



Annual Report 2016
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Corporate Profile

Misawa Homes Co., Ltd. is the pillar of today's Misawa Homes Group, which has become a leading force in the development, manufacture and sale of homes. Established in 1967 with a pioneering wood panel adhesion system for prefabricated housing construction, the Company has consistently emphasized maintenance and improvement of asset value over the long term in the supply of quality homes—a position reflected in the corporate motto, "Life-long commitment to customers through housing."

Our core business is the sale of single-family and rental apartment homes, and we have supplied more than 1.2 million homes in total. In addition to our core housing business, we are committed to our housing-related businesses, such as remodeling, asset utilization and real estate brokerage services, that enhance our offerings to the market.

Misawa-brand homes are well-regarded for their innovative design features as well as technological excellence. Our reputation is validated by the fact that we have been a recipient of the Good Design Award from the Japan Institute of Design Promotion for 26 consecutive years.

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

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Cautionary Statement with Regard to Forward-Looking Statements

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



Prefabricated home SMART STYLE H

To Our Shareholders

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

Medium-term Management Plan

Housing starts are likely to decrease over the medium to long term, as Japan's population shrinks and the number of households declines. The Misawa Homes Group relies heavily on new home construction—a business area comprising more than 50 percent of net sales—so we, as a group, will have to pursue greater diversification of revenue sources to ensure sustainable growth.

Against this backdrop, we formulated a three-year medium-term management plan for the Group, with fiscal 2015 as the first year. The underlying strategy of this plan is to expand the scope of corporate activity beyond our core homebuilding operations to cover all aspects of people's varied and changing lifestyle needs and to facilitate business diversification through vigorous investment in stock-type business areas, particularly home remodeling, asset utilization and real estate brokerage services. Ultimately, our goal is to be able to deliver all kinds of housing-related solutions through the products and services of the Group.

Notable steps in fiscal 2016 included the integration of construction subsidiaries in April at three

home sales subsidiaries in the Tokyo metropolitan area and the subsequent establishment of a new company directly under our—Misawa Homes'—control. This move was made to enhance the flexibility of our construction system and reinforce associated capabilities. We also centralized real estate brokerage and rental property management services at a real estate company directly under our control and created a structure geared toward expanded and stronger real estate business in the Tokyo metropolitan area. In October 2015, we absorbed four home sales subsidiaries in the Tokyo metropolitan area and brought sales activities directly under our control, seeking to reinforce the sales structure and boost management efficiency. In April 2016, we targeted the sales activities of home sales subsidiaries in the Tokai area and brought those activities directly under our control. Going forward, we will promote similar structural reforms in other areas as well, to achieve greater management efficiency and quick decision-making.

The Misawa Homes Group will continue to develop high-value-added homes and technologies. We will, of course, strive to fulfill our social obligation

as a builder, by building sturdy homes that protect the lives of the people inside them when disasters such as earthquakes or fire occur. We will also direct concerted efforts into constructing homes that are safer, more secure and more comfortable, with particular weight given to creating disaster-ready communities with features that keep lifelines open in times of natural or man-made catastrophe and offset the impact of blackouts when commercial power supplies fail to match demand.

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

July 2016



Nobuo Takenaka
President and CEO



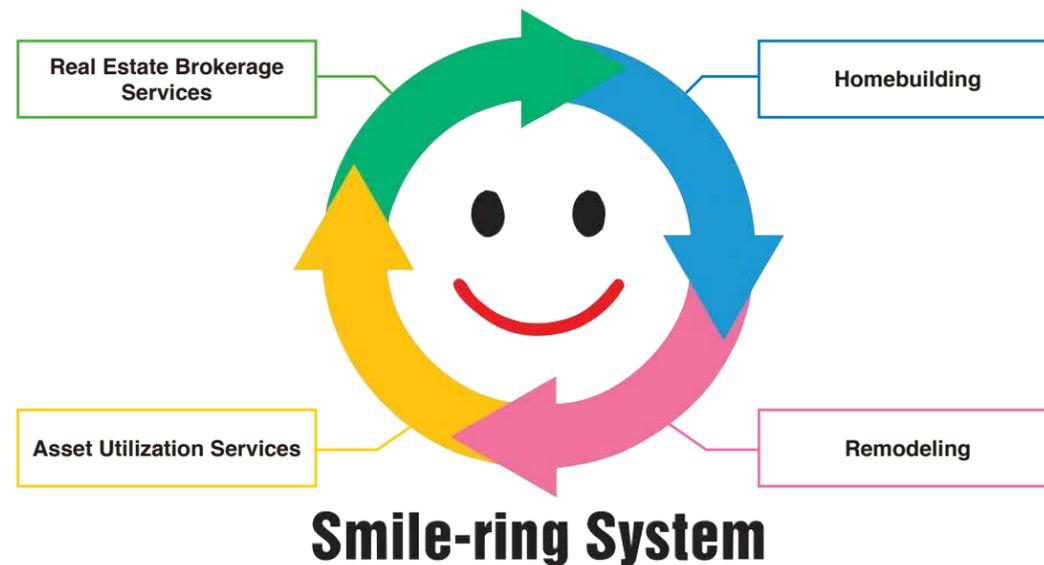
Aim of the Medium-term Management Plan

We seek to be a company that can deliver all kinds of housing-related solutions by adding asset utilization services to the Smile-ring System*, expanding corporate activities to cover all aspects of people's varied and changing lifestyle needs, and diversifying our business activities.

- Maintain number of units sold, despite shrinking market for houses, by raising Misawa Homes' share.
- Invest aggressively in stock-type businesses, such as home remodeling, asset utilization and real estate brokerage services.
- Get sales ratio for homebuilding business and stock-type businesses closer to 50:50 (at 52:48, as of March 31, 2016).
- Visualize profits and losses in each business segment and optimize allocation of management resources.

*Smile-ring System

The Misawa Homes Group structure of services is a circle, beginning with construction of new homes, moving through after-sales services and maintenance to remodeling, and then support for real estate-related activities, such as sales and property rental and management. We call this concept the Smile-ring System. Under the medium-term management plan, we will expand the system menu by adding asset utilization services and extending the range of business activities.



Medium-term Management Plan

The underlying theme of the new plan is “MISAWA do all.” It is our desire to achieve all that we have yet to achieve and to do all that we should do by the time we reach our 50th anniversary, in October 2017. To realize our objective, we have five tasks, or missions, to complete, which will transform our revenue structure.

- do all **Design** (Enhance product lineup)
- do all **Life Stage** (Reinforce stock-type services, such as home remodeling)
- do all **Area** (Enhance area presence and boost market share)
- do all **Correct** (Optimize Group structure)
- do all **Satisfaction** (Raise level of customer satisfaction)

- I do all Design** (Enhance product lineup)
Develop products in four specific solution categories (environment, disaster, healthcare and long-term use), and strive to enhance the product lineup, including a variety of construction methods.
- II do all Life Stage** (Reinforce stock-type services, such as home remodeling)
Position home remodeling, asset utilization and real estate brokerage services as stock-type businesses and reinforce associated operations.
- III do all Area** (Enhance area presence and boost market share)
Reinforce marketing and strive to boost share in areas where the Group must expand its presence, especially metropolitan regions.
- IV do all Correct** (Optimize Group structure)
Implement a thorough review of the Group structure so that activities can be better adapted to changes in the social environment and strive to cut costs while maintaining product quality by optimizing the allocation of management resources.
- V do all Satisfaction** (Raise level of customer satisfaction)
Achieve a higher level of satisfaction among all stakeholders (customers, employees, shareholders, business partners, society and, by extension, the environment) by pushing forward with CSR management and fulfilling our social responsibility as a company.

Business Summary for Fiscal 2016

Homebuilding

In fiscal 2016, with heightened interest in disaster prevention/impact-reducing solutions in Japan, we pursued development of technologies and equipment on the theme of safe and comfortable homes and home-living. We formulated our performance and design standard—MISAWA-Life Continuity Performance (MISAWA-LCP)—that supports efforts to prevent disasters and minimize impact on residents should a disaster occur, and in July, we completed GENIUS *kura-no-arui-ie* Disaster Prevention/Impact-Reducing Design, a concept house based on this standard. MISAWA-LCP is a three-resolution technology and living style approach covering daily preparedness, protection in times of emergency, and support until normal conditions are restored that helps prevent or at least reduce the severity of a disaster's impact on daily life. Also, we opened our first five-story heavy-gauge steel frame model home for the medium-rise housing market, targeting urban areas. In other activities, Misawa Homes Institute of Research and Development Co., Ltd., in cooperation with Kyocera Corporation, began verification tests on an “energy self-consumption house,” which prioritizes the use of renewable energy generated quite literally in-house. We will be looking at whether residents can continue to live comfortably in the house during unusual circumstances when only in-house produced power is available.

We also pursued the creation of environment-conscious homes. The Japanese government aims to make net zero energy housing (ZEH) design the standard for newly built homes by 2020. ZEH offsets energy consumption with energy generated by photovoltaic systems and other home-integrated renewable energy

systems. In April 2015, we made the installation of a photovoltaic power-generating system a standard feature of all homes in the SMART STYLE series, one of our main brands, underpinning efforts to promote the ZEH standard.

To capture a share of the post-and-beam construction market, which represents nearly 80 percent of Japan's newly built single-family homes, in 2009 we began sales of MJ Wood, a brand of conventional post-and-beam homes that is less expensive than our main prefabricated home series. Active interest in this brand has continued to grow, leading to sales of more than 1,000 units, largely thanks to the debut of new products and the establishment of Misawa MJ Home, a company that specializes in the sale of MJ Wood homes. Going forward, we will continue to reinforce our sales channels to continue boosting sales.

In the subdivision homes business, we are expanding residential community development operations, with a focus on areas where the Misawa Homes Group can maximize expertise. Our emphasis is on the Tokyo metropolitan area and the Kansai and Chukyo regions, centered on Osaka and Nagoya, respectively, which present considerable market scale. In fiscal 2016, we endeavored to create communities that offer higher asset value by providing homes that feature environment-conscious quality as well as safety and peace of mind. In cooperation with Tobishima Corporation, we undertook a ground reinforcement project at a subdivision in Chiba Prefecture to reduce the risk of soil liquefaction using an environment-friendly method of driving logs into the ground. This was the first time the method was applied to a large-scale housing subdivision in Japan.



GENIUS *kura-no-arui-ie* Disaster Prevention/Reduced-Impact Design

Remodeling

In fiscal 2016, aiming for further growth, we hired more sales representatives and enhanced sales training, opened a model home specifically targeting customers looking to remodel their homes in the Tokyo metropolitan area, and reinforced the business structure to accommodate increased order activity. In condominium remodeling, where greater demand is expected, we marketed Marm, a flat-rate condominium remodeling service that refurbishes everything except for the structure itself, and worked to boost orders through the addition of a new showroom in the Tokyo metropolitan area where we recreate remodeled units.

Remodeling demand is expanding across the country, and we are keen to provide products and services matched to diversifying needs. A perfect example is the residential conversion of a structure built 31 years ago for business use.

In other activities, we vigorously addressed demand for barrier-free remodeling to enhance living spaces to offer more comfort for seniors and tackled *ryokan* (Japanese inn) and hotel renovations.



A Marm featured showroom

Asset Utilization Services

Rental homes, condominium business

Amid brisk demand from property owners seeking to build rental homes as a way to deal with revisions to the inheritance tax system in Japan, effective January 2015, we debuted ALBIO MAISON, the first rental home product under the MJ Wood brand of post-and-beam homes, in July. We aimed to expand orders by offering a different

type of product geared toward single women and working mothers who balance parenting with their careers.

To broaden our business presence, in December 2015 we formed a four-way alliance with a bank, medical practice and government office in Chiba Prefecture and launched operations of a complex facility that provides access to medical treatment, senior care and daycare services all in one building.



ALBIO MAISON, first rental home under MJ Wood brand



Image of complex facility in Chiba Prefecture

Senior care services

Guided by our corporate motto “Lifelong commitment to customers through housing,” Misawa Homes and members of the Misawa Homes Group have been involved in senior care services for more than 20 years. In March 2016, we welcomed the completion of a retirement home with nursing care, marking the first nursing care facility operated by a joint venture with major leasing company Mitsubishi UFJ Lease & Finance Company Limited. Currently, members of the Misawa Homes Group are involved in the operation of more than 1,000 units of senior-oriented homes and care facilities across the country. Members of the Group are also engaged in activities aimed at enriching the content of nursing care services, which are becoming more important as society

ages. These activities include the start of joint research with Keio University School of Medicine and a social welfare organization on health and longevity of seniors.



Nursing care facility designed by Misawa Homes

Real Estate Brokerage Services

Demand for pre-owned homes and interest in remodeling is expected to grow in Japan, fueled by the government’s strategy to double the pre-owned home market as well as the remodeling market by 2025, based on 2013 levels, and thereby build an inventory of fine quality homes for these markets. Misawa Homes and other domestic homebuilders—10 in total—belong to the Provision of Quality Housing Stock Association, which evaluates existing fine quality homes based on certain appraisal criteria and certifies premium housing as SumStock. Under a SumStock assessment, we promote marketing of existing fine quality pre-owned homes by assessing the home’s strength (skeleton) and interior finishings/facilities independently for better accuracy of its value. Also of note, in Japan, the price of a pre-owned home typically reflects the combination of both land and building, but SumStock indicates these amounts separately, making it easier to determine a fair price and raising the reliability of such calculations.

Misawa Homes vigorously promoted brokerage services using SumStock assessments for detached homes built by members of the Misawa Homes Group to expand our operation in the pre-owned home market. Also, the Company hired more staff with qualifications to undertake SumStock assessments, reinforced its sales structure and worked to increase the number of homes introduced to customers. Efforts were also directed toward rapid expansion of HOMEVER, a system through which we purchase Misawa-brand homes, undertake

any necessary maintenance and remodeling work, and then resell the homes with the Misawa quality guarantee. We also focused on the purchasing and reselling of non-Misawa-brand buildings and condominiums.

In March 2016, we built a sharehouse and began operating shared accommodations. This was a first for the Misawa Homes Group.



First sharehouse operated by Misawa Homes Group

Other Businesses

Child-care support business

For several years, the Misawa Homes Group has been involved in the design and construction of daycare centers in cooperation with a daycare center operator. Efforts have also been directed into research on homes best suited for raising children. In fiscal 2016, the expertise of the Misawa Homes Group was applied to the design and construction of two daycare centers. Both are made of wood, and the materials lend a sense of calm and relaxation to the interior. A daycare center completed in 2015 was recognized at the 9th Kids’ Design Award.



A daycare center constructed by Misawa Homes

Logistics business

With key logistics hubs in 23 locations across Japan, the Misawa Homes Group provides forwarding services through its logistics network and has cut CO₂ levels in its logistics activities. These efforts have earned top marks, being awarded the Minister Prize of Economic, Trade and Industry (business and logistics) within the Successful Case of Energy Conservation Category for the Energy Conservation Grand Prize for excellent energy conservation equipment (sponsored by the Energy Conservation Center, Japan (ECCJ) and supported by the Ministry of Economy, Trade and Industry) in fiscal 2016. Going forward, with acceptance of this prize, we will strive for further reduction of CO₂ levels in our logistic activities to contribute to a better global environment.

Environmental and Social Contribution Activities

We set out a five-year environmental action plan, running from fiscal 2012 through fiscal 2016, and as a group, we are involved in activities that promote a better environment. In fiscal 2016, we reduced lifecycle CO₂ emissions for newly built homes 47 percent over the 1990 baseline.

For eight straight years, employees of Misawa Homes Group companies have been selected as members of the observation team to support Japan’s Antarctic observation activities, with responsibility primary for guiding construction work and executing repairs on structures there. In fiscal 2016, assembly started on a basic observation tower ordered by the National Institute of Polar Research in April 2015. Misawa Homes was commissioned to build many of the base structures, beginning in 1968, and to date has been involved in the construction of 36 buildings with floor space totaling 5,900 m². Since fiscal 2012, employees who had been part of the Antarctica observation team have visited schools and other locations to introduce the natural environment of Earth’s southernmost continent and to highlight the team’s activities. Last fiscal year, more than 22,000 children attended the special class at 193 locations, mainly elementary and junior high schools.



Class on Antarctica for elementary and junior high school students

Topics

Consolidated Income

(Millions of yen)

| | Fiscal 2014 | Fiscal 2015 | Fiscal 2016 | Fiscal 2017 (Planned) |
|------------------|-------------|-------------|-------------|--------------------------|
| Net sales | ¥426,033 | ¥409,795 | ¥399,337 | ¥410,000 |
| Operating income | 13,194 | 5,824 | 6,686 | 7,500 |
| Net income | 10,401 | 3,309 | 3,438 | 3,500 |

Number of Homes Sold

(Units)

| | Fiscal 2014 | Fiscal 2015 | Fiscal 2016 | Fiscal 2017 (Planned) |
|--------------------------------------|------------------|------------------|------------------|--------------------------|
| Custom homes | 8,799 | 7,182 | 7,213 | 7,720 |
| Lot-subdivision homes | 878 | 860 | 921 | 940 |
| Home Building Sub total | 9,677 | 8,042 | 8,134 | 8,660 |
| Rental homes (Buildings) | 3,734 (1,285) | 3,820 (1,299) | 3,431 (1,267) | 3,750 |
| Multi-dwelling units and others | 858 | 948 | 741 | 820 |
| Asset Utilization Services Sub total | 4,592 | 4,768 | 4,172 | 4,570 |
| Total | 14,269 | 12,810 | 12,306 | 13,230 |

Number of Staff Employed

(Number of persons)

| | Fiscal 2014 | Fiscal 2015 | Fiscal 2016 |
|----------------------------------|-------------|-------------|-------------|
| New home business | 2,042 | 1,901 | 1,981 |
| Home remodeling business | 983 | 996 | 980 |
| Design, construction, management | 4,109 | 4,255 | 2,113 |
| At all sales companies | 7,134 | 7,152 | 5,074 |
| Misawa Homes | 669 | 704 | 2,325 |
| Factories | 977 | 900 | 777 |
| Other affiliates | 616 | 631 | 1,002 |
| Total | 9,396 | 9,387 | 9,178 |

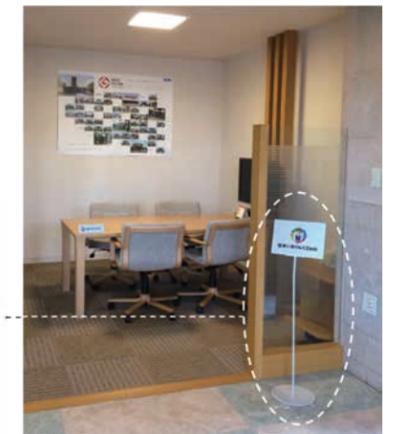
Seeking a Higher Level of Homeowner Satisfaction

A priority theme in the three-year medium-term management plan that Misawa Homes embarked on in fiscal 2015 is to push customer satisfaction to a higher level. In October 2015, we set up the Smile-ring Desk, a window to one-stop advice on a variety of subjects related to homes as an approach to enhance convenience for homeowners. Taking advantage of Japan's move to deregulate its electricity market—generation and retail—in April 2016, we began providing Misawa Denki, a service selling power to retail customers.

The service, a first for a homebuilder, targets owners of detached homes built by Misawa Homes. We return five percent of power consumption charges back to customers through our e-point system, which can be used to offset home maintenance or remodeling costs or to apply toward the cost of purchasing products through our website. We will actively pursue initiatives that lead to higher levels of homeowner satisfaction.



住まいるりんぐDesk



Sample layout of Smile-ring Desk

Toward Realization of IoT inside the Home

In the Great East Japan Earthquake of 2011, the degree of damage caused to structures varied even within the same neighborhood, due to ground conditions. Because the area of destruction was so vast, ascertaining damage to buildings in a short period of time right after the earthquake proved difficult, and time was then needed for reconstruction. Thinking that a way of pinpointing damage to each building site as quickly as possible would ensure homeowner safety and facilitate the reconstruction process, Misawa Homes and KDDI Corporation teamed up to develop GAINET, a device used to measure the extent of earthquake-caused damage.



GAINET display monitor

GAINET uses an earthquake acceleration sensor placed on the foundation of a home to detect early seismic vibrations. This sensor also determines the magnitude of the event in real time at the house where the device is installed as well as the level of structural damage, and alerts the homeowner to status by displaying information on a monitor inside the home. The measurement data is routed through a network and collected instantaneously on a cloud server, creating IoT inside the home. It pinpoints the degree of damage to a home in a short time and thereby facilitates a swift response matched to the level of emergency. In addition, homeowners can confirm the status of damages by smartphone, PC or other devices even if they are not at home, using a network connection to the server of the site for owners of Misawa-brand homes.

Going forward, Misawa Homes will promote GAINET to help homeowners feel a greater sense of safety and peace of mind. We will also consider a new owner support system as well as the provision of high-value-added services utilizing collected and accumulated data.

Corporate Governance Structure

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

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

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

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

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

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

Financial Section

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

| For the years ended March 31 | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|----------|----------|----------|------------------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 |
| For the Year: | | | | | | | |
| Net Sales | ¥341,388 | ¥378,574 | ¥394,697 | ¥426,033 | ¥409,795 | ¥399,337 | \$3,543,991 |
| Cost of Sales | 260,755 | 290,592 | 301,775 | 328,259 | 321,488 | 314,346 | 2,789,722 |
| Gross Profit | 80,633 | 87,982 | 92,922 | 97,774 | 88,307 | 84,991 | 754,269 |
| Selling, General and Administrative Expenses | 71,909 | 76,006 | 80,490 | 84,580 | 82,483 | 78,305 | 694,931 |
| Operating Income | 8,724 | 11,976 | 12,432 | 13,194 | 5,824 | 6,686 | 59,338 |
| Profit before Income Taxes | 3,877 | 11,147 | 11,488 | 11,854 | 3,962 | 6,100 | 54,136 |
| Profit Attributable to Owners of Parent | 3,133 | 6,919 | 9,920 | 10,401 | 3,309 | 3,438 | 30,513 |
| At Year-End: | | | | | | | |
| Total Assets | ¥176,628 | ¥197,759 | ¥212,725 | ¥228,775 | ¥224,617 | ¥231,998 | \$2,058,914 |
| Total Net Assets | 25,528 | 32,623 | 35,552 | 37,834 | 42,747 | 42,845 | 380,241 |
| Per Share Amounts (yen): | | | | | | | |
| Profit - Basic | ¥ 84.60 | ¥ 180.95 | ¥ 254.55 | ¥ 279.91 | ¥ 88.73 | ¥ 92.05 | \$ 0.82 |

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2016 of ¥112.68 = US\$1.

Financial Review

Operating Environment

In fiscal 2016, ended March 31, 2016, the domestic economy encountered a weakening trend in some sectors midway through the year, such as exports, owing to the impact of slowdowns abroad, particularly in emerging markets in Asia. Nevertheless, in Japan, the tone was one of gradual improvement in business conditions.

In the housing industry, housing starts rallied, rising 4.6 percent from the previous fiscal year, to 920,537 units, reflecting an improvement in the employment environment and better personal income status as well as successful results from the government's program to support home buying and robust demand in the rental market.

In this context, the Misawa Homes Group continued to implement several measures in line with the three-year medium-term management plan launched in fiscal 2015.

The results achieved are described below.

Net Sales

Consolidated net sales slipped 2.6 percent, or ¥10,458 million, to ¥399,337 million. This is mainly due to a drop in sales of custom-ordered homes, as the reactionary drop in demand following the rush of purchasing activity ahead of the consumption tax increase in April 2014 has persisted for much longer than anticipated. Meanwhile, efforts to promote business diversification, in line with the medium-term management plan, led to an increase in sales from the asset utilization business. Of particular note, revision of the inheritance tax system, effective January 2015, has increased the number of people carrying a heavier burden of inheritance tax, which in turn has sustained heightened interest in construction of rental housing as a way to lighten the tax burden. This contributed to better results for net sales of the asset utilization business, which posted a 12.1 percent improvement over the previous fiscal year.

Operating Income

Consolidated operating income reached ¥6,686 million, climbing 14.8 percent, or ¥862 million from the previous fiscal year. This result reflects successful efforts to cut the cost of construction materials and products and reduce selling, general and administrative expenses—efforts that compensated for the drop in gross profit caused by lower sales of custom-ordered homes.

Income before Income Taxes and Minority Interests

Consolidated income before income taxes and minority interests jumped 54.0 percent, or ¥2,138 million, to ¥6,100 million.

Net income

Consolidated net income edged up 3.9 percent, or ¥129 million, to ¥3,438 million.

Financial Position

Total assets at the end of March 2016 stood at ¥231,998 million, up ¥7,381 million from a year earlier. This change is primarily due to an increase in operating loans because of the start of financing services at Misawa Financial Service, Ltd., a Misawa Homes' financing subsidiary. Total liabilities amounted to ¥189,152 million, up ¥7,282 million from the end of March 2015, largely because an increase in debt overshadowed decreases in advances received on uncompleted contracts and notes and accounts payable—trade. Net assets settled at ¥42,845 million, up ¥98 million year on year, mainly due to the booking of net income.

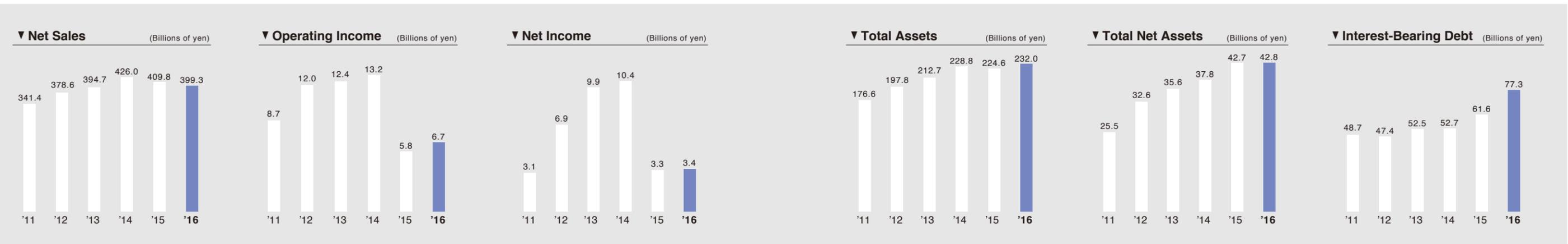
Cash Flow Status

Cash and cash equivalents at the end of March 2016 came to ¥47,083 million, up ¥2,091 million from a year earlier. The change reflects ¥14,230 million in inflow from financing activities, which offset combined outflow of ¥12,122 million from net cash used by operating activities and investing activities.

Net cash used in operating activities was ¥3,307 million, down ¥6,091 million from a year ago. The decrease is largely due to an increase in operating loans.

Net cash used in investing activities was ¥8,815 million, up ¥1,608 million from the previous year. The primary application of funds was the purchase of fixed assets, mainly software.

Net cash provided by financing activities was ¥14,230 million, up ¥7,204 million from the year before. The main reason for this increase stems from new loans.



CONSOLIDATED BALANCE SHEET

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|----------|--|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and bank deposits (Notes 8 and 20) | ¥47,718 | ¥45,548 | \$423,482 |
| Notes and accounts receivable, trade (Notes 8 and 11) | 7,922 | 7,150 | 70,301 |
| Land and housing for sale (Note 11) | 47,411 | 48,264 | 420,755 |
| Cost of uncompleted contracts (Note 11) | 32,822 | 31,132 | 291,283 |
| Merchandise and finished goods | 1,017 | 1,761 | 9,029 |
| Work in process | 222 | 224 | 1,968 |
| Raw materials and supplies | 1,907 | 2,118 | 16,923 |
| Deferred tax assets (Note 17) | 4,173 | 4,417 | 37,036 |
| Other current assets | 15,751 | 9,579 | 139,787 |
| Allowance for doubtful accounts | (171) | (356) | (1,514) |
| Total current assets | 158,772 | 149,837 | 1,409,050 |
| Property, plant and equipment (Notes 10 and 11): | | | |
| Buildings and structures | 38,262 | 36,649 | 339,564 |
| Machinery and equipment | 6,656 | 6,845 | 59,073 |
| Land | 25,390 | 24,636 | 225,329 |
| Other | 6,278 | 6,955 | 55,713 |
| | 76,586 | 75,085 | 679,679 |
| Less: Accumulated depreciation | (27,634) | (26,647) | (245,245) |
| Net property, plant and equipment | 48,952 | 48,438 | 434,434 |
| Intangible assets (Note 10): | | | |
| Other | 9,330 | 8,986 | 82,808 |
| Total intangible assets | 9,330 | 8,986 | 82,808 |
| Investments and other assets: | | | |
| Investment securities (Notes 7 and 8) | 1,389 | 2,561 | 12,326 |
| Deferred tax assets (Note 17) | 2,221 | 3,517 | 19,712 |
| Net defined benefit asset (Note 12) | 1,353 | 2,244 | 12,006 |
| Other (Notes 7 and 10) | 11,678 | 10,656 | 103,641 |
| Allowance for doubtful accounts | (1,697) | (1,622) | (15,063) |
| Total investments and other assets | 14,944 | 17,356 | 132,622 |
| Total assets | ¥231,998 | ¥224,617 | \$2,058,914 |

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

CONSOLIDATED BALANCE SHEET

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|-----------------------|--|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Short-term bank loans (Notes 8 and 11) | ¥24,308 | ¥17,170 | \$215,724 |
| Current portion of long-term debt (Notes 8 and 11) | 13,974 | 12,462 | 124,015 |
| Notes and accounts payable, trade (Note 8) | 44,402 | 48,405 | 394,057 |
| Accounts payable, other | 7,968 | 9,321 | 70,717 |
| Accrued bonuses | 5,512 | 5,513 | 48,913 |
| Allowance for claim expenses | 2,158 | 2,627 | 19,154 |
| Advances received on uncompleted contracts | 29,526 | 32,140 | 262,030 |
| Deposits received | 6,238 | 5,639 | 55,359 |
| Income taxes payable | 645 | 556 | 5,720 |
| Deferred tax liabilities (Note 17) | 14 | 38 | 128 |
| Asset retirement obligations | 10 | 116 | 88 |
| Other current liabilities (Note 11) | 6,111 | 4,641 | 54,236 |
| Total current liabilities | 140,866 | 138,628 | 1,250,141 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 8 and 11) | 35,836 | 28,364 | 318,031 |
| Deferred tax liabilities (Note 17) | 765 | 1,382 | 6,787 |
| Accrued pension and severance costs for directors and corporate auditors | 581 | 816 | 5,162 |
| Net defined benefit liability (Note 12) | 3,033 | 2,856 | 26,913 |
| Asset retirement obligations | 1,321 | 1,223 | 11,726 |
| Other long-term liabilities (Note 11) | 6,751 | 8,601 | 59,913 |
| Total long-term liabilities | 48,287 | 43,242 | 428,532 |
| Net assets: | | | |
| Shareholders' equity (Note 13): | | | |
| Capital stock: | 10,000 | 10,000 | 88,747 |
| | | (Thousands of shares) | |
| | | In 2016 | In 2015 |
| Common stock | | | |
| Authorized | 150,000 | 150,000 | |
| Issued | 38,739 | 38,739 | |
| Additional paid-in capital | 3,200 | 3,203 | 28,399 |
| Retained earnings | 30,989 | 28,306 | 275,016 |
| Treasury stock, at cost | (3,430) | (3,427) | (30,436) |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains on other securities (Note 7) | 322 | 751 | 2,857 |
| Land revaluation difference | (441) | (449) | (3,909) |
| Foreign currency translation adjustments | 30 | 63 | 260 |
| Remeasurements of defined benefit plans (Note 12) | (162) | 1,931 | (1,438) |
| Non-controlling interests | 2,337 | 2,369 | 20,745 |
| Total net assets | 42,845 | 42,747 | 380,241 |
| Commitments and contingent liabilities (Note 22) | | | |
| Total liabilities and net assets | ¥231,998 | ¥224,617 | \$2,058,914 |

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|----------------------|----------|--|
| | Years ended March 31 | | Year ended March 31, 2016 |
| | 2016 | 2015 | |
| Net sales | ¥399,337 | ¥409,795 | \$3,543,991 |
| Cost of sales (Note 18) | 314,346 | 321,488 | 2,789,722 |
| Gross profit | 84,991 | 88,307 | 754,269 |
| Selling, general and administrative expenses (Notes 18 and 21): | | | |
| Salaries and wages | 39,974 | 39,806 | 354,761 |
| Advertising | 8,377 | 9,339 | 74,341 |
| Sales promotion | 6,329 | 7,065 | 56,168 |
| Addition to allowance for claim expenses | 1,449 | 1,374 | 12,856 |
| Provision for accrued bonuses | 3,444 | 3,383 | 30,565 |
| Depreciation expenses | 3,379 | 3,415 | 29,985 |
| Other selling expenses | 3,880 | 4,563 | 34,436 |
| Other general and administrative expenses | 11,473 | 13,538 | 101,819 |
| Total selling, general and administrative expenses | 78,305 | 82,483 | 694,931 |
| Operating income | 6,686 | 5,824 | 59,338 |
| Non-operating income: | | | |
| Interest income | 66 | 46 | 588 |
| Rent income | 249 | 117 | 2,206 |
| Income from commissions | 123 | 144 | 1,092 |
| Revenue from sales of electric power | 217 | 176 | 1,930 |
| Other | 686 | 632 | 6,081 |
| Total non-operating income | 1,341 | 1,115 | 11,897 |
| Non-operating expenses: | | | |
| Interest expenses | 783 | 788 | 6,948 |
| Pension and severance costs | - | 352 | - |
| Commission for syndicate loan | 141 | 267 | 1,248 |
| Other | 307 | 326 | 2,731 |
| Total non-operating expenses | 1,231 | 1,733 | 10,927 |
| Ordinary income | 6,796 | 5,206 | 60,308 |
| Other gains ("TOKUBETSU RIEKI"): | | | |
| Gain on sales of property, plant and equipment (Note 14) | 50 | 53 | 447 |
| Gain on sales of investment securities | 49 | 121 | 438 |
| Gain on contribution of securities to retirement benefit trust | 445 | - | 3,946 |
| Other | 45 | 11 | 399 |
| Total other gains | 589 | 185 | 5,230 |
| Other losses ("TOKUBETSU SONSHITSU"): | | | |
| Business structure improvement expenses (Note 19) | 616 | 738 | 5,465 |
| Impairment loss on long-lived assets (Note 10) | 455 | 477 | 4,038 |
| Loss on disposal of property, plant and equipment (Note 15) | 129 | 143 | 1,150 |
| Loss on devaluation of investment securities | 22 | 8 | 191 |
| Other | 63 | 63 | 558 |
| Total other losses | 1,285 | 1,429 | 11,402 |
| Profit before income taxes | 6,100 | 3,962 | 54,136 |
| Income taxes (Note 17): | | | |
| Current | 841 | 640 | 7,460 |
| Deferred | 1,805 | 250 | 16,020 |
| | 2,646 | 890 | 23,480 |
| Profit | 3,454 | 3,072 | 30,656 |
| Profit(loss) attributable to non-controlling interests | 16 | (237) | 143 |
| Profit attributable to owners of parent | ¥3,438 | ¥3,309 | \$30,513 |

Per share (Note 16):
Profit — Basic

| Yen | | U.S. dollars (Note 6) |
|-----------------------|--------|---------------------------------|
| Years ended March 31, | | Year ended March 31, 2016 |
| 2016 | 2015 | |
| ¥92.05 | ¥88.73 | \$0.82 |

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|----------------------|--------|--|
| | Years ended March 31 | | Year ended March 31, |
| | 2016 | 2015 | 2016 |
| Profit | ¥3,454 | ¥3,072 | \$30,656 |
| Other comprehensive income (Note 24): | | | |
| Net unrealized gains (losses) on other securities | (445) | 147 | (3,948) |
| Foreign currency translation adjustments | (48) | (45) | (425) |
| Remeasurements of defined benefit plans | (2,105) | 1,472 | (18,686) |
| Total other comprehensive income | (2,598) | 1,574 | (23,059) |
| Comprehensive income | ¥856 | ¥4,646 | \$7,597 |
| Total comprehensive income attributable to: | | | |
| Shareholders of MISAWA HOMES CO., LTD. | ¥883 | ¥4,875 | \$7,834 |
| Non-controlling interests | (27) | (229) | (237) |

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

MISAWA HOMES CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

| | Millions of yen | | | | | | | | | | |
|--|----------------------------|------------------|----------------------------------|----------------------|-------------------------------|--|-----------------------------------|---|--|----------------------------------|------------------|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | |
| | Number of shares issued | Capital stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Net unrealized gains on other securities | Land revaluation difference | Foreign currency translation adjustments | Remeasurements of defined benefit plans (Note 12) | Non- controlling interests | Total net assets |
| Balance at April 1, 2014 | 38,738,914 | ¥10,000 | ¥3,400 | ¥24,989 | (¥3,783) | ¥617 | (¥449) | ¥91 | ¥471 | ¥2,498 | ¥37,834 |
| Cumulative effects of changes in accounting policies | - | - | - | 942 | - | - | - | - | - | - | 942 |
| Restated balance at April 1, 2014 | 38,738,914 | ¥10,000 | ¥3,400 | ¥25,931 | (¥3,783) | ¥617 | (¥449) | ¥91 | ¥471 | ¥2,498 | ¥38,776 |
| Cash dividends | - | - | - | (934) | - | - | - | - | - | - | (934) |
| Profit attributable to owners of parent | - | - | - | 3,309 | - | - | - | - | - | - | 3,309 |
| Purchase of treasury stock | - | - | - | - | (4) | - | - | - | - | - | (4) |
| Disposal of treasury stock | - | - | - | - | 360 | - | - | - | - | - | 360 |
| Net changes in items other than those in shareholders' equity | - | - | (197) | - | - | 134 | - | (28) | 1,460 | (129) | 1,437 |
| Balance at March 31, 2015 | 38,738,914 | ¥10,000 | ¥3,203 | ¥28,306 | (¥3,427) | ¥751 | (¥449) | ¥63 | ¥1,931 | ¥2,369 | ¥42,747 |
| Cash dividends | - | - | - | (747) | - | - | - | - | - | - | (747) |
| Profit attributable to owners of parent | - | - | - | 3,438 | - | - | - | - | - | - | 3,438 |
| Reversal of land revaluation difference | - | - | - | (8) | (3) | - | - | - | - | - | (8) |
| Purchase of treasury stock | - | - | - | - | - | - | - | - | - | - | (3) |
| Change in net assets arising from transactions with non-controlling shareholders | - | - | (3) | - | - | (429) | 8 | (33) | (2,093) | (32) | (3) |
| Net changes in items other than those in shareholders' equity | - | - | - | - | - | - | - | - | - | - | (2,579) |
| Balance at March 31, 2016 | 38,738,914 | ¥10,000 | ¥3,200 | ¥30,989 | (¥3,430) | ¥322 | (¥441) | ¥30 | (¥162) | ¥2,337 | ¥42,845 |

| | Thousands of U.S. dollars (Note 6) | | | | | | | | | |
|--|------------------------------------|----------------------------------|----------------------|-------------------------------|--|--|---|--|----------------------------------|---------------------|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | |
| | Capital stock | Additional paid-in capital | Retained Earnings | Treasury stock, at cost | Net unrealized gains on other securities | Land revaluation difference | Foreign currency translation adjustments | Remeasurements of defined benefit plans (Note 12) | Non- controlling interests | Total net assets |
| Balance at March 31, 2015 | \$88,747 | \$28,426 | \$251,207 | (\$30,414) | \$6,662 | (\$3,983) | \$17,135 | \$21,029 | \$379,369 | \$6,630 |
| Cash dividends | - | - | (6,630) | - | - | - | - | - | 30,513 | (74) |
| Profit attributable to owners of parent | - | - | 30,513 | - | - | - | - | - | (74) | (22) |
| Reversal of land revaluation difference | - | - | (74) | (22) | - | - | - | - | (27) | (27) |
| Purchase of treasury stock | - | - | - | - | - | - | - | - | - | (22,888) |
| Change in net assets arising from transactions with non-controlling shareholders | - | (27) | - | - | - | - | - | - | (284) | \$380,241 |
| Net changes in items other than those in shareholders' equity | - | - | - | (3,805) | (3,000) | (284) | (\$1,438) | \$20,745 | (22,888) | \$380,241 |
| Balance at March 31, 2016 | \$88,747 | \$28,399 | \$275,016 | (\$30,436) | \$2,857 | (\$3,909) | (\$1,438) | \$20,745 | (22,888) | \$380,241 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|----------------------|----------|--|
| | Years ended March 31 | | Year ended March 31, |
| | 2016 | 2015 | 2016 |
| Cash flows from operating activities: | | | |
| Profit before income taxes | ¥6,100 | ¥3,962 | \$54,136 |
| Adjustments for: | | | |
| Depreciation and amortization | 5,938 | 5,507 | 52,701 |
| Amortization of goodwill | 201 | 236 | 1,782 |
| (Decrease) increase in allowance for doubtful accounts | (110) | 69 | (974) |
| Decrease in other allowances | (1,466) | (1,832) | (13,011) |
| Interest and dividend income | (134) | (104) | (1,191) |
| Interest expenses | 783 | 788 | 6,948 |
| Gain on sales of investment securities | (49) | (121) | (438) |
| Impairment loss on long-lived assets | 455 | 477 | 4,038 |
| Loss on sales and disposal of property, plant and equipment | 79 | 90 | 703 |
| (Increase) decrease in notes and accounts receivable, trade | (775) | 392 | (6,879) |
| Decrease (increase) in inventories | 132 | (3,265) | 1,176 |
| Decrease in notes and accounts payable, trade | (4,010) | (4,134) | (35,592) |
| Decrease in advances received on uncompleted contracts | (2,615) | (11,235) | (23,205) |
| Increase in operating loans receivable | (7,248) | - | (64,321) |
| Other | (756) | 1,970 | (6,713) |
| Subtotal | (3,475) | (7,200) | (30,840) |
| Interest and dividends received | 116 | 106 | 1,025 |
| Interest paid | (778) | (784) | (6,900) |
| Income taxes paid | (567) | (1,520) | (5,036) |
| Net cash used in operating activities | (4,704) | (9,398) | (41,751) |
| Cash flows from investing activities: | | | |
| Increase of time deposits with maturity over three months | (89) | (177) | (787) |
| Purchases of property, plant, equipment and intangible assets | (7,686) | (7,521) | (68,209) |
| Proceeds from sales of property, plant, equipment and intangible assets | 379 | 506 | 3,361 |
| Purchases of investment securities | (100) | (37) | (887) |
| Proceeds from sales of investment securities | 99 | 300 | 880 |
| Other | (22) | (278) | (195) |
| Net cash used in investing activities | (7,419) | (7,207) | (65,837) |
| Cash flows from financing activities: | | | |
| Increase in short-term bank loans | 7,029 | 2,895 | 62,383 |
| Proceeds from long-term debt | 22,756 | 21,752 | 201,955 |
| Repayments of long-term debt | (14,651) | (15,641) | (130,025) |
| Proceeds from issuance of bonds | 977 | - | 8,666 |
| Redemption of bonds | - | (100) | - |
| Cash dividends paid | (747) | (928) | (6,631) |
| Cash dividends paid to non-controlling interests | (16) | (16) | (142) |
| Proceeds from sales of treasury stock | - | 163 | - |
| Payments for purchase of treasury stock | (3) | (4) | (22) |
| Proceeds from non-controlling interests for additional shares | 9 | 74 | 79 |
| Other | (1,124) | (1,169) | (9,974) |
| Net cash provided by financing activities | 14,230 | 7,026 | 126,289 |

| | | | |
|--|---------|---------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | (16) | (15) | (143) |
| Net increase (decrease) in cash and cash equivalents | 2,091 | (9,594) | 18,558 |
| Cash and cash equivalents at the beginning of the year | 44,992 | 54,586 | 399,287 |
| Cash and cash equivalents at the end of the year (Note 20) | ¥47,083 | ¥44,992 | \$417,845 |

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

1. Basis of presenting consolidated financial statements:

Misawa Homes Co., Ltd. (the "Company") and its subsidiaries maintain their records and prepare their financial statements in accordance with generally accepted accounting principles in Japan.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively "Misawa Homes") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

As of March 31, 2016 and 2015, the numbers of consolidated subsidiaries were 41 and 46, respectively. MISAWA HOMES QUEENSLAND PTY. LTD. and MISAWA HOMES VICTORIA PTY. LTD. are established and included in consolidation in the year ended March 31, 2016. Misawa Homes Tokyo Co., Ltd., Misawa Homes West Kanto Co., Ltd., Misawa Homes East Kanto Co., Ltd., Misawa Homes Tama Co., Ltd., Misawa Homeing Tama Co., Ltd., Misawa West Kanto Construction Co., Ltd. and MH Construction Co., Ltd. are merged within consolidated companies and excluded from consolidation in the year ended March 31, 2016. There were no subsidiaries and affiliates accounted for by the equity method as of March 31, 2016 and 2015. Misawa Homes of Dongguan Ltd. (China), COCO Lab., Inc., HM Queensland Pty. Ltd. and MD Victoria Pty. Ltd. are excluded from the application of the equity method since their profit (loss) and retained earnings, etc. are considered immaterial on the consolidated financial statements and were of little importance taken as a whole. The financial statements of Misawa Homes of Linyi Ltd. (China) whose closing date is December 31 are consolidated by using its financial statements as of the parent fiscal year end solely for consolidation purposes.

The excess of the cost over the underlying net equity of investments in subsidiaries is recognized as "goodwill" included in the intangible assets account. "Goodwill" and "negative goodwill", which incurred on or before March 31, 2010, is amortized on a straight-line basis over periods of mainly 10 years.

(2) Cash and cash equivalents

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

(3) Investment securities

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

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current profit.

Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Cost of these other securities sold is determined by the moving average method and unrealized gains and losses are reported as a separate component of net assets, net of taxes. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving average cost method. Other than temporary declines in the value of other securities are reflected in current profit.

(4) Allowance for doubtful accounts

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

(5) Inventories

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

The write-downs of inventories recognized as an expense and included in cost of sales for the years ended March 31, 2016 and 2015 were ¥735 million (\$6,519 thousand) and ¥813 million, respectively.

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

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

The amount directly deducted from the acquisition costs of buildings and structures which were replaced by national subsidy at March 31, 2016 and 2015 were ¥60 million (\$530 thousand) and nil, respectively.

(7) Intangible assets (Excluding leased assets)

Amortization of intangible assets excluding goodwill is computed on the straight-line method over the period prescribed by the Corporate Tax Law.

(8) Accrued bonuses

Accrued bonuses to employees are provided for the estimated amounts, which Misawa Homes is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(9) Pension and severance costs

The benefit formula method is used for attributing projected benefit obligation to the period through the end of the fiscal year. Prior service costs are amortized on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods. Unrecognized actuarial gains and losses are amortized starting from the beginning of the year following the year in which such actuarial gains or losses occurred on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods.

(10) Pension and severance costs for directors and corporate auditors

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

(11) 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 profit currently. All the assets and liabilities and all the income and expense accounts of foreign subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign currency financial statement translation differences are recorded in the consolidated balance sheets as foreign currency translation adjustments and non-controlling interest in subsidiaries in net assets.

(13) Income taxes

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

(14) Research and development costs

Research and development costs are expensed as incurred.

(15) Land revaluation

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

As of March 31, 2016 and 2015, the fair value of the revaluated land was less than its carrying value by ¥56 million (\$500 thousand) and ¥66 million, respectively.

(16) Leases

Leased assets under finance lease transactions in which ownership is not transferred to the lessees, which were entered into on or after April 1, 2008, are depreciated by the straight-line method to a residual value of zero. However, leased assets under finance lease transactions in which ownership is not transferred to the lessees, which were entered into prior to April 1, 2008, and previously accounted for as operating leases, continue to be accounted for as operating leases.

(17) Profit per share

Profit per share is computed by dividing profit attributable to owners of parent by the weighted average number of shares of common stock outstanding during each fiscal period.

(18) Appropriations of retained earnings

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

(19) Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentations for the year ended March 31, 2016.

(20) Recognition of revenues and costs on construction contracts

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

(21) Consumption taxes

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

(22) Consolidated taxation system

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

3. Changes in accounting policies:

The Company and its domestic consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), and other related standards effective from April 1, 2015. As a result, under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of profit (loss) attributable to owners of parent was amended, the reference to "minority interests" was changed to "non-controlling interests," and accounting treatment for adjustments to provisional amounts during measurement period was also changed.

Based on the transitional measures provided for in the related standards, the new accounting policies are applied prospectively from the beginning of the current fiscal year.

There was no impact on the consolidated financial statements as a result of this change.

4. Standard issued but not yet effective:

On March 28, 2016, the ASBJ issued “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26).

(1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets,” whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- Category requirements for (Category 2) and (Category 3)
- Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of adopting revised implementation guidance

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

5. Changes in presentation method:

Consolidated statement of income

“Rent income” that was included in “Other” of “Non-operating income” in the year ended March 31, 2015 is separately presented in the year ended March 31, 2016 due to the increase of the importance in its amount. In order to reflect this change in presentation method, the consolidated financial statement for the year ended March 31, 2015 has been reclassified.

As a result, ¥117 million that was presented as “Other” of “Non-operating income” in the consolidated statement of income for the year ended March 31, 2015 has been reclassified to “Rent income.”

6. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥112.68= U.S. \$1, the rate of exchange prevailing on March 31, 2016, has been used.

7. Investment securities:

Misawa Homes’ management classified all investment securities as other securities at March 31, 2016 and 2015. Net unrealized gains of ¥322 million (\$2,857 thousand) and ¥751 million on securities categorized as other securities, both net of tax, were recorded as a component of net assets at March 31, 2016 and 2015, respectively. Deferred tax liabilities on net unrealized gains on other securities of ¥143 million (\$1,273 thousand) and ¥215 million were recorded against deferred tax assets relating to other temporary differences at March 31, 2016 and 2015, respectively. Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” in the amount of ¥102 million (\$903 thousand) and in “Other” of investments and other assets in the amount of ¥0 million (\$0 thousand) on the consolidated balance sheet as of March 31, 2016. Investments in unconsolidated subsidiaries and affiliates were included in “Other” of investments and other assets in the amount of ¥20 million on the consolidated balance sheet as of March 31, 2015.

The acquisition cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2016 and 2015 were as follows:

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

| | Millions of yen | | | |
|-------------------|------------------|------------------|------|-------------------------------|
| | March 31, 2015 | | | |
| | Acquisition Cost | Gross unrealized | | Market value (carrying value) |
| Equity securities | ¥1,236 | ¥902 | (¥4) | ¥2,134 |
| Debt securities | 2,524 | 88 | (0) | 2,612 |
| Other | 11 | 6 | - | 17 |
| Total | ¥3,771 | ¥996 | (¥4) | ¥4,763 |

| | Thousands of U.S. dollars (Note 6) | | | |
|-------------------|------------------------------------|------------------|---------|-------------------------------|
| | March 31, 2016 | | | |
| | Acquisition Cost | Gross unrealized | | Market value (carrying value) |
| Equity securities | \$4,947 | \$3,236 | (\$203) | \$7,980 |
| Debt securities | 20,891 | 1,159 | - | 22,050 |
| Other | 103 | 30 | (3) | 130 |
| Total | \$25,941 | \$4,425 | (\$206) | \$30,160 |

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, 2016 and 2015, the carrying values of these unlisted securities were ¥479 million (\$4,247 thousand) and ¥401 million, respectively. Proceeds from sales of other securities for the years ended March 31, 2016 and 2015, were ¥99 million (\$879 thousand) and ¥300 million, respectively. Gross realized gains and losses on the sales, computed on the moving average cost basis, were ¥49 million (\$438 thousand) and ¥0 million (\$0 thousand), respectively, for the year ended March 31, 2016 and ¥121 million and nil, respectively, for the year ended March 31, 2015. Impairment losses of other securities for the years ended March 31, 2016 and 2015 were ¥22 million (\$191 thousand) and ¥8 million, respectively. Impairment losses are recorded for securities whose fair value has declined by more than 50% or for those which have declined from 30% to 50% if the decline is deemed to be irrecoverable.

8. Financial instruments:

(1) Policy for financial instruments

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

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

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

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

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

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

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

As well as the fair values based on market prices, the fair values of financial instruments include reasonably estimated amounts in case there are no quoted market prices available. As the estimation of those fair values relies on certain assumptions, different assumptions and factors could result in different fair values. Also, the notional amount of derivative transactions described in Note 9. Derivative instruments, is not necessarily indicative of the actual market risk involved in the derivative transactions.

Estimated fair value and others of financial instruments as of March 31, 2016 and 2015 were as follows:

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

Millions of yen

| | March 31, 2015 | | |
|--------------------------------------|----------------|----------------------|------------|
| | Carrying value | Estimated fair value | Difference |
| Cash and bank deposits | ¥45,548 | ¥45,548 | ¥- |
| Notes and accounts receivable, trade | 7,150 | 7,150 | - |
| Investment securities | 4,763 | 4,763 | - |
| Total assets | ¥57,461 | ¥57,461 | ¥- |
| Notes and accounts payable, trade | ¥48,405 | ¥48,405 | ¥- |
| Short-term bank loans | 17,170 | 17,170 | - |
| Long-term debt (excluding bonds) | 40,676 | 40,701 | 25 |
| Total liabilities | ¥106,251 | ¥106,276 | ¥25 |
| Derivative transactions | - | - | - |

Thousands of U.S. dollars (Note 6)

| | March 31, 2016 | | |
|--------------------------------------|----------------|----------------------|------------|
| | Carrying value | Estimated fair value | Difference |
| Cash and bank deposits | \$423,482 | \$423,482 | \$- |
| Notes and accounts receivable, trade | 70,301 | 70,301 | - |
| Investment securities | 30,160 | 30,160 | - |
| Total assets | \$523,943 | \$523,943 | \$- |
| Notes and accounts payable, trade | \$394,057 | \$394,057 | \$- |
| Short-term bank loans | 215,724 | 215,724 | - |
| Long-term debt (excluding bonds) | 433,171 | 433,478 | 307 |
| Total liabilities | \$1,042,952 | \$1,043,259 | \$307 |
| Derivative transactions | - | - | - |

Note 1: Unlisted securities of ¥479 million (\$4,247 thousand) and ¥401 million whose fair value was extremely difficult to determine as of March 31, 2016 and 2015, 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 ¥0 million (\$0 thousand) and ¥1 million are included in other current assets as part of current assets as of March 31, 2016 and 2015, respectively. Government bonds used for deposits amounting to ¥2,484 million (\$22,050 thousand) and ¥2,602 million are included in other of investments and other assets as of March 31, 2016 and 2015, respectively.

Notes and accounts payable, trade, and short-term bank loans

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

Long-term debt

The fair value is based on the net present value of the total of the principal and interest discounted by the interest rate to be applied if similar new loans were entered into. Long-term floating rate loans are accounted for by the special treatment. Please refer to the Note 9. Derivative instruments. The fair value is based on the total amount of the principal and interest processed as an interest rate swap discounted by the interest rate if similar new loans were entered into. Long-term debt due within one-year amounting to ¥13,974 million (\$124,015 thousand) and ¥12,462 million is included in long-term debt in the above table as of March 31, 2016 and 2015, 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, 2016 and 2015 is as follows:

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

Millions of yen

| | March 31, 2015 | | | |
|--------------------------------------|-------------------------|---------------------------------------|--|---------------------|
| | 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 | ¥45,417 | ¥- | ¥- | ¥- |
| Notes and accounts receivable, trade | 7,150 | - | - | - |
| Investment securities | | | | |
| Other securities with maturities | | | | |
| Government bonds | 258 | 1,076 | 1,169 | 109 |
| Total | ¥52,825 | ¥1,076 | ¥1,169 | ¥109 |

Thousands of U.S. dollars (Note 6)

| | March 31, 2016 | | | |
|--------------------------------------|-------------------------|---------------------------------------|--|---------------------|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and bank deposits | \$421,641 | \$- | \$- | \$- |
| Notes and accounts receivable, trade | 70,301 | - | - | - |
| Investment securities | | | | |
| Other securities with maturities | | | | |
| Government bonds | 1,300 | 13,113 | 6,271 | 1,366 |
| Total | \$493,242 | \$13,113 | \$6,271 | \$1,366 |

9. Derivative instruments:

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

Material derivative transactions for which hedge accounting is applied at March 31, 2016 and 2015 were as follows:

| | Hedged item | Millions of yen | | | Thousands of U.S. dollars (Note 6) | | |
|-----------------------------------|----------------|-----------------|-------------------------|------------|------------------------------------|-------------------------|------------|
| | | March 31, 2016 | | | March 31, 2016 | | |
| | | Notional amount | Maturing after one year | Fair value | Notional amount | Maturing after one year | Fair Value |
| Interest rate related transaction | | | | | | | |
| Deferral method | | | | | | | |
| Interest rate swap agreement | | | | | | | |
| Receive floating/ Pay fix | Long-term debt | ¥4,000 | ¥3,440 | Note | \$35,499 | \$30,529 | Note |

| | Hedged item | Millions of yen | | |
|-----------------------------------|----------------|-----------------|-------------------------|------------|
| | | March 31, 2015 | | |
| | | 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 | ¥653 | ¥30 | Note |

Note: Fair value of the interest rate swap agreement is included in the fair value of the long-term debt as the hedged item.

Foreign exchange forward contracts are omitted since the contract amounts were immaterial at March 31, 2016 and 2015.

10. Impairment loss on long-lived assets:

Impairment loss on long-lived assets for the years ended March 31, 2016 and 2015 were as follows.

| Applicable assets | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--------------------------|----------------------|-------------|------------------------------------|
| | Years ended March 31 | | Year ended March 31, |
| | 2016 | 2015 | 2016 |
| Buildings and structures | ¥234 | ¥368 | \$2,078 |
| Machinery and equipment | 68 | 106 | 607 |
| Land | 18 | 67 | 160 |
| Other | 135 | 48 | 1,193 |
| Total | ¥455 | ¥589 | \$4,038 |

Of above amount for the year ended March 31, 2015, ¥112 million is recorded in business structure improvement expenses.

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

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

The recoverable amount of each group of assets was primarily measured at the value in use. Value in use was calculated by discounting future cash flows at an interest rate of 1.7% and 2.6% for the years ended March 31, 2016 and 2015, respectively. The recoverable amount of certain assets (land) was measured at the net sale value, which was estimated based on an appraisal value.

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

Short-term bank loans at March 31, 2016 and 2015 were composed of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--|-----------------|---------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Loans, principally from banks, with weighted-average interest rates of 0.7% at March 31, 2016 and 0.9% at March 31, 2015 | ¥24,308 | ¥17,170 | \$215,724 |

Long-term debt at March 31, 2016 and 2015 was composed of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|----------------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Loans, principally from banks and insurance companies, due 2017 to 2023 with weighted-average interest rates of 0.9% at March 31, 2016 and 1.1% at March 31, 2015 | ¥48,810 | ¥40,676 | \$433,171 |
| Unsecured 0.60% bonds, due 2017 | 150 | 150 | 1,332 |
| Unsecured 0.37% bonds, due 2020 | 500 | - | 4,437 |
| Unsecured 0.36% bonds, due 2020 | 500 | - | 4,437 |
| | 49,960 | 40,826 | 443,377 |
| Less portion due within one year | (14,124) | (12,462) | (125,346) |
| | ¥35,836 | ¥28,364 | \$318,031 |

Weighted-average interest rates are weighted-average interest rates on the balance of loans at year-end. Loans at March 31, 2016 and 2015 include syndicate loan of ¥19,800 million (\$175,719 thousand) and ¥26,400 million, respectively.

The aggregate annual maturities of long-term debt outstanding at March 31, 2016 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars (Note 6) |
|-----------------------|-----------------|------------------------------------|
| 2017 | ¥14,124 | \$125,347 |
| 2018 | 12,557 | 111,439 |
| 2019 | 8,840 | 78,454 |
| 2020 | 5,012 | 44,480 |
| 2021 | 2,809 | 24,926 |
| Thereafter | 6,618 | 58,731 |
| Total | ¥49,960 | \$443,377 |

The aggregate annual maturities of lease obligations included in other current liabilities and other long-term liabilities outstanding at March 31, 2016 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars (Note 6) |
|-----------------------|-----------------|------------------------------------|
| 2017 | ¥129 | \$1,145 |
| 2018 | 131 | 1,166 |
| 2019 | 132 | 1,174 |
| 2020 | 136 | 1,206 |
| 2021 | 101 | 900 |
| Thereafter | 950 | 8,418 |
| Total | ¥1,579 | \$14,009 |

Lease obligations are due 2017 to 2035 with weighted-average interest rates of 4.5% and 5.7% at March 31, 2016. Lease obligations recorded in the consolidated balance sheets include future lease payments before deducting deemed interest expenses, and such amounts are excluded in calculating weighted-average interest rates.

The aggregate annual maturities of other interest-bearing liabilities included in “Accounts payable, other” and “Other long-term liabilities” outstanding at March 31, 2016 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars (Note 6) |
|-----------------------|-----------------|------------------------------------|
| 2017 | ¥730 | \$6,481 |
| 2018 | 328 | 2,907 |
| 2019 | 230 | 2,045 |
| 2020 | 117 | 1,038 |
| 2021 | 14 | 126 |
| Thereafter | 5 | 40 |
| Total | ¥1,424 | \$12,637 |

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

Assets pledged as collateral for secured loans and debt at March 31, 2016 and 2015 were as follows:

| Pledged assets | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--------------------------------------|-----------------|---------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Notes and accounts receivable, trade | ¥50 | ¥- | \$444 |
| Land and housing for sale | 1,020 | 249 | 9,047 |
| Cost of uncompleted contracts | 251 | 128 | 2,231 |
| Buildings and structures | 1,963 | 2,816 | 17,423 |
| Machinery and equipment | 694 | 741 | 6,159 |
| Land | 4,567 | 7,100 | 40,530 |
| Other fixed assets | - | 2 | - |
| Total | ¥8,545 | ¥11,036 | \$75,834 |

| Secured loans and debt | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|------------------------|-----------------|---------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Short-term bank loans | ¥7,394 | ¥11,518 | \$65,622 |
| Long-term debt | 2,767 | 2,972 | 24,555 |
| Total | ¥10,161 | ¥14,490 | \$90,177 |

In addition to the above pledged assets, shares in subsidiaries of ¥28 million (\$246 thousand) and ¥30 million were pledged as collateral as of March 31, 2016 and 2015, respectively.

12. Pension and severance costs:

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans, the lump-sum retirement payment plan and defined contribution pension plans. Certain domestic consolidated subsidiaries use the Smaller Enterprise Retirement Allowance Mutual Aid Plan.

Certain domestic consolidated subsidiaries apply the simplified method in computing net defined benefit liability and net pension and severance costs for their defined benefit retirement plans and the lump-sum retirement payment plans.

The changes in the projected benefit obligation during the years ended March 31, 2016 and 2015 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--|-----------------|---------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Projected benefit obligation at beginning of year | ¥28,455 | ¥28,383 | \$252,534 |
| Cumulative effects of changes in accounting policies | - | (1,187) | - |
| Restated projected benefit obligation at beginning of year | ¥28,455 | ¥27,196 | \$252,534 |
| Service cost | 2,191 | 2,211 | 19,441 |
| Interest cost | 344 | 343 | 3,056 |
| Actuarial losses | 2,092 | 30 | 18,562 |
| Retirement benefit paid | (1,482) | (1,322) | (13,160) |
| Other | 77 | (3) | 686 |
| Projected benefit obligation at end of year | ¥31,677 | ¥28,455 | \$281,119 |

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

The changes in plan assets during the years ended March 31, 2016 and 2015 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--|-----------------|---------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Plan assets at beginning of year | ¥27,843 | ¥24,467 | \$247,097 |
| Expected return on plan assets | 437 | 399 | 3,878 |
| Actuarial gains (losses) | (564) | 1,595 | (5,005) |
| Contributions by the Company | 2,574 | 2,564 | 22,846 |
| Contribution of securities to retirement benefit trust | 1,074 | - | 9,530 |
| Retirement benefits paid | (1,367) | (1,182) | (12,134) |
| Plan assets at end of year | ¥29,997 | ¥27,843 | \$266,212 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2016 and 2015 for the Company's and the consolidated subsidiaries' defined benefit retirement plans:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|----------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Funded projected benefit obligation | ¥30,667 | ¥27,559 | \$272,159 |
| Plan assets at fair value | (29,997) | (27,843) | (266,212) |
| | 670 | (284) | 5,947 |
| Unfunded projected benefit obligation | 1,010 | 896 | 8,960 |
| Net liabilities and assets for retirement benefits in the balance sheet | ¥1,680 | ¥612 | \$14,907 |
| Net defined benefit liability | ¥3,033 | ¥2,856 | \$26,913 |
| Net defined benefit asset | (1,353) | (2,244) | (12,006) |
| Net liabilities and assets for retirement benefits in the balance sheet | ¥1,680 | ¥612 | \$14,907 |

The components of net pension and severance costs for the years ended March 31, 2016 and 2015 were as follows.

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|--------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Service cost (Note 1) | ¥2,191 | ¥2,211 | \$19,441 |
| Interest cost | 344 | 343 | 3,056 |
| Expected return on plan assets | (437) | (399) | (3,878) |
| Amortization and expenses: | | | |
| Actuarial (gains) losses | (290) | 24 | (2,576) |
| Prior service costs | 6 | 3 | 53 |
| Net retirement benefit obligation at transition | - | 355 | - |
| Other | 5 | 5 | 46 |
| Net pension and severance costs | ¥1,819 | ¥2,542 | \$16,142 |
| Gain on contribution of securities to retirement benefit trust (Note 2) | ¥445 | ¥- | \$3,946 |

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

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

Prior service costs, actuarial losses and net retirement benefit obligation at transition included in other comprehensive income (before tax effects) for the years ended March 31, 2016 and 2015 were as follows.

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|---------------|--|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Prior service costs | (¥6) | ¥3 | (\$53) |
| Actuarial losses | 2,946 | 1,590 | 26,143 |
| Net retirement benefit obligation at transition | - | 355 | - |
| Total | ¥2,940 | ¥1,948 | \$26,090 |

Unrecognized prior service costs, unrecognized actuarial losses and unrecognized net retirement benefit obligation at transition included in accumulated other comprehensive income (before tax effects) as of March 31, 2016 and 2015 were as follows.

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|----------------------------------|-----------------|-----------------|--|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Unrecognized prior service costs | ¥22 | ¥25 | \$197 |
| Unrecognized actuarial losses | 126 | (2,817) | 1,117 |
| Total | ¥148 | (¥2,792) | \$1,314 |

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 were as follows.

| | Year ended March 31, | |
|-------------------|----------------------|-------------|
| | 2016 | 2015 |
| Debt securities | 23% | 29% |
| Equity securities | 18 | 28 |
| General accounts | 48 | 36 |
| Other | 11 | 7 |
| Total | 100% | 100% |

The expected long-term rate of return on plan asset was estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

| | Year ended March 31, | |
|--|----------------------|----------|
| | 2016 | 2015 |
| Discount rate | 0.0-1.5% | 0.8-1.5% |
| Expected long-term rate of return on plan assets | 0.0-5.4% | 0.0-5.6% |

The Company and its domestic consolidated subsidiaries contributed ¥249 million (\$2,208 thousand) and ¥286 million to defined contribution pension plans for the years ended March 31, 2016 and 2015, respectively.

13. Shareholders' equity:

(1) Type and number of stock issued and treasury stock for the years ended March 31, 2016 and 2015 are as follows:

For the year ended March 31, 2016

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

For the year ended March 31, 2015

| Type of shares | Number of shares | | | March 31, 2015 |
|----------------|------------------|--------------------------|--------------------------|----------------|
| | April 1, 2014 | Increase during the year | Decrease during the year | |
| Stock issued: | | | | |
| Common stock | 38,738,914 | - | - | 38,738,914 |
| Treasury stock | | | | |
| Common stock | 1,527,792 | 3,331 | 145,200 | 1,385,923 |

Notes:

- Increase in the number of shares in treasury stock for the year ended March 31, 2016 is due to a purchase of odd-lot shares of less than one unit (2,627 shares).
- Increase in the number of shares in treasury stock for the year ended March 31, 2015 is due to a purchase of odd-lot shares of less than one unit (3,331 shares).
- Decrease in the number of shares in treasury stock for the year ended March 31, 2015 is due to disposal of treasury stock by the ESOP Trust (145,200 shares). Number of common stock for treasury stock as of April 1, 2014 includes the Company's common stocks held by the ESOP Trust, but excluded from the number of shares of common stock for treasury stock as of March 31, 2015 as sales of the Company's common stocks held by the ESOP Trust was completed on December 22, 2014.

(2) Dividends paid during the years ended March 31, 2016 and 2015

For the year ended March 31, 2016

| Resolution | Type of shares | Total dividends (Millions of yen) | Total dividends (Thousands of U.S. dollars) | Dividends per share (Yen) | Dividends per share (U.S. dollars) | Cut-off date | Effective date |
|---|----------------|-----------------------------------|---|---------------------------|------------------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 26, 2015 | Common stock | ¥747 | \$6,630 | ¥20 | \$0.18 | March 31, 2015 | June 29, 2015 |

For the year ended March 31, 2015

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|----------------|-----------------------------------|---------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 27, 2014 | Common stock | ¥934 | ¥25 | March 31, 2014 | June 30, 2014 |

Total dividends on common stocks include ¥4 million of dividends to the ESOP Trust.

(3) Dividends with the cut-off date in the years ended March 31, 2016 and 2015, and the effective date in the year ending March 31, 2017 and 2016, respectively

For the year ended March 31, 2016

| Resolution | Type of shares | Total dividends (Millions of yen) | Total dividends (Thousands of U.S. dollars) | Source of dividends | Dividends per share (Yen) | Dividends per share (U.S. dollars) | Cut-off date | Effective date |
|---|----------------|-----------------------------------|---|---------------------|---------------------------|------------------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 29, 2016 | Common stock | ¥747 | \$6,630 | Retained earnings | ¥20 | \$0.18 | March 31, 2016 | June 30, 2016 |

For the year ended March 31, 2015

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

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

The following are the elements of "Gain on sales of property, plant and equipment" for the years ended March 31, 2016 and 2015:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--------------------------|----------------------|------------|------------------------------------|
| | Years ended March 31 | | Year ended March 31, |
| | 2016 | 2015 | 2016 |
| Buildings and structures | ¥28 | ¥0 | \$247 |
| Machinery and equipment | 4 | 12 | 39 |
| Land | 16 | 3 | 144 |
| Other | 2 | 38 | 17 |
| Total | ¥50 | ¥53 | \$447 |

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

The following are the elements of "Loss on disposal of property, plant and equipment" for the years ended March 31, 2016 and 2015:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--------------------------|----------------------|-------------|------------------------------------|
| | Years ended March 31 | | Year ended March 31, |
| | 2016 | 2015 | 2016 |
| Buildings and structures | ¥95 | ¥105 | \$841 |
| Machinery and equipment | 11 | 2 | 94 |
| Land | 0 | 15 | 1 |
| Other | 24 | 21 | 214 |
| Total | ¥130 | ¥143 | \$1,150 |

16. Per share information:

Basis for calculation of net profit per share for the years ended March 31, 2016 and 2015 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--|----------------------|------------------------------|------------------------------------|
| | Years ended March 31 | | Year ended March 31, |
| | 2016 | 2015 | 2016 |
| Basic EPS—Profit attributable to common shareholders of parent | ¥3,438 | ¥3,309 | \$30,513 |
| Weighted average number of common shares outstanding: | | | |
| -Basic | 37,351,780 | 37,296,507 | |
| Profit per share: | Yen | U.S. dollars (Note 6) | |
| -Basic | ¥92.05 | ¥88.73 | \$0.82 |

Basis for calculation of net assets per share as of March 31, 2016 and 2015 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|------------|--|
| | As of March 31 | | As of March 31, |
| | 2016 | 2015 | 2016 |
| Total net assets | ¥42,845 | ¥42,747 | \$380,241 |
| Amounts deducted from total net assets: | | | |
| Non-controlling interests in subsidiaries | (2,337) | (2,369) | (20,745) |
| Net assets attributable to common shares | ¥40,508 | ¥40,378 | 359,496 |
| Number of common shares outstanding: | 37,350,364 | 37,352,991 | |
| | Yen | | U.S. dollars (Note 6) |
| Net assets per share: | ¥1,084.54 | ¥1,080.98 | \$9.62 |

17. Income taxes:

Misawa Homes is subject to several types of income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively. The significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|---|-----------------|----------|--|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Deferred tax assets: | | | |
| Tax loss carry forwards | ¥14,213 | ¥14,665 | \$126,133 |
| Devaluation of inventories | 1,493 | 1,775 | 13,253 |
| Accrued bonuses | 1,783 | 1,858 | 15,825 |
| Net defined benefit liability | 1,152 | 1,133 | 10,226 |
| Allowance for doubtful accounts | 1,891 | 1,897 | 16,777 |
| Goodwill | 721 | 835 | 6,395 |
| Provision for warranties for completed construction | 682 | 871 | 6,055 |
| Impairment loss | 534 | 624 | 4,740 |
| Others | 2,637 | 2,476 | 23,401 |
| Gross deferred tax assets | 25,106 | 26,134 | 222,805 |
| Less: valuation allowance | (18,302) | (17,848) | (162,423) |
| Total deferred tax assets | 6,804 | 8,286 | 60,382 |
| Deferred tax liabilities: | | | |
| Fair market valuation as a result of adoption of consolidated taxation system | (390) | (381) | (3,462) |
| Net unrealized gains on other securities | (143) | (215) | (1,273) |
| Net defined benefit asset | (390) | (813) | (3,459) |
| Expense related to asset retirement obligations | (160) | (172) | (1,416) |
| Others | (106) | (190) | (940) |
| Gross deferred tax liabilities | (1,189) | (1,771) | (10,550) |
| Net deferred tax assets | ¥5,615 | ¥6,514 | \$49,832 |

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 increased by ¥454 million (\$4,023 thousand) for the year ended March 31, 2016 and decreased by ¥4,752 million for the year ended March 31, 2015.

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, 2016 and 2015 were reconciled as follows:

| | Years ended March 31 | |
|---|----------------------|--------|
| | 2016 | 2015 |
| Statutory income tax rate | 33.1% | 35.6% |
| Reconciliation: | | |
| Entertainment expenses, etc. permanently non-tax deductible | 2.9 | 6.1 |
| Per capita inhabitants tax | 3.6 | 4.9 |
| Changes in valuation allowance | 10.4 | (55.6) |
| Consolidation adjustment | (7.8) | 0.2 |
| Tax credit for research and development costs | (0.8) | (0.8) |
| Effect of change in statutory income tax rate | 2.6 | 32.3 |
| Others | (0.6) | (0.2) |
| Effective income tax rates | 43.4% | 22.5% |

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Diet session on March 29, 2016 and the statutory income tax rate will be reduced effective from years beginning on or after April 1, 2016.

As a result, the effective statutory income tax rate used to measure the Company's deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be realized or settled in the fiscal years beginning April 1, 2016 and 2017, and changed to 30.6% for the temporary differences expected to be realized or settled in the fiscal year beginning April 1, 2018 and thereafter. The effect of the announced reduction of the effective statutory income tax rate was to decrease deferred tax assets, after offsetting deferred tax liabilities, by ¥150 million (\$1,329 thousand) and increase income taxes – deferred by ¥157 million (\$1,390 thousand) and net unrealized gains on other securities by ¥7 million (\$61 thousand) as of and for the year ended March 31, 2016.

Also, limitation for the net operating loss deduction will be reduced to 60%, 55% and 50% of the taxable income before net operating loss deduction from fiscal year beginning on or after April 1, 2016, from fiscal year beginning on or after April 1, 2017 and from fiscal years beginning on or after April 1, 2018, respectively. The effect of this revision was to decrease deferred tax assets by ¥2 million (\$22 thousand) and income taxes – deferred increased by the same amount as of and for the year ended March 31, 2016.

18. Cost of sales, general and administrative expenses:

Provision for loss on construction contracts, which are included in cost of sales, were ¥130 million (\$1,151 thousand) and ¥72 million for the years ended March 31, 2016 and 2015, respectively.

Research and development costs, which are included in cost of sales, general and administrative expenses, were ¥1,891 million (\$16,784 thousand) and ¥2,436 million for the years ended March 31, 2016 and 2015, respectively.

19. Business structure improvement expenses:

Business structure improvement expenses of ¥616 million (\$5,465 thousand) for the year ended March 31, 2016 mainly consists of restructuring expenses to integrate four sales subsidiaries in Tokyo metropolitan area. Business structure improvement expenses of ¥738 million for the year ended March 31, 2015 mainly consists of restructuring expenses for production structure of factories of consolidated subsidiaries. It includes impairment loss on long-lived assets described at 10. Impairment loss on long-lived assets.

20. Cash flow information:

Cash and cash equivalents at March 31, 2016 and 2015 were composed of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|-------------------------------------|-----------------|---------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Cash and bank deposits | ¥47,718 | ¥45,548 | \$423,482 |
| Less: | | | |
| Time deposits due over three months | (635) | (556) | (5,637) |
| Cash and cash equivalents | ¥47,083 | ¥44,992 | \$417,845 |

21. 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, 2016 and 2015.

As described in Note 2. (16) Leases, Misawa Homes, as a lessee, charges periodic payments of finance lease transactions entered into prior to April 1, 2008, as an expense when paid. Such payments for the years ended March 31, 2016 and 2015 amounted to ¥6 million (\$56 thousand) and ¥4 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, 2016 and 2015 would have been as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|-------------------------------------|-----------------|------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Acquisition cost: | | | |
| Buildings and structures | ¥26 | ¥26 | \$235 |
| Other property, plant and equipment | 12 | 13 | 108 |
| | 38 | 39 | 343 |
| Less: | | | |
| Accumulated depreciation | (24) | (22) | (214) |
| Net book value | ¥14 | ¥17 | \$129 |

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, 2016 and 2015.

Depreciation expenses for these leased assets for the years ended March 31, 2016 and 2015, would have been ¥5 million (\$43 thousand) and ¥3 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, 2016 and 2015, would have been ¥1 million (\$8 thousand). Accumulated impairment loss as of March 31, 2016 and 2015, would have been ¥401 million (\$3,563 thousand) and the amount is deducted from the acquisition cost.

Future lease payments for finance leases at March 31, 2016 and 2015 were as follows:

| Future lease payments | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|-----------------------|-----------------|------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Due within one year | ¥2 | ¥5 | \$18 |
| Due after one year | 16 | 17 | 141 |
| Total | ¥18 | ¥22 | \$159 |

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2016 and 2015 were as follows:

| Future lease payments | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|-----------------------|-----------------|--------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Due within one year | ¥379 | ¥279 | \$3,360 |
| Due after one year | 6,219 | 6,248 | 55,192 |
| Total | ¥6,598 | ¥6,527 | \$58,552 |

22. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2016 and 2015 were ¥33,366 million (\$296,109 thousand) and ¥39,784 million, respectively.

23. Related party transactions:

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

(Transactions)

| Name of related party | Type of transaction | Thousands of U.S. dollars (Note 6) | |
|-----------------------|-------------------------------|------------------------------------|---------------------------|
| | | Millions of yen | Year ended March 31, 2016 |
| Masako Kagawa | Housing construction contract | ¥20 | \$178 |
| Masumi Sato | Housing remodeling contract | ¥12 | \$106 |

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

There were no significant transactions between the consolidated subsidiaries of the Company and related parties for the year ended March 31, 2015.

24. Other comprehensive income:

Reclassification adjustments and income tax effects attributable to components of other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 6) |
|--|-----------------|--------|------------------------------------|
| | March 31 | | March 31, |
| | 2016 | 2015 | 2016 |
| Net unrealized gains (losses) on other securities | | | |
| Gains (losses) arising during the year | (¥468) | ¥294 | (\$4,149) |
| Reclassification adjustments for gains (losses) included in the income statement | (49) | (121) | (437) |
| Before income tax effect | (517) | 173 | (4,586) |
| Income tax effect | 72 | (26) | 638 |
| Total | (445) | 147 | (3,948) |
| Foreign currency translation adjustments | | | |
| Adjustments arising during the year | (48) | (45) | (425) |
| Remeasurements of defined benefit plans | | | |
| Adjustments arising during the year | (2,656) | 1,566 | (23,567) |
| Reclassification adjustments | (284) | 382 | (2,523) |
| Before income tax effect | (2,940) | 1,948 | (26,090) |
| Income tax effect | 835 | (476) | 7,404 |
| Total | (2,105) | 1,472 | (18,686) |
| Total other comprehensive income | (¥2,598) | ¥1,574 | (\$23,059) |

25. 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 | | | | | | |
|------------------------|---------------------|---------|----------------|-------------------|-------------|----------|----------|
| | 2016 | | | | | | |
| | Custom-built houses | Leasing | Built for sale | Housing materials | Renovations | Other | Total |
| Sales to third parties | ¥160,701 | ¥31,338 | ¥29,532 | ¥6,178 | ¥59,747 | ¥111,841 | ¥399,337 |
| | Millions of yen | | | | | | |
| | 2015 | | | | | | |
| | Custom-built houses | Leasing | Built for sale | Housing materials | Renovations | Other | Total |
| Sales to third parties | ¥179,373 | ¥27,904 | ¥26,792 | ¥6,435 | ¥59,429 | ¥109,862 | ¥409,795 |

Thousands of U.S. dollars (Note 6)

| | Thousands of U.S. dollars (Note 6) | | | | | | Total |
|------------------------|------------------------------------|-----------|----------------|-------------------|-------------|-----------|-------------|
| | 2016 | | | | | | |
| | Custom-built houses | Leasing | Built for sale | Housing materials | Renovations | Other | |
| Sales to third parties | \$1,426,174 | \$278,112 | \$262,085 | \$54,833 | \$530,235 | \$992,552 | \$3,543,991 |

(3) Geographical segments

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

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

(4) Information by major customers

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

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

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

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

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

Report of Independent Auditors



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan
Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
Misawa Homes Co., Ltd.

We have audited the accompanying consolidated financial statements of Misawa Homes Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, 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, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 6.

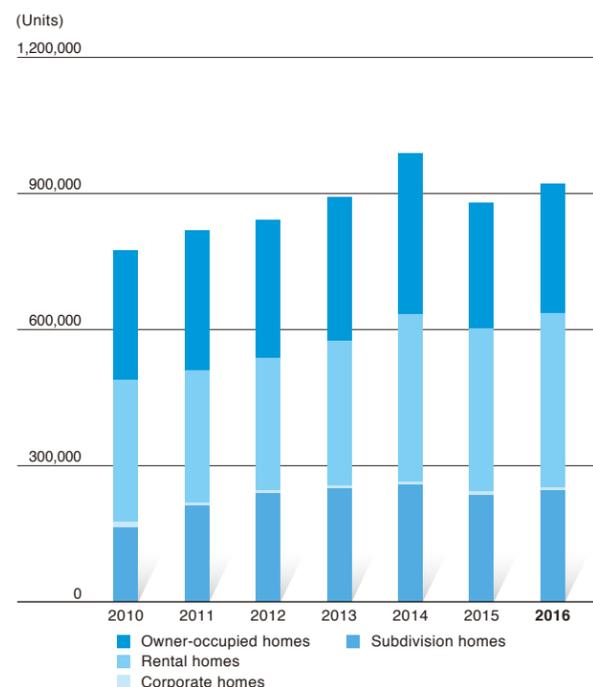
Ernst & Young ShinNihon LLC

June 29, 2016
Tokyo, Japan

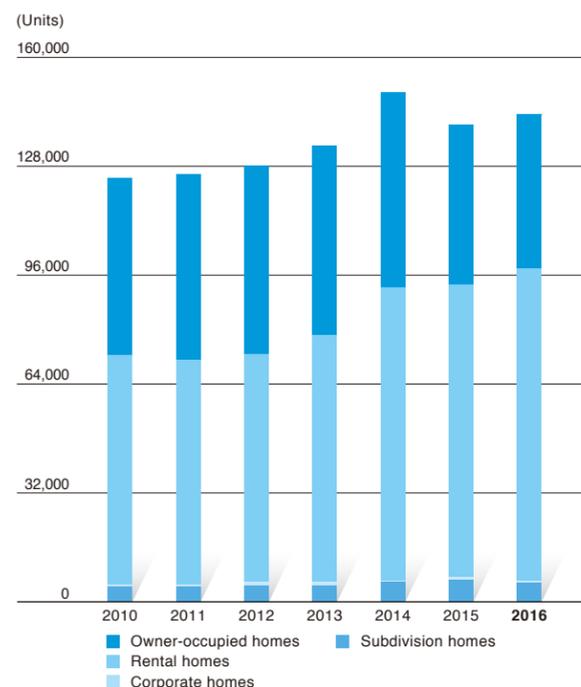
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Trends in the Housing Market in Japan

Housing Starts in Japan



Prefabricated Housing Starts in Japan



Housing Starts in Japan

| Fiscal year ended March 31 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Owner-occupied homes | 286,993 | 308,517 | 304,822 | 316,532 | 352,841 | 278,221 | 284,441 |
| Rental homes | 311,463 | 291,840 | 289,762 | 320,891 | 369,993 | 358,340 | 383,678 |
| Corporate homes | 13,231 | 6,580 | 7,576 | 5,919 | 5,272 | 7,867 | 5,832 |
| Subdivision homes | 163,590 | 212,083 | 239,086 | 249,660 | 259,148 | 236,042 | 246,586 |
| Total | 775,277 | 819,020 | 841,246 | 893,002 | 987,254 | 880,470 | 920,537 |

Prefabricated Housing Starts in Japan

| Fiscal year ended March 31 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Owner-occupied homes | 51,819 | 54,715 | 55,396 | 55,887 | 57,422 | 46,820 | 45,136 |
| Rental homes | 67,415 | 65,952 | 66,994 | 72,488 | 86,028 | 86,100 | 91,849 |
| Corporate homes | 749 | 533 | 1,009 | 373 | 540 | 792 | 534 |
| Subdivision homes | 4,378 | 4,502 | 4,817 | 5,339 | 5,766 | 6,445 | 5,645 |
| Total | 124,361 | 125,702 | 128,216 | 134,087 | 149,756 | 140,157 | 143,164 |

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

Subsidiaries and Affiliated Company (As of March 31, 2016)

| Company | Address | Capitalization (Millions of yen) | Percentage of Voting Rights Owned by Misawa Homes Co., Ltd. (%) | Primary Business |
|---|----------------------------------|-------------------------------------|---|--|
| Consolidated subsidiaries: | | | | |
| Misawa Homes Hokkaido Co., Ltd. | Sapporo, Hokkaido Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Tohoku Misawa Homes Co., Ltd. | Sendai, Miyagi Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Hokuetsu Co., Ltd. | Niigata, Niigata Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Koushin Co., Ltd. | Matsumoto, Nagano Prefecture | 100 | 99.8 | Construction and sales of prefabricated houses |
| Misawa Homes Shizuoka Co., Ltd. | Shizuoka, Shizuoka Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Tokai Co., Ltd. | Nagoya, Aichi Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Kinki Co., Ltd. | Osaka, Osaka Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Chugoku Co., Ltd. | Okayama, Okayama Prefecture | 1,369 | 72.1 (4.2) | Construction and sales of prefabricated houses |
| Misawa Homes Shikoku Co., Ltd. | Takamatsu, Kagawa Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Kyushu Co., Ltd. | Fukuoka, Fukuoka Prefecture | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Ceramics Co., Ltd. | Suginami-ku, Tokyo | 100 | 100.0 | Construction and sales of prefabricated houses |
| Misawa Homes Construction Co., Ltd. | Chofu, Tokyo | 50 | 100.0 | Construction of prefabricated houses |
| Misawa Homeing Co., Ltd. | Suginami-ku, Tokyo | 100 | 100.0 | Home renovation |
| Techno Factories and Construction Co., Ltd. | Shinjuku-ku, Tokyo | 50 | 85.1 (20.0) | Manufacture of house materials |
| Misawa Homes Real Estate Co., Ltd. | Shinjuku-ku, Tokyo | 90 | 100.0 | Real estate sales, brokerage, rental and management |
| Motherth Co., Ltd. | Shinjuku-ku, Tokyo | 50 | 100.0 | Fee-based operation of nursing homes and apartment housing complexes for seniors |
| Misawa Financial Service., Ltd. | Shinjuku-ku, Tokyo | 500 | 100.0 | Mortgage lending |
| 24 others | | | | |
| Affiliated company: | | | | |
| Toyota Motor Corporation | Toyota, Aichi Prefecture | 397,050 | [29.0] [[29.0]] | |

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, 2016)

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 Audit & Supervisory Board Members

(As of June 29, 2016)

Directors

Nobuo Takenaka¹
 Masashi Isogai¹
 Hideki Shimomura
 Hideyuki Yoshimatsu
 Hiroomi Tanaka
 Sumio Yokota
 Tetsuya Sakuo
 Tadashi Yamashina
 Yuji Goto

Audit & Supervisory Board Members

Takahiro Kagawa²
 Hirotomo Hase²
 Hirohiko Fukatsu
 Nobuo Nagasaki

Executive Officers

Nobuo Takenaka³
 Masashi Isogai⁴
 Hideki Shimomura⁵
 Hideyuki Yoshimatsu⁵
 Hiroomi Tanaka⁶
 Sumio Yokota⁶
 Tetsuya Sakuo⁶
 Hiroshi Sakaguchi⁶
 Yoichiro Dokan⁶
 Kazuaki Uchida⁶
 Yukihiro Ishikawa⁶
 Tetsuyuki Morita
 Kengo Shoji
 Hidehiko Hara
 Kazuyoshi Akimoto
 Takashi Nakamura
 Saburo Yanagidani
 Hitoshi Shirahama

¹Representative Directors

²Standing Audit & Supervisory Board Members

³Chief Executive Officer

⁴Executive Vice President

⁵Senior Managing Executive Officers

⁶Managing Executive Officers

Share Information

| | Shares |
|--|-------------|
| Total number of shares authorized | 150,000,000 |

| | |
|--------------------------------------|------------|
| Total number of shares issued | 38,738,914 |
|--------------------------------------|------------|

Number of shareholders

| | |
|--------------|--------|
| Common stock | 37,833 |
|--------------|--------|

Major shareholders

| | No. of shares | % |
|--|---------------|-------|
| 1 Toyota Housing Corporation | 10,784,100 | 27.83 |
| 2 Aioi Nissay Dowa Insurance Co., Ltd. | 2,058,327 | 5.31 |
| 3 Japan Trustee Services Bank, Ltd. (Trust A/C) | 1,187,400 | 3.06 |
| 4 STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS- UNITED KINGDOM | 914,500 | 2.36 |
| 5 Misawa Homes Group Employee Shareholders Association | 766,936 | 1.97 |
| 6 Japan Trustee Services Bank, Ltd. (Trust A/C9) | 748,800 | 1.93 |
| 7 The Master Trust Bank of Japan, Ltd. (Trust A/C) | 675,900 | 1.74 |
| 8 Nippon Life Insurance Company | 609,053 | 1.57 |
| 9 The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 559,912 | 1.44 |
| 10 J.P. MORGAN CLEARING CORP - CLEARING | 321,000 | 0.82 |

Note: The Company holds 1,388,550 shares of treasury stock and is not regarded as a principal shareholder.
 The investment ratio excludes the number of shares of treasury stock.

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

