MISAWA

Annual Report 2012

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MISAWA HOMES CO., LTD.

Corporate Profile

Misawa Homes Co., Ltd., the pillar of today's Misawa Homes Group, is a leader in the development, manufacture and sale of homes. Established in 1967 with a pioneering wood panel adhesion system for prefabricated housing construction, the Company has 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 and multi-family homes and we have supplied more than 1.2 million homes in total. We are striving to maximize the revenue potential of our core business, which also includes such house-related pursuits as home renovations, as well as to diversify our sources of revenue through real estate brokerage, senior care businesses, and others.

Misawa-brand homes are well regarded for innovative design features as well as technological excellence. Our reputation is validated by the fact that we have been a recipient of the Good Design Award from the Japan Institute of Design Promotion for 22 consecutive years.

Misawa Homes has been involved in the design and construction of most of the facilities at Showa Station in Antarctica sponsored by the Japanese government. This substantiates the sophisticated features characteristic of Misawa-brand homes that make life pleasant and safe even in a harsh environment like Antarctica.

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 ofunanticipated events.

SMART STYLE E

To Our Shareholders

We will promote our businesses in line with the medium-term management plan, Home Step Jump, and enhance corporate value.

The Great East Japan Earthquake in March 2011 heightened awareness of energy self-sufficiency and prompted a major change in consumer consciousness, particularly in regard to family ties. A similar trend characterized consumer requirements in housing, with greater emphasis on durability and seismic resilience, of course, as well as power-saving features and the application of renewable energy. Of note, the smart house concept suddenly acquired a significantly higher profile. This type of home is equipped with a photovoltaic system for producing energy, a battery system for storing the energy, and the information technology to optimize energy usage. The Misawa Homes Group has been working to address consumer needs by developing homes that feature leading-edge technologies central to the smart house concept, such as photovoltaic power generation and storage batteries as well as home energy management systems.

In light of prevailing economic conditions and post-disaster consumer needs, we drafted a new medium-term management plan, Home Step Jump, in November 2011 that follows on from the themes of the previous medium-term management plan—to optimize the business portfolio and reorganize business operations—with strategies to maximize the revenue potential of core operations and diversify sources of revenue. Our existing operations comprise the single-family home, subdivision single-family home and home renovation businesses, and we will strive to boost revenue from these segments while targeting higher profits through meticulous cost cutting to derive maximum results. In addition, aware that demand for newly built homes could slow, we will actively promote other businesses, such as senior care services, buildings and condominiums, real estate brokerage services, life care and daycare services, landscaping services, and sales of housing materials through production and logistics subsidiaries, in order to pursue opportunities to diversify our sources of revenue.

The three years of the medium-term management plan will be a vital time for preparing a foundation—the step—from which we will launch new growth strategies for the future—the jump. By steadily implementing this plan, we will achieve our medium- to long-term management vision of becoming the No. 1 Brand in Housing.

A priority under the medium-term management plan is to write down preferred stock. In March 2012, we executed purchase and cancellation of existing preferred stock by issuing a new round of preferred stock, which reduced the total issuing price of outstanding preferred stock and thereby strengthened our financial position. Another priority is to resume dividend payments as soon as

possible, and in fiscal 2012—the first year of the plan—we posted sales and income exceeding expectations, which provided a certain level of retained earnings according us the capacity to pay dividends for the first time in 10 years. The prolonged period of no dividends must have been disconcerting to shareholders, not to mention a matter of inconvenience, and I extend my apologies for this. Going forward, we will steadily implement the strategies outlined in the medium-term management plan, which will underpin efforts to resolve management issues—namely, purchase and cancellation of the new round of preferred stock as soon as possible—and push corporate value to a higher level.

In addition, we readily acknowledge our duty as a builder of homes and will naturally continue to direct concerted efforts toward the creation of sturdy homes that protect the lives of the people inside them when an earthquake strikes. We will also strive to build homes that are safer, more secure and more comfortable from a community perspective, with features that keep lifelines open in times of disaster and offset the impact of blackouts when commercial power supply fails to match demand.

On behalf of the Board, I ask for the encouragement and support of shareholders and all stakeholders as we work toward our goals.

June 2012

Nobuo Takenaka

Nobuo Takenaka
President and CEO

New Medium-term Management Plan: Home Step Jump

New Medium-term Management Plan: Home Step Jump

Over the course of the medium-term management plan Home Step Jump, which runs for three years from fiscal 2012, we will lay the foundation for forging new growth strategies for the future.

We have two goals: first, to maximize revenue opportunities from existing businesses and thereby realize higher revenue from such core businesses as the single-family home business and the home renovation business, and second, to diversify our sources of revenue by growing businesses such as real estate brokerage services and senior care services into new pillars of business. In addition, we will consolidate back-office activities and pursue shared services with cost cutting in mind.

Following this basic direction, we expect to achieve net sales of ¥422 billion, operating income of ¥12.5 billion and ordinary income of ¥12 billion in the final year of the plan—fiscal 2014—on a consolidated basis.

Maximizing Revenue Opportunities from Core Businesses

Single-Family Homes

In Japan, the events of the Great East Japan Earthquake sparked heightened interest in the seismic resilience of homes, preparations for disaster, connections among people, and optimized use of energy. Under Home Step Jump, we will continue to enrich our lineup of homes to match these market needs and develop high-value-added system-built homes at reasonable prices, aiming for sales of 8,900 units in fiscal 2014.

To capture a share in the post-and-beam construction market, which represents nearly 80 percent of Japan's home building market, we have been promoting MJ Wood, a brand of conventional post-and-beam homes launched in 2008 that are less expensive than our mainstay system-built homes. Unit sales are steadily increasing. Going forward, we will expand our sales channels, especially in urban districts, with a sales target of 1,500 units in fiscal 2014.

In the subdivision homes business, we will broaden our range of products, particularly in the metropolitan Tokyo area and the Kansai and Chukyo regions, centered on Osaka and Nagoya, respectively, which boast considerable market scale. We will also expand our town-building business, a forte field that draws on the strengths of the Misawa Homes Group, and we will actively participate in the formation of smart cities and smart communities.

High-value-added features are standard GENIUS Qualie

MJ WOOD Season j, a very price-competitive home

Renovation

Not limiting our services to people who already own a Misawa-brand home, we will energetically promote our expertise to the renovation market in general and strive to acquire more orders. In the single-family home market, we will focus on projects to make structures more resilient to earthquakes. We will also propose silver renovations—that is, renovations that make living at home safer and more comfortable for seniors—and present eco-minded options such as the installation of photovoltaic systems. To capitalize on rising demand in the condominium market, we will promote our flat-rate service, strive to enrich our lineup of renovation products, and broaden our sales area. We will also direct concerted effort toward capturing more orders for renovations as well as seismic resilience evaluations and any reinforcement work not only for residential but commercial facilities as well. Through these approaches, we expect sales to hit ¥70 billion in fiscal 2014 on a consolidated basis and will aim for ¥100 billion in the future.

MGEO-R, a vibration control system for conventional wooden houses

Greater Efficiency, Lower Costs in Operations

We will create a platform to facilitate the introduction of shared services that integrate and curb redundant back-office activities within the Group. In conjunction with this effort, we will strive to cut costs by ¥5 billion in total over three years to the end of fiscal 2014 through centralized cost planning and procurement of building materials and outsourcing routine work.

Diversifying Revenue Sources

We know that our excessive reliance on the core single-family home business requires some rethinking from a distributed-risk perspective, and we will therefore tap new revenue opportunities and make active inroads in businesses, such as senior care services, buildings and condominiums, real estate brokerage services, and life care and daycare services, with future growth potential.

Senior Care Services

The Misawa Homes Group has been involved in senior care services for many years through the design, construction and operation of nursing homes. Going forward, we will promote these services, especially in urban areas where the number of seniors is expected to increase. In fiscal 2012, we opened three facilities for seniors, including group homes and in April 2012, we joined Hokkaido Railway Company (JR Hokkaido) in opening a rental apartment complex that includes features for seniors in front of Sapporo Station. We had 22 facilities for seniors in operation as of fiscal 2011 and aim to double this number during the current medium-term management plan.

BLAN JR Sapporo, a rental complex run jointly with JR Hokkaido

Special Buildings and Condominiums

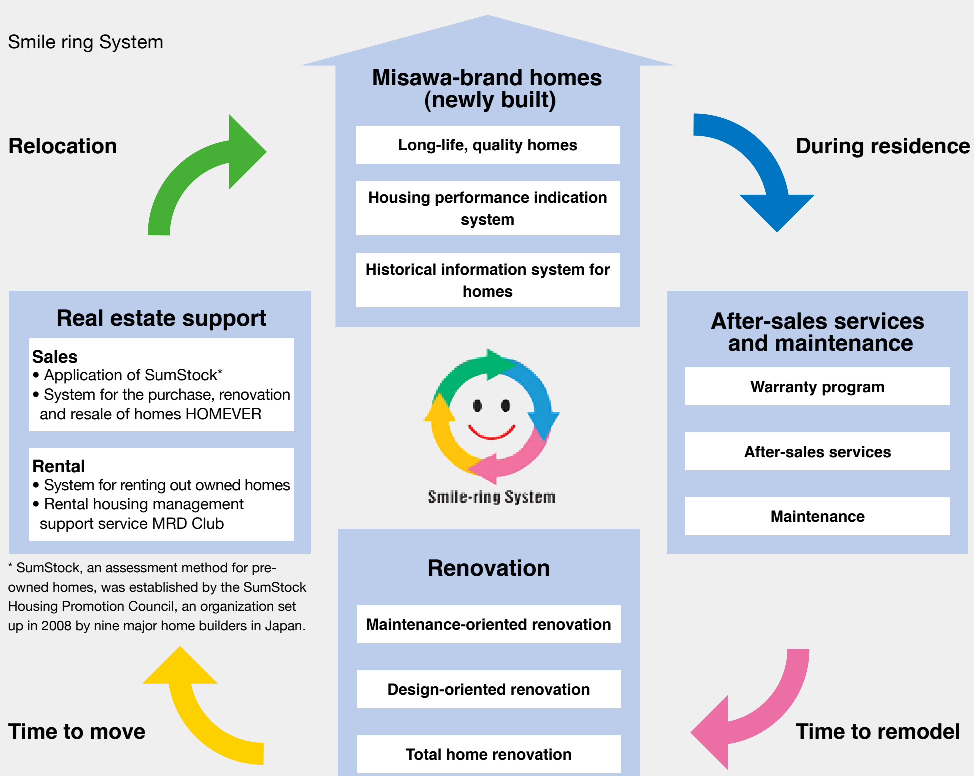
In January 2012, sales of the Misawa Homes original product WISE kicked off in Tokyo. WISE is a reinforced-concrete, boxed-wall mid-rise rental condominium product with excellent cost-performance. We will also pursue the multi-family home business through alliances with condominium developers. In fiscal 2012, we sold condominiums in Sapporo and Kumamoto.

Sapporo Soen Mid-Terrace, a condominium project in Sapporo

Real Estate Brokerage Services

Demand for pre-owned homes in Japan is expected to grow, buoyed by government incentives. The Misawa Homes Group structure of services is a circle, beginning with construction of new homes, moving through after-sales service and maintenance to renovation and then support for real estate-related activities, such as sales and property rental and management. We call this concept the Smile ring System. HOMEVER is a system within the Smile ring System. Through HOMEVER, we purchase Misawa-brand homes, undertake any maintenance and renovation that is necessary, and then resell the homes with the guarantee of Misawa quality. We will utilize the features of HOMEVER to strengthen the supply of high-asset value homes and in so doing attract more business from the pre-owned home market.

Smile ring System



* SumStock, an assessment method for pre-owned homes, was established by the SumStock Housing Promotion Council, an organization set up in 2008 by nine major home builders in Japan.

Life Care and Daycare Services

A priority segment in the business of life care services is daycare services. Currently, we are working with a day-care center operator, utilizing know-how accumulated through many years of research into the relationship between living spaces and parenting, to design and build or renovate daycare centers. We are also looking to the possibility of expanding our activities, with an eye toward the operation of daycare centers. In addition, we began a cleaning service for people who have purchased a Misawa-brand home. We will continue to enhance our service menu and expand our operating area.

Yoshikawa Station, a daycare center

Other Key Strategies

Through steady implementation of the strategies outlined in the medium-term management plan, we will reinforce our financial position and strive to build an enhanced capital structure and to improve shareholder value that is due ordinary shareholders.

As part of this effort, on March 27, 2012, we issued another round of preferred stock, which was acquired by the Development Bank of Japan (DBJ), and on the same day applied the ¥14.5 billion received from DBJ to purchase and cancel a portion of the ¥47.0 billion in outstanding preferred stock as treasury stock. It is our intention to purchase and cancel this new series of preferred stock as soon as possible. Efforts will be made to limit future dilution of ordinary shares.

Also, we will step up efforts to make inroads into overseas markets, focus on stronger ties with the Toyota Group, and strive to promote CSR activities and strengthen human management resources.

Consolidated Income

(Hundred million yen, %)

	Fiscal 2011	Fiscal 2012	Fiscal 2013 (Planned)	Fiscal 2014 (Planned)	Compared with fiscal 2011
Net sales	3,413	3,785	3,930	4,220	23.6%
Operating income	87	119	105	125	43.3%
Ordinary income	78	109	100	120	52.4%

Number of Staff Employed

(Number of persons, %)

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013 (Planned)	Compared with fiscal 2010
New home business	2,062	2,100	2,220	2,320	12.5%
Home renovation business	947	1,000	1,100	1,200	26.7%
Design, construction, management	3,785	3,800	3,780	3,780	(0.1%)
All sales companies	6,794	6,900	7,100	7,300	7.4%
Misawa Homes	651	690	710	710	9.1%
Production companies	995	970	970	970	(2.5%)
Affiliated companies	342	400	440	520	52.0%
Total	8,782	8,960	9,220	9,500	8.2%

Number of Homes Sold

(Units, %)

	March 2010	March 2011	March 2012	March 2013 (Planned)	Compared with March 2010
Custom homes	5,981	6,400	6,460	6,500	8.7%
Subdivision single-family homes	787	920	940	1,200	52.5%
Multi-family homes	509	580	600	600	17.9%
Other	631	600	600	600	(4.9%)
System-built homes	7,908	8,500	8,600	8,900	12.5%
Post-and-beam and 2x4 construction systems	932	1,050	1,200	1,500	60.9%
Total	8,840	9,550	9,800	10,400	17.6%

Topics

Efforts to Support Reconstruction after the Great East Japan Earthquake

Rental multi-dwelling house for seniors in Soma

A MISAWA HEART 2011 home

Hoping that life for the people who survived the events of the Great East Japan Earthquake returns to normal as soon as possible, the Misawa Homes Group has been involved in support activities ever since the disasters struck. Representatives have gone to visit owners of homes in the affected areas, at least those they could reach, to see about repairs to damaged structures.

At the request of the Ministry of Land, Infrastructure, Transport and Tourism and affected prefectures, we built 1,309 temporary homes, 12 assembly halls/common rooms, and one group home. Tohoku Misawa Homes Co., Ltd., submitted a successful bid with a local company under a bidding program for home reconstruction in the city of Soma, Fukushima Prefecture, and built a 12-unit apartment house for seniors.

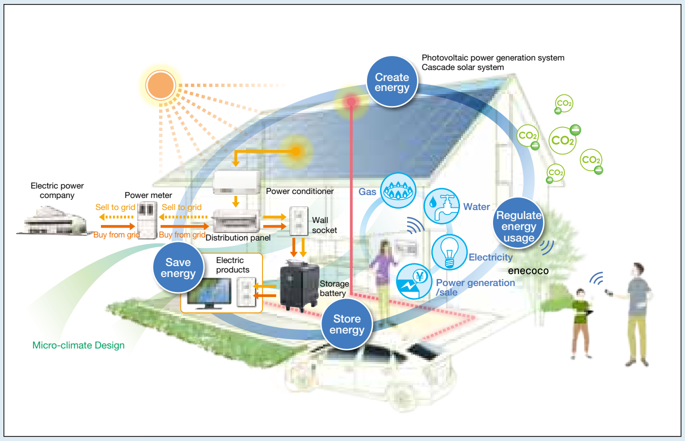
Also, right after the disasters, we began offering specially priced MISAWA HEART 2011 homes to people with documentation to support their status as victims of the devastation.

Furthermore, in February 2012, our project to build homes that combine the Group's environmental technologies with life care systems was selected by the Ministry of Land, Infrastructure, Transport and Tourism in the third round (fiscal 2011) of model projects for homes and buildings that minimize CO_2 output in specific disaster-hit districts.

Smart House Activities

The events of the Great East Japan Earthquake sparked a sudden rush of interest in the smart house concept, which emphasizes energy self-sufficiency and optimized energy usage. Responding to this demand, in October 2011 we launched sales of SMART STYLE E, a new product boasting a cascade solar system—a leading-edge technology central to the smart house concept that effectively utilizes the light and heat of the sun concurrently—as well as a storage battery for the energy thus generated and an "enecoco" (coined from energy ecology communication) monitor with a home energy management system function built in. On January 1, 2012, we debuted the M-SMART MODEL system that incorporates these technologies and suits all of our system-built homes. Since March, we have been encouraging owners of existing homes to upgrade to a smart house structure with the promotion of ECO SMART REFORM, which bundles a photovoltaic power generating system and its associated storage battery with a home energy management system.

To these products, we will add proprietary expertise, such as eco-microclimate design, a tool to make the most out of renewable energy, and life cycle carbon minus technology, which offsets construction-related CO_2 emissions over the life of the home. We will promote wider acceptance of original smart house makeovers that not only ensure energy-efficiency but also ideal levels of comfort.



Misawa Homes smart house concept

Financial Section

Consolidated Six-Year Summary
Misawa Homes Co., Ltd. and Subsidiaries

For the years ended March 31	Millions of yen						Thousands of U.S. dollars
	2012	2011	2010	2009	2008	2007	**2012**
For the Year:							
Net Sales	**¥ 378,574**	¥ 341,388	¥ 353,621	¥ 401,204	¥ 409,246	¥ 414,566	**$4,606,085**
Costs of Revenue	**290,592**	260,755	274,510	311,111	317,244	314,582	**3,535,613**
Gross Profit	**87,982**	80,633	79,111	90,093	92,002	99,984	**1,070,472**
Selling, General and Administrative Expenses	**76,006**	71,909	70,385	81,412	84,204	86,918	**924,757**
Operating Income	**11,976**	8,724	8,726	8,681	7,798	13,066	**145,715**
Income before Income Taxes and Minority Interests	**11,147**	3,877	4,862	759	4,989	10,947	**135,621**
Net Income (Loss)	**6,919**	3,133	3,044	(2,984)	389	192	**84,186**
At Year-End:							
Total Assets	**¥ 197,759**	¥ 176,628	¥ 180,306	¥ 194.934	¥ 227,894	¥ 235,136	**$2,406,115**
Total Net Assets	**32,623**	25,528	23,461	21,244	26,346	26,946	**396,926**
Per Share Amounts (yen):							
Net Income (Loss)	**¥ 180.95**	¥ 84.60	¥ 82.15	¥ (80.43)	¥ 10.50	¥ 5.17	**$ 2.20**

Note: Figures for 2007 show the financial statements of Misawa Homes Holdings, Inc., which include the statements of Misawa Homes Co., Ltd.

Financial Review

Operating Environment

In fiscal 2012, ended March 31, 2012, the domestic economy showed signs of gradual recovery despite a temporary lull caused by the effects of the Great East Japan Earthquake, as the quick restoration of supply chains prompted an upturn in production activities. Nevertheless, uncertainty continued to cloud the business horizon, largely due to unprecedented yen appreciation.

In the housing industry, the March 2011 disasters dampened consumer interest in spending. However, programs by the national government to stimulate demand for housing through such approaches as a housing eco-point system that encourages eco-friendly construction and renovations led to a 2.7 percent improvement in housing starts over the previous fiscal year to around 840,000 units.

Against this backdrop, the Misawa Homes Group embarked on a new medium-term management plan—Home Step Jump—and implemented various strategies aimed at realizing stated targets three years from now. The results achieved in fiscal 2012 are presented below.

Net Sales

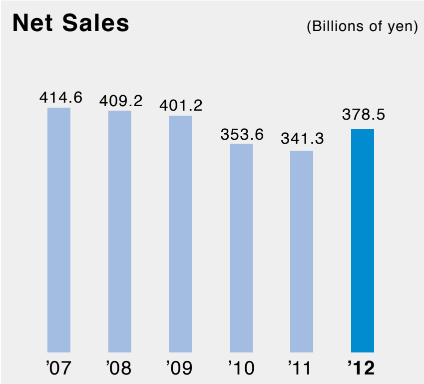
Consolidated net sales amounted to ¥378,574 million, rising 10.9 percent, or ¥37,186 million, over the previous fiscal year. This upward movement is mainly because of an increase in orders, which reflects government initiatives to boost demand for housing and the introduction of products geared to changing consumer needs in the wake of the March 2011 disasters, leading to a year-on-year increase in the number of system-built homes sold. Additionally, sales from the condominium business and from the renovation business grew, paralleling progress in business diversification, which contributed to higher net sales.

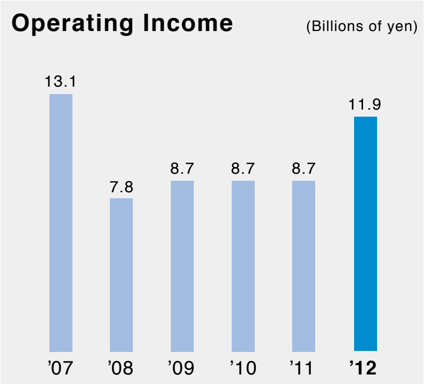
Operating Income

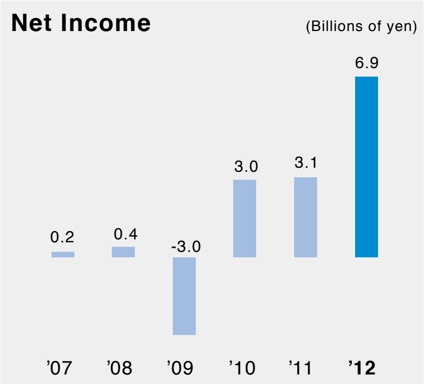
Consolidated operating income came to ¥11,976 million, up 37.3 percent, or ¥3,252 million, from the previous fiscal year. The achievement of such a sizable increase reflects solid net sales figures and successful cost cutting, which neutralized rising costs caused primarily by issues associated with the consequences of the Great East Japan Earthquake and skyrocketing material prices.

Gross profit reached ¥87,982 million, up 9.1 percent, or ¥7,349 million. Bumped-up costs precipitated by disaster-related issues and soaring material prices came to ¥2,261 million. However, this amount was covered most notably by a ¥4,994 million increase in sales of system-built homes as well as a ¥2,807 million increase in sales from the condominium and renovation businesses primarily, and a ¥1,847 million decrease in costs through such measures as cost planning.

Selling, general and administrative expenses hit ¥76,005 million, up ¥4,096 million. The primary reason for this change is higher personnel costs, reflecting allocation of funds toward such applications as improved benefits for employees.







Income before Income Taxes and Minority Interests

Consolidated income before income taxes and minority interests surged 187.5 percent, or ¥7,270 million, from the previous fiscal year, to ¥11,147 million. The Company booked other gains of ¥1.2 billion from the settlement of a lawsuit.

Net Income

Consolidated net income jumped 120.8 percent, or ¥3,786 million, from the previous year, to ¥6,919 million.

Financial Position

Total assets stood at ¥197,759 million as of March 31, 2012, up ¥21,131 million from a year earlier, primarily due to higher cash and bank deposits and land and housing for sale.

Total liabilities stood at ¥165,136 million, up ¥14,036 million from a year earlier, mainly because of higher notes and accounts payable–trade.

In regard to net assets, the Company issued a new round of preferred stock that raised ¥14.5 billion by way of third-party allotment, transferred capital to additional paid-in capital, and then used the surplus so acquired to purchase and cancel a ¥14.5 billion portion of existing preferred stock (third and fourth issues of Class B preferred shares and first issue of Class C preferred stock) as treasury stock. Also, by booking net income in fiscal 2012, the Company showed retained earnings which contributed to a ¥7,095 million increase in net assets from a year earlier, to ¥32,623 million.

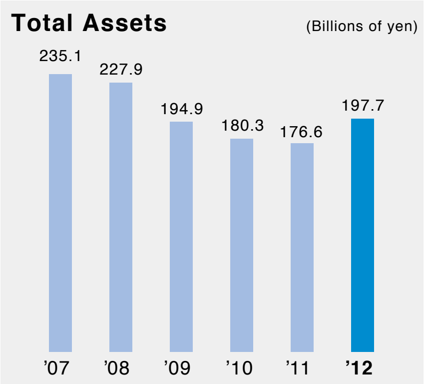
Cash Flow Status

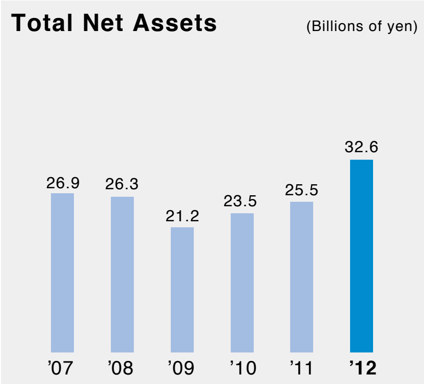
Cash and cash equivalents at March 31, 2012, came to ¥48,024 million, up ¥11,431 million from a year earlier. The change reflects net inflow of ¥13,892 million from net cash provided by operating activities and investing activities, which more than covered ¥2,457 million used in financing activities.

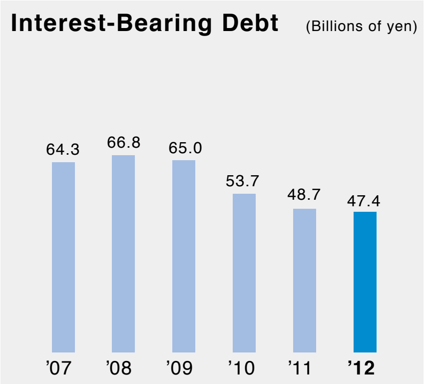
Net cash provided by operating activities reached ¥19,273 million, up ¥10,674 million. The sizable change stems mainly from the booking of income before income taxes and minority interests and an increase in notes and accounts payable–trade.

Net cash used in investing activities amounted to ¥5,381 million, down ¥733 million from a year earlier. The primary application of funds was the purchase of fixed assets under property, plant and equipment.

Net cash used in financing activities came to ¥2,457 million, down ¥4,829 million from a year earlier. Most of this amount was used to reduce interest-bearing debt.





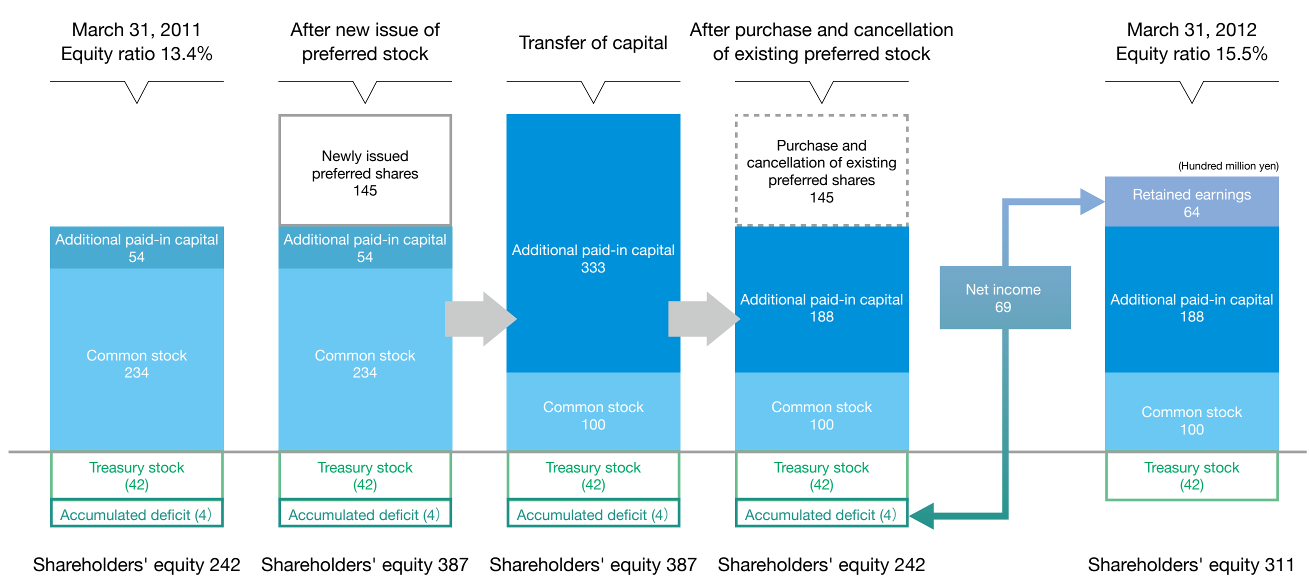


Overview of Preferred Stock

	Third issue of Class B preferred stock	Fourth issue of Class B preferred stock	First issue of Class C preferred stock	Class D preferred stock
Number of outstanding shares	333,328 shares	4,166,600 shares	3,333,333 shares	145 shares
Date of issuance	February 25, 2004	February 25, 2004	June 10, 2005	March 27, 2012
Issue price	¥6,000	¥6,000	¥6,000	¥100,000,000
Total issue price	¥20.0 billion	¥25.0 billion	¥20.0 billion	¥14.5 billion
Initial conversion price	¥1,300.40	¥1,300.40	Market price at start of conversion request period	¥641*
Conversion request period	July 1, 2020 - June 30, 2035	July 1, 2023 - June 30, 2038	July 1, 2027 - June 30, 2042	September 28, 2017
Shareholder	The Bank of Tokyo-Mitsubishi UFJ, Ltd.			Development Bank of Japan Inc.

*Revision of amount to correspond to market prices on September 27 and March 27

Changes in Consolidated Shareholders' Equity



MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2012	2011	2012
ASSETS			
Current assets:			
Cash and bank deposits (Notes 6, 9 and 17)	¥48,452	¥37,097	$589,510
Notes and accounts receivable, trade (Note 6)	13,564	6,387	165,026
Land and housing for sale (Note 9)	37,094	34,263	451,320
Cost of uncompleted contracts (Note 9)	23,981	22,136	291,771
Merchandise and finished goods	1,115	1,690	13,568
Work in process	322	362	3,921
Raw materials and supplies	1,791	1,980	21,796
Deferred tax assets (Note 15)	4,667	4,942	56,786
Other current assets (Note 9)	5,056	5,596	61,515
Allowance for doubtful accounts	(183)	(151)	(2,229)
Total current assets	135,859	114,302	1,652,984
Property, plant and equipment (Notes 8 and 9):			
Buildings and structures	30,631	28,940	372,680
Machinery and equipment	3,417	3,466	41,575
Land	24,464	24,065	297,652
Other	6,240	5,983	75,920
	64,752	62,454	787,827
Less: Accumulated depreciation	(20,183)	(19,202)	(245,562)
Net property, plant and equipment	44,569	43,252	542,265
Intangible assets (Note 8):			
Other	6,251	6,203	76,056
Total intangible assets	6,251	6,203	76,056
Investments and other assets:			
Investment securities (Notes 5, 6 and 9)	2,152	2,325	26,184
Deferred tax assets (Note 15)	1,034	3,409	12,576
Other (Note 8)	10,456	10,379	127,217
Allowance for doubtful accounts	(2,562)	(3,242)	(31,167)
Total investments and other assets	11,080	12,871	134,810
Total assets	¥197,759	¥176,628	$2,406,115

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Millions of yen March 31 2012	Millions of yen March 31 2011	Thousands of U.S. dollars (Note 4) March 31, 2012
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Notes 6, 9 and 20)	¥17,642	¥19,644	$214,652
Current portion of long-term debt (Notes 6 and 9)	10,038	18,259	122,131
Notes and accounts payable, trade (Note 6)	47,526	37,634	578,246
Accounts payable, other	8,614	4,968	104,810
Accrued bonuses	5,419	4,796	65,932
Allowance for claim expenses	1,872	1,799	22,774
Advances received on uncompleted contracts	29,535	29,370	359,343
Deposits received	5,825	5,896	70,874
Income taxes payable	1,047	1,184	12,736
Deferred tax liabilities (Note 15)	2	2	29
Asset retirement obligations	41	75	493
Other current liabilities	4,602	3,684	55,995
Total current liabilities	132,163	127,311	1,608,015
Long-term liabilities:			
Long-term debt (Notes 6 and 9)	17,616	9,066	214,328
Accrued pension and severance costs (Note 10)	5,499	5,393	66,902
Deferred tax liabilities (Note 15)	79	20	959
Accrued pension and severance costs for directors and corporate auditors	821	743	9,983
Asset retirement obligations	1,125	1,073	13,689
Other long-term liabilities	7,833	7,494	95,313
Total long-term liabilities	32,973	23,789	401,174
Net assets:			
Shareholders' equity (Note 11):			
Capital stock:	10,000	23,413	121,669

(Thousands of shares)	In 2012	In 2011
Common stock		
Authorized	150,000	142,160
Issued	38,739	38,739
Preferred stock		
Authorized	0	7,840
Issued	0	7,833

	2012 (Millions of yen)	2011 (Millions of yen)	2012 (Thousands of U.S. dollars)
Additional paid-in capital	18,893	5,480	229,864
Retained earnings (Accumulated deficit)	6,491	(428)	78,975
Treasury stock, at cost	(4,253)	(4,251)	(51,743)
Accumulated other comprehensive income:			
Net unrealized gains (losses) on other securities (Note 5)	96	(39)	1,166
Land revaluation difference	(449)	(449)	(5,461)
Foreign currency translation adjustments	(75)	(43)	(911)
Minority interest in subsidiaries	1,920	1,845	23,367
Total net assets	32,623	25,528	396,926
Commitments and contingent liabilities (Note 19)			
Total liabilities and net assets	¥197,759	¥176,628	$2,406,115

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Net sales	¥378,574	¥341,388	$4,606,085
Cost of sales (Note 16)	290,592	260,755	3,535,613
Gross profit	87,982	80,633	1,070,472
Selling, general and administrative expenses (Notes 16 and 18):			
Salaries and wages	37,282	35,955	453,610
Advertising	8,949	8,782	108,880
Sales promotion	6,622	5,404	80,569
Addition to allowance for claim expenses	1,558	1,184	18,956
Provision for accrued bonuses	3,492	3,074	42,486
Depreciation expenses	2,889	2,955	35,155
Other selling expenses	4,015	3,842	48,854
Other general and administrative expenses	11,199	10,713	136,247
Total selling, general and administrative expenses	76,006	71,909	924,757
Operating income	11,976	8,724	145,715
Non-operating income:			
Interest income	69	48	833
Income from commissions	337	370	4,101
Insurance dividend	199	149	2,423
Other	637	727	7,750
Total non-operating income	1,242	1,294	15,107
Non-operating expenses:			
Interest expenses	1,163	1,375	14,148
Pension and severance costs	352	374	4,281
Commission for syndicate loan	264	145	3,210
Stock issuance cost	388	-	4,723
Other	150	248	1,834
Total non-operating expenses	2,317	2,142	28,196
Ordinary income	10,901	7,876	132,626
Other gains (“TOKUBETSU RIEKI”):			
Gain on sales of property, plant and equipment (Note 12)	19	7	234
Gain on sales of investment securities	0	33	0
Reversal of negative goodwill	-	328	-
Reversal of allowance for doubtful accounts	-	44	-
Settlement received	1,200	-	14,600
Other	62	98	755
Total other gains	1,281	510	15,589
Other losses (“TOKUBETSU SONSHITSU”):			
Retirement benefit expenses	-	749	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	628	-
Loss on disaster	-	410	-
Loss on disposal of property, plant and equipment (Note 13)	184	213	2,245
Impairment loss on long-lived assets (Note 8)	520	2,323	6,326
Loss on sales of investment securities	-	12	-
Loss on devaluation of investment securities	249	27	3,024
Other	82	147	999
Total other losses	1,035	4,509	12,594

Income before income taxes and minority interest	11,147	3,877	135,621
Income taxes (Note 15):			
Current	1,354	1,248	16,475
Deferred	2,790	(525)	33,945
	4,144	723	50,420
Income before minority interest	7,003	3,154	85,201
Minority interest in subsidiaries	84	21	1,015
Net income	¥6,919	¥3,133	$84,186

	Yen		U.S. dollars (Note 4)
Per share:			
Net income (Note 14)− Basic	¥180.95	¥84.60	$2.20
− Diluted	¥118.99	¥25.84	$1.45

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Income before minority interest	¥7,003	¥3,154	$85,201
Other comprehensive income (Note 21):			
Net unrealized gain (loss) on other securities	155	(70)	1,892
Foreign currency translation adjustments	(50)	(62)	(605)
Total other comprehensive income (loss)	105	(132)	1,287
Comprehensive income	¥7,108	¥3,022	$86,488
Total comprehensive income attributable to :			
Shareholders of MISAWA HOMES CO., LTD.	¥7,021	¥3,021	$85,429
Minority interest	87	1	1,059

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Number of shares issued		Millions of yen								
			Shareholders' equity				Accumulated other comprehensive income				
	Common stock	Preferred stock	Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net unrealized gains (losses) on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	Total net assets
Balance at March 31, 2010	38,738,914	7,833,261	¥23,413	¥5,480	(¥6,027)	(¥4,250)	¥31	¥2,017	(¥1)	¥2,798	¥23,461
Net income	-	-	-	-	3,133	-	-	-	-	-	3,133
Reversal of land revaluation difference	-	-	-	-	2,466	-	-	-	-	-	2,466
Purchase of treasury stock	-	-	-	-	-	(1)	-	-	-	-	(1)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	(70)	(2,466)	(42)	(953)	(3,531)
Balance at March 31, 2011	38,738,914	7,833,261	¥23,413	¥5,480	(¥428)	(¥4,251)	(¥39)	(¥449)	(¥43)	¥1,845	¥25,528
Issuance of preferred stock	-	145	7,250	7,250	-	-	-	-	-	-	14,500
Transfer to additional paid-in capital from capital stock	-	-	(20,663)	20,663	-	-	-	-	-	-	-
Purchase of preferred stock	-	-	-	-	-	(14,500)	-	-	-	-	(14,500)
Retirement of preferred stock	-	(7,833,261)	-	(14,500)	-	14,500	-	-	-	-	-
Net income	-	-	-	-	6,919	-	-	-	-	-	6,919
Purchase of treasury stock	-	-	-	-	-	(2)	-	-	-	-	(2)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	135	-	(32)	75	178
Balance at March 31, 2012	38,738,914	145	¥10,000	¥18,893	¥6,491	(¥4,253)	¥96	(¥449)	(¥75)	¥1,920	¥32,623

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

	Thousands of U.S. dollars (Note 4)								
	Shareholders' equity				Accumulated other comprehensive income				
	Capital stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Net unrealized gains (losses) on other securities	Land revaluation difference	Foreign currency translation adjustments	Minority interest in subsidiaries	Total net assets
Balance at March 31, 2011	$284,864	$66,670	($5,211)	($51,727)	($469)	($5,461)	($519)	$22,450	$310,597
Issuance of preferred stock	88,210	88,210	-	-	-	-	-	-	176,420
Transfer to additional paid-in capital from capital stock	(251,405)	251,405	-	-	-	-	-	-	-
Purchase of preferred stock	-	-	-	(176,421)	-	-	-	-	(176,421)
Retirement of preferred stock	-	(176,421)	-	176,421	-	-	-	-	-
Net income	-	-	84,186	-	-	-	-	-	84,186
Purchase of treasury stock	-	-	-	(16)	-	-	-	-	(16)
Net changes in items other than those in shareholders' equity	-	-	-	-	1,635	-	(392)	917	2,160
Balance at March 31, 2012	$121,669	$229,864	$78,975	($51,743)	$1,166	($5,461)	($911)	$23,367	$396,926

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interest	¥11,147	¥3,877	$135,621
Adjustments for:			
Depreciation and amortization	4,627	4,263	56,292
Amortization and write-off of goodwill	193	179	2,345
Reversal of negative goodwill	-	(328)	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	628	-
Decrease in allowance for doubtful accounts	(632)	(218)	(7,693)
Increase (decrease) in other allowances	887	(526)	10,787
Interest and dividend income	(105)	(92)	(1,272)
Interest expenses	1,163	1,375	14,148
Gain on sales of investment securities	(0)	(20)	(0)
Impairment loss on long-lived assets	520	2,323	6,326
Loss on sales and disposal of property, plant and equipment	165	207	2,011
Increase in notes and accounts receivable, trade	(7,181)	(170)	(87,374)
Increase in inventories	(4,014)	(1,452)	(48,840)
Increase (decrease) in notes and accounts payable, trade	9,894	(3,731)	120,383
Increase in advances received on uncompleted contracts	164	5,697	2,006
Other	4,918	(1,279)	59,837
Subtotal	21,746	10,733	264,577
Interest and dividends received	133	46	1,627
Interest paid	(1,127)	(1,424)	(13,712)
Income taxes paid	(1,479)	(756)	(17,990)
Net cash provided by operating activities	19,273	8,599	234,502
Cash flows from investing activities:			
Decrease of time deposits with maturity over three months	27	36	326
Purchases of property, plant, equipment and intangible assets	(5,251)	(3,141)	(63,884)
Proceeds from sales of property, plant, equipment and intangible assets	221	134	2,685
Purchases of investment securities	(30)	(1)	(365)
Proceeds from sales of investment securities	-	120	-
Purchases of investments in subsidiaries	(0)	(2,770)	(5)
Other	(348)	(492)	(4,223)
Net cash used in investing activities	(5,381)	(6,114)	(65,466)
Cash flows from financing activities:			
Decrease in short-term bank loans	(2,129)	(1,718)	(25,899)
Proceeds from long-term debt	21,452	5,670	261,002
Repayments of long-term debt	(21,198)	(11,224)	(257,916)
Proceeds from issuance of bonds	-	384	-
Redemption of bonds	(68)	(34)	(827)
Cash dividends paid to minority interest	(16)	(17)	(198)
Proceeds from issuance of preferred stock	14,112	-	171,697
Payments for purchase of treasury stock	(14,501)	(2)	(176,437)
Other	(109)	(345)	(1,316)
Net cash used in financing activities	(2,457)	(7,286)	(29,894)

Effect of exchange rate changes on cash and cash equivalents	(4)	(16)	(53)
Net increase (decrease) in cash and cash equivalents	11,431	(4,817)	139,089
Cash and cash equivalents at the beginning of the year	36,593	41,410	445,218
Cash and cash equivalents at the end of the year (Note 17)	¥48,024	¥36,593	$584,307

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 generally accepted accounting principles in Japan.
The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively "Misawa Homes") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.
The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in Japan, but which is provided herein as additional information. However, none of the reclassifications or rearrangements has a material effect on the financial statements.

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and those of its subsidiaries that are controlled by the Company. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent company in accordance with Japanese accounting standards. All significant inter-company transactions and balance and unrealized inter-company profits are eliminated in consolidation.
Investments in affiliates in which Misawa Homes has significant influence are accounted for using the equity method. Consolidated income includes Misawa Homes' current equity in net income or loss of affiliates after elimination of unrealized inter-company profits.
As of March 31, 2012 and 2011, the numbers of consolidated subsidiaries were 46 and 47, respectively. There were no subsidiaries and affiliates accounted for by the equity method as of March 31, 2012 and 2011. The financial statements of Misawa Homes of Linyi Ltd.(China) are consolidated by using its financial statements as of the parent fiscal year end solely for consolidation purposes.
The excess of the cost over the underlying net equity of investments in subsidiaries is recognized as "goodwill" included in the intangible assets account 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 little risk of fluctuation in value.

(3) Investment securities

Investment securities are classified into three categories in accordance with accounting principles generally accepted in Japan: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities. These categories are treated differently for purposes of measuring and accounting for changes in fair value.
Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income.
Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Cost of these other securities sold is determined by the moving average method and unrealized gains and losses are reported as a separate component of net assets, net of taxes. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving average cost method. Other than temporary declines in the value of other securities are reflected in current income.

(4) Allowance for doubtful accounts

To provide for losses from on receivable accounts, the allowance is provided according to the actual rate of non-recovery for ordinary claims and in view of the probability of recovery for specific doubtful receivables.

(5) Inventories

Merchandise and finished goods, work in process and raw materials and supplies are stated at cost, which is primarily determined using the weighted average cost method, and are written down based on their decrease in profitability. Land and housing for sale and cost of uncompleted contracts are stated at cost, which is determined by the specific identification method, and are written down based on their decrease in profitability.

The write-downs of inventories recognized as an expense and included in cost of sales for the years ended March 31, 2012 and 2011 were ¥3,610 million ($43,925 thousand) and ¥2,343 million, respectively.

(6) Property, plant and equipment (Excluding leased assets)

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

(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

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 had been recorded in the past as reserve for directors and corporate auditors' retirement benefits at the required amount at the end of the fiscal year, based on internally established standards.

(11) Allowance for claim expenses

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

(12) Foreign currency translation and transactions

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting transaction gains or losses are taken into income currently.
All the assets and liabilities and all the income and expense accounts of foreign subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign currency financial statement translation differences are recorded in the consolidated balance sheets as foreign currency translation adjustments and minority interest in subsidiaries in net assets.

(13) Income taxes

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

(14) Research and development costs

Research and development costs are expensed as incurred.

(15) Stock issuance cost

Stock issuance cost is expensed as incurred.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentations for the year ended March 31, 2012.

(21) Recognition of revenues and costs on construction contracts

The percentage-of-completion method is applied for construction contracts for which the outcome of the construction in progress as of the balance sheet date is deemed certain, except for short-term construction contracts. The completed-contract method is applied to other construction contracts.

(22) Consumption taxes

Transactions subjected to consumption taxes are recorded at amounts exclusive of consumption taxes.

3. Additional information:

Accounting changes and error corrections

Effective from the fiscal year ended March 31, 2012, the Company has adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, dated December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, dated December 4, 2009).

4. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥82.19= U.S. $1, the rate of exchange prevailing on March 31, 2012, has been used.

5. Investment securities:

Misawa Homes' management classified all investment securities as other securities at March 31, 2012 and 2011. Net unrealized gains of ¥96 million ($1,166 thousand) and net unrealized losses of ¥39 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2012 and 2011, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥110 million ($1,345 thousand) and ¥194 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2012 and 2011, respectively.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2012 and 2011, were as follows:

	Millions of yen			
	March 31, 2012			
	Acquisition cost	Gross unrealized Gains	Gross unrealized Losses	Market value (carrying value)
Equity securities	¥1,415	¥310	(¥130)	¥1,595
Debt securities	1,760	36	(1)	1,795
Other	11	1	(3)	9
Total	¥3,186	¥347	(¥134)	¥3,399

	Millions of yen			
	March 31, 2011			
	Acquisition cost	Gross unrealized Gains	Gross unrealized Losses	Market value (carrying value)
Equity securities	¥1,574	¥520	(¥386)	¥1,708
Debt securities	1,234	10	(3)	1,241
Other	11	0	(3)	8
Total	¥2,819	¥530	(¥392)	¥2,957

	Thousands of U.S. dollars (Note 4)			
	March 31, 2012			
	Acquisition cost	Gross unrealized Gains	Gross unrealized Losses	Market value (carrying value)
Equity securities	$17,214	$3,778	($1,582)	$19,410
Debt securities	21,415	441	(14)	21,842
Other	132	6	(30)	108
Total	$38,761	$4,225	($1,626)	$41,360

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, 2012 and 2011, the carrying values of these unlisted securities were ¥549 million ($6,680 thousand) and ¥609 million, respectively. Proceeds from sales of other securities for the years ended March 31, 2012 and 2011, were ¥5 million ($61 thousand) and ¥120 million, respectively. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥0 million ($0 thousand) and nil, respectively, for the year ended March 31, 2012 and ¥33 million and ¥10 million, respectively, for the year ended March 31, 2011.

Impairment losses of other securities for the years ended March 31, 2012 and 2011 were ¥249 million ($3,024 thousand) and ¥27 million, respectively. Impairment losses are recorded for securities whose fair value has declined by more than 50% or for those which have declined from 30% to 50% if the decline is deemed to be irrecoverable.

6. Financial instruments:

(1) Policy for financial instruments

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

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

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

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

Short-term bank loans are mainly used for the working capital and for the purchase of land and housing for sale.

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

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

As well as the fair values based on market prices, the fair values of financial instruments include reasonably estimated amounts in case there are no quoted market prices available. As the estimation of those fair values relies on certain assumptions, different assumptions and factors could result in different fair values. Also, the notional amount of derivative transactions described in Note 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, 2012 and 2011 are as follows:

	Millions of yen		
	March 31, 2012		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥48,452	¥48,452	¥–
Notes and accounts receivable, trade	13,564	13,564	–
Investment securities	3,399	3,399	–
Total assets	¥65,415	¥65,415	¥–
Notes and accounts payable, trade	¥47,526	¥47,526	¥–
Short-term bank loans	17,642	17,642	–
Long-term debt (excluding bonds)	26,756	26,765	9
Total liabilities	¥91,924	¥91,933	¥ 9
Derivative transactions	–	–	–

	Millions of yen		
	March 31, 2011		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	¥37,097	¥37,097	¥–
Notes and accounts receivable, trade	6,387	6,387	–
Investment securities	2,957	2,957	–
Total assets	¥46,441	¥46,441	¥–
Notes and accounts payable, trade	¥37,634	¥37,634	¥–
Short-term bank loans	19,644	19,644	–
Long-term debt (excluding bonds)	26,359	26,091	(268)
Total liabilities	¥83,637	¥83,369	(¥268)
Derivative transactions	–	–	–

	Thousands of U.S. dollars (Note 4)		
	March 31, 2012		
	Carrying value	Estimated fair value	Difference
Cash and bank deposits	$589,510	$589,510	$–
Notes and accounts receivable, trade	165,026	165,026	–
Investment securities	41,360	41,360	–
Total assets	$795,896	$795,896	$–
Notes and accounts payable, trade	$578,246	$578,246	$–
Short-term bank loans	214,652	214,652	–
Long-term debt (excluding bonds)	325,533	325,649	116
Total liabilities	$1,118,431	$1,118,547	$116
Derivative transactions	–	–	–

Note 1: Unlisted securities of ¥549 million ($6,680 thousand) and ¥609 million whose fair value was extremely difficult to determine as of March 31, 2012 and 2011, respectively, were not included in the above tables.

Note 2: Valuation method to determine the estimated fair value of financial instruments and other matters related to transactions are as follows:

Cash and bank deposits, notes and accounts receivable, trade
The carrying value approximates fair value since these items are settled in a short period of time.

Investment securities
The fair value of equity securities is based on quoted market prices and that of bonds is based on either quoted market prices or prices provided by counterparty financial institutions. Marketable securities amounting to ¥1 million ($14 thousand) are included in other current assets as part of current assets as of March 31, 2012 and 2011. Government bonds used for deposits amounting to ¥1,795 million ($21,842 thousand) and ¥1,241 million are included in other of investments and other assets as of March 31, 2012 and 2011, respectively.

Notes and accounts payable, trade, and short-term bank loans
The carrying value approximates fair value since these items are settled in a short period of time.

Long-term debt
The fair value is based on the net present value of the total of the principal and interest discounted by the interest rate to be applied if similar new loans were entered into. Long-term floating rate loans are accounted for by the special treatment. Please refer to the Note 7. Derivative instruments. The fair value is based on the total amount of the principal and interest processed as an interest rate swap discounted by the interest rate if

similar new loans were entered into. Long-term debt due within one-year amounting to ¥9,370 million ($114,004 thousand) and ¥18,190 million is included in long-term debt in the above table as of March 31, 2012 and 2011, 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, 2012 and 2011 is as follows:

	Millions of yen			
	March 31, 2012			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥47,921	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	13,564	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	152	335	1,220	43
Total	¥61,637	¥335	¥1,220	¥43

	Millions of yen			
	March 31, 2011			
	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	¥36,891	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	6,387	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	–	286	946	–
Total	¥43,278	¥286	¥946	¥ –

	Thousands of U.S. dollars (Note 4)			
	March 31, 2012			
	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	$583,056	$ –	$ –	$ –
Notes and accounts receivable, trade	165,026	–	–	–
Investment securities				
Other securities with maturities				
Government bonds	1,852	4,079	14,844	523
Total	$749,934	$4,079	$14,844	$523

7. Derivative instruments:

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

Material derivative transactions for which hedge accounting is applied at March 31, 2012 and 2011 were as follows:

		Millions of yen			Thousands of U.S. dollars (Note 4)		
		March 31, 2012			March 31, 2012		
	Hedged item	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	¥1,770	¥1,060	Note	$21,535	$12,897	Note

	Hedged item	Millions of yen March 31, 2011 Notional amount	Maturing after one year	Fair value
Interest rate related transaction				
Deferral method				
Interest rate swap agreement				
Receive floating/ Pay fix	Long-term debt	¥1,800	¥1,620	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 are immaterial at March 31, 2012 and 2011.

8. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2012 and 2011 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
Applicable assets	2012	2011	2012
Buildings and structures	¥419	¥484	$5,095
Machinery and equipment	3	599	34
Land	42	1,159	513
Leased assets	3	27	32
Other	53	54	652
Total	¥520	¥2,323	$6,326

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

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

The recoverable amount of each group of assets 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 years ended March 31, 2012 and 2011.

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

Short-term bank loans at March 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2012	2011	2012
Loans, principally from banks, with weighted-average interest rates of 1.9% at March 31, 2012 and 2.3% at March 31, 2011	¥17,642	¥19,644	$214,652

Long-term debt at March 31, 2012 and 2011 was composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2012	2011	2012
Loans, principally from banks and insurance companies, due 2013 to 2021 with weighted-average interest rates of 1.9% at March 31, 2012 and 2.2% at March 31, 2011	¥26,756	¥26,359	$325,533
Unsecured 2.15% bonds, due 2012	200	200	2,433
Unsecured 0.85% bonds, due 2012	200	200	2,433
Unsecured 0.9% bonds, due 2013	200	200	2,433
Unsecured semiannual TIBOR+0.15% bonds, due 2013	98	166	1,193
Unsecured 0.82% bonds, due 2014	200	200	2,434
	27,654	27,325	336,459
Less portion due within one year	(10,038)	(18,259)	(122,131)
	¥17,616	¥9,066	$214,328

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2013	¥10,038	$122,131
2014	6,416	78,057
2015	8,771	106,717
2016	1,869	22,739
2017	392	4,775
Thereafter	168	2,040
Total	¥27,654	$336,459

Assets pledged as collateral for secured loans and debt at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
Pledged assets	2012	2011	2012
Cash and bank deposits	¥60	¥154	$730
Land and housing for sale	4,651	4,260	56,587
Cost of uncompleted contracts	2,670	2,430	32,493
Other current assets	-	3	-
Buildings and structures	1,887	2,961	22,963
Machinery and equipment	311	624	3,783
Land	6,540	10,240	79,571
Other fixed assets	3	3	33
Other intangible assets	1	-	10
Investment securities	92	87	1,121
Total	¥16,215	¥20,762	$197,291

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
Secured loans and debt	2012	2011	2012
Short-term bank loans	¥15,232	¥16,056	$185,327
Long-term debt	4,194	7,152	51,023
Total	¥19,426	¥23,208	$236,350

10. Pension and severance costs:

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

The Company abolished its tax-qualified pension plan and newly established a defined benefit corporate retirement plan on July 1, 2010.

The funded status of retirement benefit obligations at March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2012	2011	2012
Projected benefit obligation	¥(26,481)	¥(25,274)	$(322,199)
Plan assets at fair value	17,804	15,810	216,625
Unfunded status	(8,677)	(9,464)	(105,574)
Unrecognized items:			
Net retirement benefit obligation at transition	1,065	1,420	12,959
Actuarial losses	2,363	2,796	28,748
Prior service cost reduction due to plan amendment	(39)	(131)	(474)
Accrued pension and severance costs - net	(5,288)	(5,379)	(64,341)
Prepaid pension cost	211	14	2,561
Accrued pension and severance costs	¥ (5,499)	¥ (5,393)	$(66,902)

The composition of net pension and severance costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Service cost	¥2,110	¥2,153	$25,670
Interest cost	387	378	4,707
Expected return on plan assets	(173)	(169)	(2,104)
Amortization and expenses:			
Prior service costs	(122)	(89)	(1,484)
Actuarial losses	709	618	8,631
(Gain) loss related to transfer from simplified method	(14)	187	(174)
Net retirement benefit obligation at transition	355	374	4,321
Retirement benefit expenses due to dissolution of a subsidiary	-	749	-
Total	¥3,252	¥4,201	$39,567

The following are included in "Retirement benefit expenses" recorded in Other losses ("TOKUBETSU SONSHITSU") for the year ended March 31, 2011:

	Millions of yen
	Year ended March 31, 2011
Unrecognized difference on change of retirement benefit scheme due to dissolution of a subsidiary	¥158
Unrecognized prior service cost	(30)
Unrecognized actuarial losses	621
	¥749

The assumptions used for the actuarial computation of the retirement benefit obligations and fair value of plan assets for the years ended March 31, 2012 and 2011 were as follows:

	Years ended March 31	
	2012	2011
Discount rate	Mainly 1.5%	Mainly 1.5%
Long-term rate of return on plan assets	0.0-3.8%	0.0-3.7%

11. Shareholders' equity:

(1) Issuance of preferred stock

The Company resolved to issue preferred stock through a third-party allotment at the Board of Directors' meeting held on December 13, 2011. Also, changes in the Articles of Incorporation of the Company for the issuance of preferred stock and the issuance of preferred stock through a third-party allotment were resolved at the extraordinary general shareholders' meeting held on February 21, 2012. Class D preferred stock was issued to purchase all of existing preferred stocks. The aggregate proceeds from issuing Class D preferred stock were ¥14,500 million ($176,420 thousand), and all of net payment received was appropriated for the purchase of existing preferred stocks.

Overview of issuance of Class D preferred stock

Date of issuance	March 27, 2012	
Number of shares issued	145 shares	
Issue price	¥100 million ($1,217 thousand) per share	
Total proceeds	¥14,050 million ($170,945 thousand) (estimated net payment received after subtracting issuance costs)	
Initial conversion price	¥641 ($7.80)	
Preferred dividends	Rate	6.5% per annum
	Amount	¥7 million ($79 thousand) per share (*1)
Method of issuance (allottee)	Third-party allotment; all shares will be allotted to Development Bank of Japan Inc.	
Aggregate number of shares outstanding before issuance	Common stock	38,738,914 shares
	Class B-3	333,328 shares
	Class B-4	4,166,600 shares
	Class C	3,333,333 shares
Aggregate number of shares outstanding after issuance	Common stock	38,738,914 shares
	Class B-3	0 shares (*2)
	Class B-4	0 shares (*2)
	Class C	0 shares (*2)
	Class D	145 shares

(*1): ¥2 million ($18 thousand) per share for dividends for which the record date is March 31, 2012.

(*2): The Company purchased and retired existing preferred stocks as treasury stock on March 27, 2012, the date of issuance of Class D preferred stock. The figures are number of shares after the purchase and the retirement.

(2) Decrease in capital stock and legal capital surplus

a. Purpose of partial decrease in the amounts of capital stock and legal capital surplus

To obtain necessary funds for the purchase of existing preferred stocks by decreasing the amounts of capital stock and legal capital surplus and then transferring to other capital surplus in accordance with the Companies Act of Japan, and to ensure stable and sustainable growth of the Company’s business and to improve the shareholder value attributable to common shareholders through these series of transactions.

b. Overview of partial decrease in the amounts of capital stock and legal capital surplus

- Amount of decrease in capital stock: ¥20,663 million ($251,405 thousand)

The above amount consists of ¥7,250 million ($88,210 thousand), which is equivalent to the amount of the increase in capital stock through the issuance of Class D preferred stock and ¥13,413 million ($163,195 thousand) .

The amount of capital stock after the date of issuance decrease by ¥13,413 million ($163,195 thousand) compared with the amount of capital stock before the issuance since capital stock increased by ¥7,250 million ($88,210 thousand) through proceeds from issuance of Class D preferred stock.

- Amount of legal capital surplus to decrease: ¥12,730 million ($154,879 thousand)

The above amount consists of ¥7,250 million ($88,210 thousand), which is equivalent to the amount of the increase in legal capital surplus through the issuance of Class D of preferred stock and ¥5,480 million ($66,669 thousand).

The amount of legal capital surplus after the date of issuance decreased by ¥5,480 million ($66,669 thousand) compared with the amount of legal capital surplus before the issuance since legal capital surplus increased by

¥7,250 million ($88,210 thousand) through proceeds from issuance of Class D preferred stock.

- Method of capital stock and legal capital surplus appropriation
The Company decreased the amount ofcapital stock and legal capital surplus in accordance with article 447, paragraph 1 and article 448, paragraph 1 of the Companies Act of Japan, and transferred the respective amounts to other capital surplus.

- Effective date of decrease in capital stock
March 27, 2012

The Company's retained earnings consist of unappropriated retained earnings and legal reserves required by the Companies Act 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 Companies Act 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 Companies Act 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 Companies Act of Japan and the Company's Articles of Incorporation.
There were 1,704,457 shares and 1,702,136 shares of treasury stock at March 31, 2012 and 2011, respectively.

(3) Dividends with the cut-off date in the year ended March 31, 2012 and the effective date in the year ending March 31, 2013

Resolution	Type of shares	Total dividend (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 28, 2012	Common Stock	¥370	$4,506	Retained earnings	¥10	$0.12	March 31, 2012	June 29, 2012
Annual general meeting of the shareholders on June 28, 2012	Class D preferred stock	¥217	$2,646	Retained earnings	¥1,500,000	$18,250.40	March 31, 2012	June 29, 2012

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, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Buildings and structures	¥6	¥2	$79
Machinery and equipment	3	3	36
Land	10	1	119
Other	0	1	0
Total	¥19	¥7	$234

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, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Buildings and structures	¥172	¥97	$2,099
Machinery and equipment	3	8	34
Land	-	1	-
Other	9	107	112
Total	¥184	¥213	$2,245

14. Net income per share:

Calculation of net income per share for the years ended March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31,
	2012	2011	2012
Basic EPS–Net income attributable to common shares	¥6,702	¥3,133	$81,539
Effect of dilutive securities–Preferred stock	217	–	2,647
Diluted EPS–Net income for computation	¥6,919	¥3,133	$84,186
Weighted average number of common shares outstanding:			
-Basic	37,035,748	37,038,469	
-Diluted	58,148,153	121,252,748	

	Yen		U.S. dollars (Note 4)
Net income per share:			
-Basic	¥180.95	¥84.60	$2.20
-Diluted	¥118.99	¥25.84	$1.45

15. Income taxes:

Misawa Homes is subject to several types of income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.7% for the years ended March 31, 2012 and 2011.

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen March 31		Thousands of U.S. dollars (Note 4) March 31,
	2012	2011	2012
Deferred tax assets:			
Tax loss carry forwards	¥47,476	¥115,987	$577,640
Devaluation of inventories	2,757	2,757	33,548
Accrued bonuses	2,073	1,960	25,220
Accrued pension and severance costs	2,032	2,200	24,722
Allowance for doubtful accounts	1,911	2,001	23,246
Others	4,400	5,145	53,533
Gross deferred tax assets	60,649	130,050	737,909
Less: valuation allowance	(54,677)	(121,294)	(665,248)
Total deferred tax assets	5,972	8,756	72,661
Deferred tax liabilities:			
Expense related to asset retirement obligations	(128)	(218)	(1,556)
Net unrealized gains on other securities	(110)	(194)	(1,345)
Prepaid pension cost	(66)	(6)	(799)
Others	(48)	(9)	(587)
Gross deferred tax liabilities	(352)	(427)	(4,287)
Net deferred tax assets	¥5,620	¥8,329	$68,374

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

The total valuation allowance for the years ended March 31, 2012 and 2011 decreased by ¥66,617 million ($810,525 thousand) and increased by ¥4,340 million, respectively.

The differences between Misawa Homes' statutory income tax rate and the effective income tax rates reflected in the consolidated statements of income for the years ended March 31, 2012 and 2011 were reconciled as follows:

	Years ended March 31	
	2012	2011
Statutory income tax rate	40.7%	40.7%
Reconciliation:		
Changes in valuation allowance	(13.1)	(31.5)
Entertainment expenses, etc. permanently non-tax deductible	2.4	4.0
Per capita inhabitants tax	1.7	5.6
Consolidation adjustment	1.7	(0.4)
Others	0.1	0.2
Effect of change in income tax rate	3.7	-
Effective income tax rates	37.2%	18.6%

Following the promulgation of the “Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114, 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117, 2011) on December 2, 2011, the statutory income tax rates used to calculate deferred tax assets and liabilities will be changed from 40.7% to 38.0% for temporary differences expected to reverse in the years beginning from April 1, 2012 to April 1, 2014, and to 35.6% for temporary differences expected to reverse in the years beginning from April 1, 2015 and thereafter.

As a result of this change, deferred tax assets, net of deferred tax liabilities, decreased by ¥413 million ($5,024 thousand), income taxes – deferred and net unrealized gains (losses) on other securities increased by ¥413 million ($5,024 thousand) and ¥16 million ($190 thousand), respectively, as of and for the year ended March 31, 2012.

16. Research and development costs:

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥2,443 million ($29,719 thousand) and ¥2,476 million for the years ended March 31, 2012 and 2011, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2012	2011	2012
Cash and bank deposits	¥48,452	¥37,097	$589,510
Less:			
Time deposits due over three months	(428)	(504)	(5,203)
Cash and cash equivalents	¥48,024	¥36,593	$584,307

18. Leases:

A consolidated subsidiary leases groups of assets which are recorded in “Buildings and structures” as part of property, plant and equipment on the accompanying consolidated balance sheets as of March 31, 2012 and 2011.

As described in Note 2. (17) 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, 2012 and 2011 amounted to ¥422 million ($5,130 thousand) and ¥1,275 million, respectively.

If the finance lease transactions entered into on or before March 31, 2008 that do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the finance lease assets at March 31, 2012 and 2011 would have been as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2012	2011	2012
Acquisition cost:			
Buildings and structures	¥951	¥3,115	$11,570
Machinery and equipment	36	91	432
Other property, plant and equipment	521	1,203	6,335
Other intangible assets	260	323	3,170
	1,768	4,732	21,507
Less:			
Accumulated depreciation	(1,578)	(4,133)	(19,202)
Net book value	¥190	¥599	$2,305

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, 2012 and 2011.

Depreciation expenses for these leased assets for the years ended March 31, 2012 and 2011, would have been ¥403 million ($4,897 thousand) and ¥1,085 million, respectively, if they were computed in accordance with the straight-line method over the contractual periods of these finance leases, assuming no residual value.

Interest expense for these finance leases for the years ended March 31, 2012 and 2011, would have been ¥10 million ($116 thousand) and ¥28 million, respectively.

Impairment loss for these finance leases for the years ended March 31, 2012 and 2011 were ¥3 million ($34 thousand) and ¥27 million, respectively.

Future lease payments for finance leases at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
Future lease payments	2012	2011	2012
Due within one year	¥157	¥432	$1,913
Due after one year	44	192	539
Total	¥201	¥624	$2,452

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
Future lease payments	2012	2011	2012
Due within one year	¥365	¥309	$4,440
Due after one year	6,335	3,661	77,082
Total	¥6,700	¥3,970	$81,522

19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2012 and 2011 were ¥34,616 million ($421,176 thousand) and ¥35,236 million, respectively.

20. Related party transactions:

Significant transactions with related parties for the years ended March 31, 2012 and 2011 were as follows:

(1) Significant transactions between the Company and related parties

(Transactions)

		Millions of yen		Thousands of U.S. dollars (Note 4)
		Years ended March 31		Year ended March 31,
Name of related party	Type of transaction	2012	2011	2012
Toyota Finance Corporation	Repayment of loans	¥2,200	¥-	$26,767
	Pledged assets	¥-	¥2,200	$-

(Balances)

		Millions of yen		Thousands of U.S. dollars (Note 4)
		March 31		March 31,
Name of related party	Account	2012	2011	2012
Toyota Finance Corporation	Short-term loans	¥ -	¥2,200	$ -

Toyota Finance Corporation is a company in which more than half of its voting rights are owned 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 Company and the amount of the transaction was the balance of the borrowings at March 31, 2011.

(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 2012	2011	Thousands of U.S. dollars (Note 4) Year ended March 31, 2012
Kazuo Hattori	Housing construction contract	¥21	¥ -	$261
Haruo Igarashi	Real estate sales contract	¥26	¥ -	$317
Masakatsu Takeda Rei Takeda	Housing construction contract	¥ -	¥24	$ -

There was no outstanding balance with Kazuo Hattori, Haruo Igarashi, Masakatsu Takeda and Rei Takeda as of March 31, 2012 and 2011.

Kazuo Hattori is a close relative of Kazuhiro Watanabe, a representative director of Misawa Homeing Co., Ltd. and the contract amount is determined based on transactions with third parties.

Haruo Igarashi is a close relative of Tatsuo Sugita, a representative director of Misawa Homes Niigata Co., Ltd. and the contract amount is determined based on transactions with third parties.

Masakatsu Takeda and Rei Takeda are close relatives of Masakazu Miyamori, a corporate auditor of the Company and the contract amount was determined based on the employee's house ownership discount policy.

21. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the year ended March 31, 2012 are as follows:

	Millions of yen Year ended March 31, 2012	Thousands of U.S. dollars (Note 4) Year ended March 31, 2012
Net unrealized gain (loss) on other securities		
Gains (losses) arising during the year	(¥83)	($1,011)
Reclassification adjustments for gains included in the income statement	158	1,927
Before income tax effect	75	916
Income tax effec	80	976
Total	155	1,892
Foreign currency translation adjustments		
Adjustments arising during the year	(50)	(605)
Total other comprehensive income	¥105	$1,287

22. 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						
	2012						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥179,524	¥19,633	¥30,831	¥7,852	¥54,508	¥86,226	¥378,574

	Millions of yen						
	2011						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	¥167,290	¥16,241	¥25,903	¥7,612	¥50,836	¥73,506	¥341,388

	Thousands of U.S. dollars (Note 4)						
	2012						
	Custom -built houses	Leasing	Built for sale	Housing materials	Renovations	Other	Total
Sales to third parties	$2,184,254	$238,870	$375,124	$95,532	$663,199	$1,049,106	$4,606,085

(3) Geographical segments

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

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

(4) Information by major customers

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

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

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

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

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

Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

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, 2012, 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, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

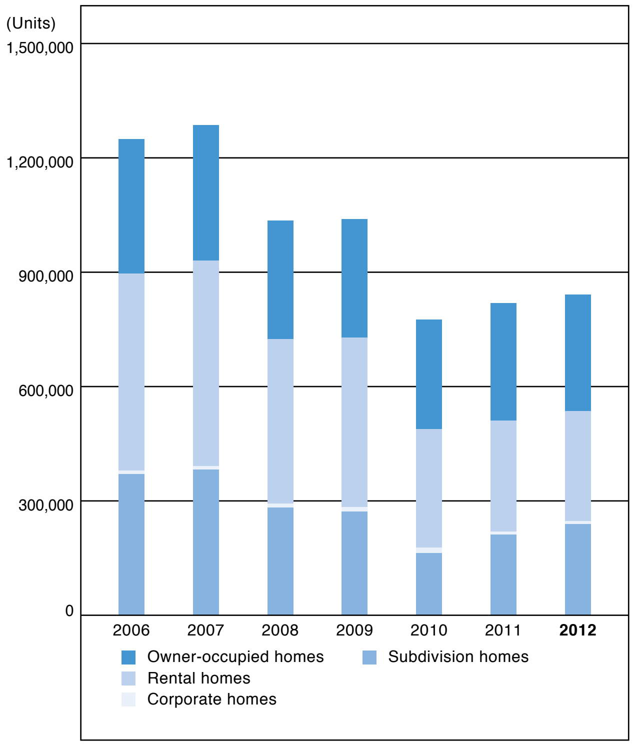
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

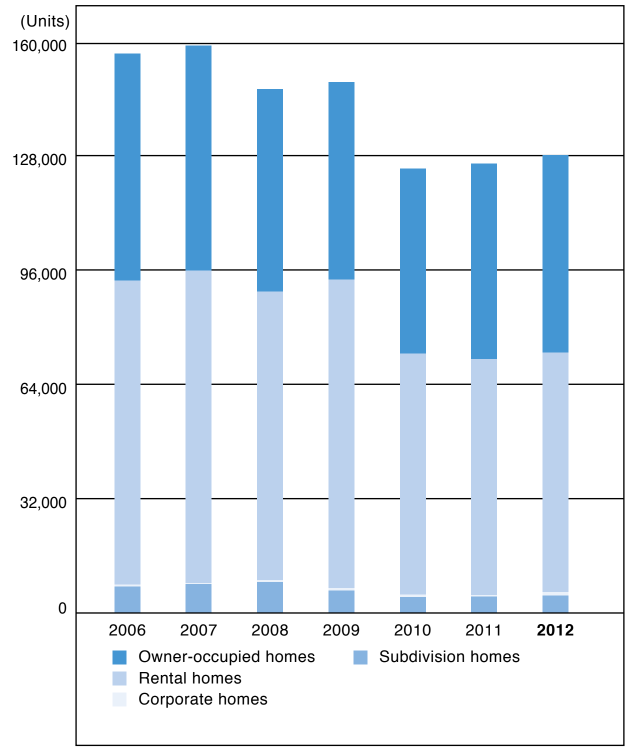
June 28, 2012
Tokyo, Japan

Trends in the Housing Market in Japan

Housing Starts in Japan



Prefabricated Housing Starts in Japan



Housing Starts in Japan

(Units, %)

Fiscal year ended March 31	2006	2007	2008	2009	2010	2011	**2012**
Owner-occupied homes	352,577	355,700	311,800	310,670	286,993	308,517	304,822
Rental homes	517,999	537,943	430,855	444,848	311,463	291,840	289,762
Corporate homes	8,515	9,100	10,311	11,089	13,231	6,580	7,576
Subdivision homes	370,275	382,503	282,632	272,607	163,590	212,083	239,086
Total	1,249,366	1,285,246	1,035,598	1,039,214	775,277	819,020	841,246

Prefabricated Housing Starts in Japan

(Units, %)

Fiscal year ended March 31	2006	2007	2008	2009	2010	2011	**2012**
Owner-occupied homes	63,586	63,725	56,724	55,317	51,819	54,715	55,396
Rental homes	85,110	87,370	80,662	86,253	67,415	65,952	66,994
Corporate homes	485	413	557	802	749	533	1,009
Subdivision homes	7,400	8,036	8,662	6,220	4,378	4,502	4,817
Total	156,581	159,544	146,605	148,592	124,361	125,702	128,216

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

Subsidiaries and Affiliated Company (As of March 31, 2012)

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	1,738	100.0	Construction and sales of prefabricated houses
Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	500	100.0	Construction and sales of prefabricated houses
Misawa Homes Nishikanto Co., Ltd.	Saitama, Saitama Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Higashikanto Co., Ltd.	Chiba, Chiba Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Tokyo Co., Ltd.	Suginami-ku, Tokyo	2,234	100.0	Construction and sales of prefabricated houses
Misawa Homes Niigata Co., Ltd.	Niigata, Niigata Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Koushin Co., Ltd.	Matsumoto, Nagano Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Shizuoka Co., Ltd.	Shizuoka, Shizuoka Prefecture	300	100.0	Construction and sales of prefabricated houses
Misawa Homes Tokai Co., Ltd.	Nagoya, Aichi Prefecture	450	100.0	Construction and sales of prefabricated houses
Misawa Homes Kinki Co., Ltd.	Osaka, Osaka Prefecture	800	100.0	Construction and sales of prefabricated houses
Misawa Homes Chugoku Co., Ltd.	Okayama, Okayama Prefecture	1,369	72.9 (5.6)	Construction and sales of prefabricated houses
Misawa Homes Shikoku Co., Ltd.	Takamatsu, Kagawa Prefecture	100	100.0	Construction and sales of prefabricated houses
Misawa Homes Kyushu Co., Ltd.	Fukuoka, Fukuoka Prefecture	1,451	100.0	Construction and sales of prefabricated houses
Misawa Homes Ceramics Co., Ltd.	Suginami-ku, Tokyo	100	100.0	Construction and sales of prefabricated houses
Misawa Homeing Co., Ltd.	Suginami-ku, Tokyo	800	100.0	Home renovation
Techno Factories and Construction Co., Ltd.	Suginami-ku, Tokyo	50	85.1 (30.0)	Manufacture of house materials
Misawa-Mrd Co., Ltd.	Shinjuku-ku, Tokyo	90	100.0	Real estate sales, brokerage, rental and management
Motherth Co., Ltd.	Shinjuku-ku, Tokyo	10	100.0	Fee-based operation of nursing homes and apartment housing complexes for seniors
28 others				
Affiliated company:				
Toyota Motor Corporation	Toyota, Aichi Prefecture	397,050	[29.3] [(29.3)]	

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, 2012)

Corporate Name:	Misawa Homes Co., Ltd.
Headquarters:	2-4-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0833, Japan
Established:	August 1, 2003
Paid-in Capital:	¥10,000 million

Directors, Executive Officers and Corporate Auditors
(As of June 28, 2012)

Directors

Teiji Tachibana*1
Nobuo Takenaka*2
Takeo Tokai
Toshitsugu Hirata
Shigeharu Wakatsuki
Hiroomi Tanaka
Sumio Yokota
Masahiro Nakagami
Yuji Goto

Corporate Auditors

Seiji Urita*3
Takahiro Kagawa*3
Yasuhiko Naruse
Shuzo Kameda

Executive Officers

Nobuo Takenaka*4
Takeo Tokai*5
Toshitsugu Hirata*5
Shigeharu Wakatsuki*6
Hiroomi Tanaka*6
Sumio Yokota*6
Tetsuya Sakuo*6
Hideki Shimonomura*6
Hiroshi Sakaguchi
Yoichiro Dokan
Kazuaki Uchida
Tetsuyuki Morita
Kengo Shoji
Hidehiko Hara
Kengo Uemura

***1. Chairman**
***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	149,999,855
Class D preferred stock	145

Total number of shares issued	38,739,059
Common stock	38,738,914
Class D preferred stock	145

Number of shareholders	
Common stock	18,126
Class D preferred stock	1

Note: The Development Bank of Japan (DBJ) holds shares of Class D preferred stock.

Major shareholders

		No. of shares	%
1	Toyota Housing Corporation	10,784,100	27.8
2	Aioi Nissay Dowa Insurance Co., Ltd	2,058,327	5.3
3	State Street Bank and Trust Company 505041	1,458,300	3.7
4	The Master Trust Bank of Japan, Ltd. (Trust A/C)	1,058,600	2.7
5	Japan Trustee Services Bank, Ltd. (Trust A/C)	920,500	2.3
6	State Street Bank and Trust Company 505019	805,300	2.0
7	The Chase Manhattan Bank NA London SL Omnibus Account	620,700	1.6
8	Nippon Life Insurance Company	609,053	1.5
9	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	559,912	1.4
10	Misawa Homes Group Employee Shareholders Association	355,040	0.9

Notes: Percentage sharaholding is calculated based on common shares issued.
Custodian of shareholders' register: Mitsubishi UFJ Trust and Banking Corporation
4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo

MISAWA