030

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

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

Due to restructuring production of housing materials, certain factories were resolved to be closed. Consequently, ¥978 million ($9,954 thousand) was recognized as impairment loss and included in the business restructuring expenses for the year ended March 31, 2009.

Recoverable amount of each group of assets is the higher amount of net selling price or value in use. Value in use was calculated by discounting future cash flows at an interest rate of 6.5% for the year ended March 31, 2009 and 2008.

7. Business restructuring expenses:

Misawa Homes has posted business-restructuring expenses of ¥1,840 million ($18,737 thousand) stemming from impairment loss of its subsidiary businesses' assets, including loss on disposal of long-lived assets of subsidiaries, as well as the costs of layoff.

Business restructuring expenses	Millions of yen	Thousands of U.S. dollars (Note 3)
Impairment loss:		
Buildings and structures	¥ 194	$ 1,975
Machinery and equipment	298	3,037
Land	480	4,884
Other	6	58
Total amount of impairment loss	978	9,954
Loss on disposal of long-lived assets	660	6,723
Others	202	2,060
Total	¥ 1,840	$ 18,737

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

Short-term bank loans at March 31, 2009 and 2008, were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2009	2008	2009
Loans, principally from banks, with weighted-average interest rate of 2.1% at March 31, 2009	¥ 29,970	¥ 46,328	$ 305,097

Long-term debt at March 31, 2009 and 2008, was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2009	2008	2009
Loans, principally from banks and insurance companies, due 2009 to 2013 with weighted-average interest rate of 2.3% at March 31, 2009	¥ 34,877	¥ 19,788	$ 355,050
Unsecured 1.345% bonds, due 2008	-	500	-
Unsecured 2.15% bonds, due 2012	200	200	2,036
	35,077	20,488	357,086
Less-portion due within one year	(10,328)	(15,130)	(105,138)
	¥ 24,749	¥ 5,358	$ 251,948

The aggregate annual maturities of long-term debt outstanding at March 31, 2009, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2009	¥ 10,328	$ 105,138
2010	10,926	111,227
2011	12,122	123,400
2012	1,101	11,208
2013	228	2,326
Thereafter	372	3,787
Total	¥ 35,077	$ 357,086

Assets pledged as collateral for secured loans and debt at March 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Pledged assets	2009	2008	2009
Cash and bank deposits	¥ 20	¥ 20	$ 204
Land and housing for sale	7,472	6,101	76,066
Cost of uncompleted contracts	2,279	1,466	23,199
Other current assets	-	3	-
Buildings and structures	2,372 (642)	1,685	24,147 (6,533)
Machinery and equipment	636 (459)	-	6,478 (4,677)
Land	8,555 (3,011)	5,818	87,089 (30,645)
Other fixed assets	28 (28)	276	286 (286)
Investment securities	110	120	1,124
Total	¥ 21,472 (¥4,140)	¥ 15,489	$ 218,593 ($42,141)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
Secured loans and debt	2009	2008	2009
Short-term bank loans	¥ 20,209 (¥1,100)	¥ 15,180	$ 205,732 ($11,198)
Long-term debt	6,992 (3,300)	4,060	71,175 (33,595)
Total	¥ 27,201 (¥4,400)	¥ 19,240	$ 276,907 (¥44,793)

The amounts of assets and debts in () are for hypothecation of factory foundation.

9. Deposits received:

Among deposits received, nil and ¥6,800 million at March 31, 2009 and 2008, respectively, were financing with transfers of contractual receivables.

10. Pension and severance costs:

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

The funded status of retirement benefit obligations at March 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2009	2008	2009
Projected benefit obligation	(¥27,521)	(¥26,930)	($280,159)
Plan assets at fair value	14,659	16,379	149,226
Unfunded status	(12,862)	(10,551)	(130,933)
Unrecognized items:			
Net transition obligation	2,458	2,864	25,019
Actuarial losses	5,596	3,087	56,968
Prior service cost reduction due to plan amendment	(45)	(297)	(454)
Accrued pension and severance costs - net	(4,853)	(4,897)	(49,400)
Prepaid pension cost	264	265	2,691
Accrued pension and severance costs	(¥5,117)	(¥5,162)	($52,091)

The composition of net pension and severance costs for the years ended March 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2009	2008	2009
Service cost	¥ 2,334	¥ 2,224	$ 23,762
Interest cost	407	389	4,144
Expected return on plan assets	(258)	(270)	(2,632)
Amortization and expenses:			
Prior service costs	(45)	(56)	(453)
Actuarial losses	572	377	5,819
Transition obligation	416	418	4,236
Total	¥ 3,426	¥ 3,082	$ 34,876

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2009 and 2008, were as follows:

	Years ended March 31	
	2009	2008
Discount rate	1.5%	1.5%
Long-term rate of return on plan assets	0.0-4.4%	0.0-4.4%

11. Shareholders' equity:

Preferred stocks outstanding as of March 31, 2009 are as follows:

Classified stock	Class B-3	Class B-4	Class C
Number of outstanding shares	333,328 shares	4,166,600 shares	3,333,333 shares
Date of issuance	February 25, 2004	February 25, 2004	June 10, 2005
Distribution of profit	1YTibor + 2.375%	1YTibor + 2.375%	1YTibor + 1.500% No dividend to be distributed until March 2008
Upper limit	¥600	¥600	¥600
Participatory clause	Nonparticipating	Nonparticipating	Nonparticipating

Accumulative clause	Noncumulative	Noncumulative	Noncumulative
Interim dividend	Yes	Yes	Yes
Voluntary purchase/cancellation	Cancelable at any time	Cancelable at any time	Cancelable at any time
Mandatory redemption (Call)	None	None	Applied (always possible for 22 years after the issuance, with the issue price of ¥6,000 + preferred dividend per diem)
Claim of redemption (Put)	If unappropriated retained earnings as of the end of the previous fiscal year exceed ¥20.0 billion, the redemption may be requested within an upper limit of the amount that corresponds to 50% of such unappropriated retained earnings being deducted by the dividend paid for the year.	If unappropriated retained earnings as of the end of the previous fiscal year exceed ¥20.0 billion, the redemption may be requested within an upper limit of the amount that corresponds to 50% of such unappropriated retained earnings being deducted by the dividend paid for the year.	None
Conversion right to be requested by shareholders	Conversion to common stock	Conversion to common stock	Conversion to common stock
Conversion claimable period	For 15 years from July 2020 to June 2035.	For 15 years from July 2023 to June 2038.	For 15 years from July 2027 to June 2042.
Initial conversion price	¥1,300.40	¥1,300.40	To be determined based on the Company's stock price in the above conversion claimable period.
Revision to the conversion price	July 1 every year for the period from July 1, 2021 to June 30, 2035, upward/downward revisions are possible annually based on the stock price	July 1 every year for the period from July 1, 2024 to June 30, 2038, upward/downward revisions are possible annually based on the stock price	Upward/downward revisions are possible annually based on the stock price
Lower limit of the conversion price	¥650.20	¥650.20	50% of the initial conversion price
Upper limit of the conversion price	¥2,600.80	¥2,600.80	None
Mandatory conversion right	Conversion to common stock	Conversion to common stock	Conversion to common stock
Conversion price	The average price for 30 transaction days starting from the 45th transaction day prior to the date of revision to the conversion price	The average price for 30 transaction days starting from the 45th transaction day prior to the date of revision to the conversion price	The average price for 30 transaction days starting from the 45th transaction day prior to the date of revision to the conversion price
Distribution of residual property	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit
Voting rights	None (provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion as of the end of the fiscal year, and the distribution of the preferred dividend is ascertained to be voted down)	None (provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion as of the end of the fiscal year, and the distribution of the preferred dividend is ascertained to be voted down)	None (except for the cases provided for by laws)

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

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

Under the Corporate Law of Japan, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held within three months after the balance sheet date, and accordingly such appropriations are recorded at the time of resolution. The Company may pay interim dividends by resolution of the Board of Directors during each fiscal year in accordance with the Corporate Law of Japan and the Company's Articles of Incorporation.

There were 1,650,881 shares and 1,638,444 shares of treasury stock at March 31, 2009 and 2008, respectively.

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

The following are the elements of "Gain on sales of property, plant and equipment" for the years ended March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2009	2008	2009
Buildings and structures	¥ 20	¥ 39	$ 201
Machinery and equipment	1	9	11
Land	15	7	158
Other	0	1	0
Total	¥ 36	¥ 56	$ 370

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

The following are the elements of "Loss on disposal of property, plant and equipment" for the years ended March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2009	2008	2009
Buildings and structures	¥ 194	¥ 137	$ 1,976
Machinery and equipment	63	5	638
Land	14	4	143
Other	35	27	355
Total	¥ 306	¥ 173	$ 3,112

14. Net income per share:

Calculation of net income per share for the years ended March 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31		Year ended March 31,
	2009	2008	2009
Net income attributable to common shares	(¥2,984)	¥ 389	($30,373)
Weighted average number of common shares outstanding:			
-Basic	37,093,990	37,104,019	
-Diluted	-	64,852,938	

	yen		U.S. dollars (Note 3)
Net income per share:			
-Basic	(¥80.43)	¥ 10.50	($0.82)
-Diluted	-	¥ 6.00	

Diluted net income per share for the year ended March 31, 2009 is not disclosed because net loss per share is recorded in spite of the dilutive potential of shares.

15. Income taxes:

Misawa Homes is subject to several income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.7 % for the years ended March 31, 2009 and 2008.

The significant components of deferred tax assets and liabilities at March 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2009	2008	2009
Deferred tax assets:			
Devaluation of inventories	¥ 3,757	¥ 2,833	$ 38,247
Tax loss carry-forwards	115,797	119,779	1,178,837
Others	10,359	10,056	105,461
Gross deferred tax assets	129,913	132,668	1,322,545
Less: valuation allowance	(118,083)	(116,378)	(1,202,112)
Total deferred tax assets	11,830	16,290	120,433
Deferred tax liabilities:			
Prepaid pension cost	(107)	(107)	(1,092)
Net unrealized gains on other securities	(134)	(61)	(1,357)
Others	(18)	(19)	(184)
Gross deferred tax liabilities	(259)	(187)	(2,633)
Net deferred tax assets	¥ 11,571	¥ 16,103	$ 117,800

The valuation allowance was established mainly against deferred tax assets on future tax-deductible temporary differences and tax loss carry-forwards of certain subsidiaries, as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future.

The total valuation allowance for the year ended March 31, 2009, was increased by ¥1,705 million ($17,359 thousand).

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

March 31	2009	2008
Statutory income tax rate	40.7%	40.7%
Reconciliation:		
Changes in valuation allowance	600.2	56.0
Entertainment expenses, etc. permanently non-tax deductible	36.9	6.1
Per capita inhabitant tax	32.9	4.6
Consolidation adjustment	(75.8)	(16.3)
Difference in statutory income tax rate of subsidiaries	-	6.3
Others	4.8	1.7
Income tax rate per consolidated statements of income	639.7%	99.1%

16. Research and development costs:

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥3,357 million ($34,177 thousand) and ¥3,051 million for the years ended March 31, 2009 and 2008, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2009 and 2008, were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2009	2008	2009
Cash and bank deposits	¥ 28,826	¥ 41,372	$ 293,452
Less:			
Time deposits due over three months	(354)	(493)	(3,597)
Cash and cash equivalents	¥ 28,472	¥ 40,879	$ 289,855

18. Leases:

As described in Note 2 (16) Misawa Homes, as a lessee, charges periodic payment of finance lease transactions acquired prior to April 1, 2008, to expense when paid. Such payments for the years ended March 31, 2009 and 2008 amounted to ¥2,869 million ($29,204 thousand) and ¥2,996 million, respectively.

If finance leases transactions entered into a contract on and before March 31, 2009 which do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the finance lease assets at March 31, 2009 and 2008, would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31,
	2009	2008	2009
Acquisition cost:			
Buildings and structures	¥ 8,208	¥ 9,113	$ 83,562
Machinery and equipment	212	299	2,158
Other property, plant and equipment	2,638	3,044	26,859
Other intangible assets	482	561	4,902
	11,540	13,017	117,481
Less:			
Accumulated depreciation	(7,376)	(6,145)	(75,090)
Net book value	¥ 4,164	¥ 6,872	$ 42,391

Depreciation expenses for these leased assets for the years ended March 31, 2009 and 2008, would have been ¥2,721 million ($27,702 thousand) and ¥2,909 million, respectively, if they were computed in accordance with the straight-line method over the periods of these finance leases, assuming no residual value.

Interest expense for these finance leases for the years ended March 31, 2009 and 2008, would have been ¥140 million ($1,427 thousand) and ¥179 million, respectively.

Impairment loss for these finance leases for the years ended March 31, 2009 and 2008 were ¥107 million ($1,094 thousand) and ¥474 million, respectively.

Future lease payments for finance leases at March 31, 2009 and 2008, were as follows:

Future lease payments	Millions of yen, March 31, 2009	Millions of yen, March 31, 2008	Thousands of U.S. dollars (Note 3), March 31, 2009
Due within one year	¥ 2,189	¥ 2,794	$ 22,289
Due after one year	2,199	4,424	22,386
Total	¥ 4,388	¥ 7,218	$ 44,675

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2009 and 2008, were as follows:

Future lease payments	Millions of yen, March 31, 2009	Millions of yen, March 31, 2008	Thousands of U.S. dollars (Note 3), March 31, 2009
Due within one year	¥ 290	¥ 493	$ 2,959
Due after one year	2,757	3,155	28,065
Total	¥ 3,047	¥ 3,648	$ 31,024

19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2009 and 2008 were ¥43,665 million ($444,521 thousand) and ¥50,489 million.

Furthermore, the amount of trade notes endorsed at March 31, 2009 and 2008, were nil and ¥1 million, respectively.

20. Related party transactions:

(Additional information)

Effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied “Accounting Standards for Related Party Disclosures” (ASBJ Statement No.11, issued on October 17, 2006) and “Guidance on Accounting Standards for Related Party Disclosures” (ASBJ Guidance No. 13, issued on October 17, 2006). Due to the application, important persons among directors of subsidiaries are included in the scope of disclosure in addition to that would have been disclosed under the previous accounting method.

Significant transactions with related parties for the year ended March 31, 2009 was as follows:

(1) Significant transactions between the Company and related parties

(Transactions)

Name of related party	Type of transaction	Millions of yen, Years ended March 31, 2009	Millions of yen, Years ended March 31, 2008	Thousands of U.S. dollars (Note 3), Year ended March 31, 2009
Toyota Finance Corporation	Borrowings	¥ 4,400	-	$ 44,793
	Pledged Assets	¥ 4,400	-	$ 44,793

(Balances)

Name of related party	Account	Millions of yen March 31 2009	2008	Thousands of U.S. dollars (Note 3) March 31, 2009
Toyota Finance Corporation	Short-term loans	¥ 1,100	-	$ 11,198
	Long-term debts	¥ 3,300	-	$ 33,595

Toyota Finance Corporation is a company which is owned more than half of its voting rights by the main shareholders of the Company.
Note 1: The interest rate for the loans and debts was reasonably determined, considering the market interest rate.
Note 2: The pledged assets are furnished by the subsidiaries, and the amount of transaction is the balance of the borrowings at March 31, 2009.

(2) Significant transactions between the consolidated subsidiaries of the Company and related parties

(Transactions)

Name of related party	Type of transaction	Millions of yen Years ended March 31 2009	2008	Thousands of U.S. dollars (Note 3) Year ended March 31, 2009
Kenji Hisanobu	Housing Contract Construction	¥ 25	-	$ 251

(Balances)

Name of related party	Account	Millions of yen March 31 2009	2008	Thousands of U.S. dollars (Note 3) March 31, 2009
Kenji Hisanobu	-	-	-	-

Kenji Hisanobu is a representative director of Misawa Homes Chugoku Co., Ltd.
Note: The amount is determined based on the employee's house ownership discount regulation of the Company.

21. Transactions under common control:

(The transaction for the year ended 31 March, 2009)

(1) Companies subject to business combination, legal form of business combination, and overview of transaction, including objective of transaction:

(Business description of combined parties)

a. Misawa Homes Co., Ltd
Management of Misawa Homes, development of prefabricated houses, provision of materials for prefabricated houses.

b. Misawa Homes Kyushu Co., Ltd. (a consolidated subsidiary of the Company)
Construction and sale of prefabricated houses.

(Legal form of business combination)
Business combination by simple exchange of shares

(Purpose of transaction)
The purpose of the business combination is to strengthen the regional operation in the Kyusyu area and enhance the operational efficiency based on the mid-term business plan of the Group.

(2) Summary of accounting procedure

The Company adopted the accounting procedures for a business combination under the common control based on the accounting standards, “Accounting Standards for Business Combination” (Business Accounting Council issued on October 31, 2003), and “Implementation Guidance on application of Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10 revised on November 15, 2007).

(3) Additional acquisition of the subsidiary’s shares from minority shareholders:

(Acquisition cost and details)
Cash payment ¥202 Million ($2,061 thousand).

(Exchange ratio and calculation method of the ratio)
a. Exchange ratio
¥68 ($0.69) to one share of common stock in Misawa Homes Kyushu Co., Ltd.
b. Calculation method of the ratio
The Company commissioned Mitsubishi UFJ Securities Co., Ltd., and Misawa Homes Kyushu Co., Ltd. commissioned KPMG FAS Co., Ltd., to evaluate the stock for each company. An agreement was reached through discussion between the two companies by referencing the results of these evaluations.

(Goodwill)
a. Amount of goodwill: ¥73 Million ($747 thousand)
b. Substance of goodwill: A difference between the above-stated acquisition cost and the amount of decrease in minority interest resulting from the acquisition.
c. Amortization method: Recognized as expense in current period.

22. Segment information:

(1) Business Segments

Information regarding business segments is omitted in consolidated financial reports for the years ended March 31, 2009 and 2008, because sales, operating income and total assets in the residential segment are more than 90% of all business segments.

(2) Geographical Segments

Information regarding geographical areas is omitted for the years ended March 31, 2009 and 2008, because sales and total assets in the Japan area are more than 90% of all geographical areas.

(3) Overseas Sales

Information regarding overseas sales is omitted for the years ended March 31, 2009 and 2008, because overseas sales represents less than 10% of total sales.

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Report of Independent Auditors

The Board of Directors
Misawa Homes Co., Ltd.

We have audited the accompanying consolidated balance sheets of Misawa Homes Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Misawa Homes Co., Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplementary Information
As described in Note 2(5), effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied accounting standards for measurement of inventories.

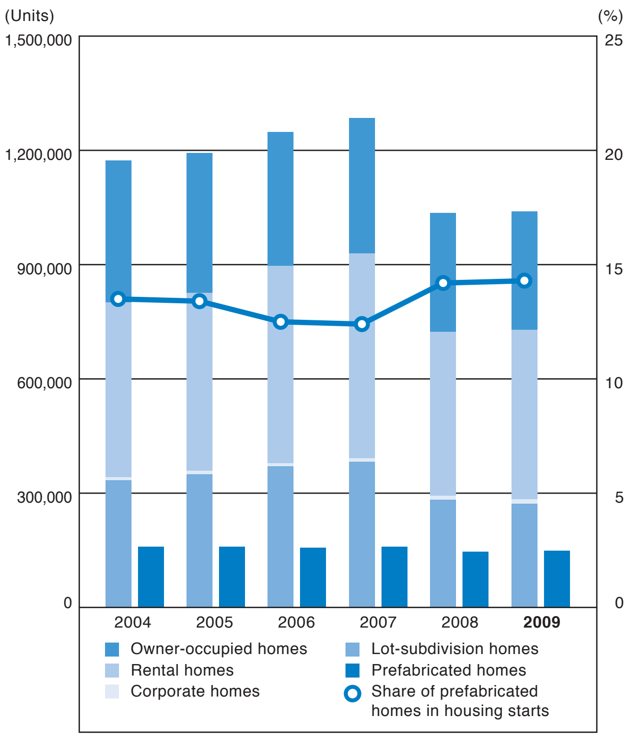
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

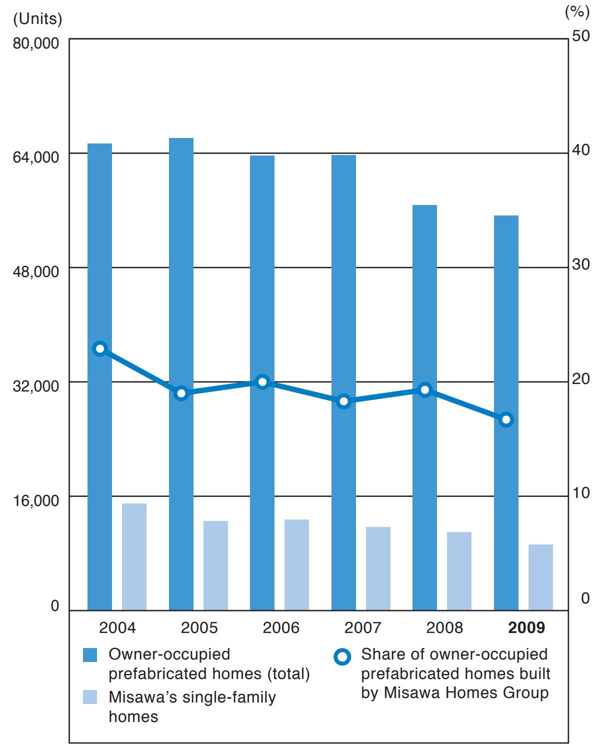
June 26, 2009

Trends in the Housing Market

New Housing Starts by Usage



Owner-Occupied Prefabricated Home Construction



New Housing Starts by Usage

(Units, %)

Years ended March 31	2004		2005		2006		2007		2008		2009	
Owner-occupied homes	373,015	31.8	367,233	30.8	352,577	28.2	355,700	27.7	311,803	30.1	310,664	29.9
Rental homes	458,708	39.1	467,348	39.2	517,999	41.5	537,943	41.9	430,867	41.6	444,747	42.8
Corporate homes	8,101	0.7	9,413	0.8	8,515	0.7	9,100	0.7	10,311	1.0	11,089	1.1
Lot-subdivision homes	333,825	28.4	349,044	29.3	370,275	29.6	382,503	29.7	282,617	27.3	272,680	26.2
Total	1,173,649	100.0	1,193,038	100.0	1,249,366	100.0	1,285,246	100.0	1,035,598	100.0	1,039,180	100.0

Prefabricated Home Construction

(Units, %)

Years ended March 31	2004		2005		2006		2007		2008		2009	
Prefabricated homes	158,929	13.5	159,945	13.4	156,581	12.5	159,544	12.4	146,571	14.2	148,273	14.3
Housing starts (total)	1,173,649	100.0	1,193,038	100.0	1,249.366	100.0	1,285,246	100.0	1,035,598	100.0	1,039,180	100.0

Owner-Occupied Prefabricated Home Construction

(Units, %)

Years ended March 31	2004		2005		2006		2007		2008		2009	
Misawa's single-family homes*	14,981	22.9	12,534	19.0	12,700	20.0	11,676	18.3	10,957	19.3	9,238	16.7
Owner-occupied prefabricated homes (total)	65,353	100.0	66,129	100.0	63,586	100.0	63,725	100.0	56,719	100.0	55,271	100.0

* Based on orders received by our dealers
Source: Ministry of Land, Infrastructure, Transport and Tourism "Housing Starts Statistics."

Subsidiaries and Affiliated Company (As of March 31, 2009)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Co., Ltd.(%)	Primary Business
Consolidated subsidiaries:				
Misawa Homes Hokkaido Co., Ltd.	Sapporo, Hokkaido Prefecture	988	75.4 (1.6)	Construction and sales of prefabricated houses
Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	4,178	61.8 (9.7)	Construction and sales of prefabricated houses
Misawa Homes Nishikanto Co., Ltd.	Saitama, Saitama Prefecture	450	100.0	Construction and sales of prefabricated houses
Misawa Homes Higashikanto Co., Ltd.	Chiba, Chiba Prefecture	475	100.0	Construction and sales of prefabricated houses
Misawa Homes Tokyo Co., Ltd.	Suginami-ku, Tokyo	2,234	100.0	Construction and sales of prefabricated houses
Misawa Homes Shin-etsu Co., Ltd.	Niigata, Niigata Prefecture	537	99.9	Construction and sales of prefabricated houses
Misawa Homes Shizuoka Co., Ltd.	Shizuoka, Shizuoka Prefecture	300	100.0	Construction and sales of prefabricated houses
Misawa Homes Tokai Co., Ltd.	Nagoya, Aichi Prefecture	450	100.0	Construction and sales of prefabricated houses
Misawa Homes Kinki Co., Ltd.	Osaka, Osaka Prefecture	2,340	100.0	Construction and sales of prefabricated houses
Misawa Homes Chugoku Co., Ltd.	Hiroshima, Hiroshima Prefecture	1,369	72.9 (5.6)	Construction and sales of prefabricated houses
Misawa Homes Kyushu Co., Ltd.	Fukuoka, Fukuoka Prefecture	1,451	100.0	Construction and sales of prefabricated houses
Misawa Homes Ceramics Co., Ltd.	Suginami-ku, Tokyo	300	100.0	Construction and sales of prefabricated houses
Misawa Techno Corporation	Matsumoto, Nagano Prefecture	50	100.0	Manufacture of house materials
32 others				
Affiliated company:				
Nomura Holdings, Inc.	Chuo-ku,Tokyo	321,765	[15.2] [(15.2)]	Securities operations

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

Corporate Data (As of March 31, 2009)

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: ¥23,413 million

Directors, Executive Officers and Corporate Auditors
(As of June 26, 2009)

Directors
Kazuo Mizutani*1
Nobuo Takenaka*2
Masahiro Nakagami*2
Hitoshi Nishihira
Takeo Tokai
Toshitsugu Hirata
Hiroomi Tanaka
Hideki Shimonomura
Teiji Tachibana
Yasuo Miyawaki

Corporate Auditors
Masakazu Miyamori*3
Teruaki Kato*3
Seiji Sakai*3
Shuntaro Moritani
Toshimi Roppongi

Executive Officers
Nobuo Takenaka*4
Masahiro Nakagami*5
Haruo Sato*5
Hitoshi Nishihira*5
Takeo Tokai*6
Kosaku Miyagawa*6
Shigeharu Wakatsuki*6
Toshitsugu Hirata*6
Hiroomi Tanaka*6
Hideki Shimonomura
Kazuhiro Watanabe
Hiroshi Sakaguchi
Tetsuya Sakuo
Yoichiro Dokan
Kazuaki Uchida

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

Share Information

	Shares
Total number of shares authorized	150,000,000
Common stock	142,160,000
Class B preferred stock	4,500,000
Class C preferred stock	3,340,000
Total number of shares issued	46,572,175
Common stock	38,738,914
Third issue of Class B preferred stock	333,328
Fourth issue of Class B preferred stock	4,166,600
First issue of Class C preferred stock	3,333,333
Number of shareholders	
Common stock	21,744
Third issue of Class B preferred stock	1
Fourth issue of Class B preferred stock	1
First issue of Class C preferred stock	1

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

	Major shareholders	No. of share	%
1	NPF-MG Investment Limited Partnership	5,593,000	14.4
2	Toyota Motor Corporation	5,191,100	13.4
3	Aioi Insurance Co., Ltd.	2,458,230	6.3
4	Japan Trustee Services Bank, Ltd. (Trust A/C)	1,181,300	3.0
5	State Street Bank and Trust Company 505041	1,113,600	2.8
6	I.L.S. Co., Ltd.	826,000	2.1
7	The Master Trust Bank of Japan, Ltd. (Trust A/C)	795,900	2.0
8	Misawa Capital Co., Ltd.	734,900	1.8
9	Nippon Life Insurance Company	609,053	1.5
10	The Chase Manhattan Bank NA London SL Omnibus Account	561,390	1.4

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

MISAWA