PanaHome

Annual Report 2009 For the year ended March 31, 2009

A Brave Step Forward

PanaHome Corporation

Corporate Profile

As a housing company within the Panasonic Group, we aim to lead the way with ‘eco ideas.’

PanaHome Corporation was established in 1963, born from Panasonic founder Konosuke Matsushita’s desire to build homes worthy of the important role they play in people’s lives. Today, the Company draws on its years of experience and the comprehensive strengths of the Panasonic Group to create homes built on the foundations of trust using advanced technology.

PanaHome aims to lead the industry in providing housing solutions that are people-friendly and help protect the global environment. Going forward, the Company will continue to harness the power of nature and advanced eco-technologies to provide healthier and more comfortable living spaces while pursuing energy generation and conservation, reduction of CO_2 emissions, and conservation of natural resources.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements, including PanaHome’s plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; market trends; fluctuations in land prices; laws, regulations, and government policies; and political instability in principal markets.

Cover: *PanaHome City Seishin Minami I and II* (Kobe City, Hyogo). With solar power generation systems installed in all 100 homes, this development has been selected by the Ministry of Economy, Trade and Industry as a case example of advanced introduction of new energy.

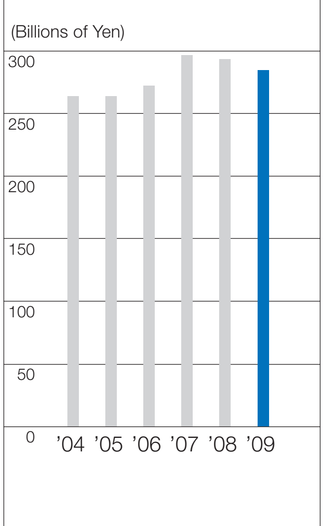
Financial Highlights

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, from 2004 to 2009

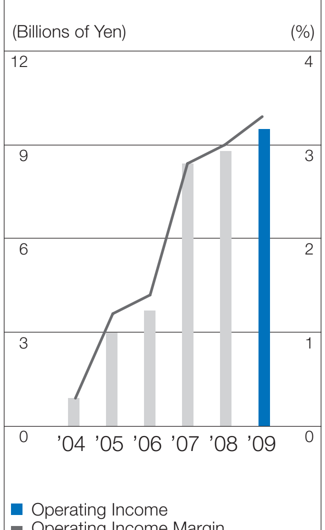
	Millions of Yen						Thousands of U.S. Dollars
	2004	2005	2006	2007	2008	**2009**	**2009**
Net Sales	¥263,755	¥263,826	¥272,294	¥296,817	¥293,617	**¥284,625**	**$2,904,337**
Operating Income	921	3,045	3,738	8,363	8,757	**9,492**	**96,857**
Income (Loss) before Income Taxes and Minority Interests	322	3,213	(1,779)	6,893	(1,188)	**8,237**	**84,051**
Net Income (Loss)	1,134	3,772	(2,701)	5,240	(606)	**2,948**	**30,082**
Total Assets	232,147	233,365	214,019	216,771	206,750	**202,855**	**2,069,949**
Equity	120,642	122,273	117,107	120,543	117,357	**117,437**	**1,198,337**
Return on Equity	0.9%	3.1%	(2.3)%	4.4%	(0.5)%	**2.5%**	
Equity Ratio	52.0%	52.4%	54.7%	55.3%	56.3%	**57.5%**	
	Yen						U.S. Dollars
Per Share Amounts:							
Net Income (Loss)	¥ 6.75	¥ 22.48	¥ (16.10)	¥ 31.21	¥ (3.61)	**¥ 17.53**	**$ 0.18**
Diluted Net Income	6.75	22.47	–	31.18	–	**–**	**–**
Cash Dividends	15.00	15.00	15.00	15.00	15.00	**15.00**	**0.15**
Number of Employees at Year-end (Persons)	6,603	6,493	5,978	5,750	5,097	**5,076**	

Notes: 1. In this annual report, "U.S. Dollars" and "$" refer to the currency of the United States of America and "Yen" and "¥" refer to the currency of Japan. U.S. Dollars are translated from yen at the rate of ¥98 = US$1, the approximate rate of exchange at March 31, 2009, solely for the convenience of the reader.
2. Cash dividends per share are those declared with respect to income for each fiscal year, and cash dividends charged to retained earnings are those actually paid.
3. Equity figures for 2006 and earlier do not include minority interests.

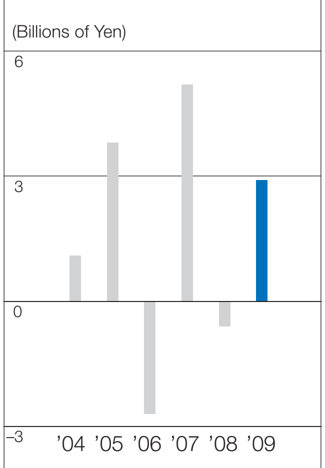
Net Sales



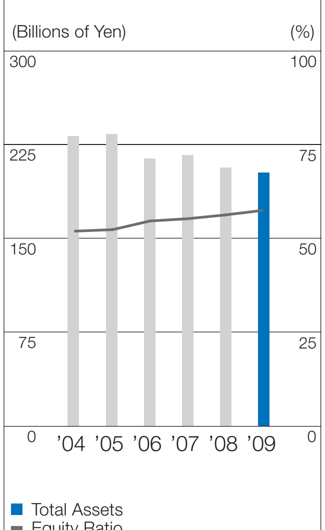
Operating Income/ Operating Income Margin



Net Income (Loss)



Total Assets/ Equity Ratio



PanaHome at a Glance

From detached housing and home remodeling to asset management, PanaHome seeks through its many business activities to satisfy customers' desires and fulfill the dream of housing that lasts a lifetime.

Custom-built Detached Housing

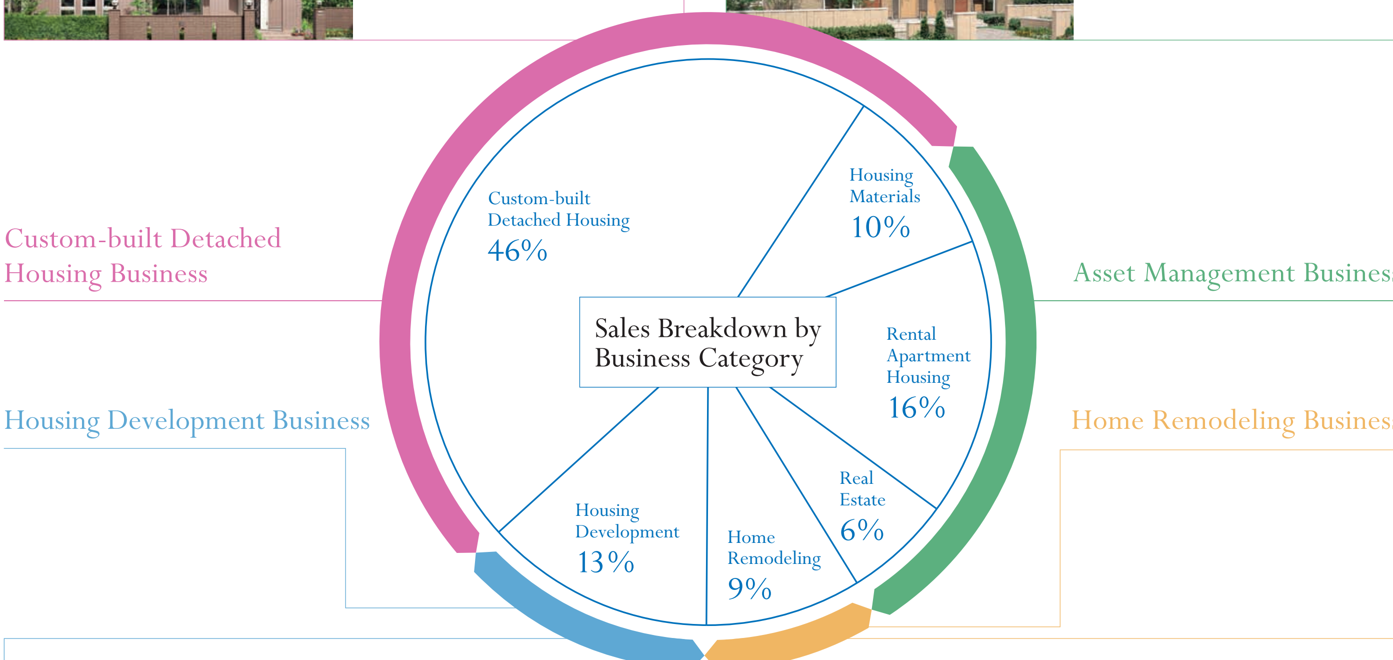
PanaHome offers a varied lineup of detached housing ranging from one-story single-family homes to five-story multipurpose dwellings, with two-story homes as the mainstay product. We offer advanced eco-technologies, propose new ways of living, and apply superb design capabilities to accommodate diverse site conditions and lifestyles.

Please see page 11 for more information.

Asset Management

PanaHome provides comprehensive support for landowners to utilize their property for rental housing, from site planning, survey, and design to business planning, financial planning, and management consulting. We also support businesses that benefit people in today's graying society, such as private nursing-care homes and rental housing for the elderly.

Please see page 12 for more information.



Housing Development

Whether individual homes or entire residential communities, PanaHome creates fulfilling living environments. In community development projects throughout Japan, we create living environments that are both people- and environment-friendly by incorporating solar power generation systems, all-electric specifications, photocatalytic tile, and exterior and gardening services. We also offer premium-grade condominiums equipped with the most advanced facilities.

Please see page 13 for more information.

Home Remodeling

PanaHome offers highly detailed consulting services to assist customers in planning highly satisfying home remodeling. We also offer environment-friendly Eco-Life remodeling that provides savings on utility costs. We are able to meet customer requirements for the remodeling of a wide range of residences, from conventional wooden houses to reinforced concrete structures and condominiums, and, of course our own PanaHomes.

Please see page 13 for more information.

PanaHome's Strengths

PanaHome offers Eco-Life Homes concept for residences that minimize environmental impact and ensure comfortable living for occupants.

Energy Generation and Conservation

PanaHome delivers homes that contribute to environmental protection and reduce household expenses through high-performance insulation and airtight construction. We offer a wide array of 'eco-ideas' defined by features such as solar power generation systems, all-electric specifications, energy-saving appliances and equipment, and exterior and gardening services. Advanced technology has made possible exterior walls made of KIRATECH photocatalytic tile, which harness the power of the sun and rain to achieve a self-cleaning effect that virtually eliminates the need for maintenance. This innovation not only saves money and resources, but also purifies the surrounding air, much as a natural forest would, by breaking down nitrogen oxides, hazardous atmospheric pollutants.

Safety and Security

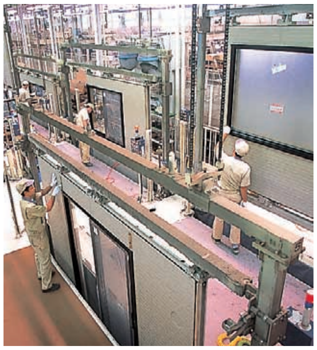
PanaHome residences feature an earthquake-resistant steel-frame structure that offers safety and security. Thanks to robust construction that is highly resistant to major earthquakes and withstands repeated tremors, to date none of PanaHome's houses in Japan have been severely damaged. The durability of PanaHome residences has been verified even in punishing vibration testing of full-size homes, which can withstand seismic waves of approximately 4.3 times the intensity of the Great Hanshin-Awaji Earthquake that wreaked havoc in Kobe in 1995. Furthermore, we deliver homes in which people can continue to live in safety for many years via construction that increases total durability and facilitates remodeling.

Health and Comfort

For more than 20 years, PanaHome has paid careful attention to home air quality. Using an original integrated hybrid ventilation system that combines mechanical and natural ventilation, air passes through underfloor space that is cool in summer and warm in winter, supplying fresh air to the living room and conserving energy. We also incorporate Wakkanai diatomite into building materials, which offers excellent humidity regulation performance, and rigorously implement volatile organic compound (VOC) reduction measures.

Factory Production

PanaHome houses are industrialized homes built by producing the principal structural components at state-of-the-art factories and assembling them at the construction site. We pursue high accuracy and high quality based on rigorous quality control and have obtained certification in the ISO 9001 international quality assurance standard.



Home Testing Center

PanaHome's Home Testing Center is one of the largest in the industry. Here we conduct rigorous environmental tests and confirm building quality and durability. We rank first among housing companies in Japan in the cumulative number of registrations of patents and utility models.

To Our Stakeholders

PanaHome President & CEO Tsutomu Ueda in front of an overnight-stay model home at Hirakata Wani-koen

Fiscal 2008, the year ended March 2009, was marked from September 2008 onward by challenging economic conditions stemming from the global economic downturn. The housing industry was likewise thrust into an adverse environment, with soaring materials prices exerting downward pressure on profits, a pronounced downshift in housing investment appetite in response to recession-induced deterioration in the employment environment, and the reverse wealth effect of the equity market downturn.

Amid such an environment, PanaHome proactively conducted operations revolving around the basic concept of providing Eco-Life Homes that are both environmentally friendly and comfortably inhabitable. We also embarked on an 'eco ideas' environmental management initiative as a member of the Panasonic Group. Despite these efforts, our sales declined amid the industry's tumultuous operating environment. Operating income, however, grew thanks to continued cost-cutting and rationalization, as well as cost savings derived from structural reforms implemented in fiscal 2007, the year ended March 2008.

In fiscal 2009, the year ending March 2010, we expect the housing industry to continue to face severe challenges amid this global economic crisis, which has been likened to a once-in-a-century storm. On the upside, the industry is starting to benefit from a strong tailwind in the form of a spate of policy measures, including Japan's largest-ever tax deduction on mortgage, to stimulate housing construction, and in turn domestic demand growth.

Under these conditions, we will endeavor to lower our breakeven sales level by aggressively cutting fixed costs and rationalizing operations to strengthen our management base. In terms of growth strategy, we will step up operations focused on the existing housing stock while shifting from a passive, showroom-oriented sales approach to a more proactive referral-based approach. We take pride in the unique technological capabilities, product development capabilities, and sales channels that we have cultivated over the years. Our energy-saving technologies have been recognized with the House of the Year in Electric 2008 grand prize, we are deploying overnight-stay model homes in earnest, and we are using the local Panasonic dealer network as a source for customer referrals. We are confident that these assets will help us win orders from customers.

We aim to continue to offer appealing, environment- and people-friendly residences by tapping into the Panasonic Group's broad array of strengths, redoubling our efforts to be a comprehensive housing company that delivers lifelong customer satisfaction.

We hope to enjoy your continued support.

July 2009

Tsutomu Ueda

Tsutomu Ueda
President & CEO

An Interview with President Tsutomu Ueda

Q1 In fiscal 2008, operating income grew 8.4% while sales were down 3.1%. What is the reason for the growth in profit as sales slid?

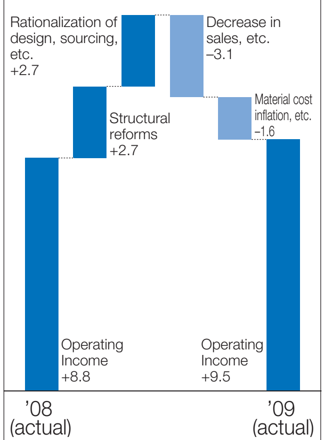
A1 Although sales were depressed by sharp declines in market conditions, our operating income grew thanks to our preemptive structural reforms and continued efforts to solidify our management base.

Sales decreased ¥9 billion relative to fiscal 2007 in the wake of a precipitous downturn in the housing market and increased employment insecurity, both of which were triggered by the recession that unfolded from autumn 2008. Our sales force implemented a variety of measures to capture orders, but consumers' inclination to invest in housing decreased markedly, and as a result we fell short of our sales target.

We achieved growth in operating income by virtue of structural reforms implemented in fiscal 2007 and efforts to strengthen our management base that have been ongoing since 2006. Our production divisions achieved further cost savings by reducing inventories and implementing labor- and space-saving measures based on a reassessment of each production line. At construction sites, we developed new construction techniques that reduced the time from completion of the framing stage to final completion by an average of 30%. There were various other Company-wide measures to boost profits through cost reductions. For example, we consolidated processes that were being reduplicated at multiple branch offices into newly established construction centers and design centers in each of four regions, opening facilities for recovering surplus and scrap materials from construction sites to dispose of scrap materials in bulk, and reusing surplus materials. Through these initiatives, over the past two years we lowered our breakeven sales level by ¥16.0 billion.

Change in Operating Income (Year on Year)

(Billions of Yen)



Years ended March 31

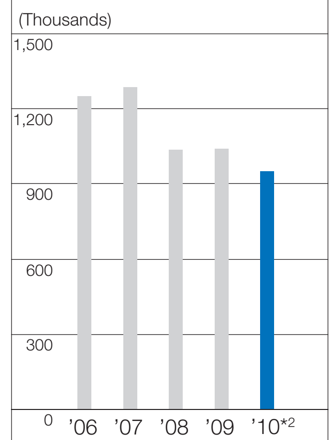
Q2 What type of sales strategy will you pursue to win orders in this adverse market environment?

A2 By cultivating a variety of sales channels, we will shift to a proactive sales approach instead of passively waiting for prospective customers to visit showrooms.

In fiscal 2009, we project Japanese new housing starts of around 950,000 units, down from 1,040,000 units in fiscal 2008. Given this environment, I believe that instead of waiting for customers to visit our model homes, we now must proactively seek customers through methods such as online solicitations and approaching corporate groups.

As a member of the Panasonic Group, we intend to strengthen cooperative ties with local Panasonic dealers as a major component of our proactive sales strategy. Panasonic has a large network of specialty electronics dealers that sell its products, dealers that are deeply rooted in their local communities. Their business is based on relationships of trust built up over many years of continuously selling and servicing electronic products. These dealers collectively have a large number of customers, many of whom are relatively older—in other words, potentially interested in rebuilding their homes or trading up or down to a new home. By utilizing local Panasonic dealers as a source of referrals, we aim to work with customers as a housing advisor, thereby increasing our order-booking efficiency. If customers referred to us end up purchasing a new home or rebuilding their existing home, the transaction will create replacement demand for household appliances also. I therefore expect cooperation with local Panasonic dealers to be mutually beneficial.

Number of New Housing Starts in Japan*[1]



*1 Number of units; includes detached homes, rental apartment housing and condominiums
*2 PanaHome projection

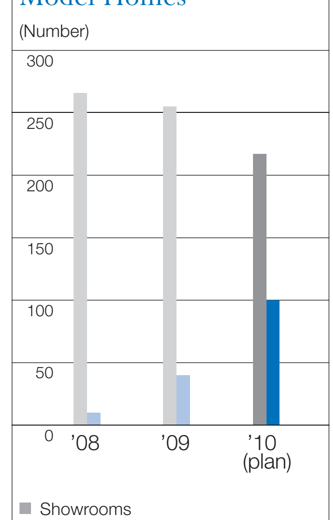
Years ended March 31

Q3 How do you plan to use your growing portfolio of overnight-stay model homes?

A3 We will operate the overnight-stay model homes as proactive sales bases that benefit the entire Panasonic Group by allowing customers to experience both the quality of our homes and the Panasonic Group's latest home appliances and equipment.

Our overnight-stay model homes—incidentally, this interview is taking place at one of them—are houses built for sale, but we are temporarily using them for sales activities. Customers interested in buying a custom home or having their existing home rebuilt can stay overnight in a model home to experience first-hand the quality of our homes' features, such as our attention to soundproofing, insulation, and air quality. Our overnight-stay model homes are "all Panasonic" all-electric homes, meaning that not only the home itself, but all of its equipment, including kitchen appliances, baths, and even building materials, are Panasonic products.

Number of Showrooms and Overnight-stay Model Homes



As of March 31

They provide an opportunity for families to cook dinner, relax, take baths, and otherwise experience the comfort and high quality of PanaHome houses while also prompting in-depth conversations about the type of home they want to live in.

The overnight-stay model homes have been well received by customers, too. Of prospective customers who stay overnight at a model home, a very high percentage sign a contract, in comparison to customers who only visit conventional showrooms. We had 40 overnight-stay model homes throughout Japan as of March 31, 2009, and we plan to increase this number to 100 by March 2010.

Additionally, during the daytime on weekdays, when the model homes are usually unoccupied by customers, we are considering allowing local Panasonic dealers to use them as showrooms equipped with the latest appliances and other home electronics, for hosting their customers.

Q4 The government's economic stimulus policies emphasize both housing and the environment. In response, nearly every homebuilder is stepping up environmental and energy-efficiency initiatives. How will you differentiate PanaHome from competitors as the competition intensifies?

A4 We will stress to customers our technological capabilities and track record, exemplified by our winning the House of the Year in Electric grand prize in fiscal 2008—the first prefab housing manufacturer ever to win.

We have sold a cumulative total of over 10,000 highly energy-efficient homes equipped with solar power generation systems, so we already enjoy a degree of recognition from customers as an industry leader in developing homes—namely, Eco-Life Homes—that are both environmentally friendly and comfortable to live in. In fiscal 2008, one of our products won the House of the Year in Electric 2008 grand prize awarded to all-electric homes that are particularly outstanding in terms of energy efficiency and CO_2 emissions reductions. We were the first prefab housing manufacturer to earn this distinction. I believe that we received the award in recognition of our technological prowess and previous track record, and we will stress this competitive edge to customers from every angle.

The Panasonic Group also is committed to developing total solutions for the entire house that holistically reduces CO_2 emissions in accord with the concept of "saving, creating, and storing energy." Panasonic's ongoing Group-wide efforts to develop and sell a wide range of environmentally friendly products, from lighting to building materials to fuel cells, is a strength that no competitor can claim. By leveraging these capabilities, we can increase the prevalence of Eco-Life Homes that are both comfortable and reduce their occupants' CO_2 footprint.

In 2009, the Japanese government granted home-owners the most generous tax deduction on mortgages in history, as well as lowering the gift tax and launching subsidies for fuel cells and solar power generation systems. Our front-line sales personnel report a gradual pickup in homebuying interest among prospective customers. We will translate this interest into order bookings through a proactive sales approach as a company publicly recognized for its environmental leadership.

Japan's Fiscal 2009 Economic Stimulus Measures

The government's economic stimulus measures are targeted at housing, the environment, and eldercare

Tax deduction on mortgage:
- Income tax and resident tax deduction
- Highest-ever deductible limit (up to ¥5 million) (up to ¥6 million for homes designed for longevity)

Tax incentives for residential investment:
- Income tax deduction
- New construction: up to ¥1 million (for homes designed for longevity)
- Home remodeling: up to ¥200,000 (energy efficiency, barrier-free floorplans, etc.)

Gift tax reduction:
- Exemption increased to ¥6.1 million

Subsidies:
- Solar power generation systems: ¥70,000/kW
- Fuel cells: ¥1.4 million

Doubling of feed-in tariff:
- Effective date to be determined

Q5 The consensus outlook calls for the domestic housing market to shrink over the medium to long term. Do you envision a business growth scenario even in the face of a shrinking market?

A5 We will continue growing by strengthening our housing stock business and providing services that help our customers live comfortably in their homes throughout their lives.

Domestic new housing starts are indeed in a long-term downtrend due to demographics: people are having fewer children, and the average age of the population is rising. Annual new housing starts are projected to decrease to 800,000 units by 2015. At the same time, however, we expect to see the housing market undergo a reorientation from quantity to quality in response to a government policy shift aimed at ensuring high-quality housing stock is available to future generations. In anticipation of such a change, we have designated fiscal 2009 as the start of a broadening of scope to include what we call the "housing stock business." We intend to achieve growth by focusing on businesses that seek to maintain homes' long-term asset value as well as offering high-quality new homes designed and built to last.

We aim to provide not only lifelong comfort in the form of a physical house itself, but also a variety of incidental housing-related services. After a family purchases a home, its lifestyle and household composition typically change as it continues to occupy the home over the ensuing decades. By strengthening our remodeling, real estate brokerage, and medical and nursing-care home construction businesses, we will be able to meet the needs of customers who want to live in a home suited to their life stage.

Our steel-frame prefab housing, in addition to being structurally sturdy, is also relatively conducive to interior remodeling, including floorplan redesigns. This flexibility offers PanaHome the opportunity to generate long-term remodeling and maintenance business. Because of our ongoing relationships with our clients, we are able to ascertain their need for remodeling at an early stage, which leads to a steady intake of orders.

I believe that the Western practice of trading up or down from one residence to another in accord with one's life stage will eventually become the norm in Japan as well. We will focus on developing a brokerage business to meet customers' relocation needs, taking advantage of the accumulated data on the housing that we have been providing to customers.

Lastly, demand for construction of medical facilities and nursing-care homes is also expected to grow as society ages and the government changes its eldercare policy by removing hospital beds for long-term nursing care from public health care coverage. With a track record of supplying some 1,000 medical and nursing-care facilities since 2000, we have amassed a wealth of know-how in directly operating such facilities. We will actively emphasize this strength to the market.

Q6 You have been paying stable dividends for 10 years. What are your plans for further enhancing corporate value?

A6 We will meet investors' expectations by improving earnings and building the foundation of a business model conducive to future growth.

We consider fiscal 2009 to be a crucial year for turning around the business. In response to declining new housing starts in our core market, we aim to build a business model conducive to future growth by cultivating new markets.

Sound management and continuous growth are required in order to provide customers with reliable services and homes in which they can live with peace of mind for years to come. We have embarked upon structural reforms ahead of our competitors, continued to rationalize our operations, and endeavored to build financial strength sufficient to enable us to support and maintain relationships with our customers over the long term.

We intend to continue managing our operations with the conviction that ceaseless pursuit of strong management imparts confidence and satisfaction to customers and leads to steady earnings growth and enhancement of corporate value.

Featured Topic

EL·SOLANA Homes Demonstrate Environmental Leadership

Since the launch of the all-electric *EL·SOLANA* series in July 2003, PanaHome has reduced CO_2 emissions and promoted a high energy-performance lifestyle by offering insulation performance that meets next-generation energy conservation standards, solar power generation systems, and the energy-saving Eco-Life ventilation system as standard features.

In fiscal 2008, we further improved insulation and environmental performance, resulting in the certification of *EL·SOLANA* as a Green Product (GP) under the Panasonic Group's assessment system*1. In January 2009 we reintroduced the product as *NEW EL·SOLANA*, which delivers sharp reductions in CO_2 emissions and utility costs.

By the end of January 2009, cumulative sales of PanaHome residences equipped with solar power generation systems such as *EL·SOLANA* had exceeded the 10,000-unit milestone.

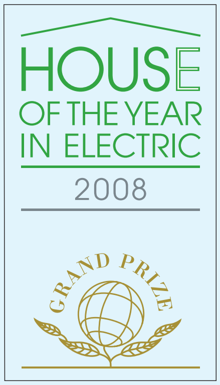
*1 The GP environmental assessment system is designed to promote concrete implementations of the Panasonic Group's 'eco ideas' activities and improvements in the environmental performance of products.

*2 Trial calculation conditions (as of January 2009): calculated figures are approximate targets and do not constitute a guarantee.
- Independent comparison of a home that meets new energy conservation standards (combined use of electricity and gas) and *EL·SOLANA* (all-electric, 3kW solar power generation system).
- Assuming a family of four in a PanaHome model plan in the Osaka area, using air conditioning.
- Using CO_2 emissions data from local electric power and gas suppliers.

NEW EL·SOLANA

CO_2 emissions reduction:
approx. 2.9 metric tons/year*2

House of the Year in Electric 2008 Grand Prize



EL·SOLANA won the grand prize in the House of the Year in Electric 2008. This program, run by the Japan Center for Area Development Research (competent authority: Ministry of Land, Infrastructure, Transport and Tourism) recognizes all-electric houses with excellent CO_2 emissions reduction and energy conservation performance. *EL·SOLANA* had previously won a special prize in 2007.

This program covers all-electric houses recognized for excellence from the perspective of quantitative energy conservation performance evaluation of the building and of a set of major facilities and equipment. It also takes into account factors such as ingenuity and vision and the fusion of comfort, safety, and energy conservation performance, as well as contributions to the spread of energy-saving housing.

The grand prize was awarded in recognition of PanaHome's proactive efforts to disseminate energy-saving housing. These included optimization of the total energy performance of the houses and their facilities and equipment, the creation of Eco-Life Home environmental performance simulation software that enables the simulation of building environmental performance, maintenance costs, and utility costs for individual homes, and the operation of "overnight-stay model homes" that enable potential customers to experience the comfort of Eco-Life Homes, as well as the number of units sold.

Business Operations

Custom-built Detached Housing

PanaHome develops and builds houses that emphasize three themes: safety and security, health and comfort, and energy generation and conservation. We vigorously pursue continuous improvement of basic performance and reduction of life cycle cost (LCC) by means of independent technological development.

In fiscal 2008, we launched three new products certified as environmentally-conscious Green Products under the Panasonic Group's internal environmental assessment system. We have proposed these products as 'eco ideas' homes that deliver excellent environmental performance through CO_2 emissions reduction and energy conservation performance.

In the coming years we will continue to build energy-saving, long-lasting houses to flexibly respond to changing needs in the diversifying housing market.

Three New Offerings

NEW EL·SOLANA

NEW EL·SOLANA

NEW EL·SOLANA represents the pinnacle of environmental performance at PanaHome. We aim to reduce life cycle costs (LCC) by adopting as standard features excellent insulation performance, solar power generation systems, and ventilation systems that contribute to energy conservation.

eu Lucia We

eu*Lucia We

eu Lucia We marks the further evolution of the original PanaHome efficient housework layout, developed and proposed from the perspective of women. We conducted new studies of how homemakers go about their work, and have proposed designs that reduce the need to move around the house during chores and with it a new lifestyle in which housework is more efficient. We have also provided excellent environmental performance thanks to improved insulation.

solbios archi mode

archi mode

solbios archi mode is a line of three-story urban homes with stylish designs and functional layouts that offer city dwellers a new option for life. These homes were designed in collaboration with a female architect who stands at the forefront of the industry, incorporating a woman's perspective into prefabricated housing.

Asset Management

Rental Apartment Housing

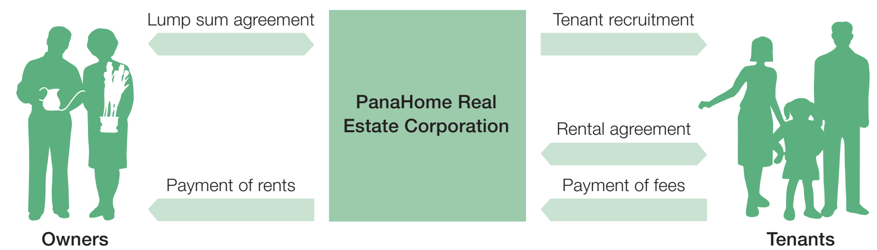
PanaHome engages in product development to create comfortable rental housing products that will continue to be chosen by tenants.

In fiscal 2008, we focused on sales of the *EL MAISON NEXT* line of all-electric rental apartments. These units feature top-grade earthquake-resistant capabilities and self-cleaning photocatalytic tile-covered outer walls that purify the surrounding air. To promote sales, we actively conducted social gatherings with PanaHome's apartment owners and asset management seminars. We also opened overnight-stay model rooms to help potential owners better understand product features and benefits by offering them the opportunity to spend a night in an actual apartment.

In the coming years, we will continue to provide stable management solutions for owners by introducing the comfortable Eco-Life Home concept developed in the detached housing business to provide tenants with comfortable living spaces with low utility costs, facilitating stable occupancy rates.

EL MAISON NEXT

Whole-building Leasing System



Real Estate Management

In September 2007, we established PanaHome Real Estate Corporation as a specialized real estate management subsidiary. The new company offers after-sale services such as rental management, tenant recruitment, and periodic renovations, and its addition enables PanaHome to provide comprehensive integrated support services ranging from plans and proposals to design, construction and the after-sale life cycle.

In fiscal 2008, we promoted the concept of worry-free apartment building management by implementing a whole-building leasing system that eliminates the burden of property management and enables owners to rent out all units at a fixed rental price per unit.

In the future, in addition to providing support for business asset management, we plan to enter the used housing market by augmenting brokerage services.

Care Village Living: a multifunctional rental housing facility for the elderly

Medical and Welfare Facilities

PanaHome takes advantage of expertise accumulated through a solid record of accomplishments to actively engage in business activities providing private nursing-care homes, multifunction nursing-care insurance facilities, and rental housing for the elderly.

In fiscal 2008, we focused on sales of multifunctional rental housing facilities for the elderly that offer medical care with nursing services.

In the coming years, we will take advantage of the favorable tailwind provided by government policies for the revision of nursing-care benefits and the relaxation of the control over the number of nursing-care facilities. In this way, we will continue to actively prepare to meet the housing needs of an aging society with innovative proposals such as a combination of medical care, nursing care, and rental operation.

Housing Development


Eco-Life Stage Sakurao

PanaHome develops detached housing for sale and condominiums that meet the needs of first-time homebuyers, principally the children of baby boomers, with emphasis on the Tokyo, Nagoya, and Osaka areas.

In fiscal 2008, in the detached housing business we implemented the Ministry of Land, Infrastructure, Transport and Tourism's Initiative Model Project for Developing Super-Long-Life Houses, whose goal is to extend the life of housing, at 23 locations nationwide, including *Premierd Hills Ryugasaki Koshiba* (Ryugasaki City, Ibaraki), *PanaHome-City Hirakata Wani-koen* (Hirakata City, Osaka), and *Eco-Life Stage Sakurao* (Hatsukaichi City, Hiroshima).

Building on our successful condominium development track record in the Tokyo metropolitan area and the Kinki region around Osaka, in fiscal 2008 we sold our first property in the Chubu Region, *Park Nade Kuwana Ekimae* (Kuwana City, Mie).

Plans for the future include improvement of the quality of the portfolio of owned properties through the purchasing of sites carefully selected taking property value trends into consideration, as well as through inventory turnover rate improvement by means of early-stage sales.

Home Remodeling


Eco-Life remodeling: solar panels on the roof of a home

PanaHome provides home remodeling services, focusing primarily on existing PanaHome owners to ensure lifelong satisfaction with our products.

We take advantage of a unique combination of the total perspective and wealth of expertise of a housing company and comprehensive capabilities available only from the Panasonic Group to offer Eco-Life remodeling services that minimize impact on the environment and financial burden on the owner, such as by providing solar power generation systems and all-electric specifications. We also offer consultation-oriented remodeling to coordinate a comfortable living space and installation of equipment.

In fiscal 2008, we positioned the home remodeling business as a core business in order to maintain the quality of housing as a long-term asset, and expanded the sales force to boost selling power.

Future plans call for further reinforcement of contact points with PanaHome owners to promote businesses geared towards promoting enhanced quality of housing stock. We will also propose a remodeling approach for apartment buildings that takes into consideration all aspects of rental property operation business planning.

Corporate Social Responsibility

The PanaHome Corporate Philosophy

The management philosophy of the Panasonic Group is "a company is a public entity of society." PanaHome regards the improvement of way of living and the provision of living environments that provide lifelong satisfaction to customers through the housing business as an important social responsibility. To ensure management that merits the trust of society, we will continue to endeavor to clearly understand and vigorously practice the PanaHome corporate philosophy.

PanaHome Corporate Philosophy

Visit the website below for information about PanaHome's corporate philosophy.

http://www.panahome.jp/english/policy/

Panasonic Group Management Philosophy


綱領
産業人タルノ本分ニ徹シ社會生活ノ改善ト向上ヲ圖リ世界文化ノ進展ニ寄與センコトヲ期ス
信條
向上發展ハ各員ノ和親協力ヲ得ルニ非サレハ得難シ各員至誠ヲ旨トシ一致團結社務ニ服スルコト

Visit the website below for information about the Panasonic Group's management philosophy.

http://panasonic.net/csr/one/phi/

PanaHome's Eco-Life Homes

Visit the website below for information about Eco-Life Homes from PanaHome.

http://www.panahome.jp/english/ecolife/

Panasonic Group's Eco Ideas

Visit the website below for information about the 'eco ideas' from the Panasonic Group.

http://panasonic.net/eco/ecoideas/

CSR Initiatives

The Environment

- **The continuing evolution of Eco-Life Homes**

Proposals from PanaHome have been adopted by the Ministry of Land, Infrastructure, Transport and Tourism for model projects to reduce residential CO_2 emissions and to extend the useful life of houses. In addition, the Ministry of Economy, Trade and Industry selected *PanaHome City Seishin Minami I and II* (Kobe City, Hyogo) in which solar power generation systems were installed in all 100 homes as a case example of advanced introduction of new energy.

PanaHome City Seishin Minami

- **Certification in the ISO 14001 international standard for environmental management systems (Product Development Division)**

PanaHome has established the first combined quality and environmental management system in the prefabricated housing industry by combining ISO 14001 certification with the previously acquired certification in the ISO 9001 international standard for quality assurance.

- **Accreditation as an Eco-Ship Modal Shift Project excellent company by Ministry of Land, Infrastructure, Transport and Tourism**

To achieve reductions in CO_2 emissions and transportation costs, PanaHome implemented a modal shift from overland routes to less carbon-intensive water routes for some shipping destinations.

- **Reduction in CO_2 emissions**

We reduced CO_2 emissions from all processes of our business activities by approximately 12% from the previous year.

Local Communities

PanaHome took part in the Panasonic Eco Relay, an environmental initiative in which Panasonic Group employees around the world participate. PanaHome employees focused on regular, ongoing cleaning activities, and local environmental events. PanaHome also contributed to local communities by planting trees on wasteland on Mount Fuji and local volunteer activities in collaboration with the labor union.

Panasonic ECO RELAY

Employees help clean up the area around a construction site

PanaHome is involved in other CSR activities. For details, refer to the Environmental and Social Report. http://www.panahome.jp/environment/ (Japanese only)

Corporate Governance and Management

Corporate Governance

PanaHome recognizes that strengthening corporate governance is an important management objective.

PanaHome's corporate governance structure comprises the Board of Directors, which makes important decisions on business execution and supervises the business execution of individual directors, and the Corporate Auditors and Board of Corporate Auditors, which audit the conduct of the Directors independently from the Board of Directors.

The Company has also introduced an Executive Officers system. Within the governance system based on the supervision and management decision-making of the Directors, Executive Officers are held responsible for individual business execution.

Regarding internal control systems, the Company conducts business operations in line with its Basic Policy Regarding the Establishment of Internal Control Systems.

Management (As of June 23, 2009)

Members of the Board

President & Chief Executive Officer
Tsutomu Ueda

Directors
Koji Watanabe
Hidehiko Nonomura
Hirofumi Yasuhara
Tomiharu Yamada
Makoto Hatakeyama

Corporate Auditors

Senior Standing Corporate Auditor
Yukimitsu Kodama
Standing Corporate Auditor
Shigeru Nakatani
Corporate Auditor
Jun Demizu

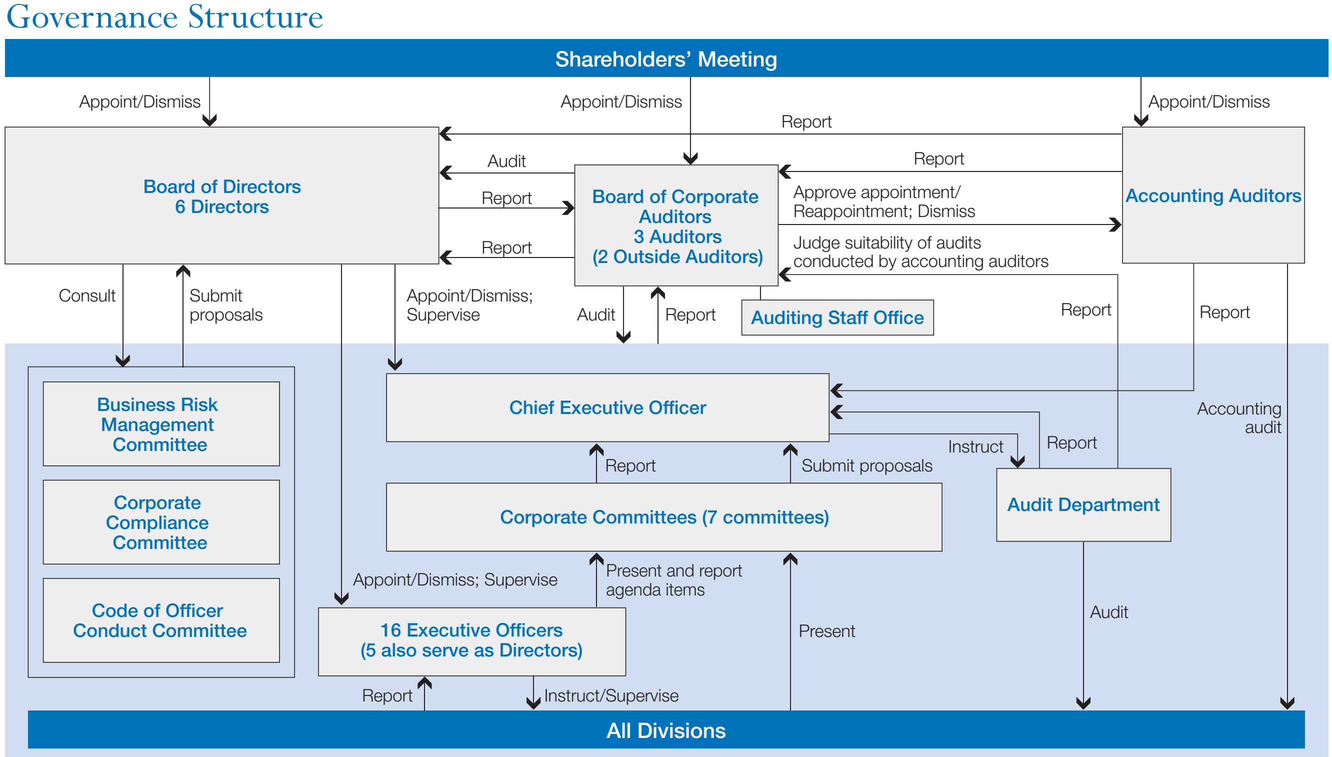
Corporate Executive Officers

Senior Managing Executive Officer
Koji Watanabe

Managing Executive Officers
Hidehiko Nonomura
Hirofumi Yasuhara
Akira Kobayashi

Executive Officers
Tomiharu Yamada
Makoto Hatakeyama
Hiroki Umiguchi
Yoshifumi Tsuruta
Hirohiko Nagata
Hiroshi Hirasawa
Toshimitsu Sakai
Mitsuhiko Nakata
Kazuo Kitagawa
Masato Nadamoto
Tadashi Manabe
Atsushi Hongo

Governance Structure



Compliance and Business Risks

Compliance

In the field of compliance, the Company adheres to the Code of Conduct of the Panasonic Group. Each October is designated Compliance Month, and we conduct ongoing web-based compliance training. In addition, we perform compliance awareness surveys in order to gauge the degree to which compliance is established and compliance-related issues. In order to quickly identify and resolve ethical and legal violations, the Company has established and operates three internal hotlines: a corporate ethics hotline, a sexual harassment/power harassment hotline, and an auditor reporting system.

In response to the need for risk management, each year the Business Risk Management Committee leads PanaHome in conducting a risk assessment that compiles and evaluates risk information for the entire Company in an integrated and thorough manner. PanaHome has also formed a Corporate Compliance Committee to rigorously ensure that the Company maintains no improper relationships with individuals or groups involved in corporate extortion.

Business Risks

1. Trends in the Housing Market

Orders could be adversely affected by changes in external conditions, including, but not limited to, changes in the job market, land prices, interest rates and housing tax policy.

2. Increases in Cost of Raw Materials and Resources

Procurement prices could potentially rise due to a sudden sharp increase in the cost of materials fundamental to housing construction, such as steel and timber.

3. Warranties

The Company maintains strict quality control with regard to the development, production and purchase of materials, components and fittings, and with regard to housing construction. However, because of the large variations in the quality of materials and processes (in particular, construction processes will vary according to each construction site) and degradation of materials and components over time, there could be cases in which quality issues occur.

4. Natural Disasters

In the event of major natural disasters such as earthquakes or typhoons, the Company could incur massive costs for repairing damage to Company-owned facilities, as well as for initial and ongoing customer support, including building inspections and other emergency measures, which could interfere with production activities.

5. Retirement Benefit Liability

With regard to the retirement and pension plans applicable to eligible employees, unrecognized actuarial pension losses could increase and potentially lead to higher net periodic benefit costs for pension plans due to changes in actuarial assumptions and management of pension assets.

6. Statutory Regulations

The PanaHome Group acquires building enterprise permits, real estate transaction licenses and architect authorizations in the course of operating its business. It also complies with statutory regulations regarding the environment and recycling. Furthermore, statutory regulations concerning the obligation to report consumer product accidents have been imposed as a result of amendment to the Consumer Product Safety Law. In the event that any of these statutory regulations are amended or new legal regulations are established, or in the unlikely event that violations of any of these statutory regulations occur, business activities could be restricted.

7. Protection of Personal Information

Due to the nature of its business, the PanaHome Group handles a large amount of personal customer information. Although the Group implements measures to protect personal information on an ongoing basis throughout the Group, should a leak of customer information occur, it could inflict substantial damage to the public trust.

Financial Section

Financial Review

Net Sales

Consumer home-buying sentiment dropped dramatically after September 2008 due to worsening employment conditions under the economic slowdown and the negative wealth effect resulting from falling stock prices. Amid these conditions, PanaHome's consolidated order volume declined 11.1% year on year to ¥262,249 million (US$2,676 million).

Construction contracting orders were strong until August, securing sales on a par with the previous year. From September, however, sales of housing development declined, resulting in consolidated net sales of ¥284,625 million (US$2,904 million), down 3.1% year on year.

Cost of Sales and Selling, General & Administrative Expenses

Cost of sales declined 3.0% year on year to ¥216,786 million (US$2,212 million). Despite lower net sales, declining gross profit margins in housing development and soaring prices for raw materials, the cost of sales ratio remained on a par with the previous year at 76.2% due to rationalization of design and procurement and business structural reforms enacted in the previous fiscal year.

Selling, general and administrative (SG&A) expenses were 4.8% lower than in the previous fiscal year, totaling ¥58,347 million (US$595 million). This reflected a reduction in personnel expenses accompanying structural reforms, a review of advertising and promotional media, and continued Company-wide efforts to reduce fixed costs.

Profit

The effects of improvements in variable costs and reduction in fixed costs outweighed the fall in sales, resulting in an 8.4% rise in consolidated operating income compared to the previous year, to ¥9,492 million (US$97 million).

Consolidated net income rose ¥3,554 million (US$36 million) year on year to ¥2,948 million (US$30 million).

The consolidated net income per share for the year under review was ¥17.53 (US$0.18).

Financial Position

As of March 31, 2009, total assets amounted to ¥202,855 million (US$2,070 million), a decrease of 1.9% from the previous fiscal year-end. Current assets were up 2.3% year on year to ¥131,069 million (US$1,337 million) due mainly to efforts to collect receivables, which balanced out an increase in real estate for housing development. Current liabilities were down 5.8% to ¥65,939 million (US$673 million), primarily as a result of a decrease in deposits received due to the fall in contracts in progress. The current ratio rose 15.8 percentage points from the previous fiscal year, to 198.8%.

Property, plant and equipment declined 1.8% year on year to ¥39,915 million (US$407 million), primarily as a result of depreciation. Investments and other assets fell 16.1% to ¥31,871 million (US$325 million), reflecting a decrease in financial assets resulting from a transfer to current assets, and a reversal of deferred income tax assets. Long-term liabilities was largely on a par with the previous year at ¥19,479 million (US$199 million).

Equity for the fiscal year under review was on a par with the previous year at ¥117,437 million (US$1,198 million). Contributing factors included the recording of a net income for the year, offset by payment of dividends.

Dividend Policy

Since its establishment, PanaHome has considered returning profits to its shareholders as one of its key management strategies. This strategy calls for an approach based on stable dividends. Dividend payments are based on thorough consideration of prevailing business and financial conditions and commitments with regard to strengthening the business foundation.

For the fiscal year ended March 31, 2009, PanaHome has declared a full-year dividend of ¥15 (US$0.15) per share, comprising interim and year-end dividends of ¥7.5 (US$0.08), the same as in the previous fiscal year.

Cash Flows

Net cash provided by operating activities was ¥7,548 million (US$77 million). This primarily reflected collection of receivables and steady income, which offset an increase in real estate for housing development.

Net cash provided by investing activities amounted to ¥1,991 million (US$20 million), provided mainly through sales and redemption of marketable securities and investment securities.

Net cash used in financing activities was ¥4,233 million (US$43 million), which primarily went toward payment of dividends.

As a result, cash and cash equivalents as of March 31, 2009 stood at ¥54,525 million (US$556 million), up 11.6% compared to the previous fiscal year-end.

Consolidated Balance Sheets

PanaHome Corporation and Consolidated Subsidiaries
March 31, 2009 and 2008

ASSETS	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT ASSETS:			
Cash and cash equivalents	¥ 54,525	¥ 48,874	$ 556,378
Marketable securities (Note 3)	2,006	2,145	20,469
Short-term investments (Note 2-d)	20	20	204
Receivables:			
Trade	3,399	4,323	34,684
Other	1,022	6,727	10,428
Allowance for doubtful receivables	(65)	(151)	(663)
Inventories (Note 4)	63,275	56,288	645,663
Deferred income tax assets (Note 10)	5,630	8,021	57,449
Other current assets	1,257	1,857	12,827
Total current assets	131,069	128,104	1,337,439
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	21,051	21,252	214,806
Buildings and structures (Note 6)	46,426	46,426	473,735
Machinery and equipment (Note 6)	19,608	21,740	200,082
Lease assets	934	—	9,531
Construction in progress	100	228	1,020
Total	88,119	89,646	899,174
Less accumulated depreciation	(48,204)	(49,007)	(491,878)
Net property, plant and equipment	39,915	40,639	407,296
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	3,171	6,289	32,357
Investments in associated companies	7,600	7,737	77,551
Long-term loans (Note 7)	4,302	5,327	43,898
Long-term loans to employees	629	650	6,418
Prepaid pension costs (Note 8)	5,692	4,643	58,082
Deferred income tax assets (Note 10)	5,366	7,944	54,755
Intangibles and other assets (Note 6)	6,063	6,401	61,867
Allowance for doubtful accounts	(952)	(984)	(9,714)
Total investments and other assets	31,871	38,007	325,214
TOTAL	¥ 202,855	¥ 206,750	$ 2,069,949

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 125	¥ 950	$ 1,276
Payables:			
Trade	33,544	33,977	342,285
Other	6,526	7,575	66,592
Accrued income taxes	376	429	3,837
Deposits received	14,163	15,444	144,520
Accrued expenses and other current liabilities	11,205	11,634	114,337
Total current liabilities	65,939	70,009	672,847
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	3,718	3,788	37,939
Liability for employees' retirement benefits (Note 8)	4,259	4,160	43,459
Deferred income tax liabilities on land revaluation (Note 5)	2,128	2,129	21,714
Long-term deposits received	8,713	8,834	88,908
Other long-term liabilities	661	473	6,745
Total long-term liabilities	19,479	19,384	198,765
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 15 and 16)			
EQUITY (Notes 9 and 18):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2009 and 2008	28,376	28,376	289,551
Capital surplus	31,983	31,982	326,357
Retained earnings	63,188	62,761	644,776
Net unrealized gains on available-for-sale securities (Note 2-c)	108	416	1,102
Land revaluation difference (Note 5)	(6,767)	(6,765)	(69,051)
Foreign currency translation adjustments	—	(119)	—
Treasury stock - at cost, 477,478 shares in 2009 and 424,237 shares in 2008	(248)	(218)	(2,531)
Total	116,640	116,433	1,190,204
Minority interests	797	924	8,133
Total equity	117,437	117,357	1,198,337
TOTAL	¥ 202,855	¥ 206,750	$ 2,069,949

Consolidated Statements of Operations

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET SALES	¥ 284,625	¥ 293,617	$ 2,904,337
COST OF SALES	216,786	223,585	2,212,102
Gross profit	67,839	70,032	692,235
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	58,347	61,275	595,378
Operating income	9,492	8,757	96,857
OTHER INCOME (EXPENSES):			
Interest and dividend income	413	388	4,214
Amortization of negative goodwill	8	169	82
Interest expense	(228)	(249)	(2,327)
Equity in earnings (losses) of affiliated companies	(335)	192	(3,418)
Gain on sales of property, plant and equipment	9	119	92
Loss on disposal and sales of property, plant and equipment	(268)	(385)	(2,735)
Loss on impairment of long-lived assets (Note 6)	(103)	(12)	(1,051)
Gain on sales of investment securities	—	174	—
Restructuring costs (Note 12)	—	(10,613)	—
Loss on closure of showrooms (Note 6)	(584)	—	(5,959)
Other - net	(167)	272	(1,704)
Other expenses - net	(1,255)	(9,945)	(12,806)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	8,237	(1,188)	84,051
INCOME TAXES (Note 10):			
Current	283	315	2,887
Deferred	5,032	(863)	51,347
Total	5,315	(548)	54,234
MINORITY INTERESTS	(26)	(34)	(265)
NET INCOME (LOSS)	¥ 2,948	¥ (606)	$ 30,082
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2-n):			
Basic net income (loss)	¥ 17.53	¥ (3.61)	$ 0.18
Diluted net income	—	—	—
Cash dividends applicable to the year	15.00	15.00	0.15

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Thousands	Millions of Yen			
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities
BALANCE, MARCH 31, 2007	168,056	¥ 28,376	¥ 31,970	¥ 65,797	¥ 592
Net loss	—	—	—	(606)	—
Cash dividends, ¥15.00 per share	—	—	—	(2,521)	—
Reversal of land revaluation difference	—	—	—	91	—
Purchase of treasury stock	(58)	—	—	—	—
Disposal of treasury stock	141	—	12	—	—
Net change in the year	—	—	—	—	(176)
BALANCE, MARCH 31, 2008	168,139	28,376	31,982	62,761	416
Net income	—	—	—	2,948	—
Cash dividends, ¥15.00 per share	—	—	—	(2,523)	—
Reversal of land revaluation difference	—	—	—	2	—
Purchase of treasury stock	(70)	—	—	—	—
Disposal of treasury stock	17	—	1	—	—
Net change in the year	—	—	—	—	(308)
BALANCE, MARCH 31, 2009	168,086	¥ 28,376	¥ 31,983	¥ 63,188	¥ 108

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities
BALANCE, MARCH 31, 2008	$ 289,551	$ 326,347	$ 640,419	$ 4,245
Net income	—	—	30,082	—
Cash dividends, $0.15 per share	—	—	(25,745)	—
Reversal of land revaluation difference	—	—	20	—
Purchase of treasury stock	—	—	—	—
Disposal of treasury stock	—	10	—	—
Net change in the year	—	—	—	(3,143)
BALANCE, MARCH 31, 2009	$ 289,551	$ 326,357	$ 644,776	$ 1,102

(Continued)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity (Continued)

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of Yen					
	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2007	¥ (6,673)	¥ 25	¥ (251)	¥ 119,836	¥ 707	¥ 120,543
Net loss	—	—	—	(606)	—	(606)
Cash dividends, ¥15.00 per share	—	—	—	(2,521)	—	(2,521)
Reversal of land revaluation difference	—	—	—	91	—	91
Purchase of treasury stock	—	—	(42)	(42)	—	(42)
Disposal of treasury stock	—	—	75	87	—	87
Net change in the year	(92)	(144)	—	(412)	217	(195)
BALANCE, MARCH 31, 2008	(6,765)	(119)	(218)	116,433	924	117,357
Net income	—	—	—	2,948	—	2,948
Cash dividends, ¥15.00 per share	—	—	—	(2,523)	—	(2,523)
Reversal of land revaluation difference	—	—	—	2	—	2
Purchase of treasury stock	—	—	(39)	(39)	—	(39)
Disposal of treasury stock	—	—	9	10	—	10
Net change in the year	(2)	119	—	(191)	(127)	(318)
BALANCE, MARCH 31, 2009	¥ (6,767)	¥ —	¥ (248)	¥ 116,640	¥ 797	¥ 117,437

	Thousands of U.S. Dollars (Note 1)					
	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2008	$ (69,031)	$ (1,214)	$ (2,225)	$ 1,188,092	$ 9,429	$ 1,197,521
Net income	—	—	—	30,082	—	30,082
Cash dividends, $0.15 per share	—	—	—	(25,745)	—	(25,745)
Reversal of land revaluation difference	—	—	—	20	—	20
Purchase of treasury stock	—	—	(398)	(398)	—	(398)
Disposal of treasury stock	—	—	92	102	—	102
Net change in the year	(20)	1,214	—	(1,949)	(1,296)	(3,245)
BALANCE, MARCH 31, 2009	$ (69,051)	$ —	$ (2,531)	$ 1,190,204	$ 8,133	$ 1,198,337

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 8,237	¥ (1,188)	$ 84,051
Adjustments for:			
Depreciation	2,836	3,115	28,939
Loss on impairment of long-lived assets	103	12	1,051
Loss on closure of showrooms	584	—	5,959
Provision for retirement and severance benefits	(1,078)	(2,950)	(11,000)
Interest and dividend income	(413)	(388)	(4,214)
Interest expense	228	249	2,327
Equity in losses (earnings) of affiliated companies	335	(192)	3,418
Gain on sales of investment securities	—	(174)	—
Loss on disposal and sales of property, plant and equipment	268	385	2,735
Restructuring costs	—	10,613	—
Amortization of goodwill (negative goodwill)	23	(169)	234
Decrease (increase) in trade receivables	947	(495)	9,663
Decrease (increase) in other receivables	5,711	(5,652)	58,275
Decrease (increase) in inventories	(6,890)	3,623	(70,306)
Decrease in trade payables	(600)	(2,087)	(6,122)
Decrease in advances received	(1,690)	(2,983)	(17,245)
Other	(870)	(1,720)	(8,878)
Sub total	7,731	(1)	78,887
Interest and dividend income received	446	429	4,551
Interest expense paid	(232)	(252)	(2,367)
Restructuring costs paid	—	(10,079)	—
Income taxes paid	(397)	(264)	(4,051)
Net cash provided by (used in) operating activities	7,548	(10,167)	77,020
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and redemption of marketable securities	2,178	1,335	22,225
Additions to property, plant and equipment	(998)	(1,153)	(10,184)
Proceeds from sales of property, plant and equipment	63	2,929	643
Additions to intangibles	(664)	(799)	(6,776)
Proceeds from sales and redemption of investment securities	715	1,594	7,296
Other	697	271	7,112
Net cash provided by investing activities	1,991	4,177	20,316
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	(874)	442	(8,918)
Proceeds from long-term debt	—	551	—
Repayments of long-term debt	(697)	(1,261)	(7,112)
Purchase of treasury stock	(39)	(42)	(398)
Cash dividends paid	(2,523)	(2,520)	(25,745)
Other	(100)	77	(1,021)
Net cash used in financing activities	(4,233)	(2,753)	(43,194)
Effect of exchange rate changes on cash and cash equivalents	(11)	2	(112)
Net increase (decrease) in cash and cash equivalents	5,295	(8,741)	54,030
Cash and cash equivalents at beginning of year	48,874	56,631	498,714
Cash and cash equivalents of newly consolidated subsidiaries (Note 17)	374	984	3,816
Cash and cash equivalents of subsidiaries excluded from consolidation	(18)	—	(182)
Cash and cash equivalents at end of year (Note 2-b)	¥ 54,525	¥ 48,874	$ 556,378

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which PanaHome Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥98 to $1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation -*** The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 13 significant (14 in 2008) subsidiaries (together, the "Group").

Under the control or influence concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 14 (14 in 2008) associated companies are accounted for by the equity method.

Investments in 1 unconsolidated subsidiary and 1 associated company (no unconsolidated subsidiary and 1 associated company in 2008) are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost over the fair value of net assets of associated companies acquired is amortized over their respective estimated useful lives not exceeding 20 years. Any recognized intangible asset whose useful life is not determinable charged to income when incurred. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Cash Equivalents -*** Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

c. ***Marketable and Investment Securities -*** Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, in which the Company has the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group does not hold securities for trading purpose.

The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

d. ***Short-term Investments -*** Short-term investments are time deposits, which mature or become due more than three months from the date of acquisition.

e. ***Inventories -*** Prior to April 1, 2008, inventories were stated at cost, determined by the specific identified cost or the average cost methods. In July 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

The Group applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2009 by ¥1,553 million ($15,847 thousand).

f. ***Property, Plant and Equipment -*** Property, plant and equipment are stated at cost. Depreciation is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets while the straight-line method is applied to buildings. The range of useful lives is principally from 3 to 50 years for buildings and from 4 to 8 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

g. ***Long-lived Assets -*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change was not material.

i. ***Retirement and Pension Plans -*** The Company and domestic subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans, and may grant additional benefits for retired employees.

For the year ended March 31, 2008, a substantial number of employees retired under the implementation of the early retirement and mid-career assistance programs offered due to the restructuring, and the Company applied accounting treatments specified in the guidance issued by the ASBJ. As a result, the Company recognized a lump-sum amortization of unrecognized gain and loss related to the mass retirees as benefit costs for mass retirements of ¥164 million, which was included in restructuring costs in the statement of operations.

j. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. 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 bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax law to the temporary differences.

k. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of operations to the extent that they are not hedged by forward exchange contracts.

l. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at historical exchange rates. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments", as a separate component of equity.

m. ***Derivative Financial Instruments -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes. Gains or losses on derivatives are deferred until maturity of the hedged transactions if the derivatives used for hedging purposes qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payable denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential received under the swap agreements are recognized and included in interest income.

n. Per Share Information - Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. The Company did not have securities or contingent stock agreements that could potentially dilute net income per common share in the year ended March 31, 2009.

Diluted net income per share of 2008 is not disclosed because it is anti-dilutive due to the Company's net loss position.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

o. New Accounting Pronouncements

Asset Retirement Obligations - On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by Act or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Construction Contracts - Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. In December 2007, the ASBJ issued a new accounting standard for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Government and corporate bonds	¥ 2,006	¥ 2,145	$ 20,469
Non-current:			
Marketable equity securities	¥ 671	¥ 1,040	$ 6,847
Government and corporate bonds	2,500	5,249	25,510
Total	¥ 3,171	¥ 6,289	$ 32,357

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen 2009			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 538	¥ 207	¥ 91	¥ 654
Debt securities	6	—	0	6
Held-to-maturity	4,500	—	99	4,401

	Millions of Yen 2008			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 535	¥ 488	¥ —	¥ 1,023
Debt securities	2,449	—	5	2,444
Held-to-maturity	4,950	—	99	4,851

	Thousands of U.S. Dollars 2009			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 5,490	$ 2,112	$ 929	$ 6,673
Debt securities	61	—	0	61
Held-to-maturity	45,918	—	1,010	44,908

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
Available-for-sale:	2009	2008	2009
Equity securities	¥ 17	¥ 17	$ 173
Total	¥ 17	¥ 17	$ 173

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 2,006	$ 20,469
Due after one year through five years	2,000	20,408
Due after five years through ten years	500	5,102
Total	¥ 4,506	$ 45,979

4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Real estate for sale	¥ 56,098	¥ 48,331	$ 572,429
Contracts in progress	6,005	6,391	61,275
Finished goods	986	1,148	10,061
Work in process, raw materials and supplies	186	418	1,898
Total	¥ 63,275	¥ 56,288	$ 645,663

5. LAND REVALUATION

Under the "Act of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2000.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference and related deferred tax liabilities.

At March 31, 2009, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,372 million ($44,612 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2009 and 2008.

As a result, for the year ended March 31, 2009, the Group recognized an impairment loss of ¥454 million ($4,633 thousand) as other expenses for certain rental properties in Tottori Prefecture due to substantial declines in the fair market value and sluggish rental market value, certain idle assets in Tokyo and others due to substantial declines in the fair market value, and certain business properties in Tokyo and others due to closure of some showrooms. The carrying amounts of those assets were written down to the estimated recoverable amounts.

The estimated recoverable amounts of the rental properties and the business properties were measured at their value in use and the discount rate used for computation of present value of future cash flows was from 5%. The estimated recoverable amounts of the idle assets were measured by their net selling price at disposition, principally calculated by the appraisal value. The amount of impairment loss recognized related to certain business properties was included in loss on closure of showrooms in the consolidated statement of operations.

For the year ended March 31, 2008, the Group recognized an impairment loss of ¥393 million as other expenses for certain idle assets in Chiba Prefecture and others due to substantial declines in the fair market value, and certain business properties of the Shizuoka Plant and others to be disposed of due to realignment. The carrying amount of those assets was written down to the recoverable amount. The estimated recoverable amounts of those assets were measured by their net selling price at disposition, principally calculated by the appraisal value. The amount of impairment loss recognized related to a part of certain idle assets and certain business properties to be disposed of due to realignment was included in restructuring costs in the consolidated statement of operations.

Impairment losses which the Group recognized for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Rental properties:			
Buildings and structures	¥ 53	¥ —	$ 541
Total	¥ 53	¥ —	$ 541
Idle assets:			
Land	¥ 3	¥ 91	$ 31
Buildings and structures	19	23	194
Other	28	11	285
Total	¥ 50	¥ 125	$ 510
Business properties:			
Land	¥ —	¥ 242	$ —
Finance lease assets (see Note 14) and others	352	—	3,592
Machinery and equipment	—	26	—
Total	¥ 352	¥ 268	$ 3,592

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

For short-term bank loans at March 31, 2009 and 2008, the annual interest rates ranged from 1.48% to 2.70% and from 1.55% to 1.88%, respectively.

Long-term debt, excluding finance leases of ¥627 million ($6,398 thousand), at March 31, 2009 consisted of collateralized loans from banks of ¥3,091 million ($31,541 thousand) due serially to 2026, with the annual interest rate of 2.51%.

Annual maturities of long-term debt, excluding finance leases of ¥627 million ($6,398 thousand), at March 31, 2009, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 169	$ 1,725
2011	175	1,786
2012	181	1,847
2013	187	1,908
2014	193	1,969
2015 and thereafter	2,186	22,306
Total	¥ 3,091	$ 31,541

At March 31, 2009, long-term loans of ¥4,052 million ($41,347 thousand) were pledged as collateral for long-term debt of ¥3,091 million ($31,541 thousand).

As is customary in Japan, the Company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payables to the bank concerned. The Company has never received any such request.

8. RETIREMENT AND PENSION PLANS

The Company and certain domestic subsidiaries have two types of pension plans for employees; a non-contributory and a contributory funded defined benefit pension plans.

Under the pension plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥ 36,485	¥ 34,716	$ 372,296
Fair value of plan assets	(23,201)	(26,015)	(236,745)
Unrecognized prior service benefit	2,948	4,195	30,082
Unrecognized actuarial loss	(17,665)	(13,379)	(180,255)
Prepaid pension costs	5,692	4,643	58,081
Net liability	¥ 4,259	¥ 4,160	$ 43,459

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 1,640	¥ 1,614	$ 16,735
Interest cost	849	873	8,663
Expected return on plan assets	(771)	(889)	(7,867)
Prior service benefit	(1,247)	(1,365)	(12,724)
Recognized actuarial loss	988	819	10,081
Benefit costs for mass retirements	—	164	—
Loss on revision of retirement benefit plan	91	—	928
Net periodic benefit costs	¥ 1,550	¥ 1,216	$ 15,816

For the year ended March 31, 2008, the Company recognized a lump-sum amortization of unrecognized gain and loss related to the mass retirees as benefit costs for mass retirements, which was included in restructuring costs in the statement of operations.

Assumptions used for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	3.0%	Principally 3.0%
Amortization period of prior year service benefit (cost)	Principally 10 years	Principally 10 years
Recognition period of actuarial gain (loss)	Principally 19 years	Principally 19 years

9. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2009 and 2008.

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Loss carryforward	¥ 7,503	¥ 10,215	$ 76,561
Accrued expenses	2,651	2,785	27,051
Depreciation	1,021	1,144	10,418
Employees' retirement benefits	267	182	2,724
Write-down of inventories	925	1,028	9,439
Other	2,821	2,843	28,786
Subtotal	15,188	18,197	154,979
Valuation allowance	(3,337)	(1,783)	(34,051)
Total	11,851	16,414	120,928
Deferred tax liabilities:			
Employees' retirement benefits	(854)	(383)	(8,714)
Unrealized gains on available-for-sale securities	(1)	(66)	(10)
Total	(855)	(449)	(8,724)
Net deferred tax assets	¥ 10,996	¥ 15,965	$ 112,204

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the year ended March 31, 2009 was as follows (2008 was not presented because of the net loss for the period):

	2009
Normal effective statutory rate	40.7%
Per capita levy	2.0
Expenses permanently not deductible for income tax purposes	1.2
Increase of valuation allowance	17.7
Equity in losses of affiliated companies	1.7
Amortization of goodwill	0.1
Unrealized intercompany profits	0.3
Other - net	0.8
Actual effective rate	64.5%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to operations were ¥1,407 million ($14, 357 thousand) and ¥1,446 million for the years ended March 31, 2009 and 2008, respectively.

12. RESTRUCTURING COSTS

Restructuring costs for the year ended March 31, 2008 included ¥9,447 million of additional retirement payments under the implementation of the early retirement and mid-career assistance programs, ¥381 million of impairment loss due to realignment of the Shizuoka Plant and others, ¥164 million of benefit costs for mass retirements, and ¥621 million of other costs related to realignment.

13. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥26,778 million ($273,245 thousand) and ¥28,799 million for the years ended March 31, 2009 and 2008, respectively. Trade accounts receivable due from associated companies were ¥867 million ($8,847 thousand) and ¥1,132 million at March 31, 2009 and 2008, respectively.

Purchases from Panasonic Electric Works Co., Ltd., a majority-owned subsidiary of Panasonic Corporation, the parent company of the Company, were ¥6,640 million ($67,755 thousand) and ¥4,612 million for the years ended March 31, 2009 and 2008, respectively. Trade accounts payable due to Panasonic Electric Works Co., Ltd. were ¥2,253 million ($22,990 thousand) and ¥2,070 million at March 31, 2009 and 2008, respectively.

14. LEASES

The Group leases certain showrooms and other assets.

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥1,991 million ($20,316 thousand) and ¥2,327 million for the years ended March 31, 2009 and 2008, respectively.

For the year ended March 31, 2009, the Group recorded an impairment loss of ¥350 million ($3,571 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased properties, which is included in current liabilities - accrued expenses and other current liabilities.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen			
	2009			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 7,104	¥ 213	¥ 3	¥ 7,320
Accumulated depreciation	4,598	154	3	4,755
Accumulated impairment loss	350	—	—	350
Net leased property	¥ 2,156	¥ 59	¥ 0	¥ 2,215

	Millions of Yen			
	2008			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 8,583	¥ 321	¥ 3	¥ 8,907
Accumulated depreciation	4,068	204	2	4,274
Net leased property	¥ 4,515	¥ 117	¥ 1	¥ 4,633

	Thousands of U.S. Dollars			
	2009			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	$ 72,489	$ 2,173	$ 31	$ 74,693
Accumulated depreciation	46,918	1,571	31	48,520
Accumulated impairment loss	3,571	—	—	3,571
Net leased property	$ 22,000	$ 602	$ 0	$ 22,602

Obligations under such finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥ 1,222	¥ 2,033	$ 12,469
Due after one year	993	2,600	10,133
Total	¥ 2,215	¥ 4,633	$ 22,602

Depreciation expense and other information under finance leases for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Depreciation expense	¥ 1,991	¥ 2,327	$ 20,316
Lease payments	1,991	2,327	20,316
Impairment loss	350	—	3,571

Depreciation expense which is not reflected in the accompanying statements of operations, is computed by the straight-line method.

The minimum rental commitments (Lessee) under noncancellable operating leases at March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥10,997	¥ 20	$112,214
Due after one year	7,395	23	75,459
Total	¥18,392	¥ 43	$187,673

The minimum rental commitments (Lessor) under noncancellable operating leases at March 31, 2009 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 27	$ 275
Due after one year	346	3,531
Total	¥ 373	$ 3,806

15. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with trade payables denominated in foreign currencies. The Group also enters into interest rate swap agreements to hedge its interest rate risk associated with loans.

The Group uses derivatives only for the purpose of reducing foreign currency exchange and interest rate risks. It is the Group's policy not to use derivatives for speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been executed in accordance with internal policies which prohibits investing activities for speculative purposes. The operations and controls of derivative transactions are managed by the Accounting Department of the Company cooperating with the applicable departments.

The Group did not have any derivative transaction excluding some that to qualify for hedge accounting at March 31, 2009 and 2008.

16. CONTINGENT LIABILITIES

Guarantees of Loans - At March 31, 2009, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥7,343 million ($74,929 thousand).

17. SUPPLEMENTARY CASH FLOWS INFORMATION

Assets and liabilities of newly consolidated subsidiaries, at the inception of consolidation for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current assets	¥ 672	¥ 1,813	$ 6,857
Non-current assets	148	526	1,510
Current liabilities	(884)	(626)	(9,020)
Non-current liabilities	(191)	(253)	(1,949)
Minority interests	—	(295)	—
Goodwill (negative goodwill)	—	(151)	—
Equity at the inception of consolidation	255	(1,014)	2,602
Acquired price of stocks	—	—	—
Cash and cash equivalents of newly consolidated subsidiaries	374	984	3,816
Difference	¥ 374	¥ 984	$ 3,816

Non-cash investing and financing activities for the year ended March 31, 2009 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Finance lease obligation for property and equipment recorded for the fiscal year	¥934	$9,531

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2009 was resolved at the Board of Directors' meeting held on April 27, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.08) per share	¥1,261	$12,867

Independent Auditors' Report

Deloitte.

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To the Board of Directors of PanaHome Corporation:

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

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As discussed in Note 2-e to the consolidated financial statements, PanaHone Corporation and consolidated subsidiaries applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories" effective April 1, 2008.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 23, 2009

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data (As of March 31, 2009)

Head Office
1-4, Shinsenrinishimachi 1-chome,
Toyonaka, Osaka 560-8543, Japan
Phone: +81-6-6834-5111
English: http://www.panahome.jp/english/
Japanese: http://www.panahome.jp/

Established
July 1, 1963

Stock Exchange Listings
Tokyo, Osaka

Capital
¥28,376 million

Shares
Authorized	596,409,000 shares
Issued	168,563,533 shares

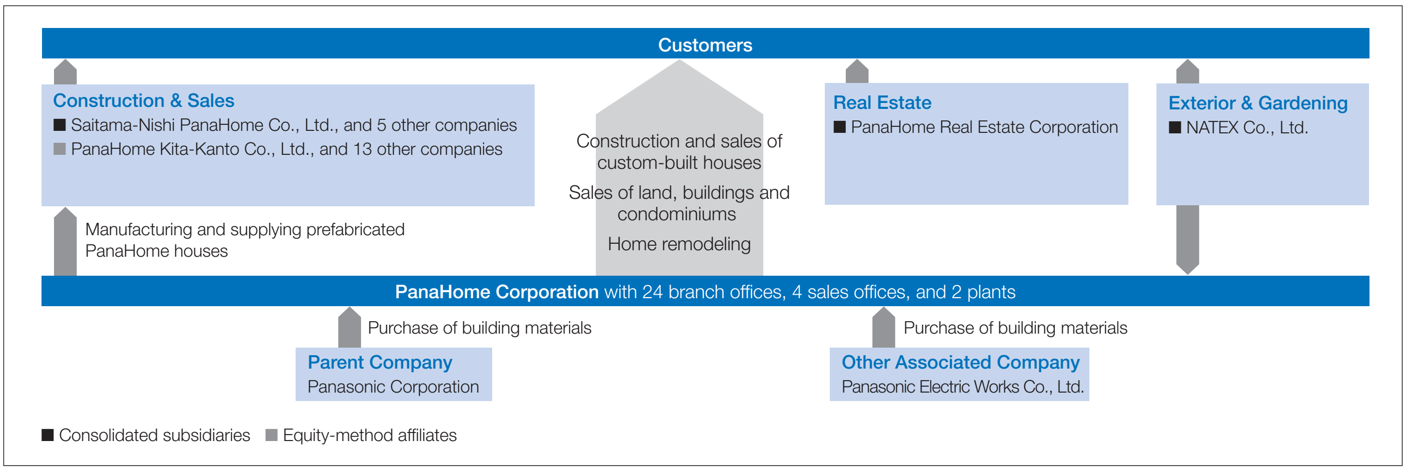
Number of Shareholders
8,033

Major Shareholders (As of March 31, 2009)

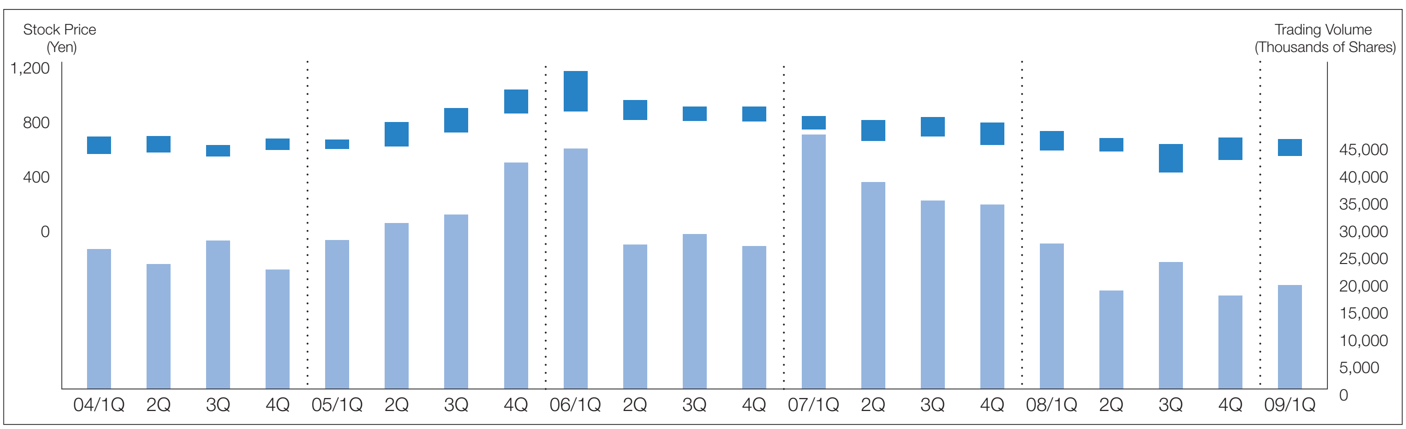
Name	Thousands of Shares Held	Shareholding Ratio (%)
Panasonic Corporation	45,518	27.00
Panasonic Electric Works Co., Ltd.	45,518	27.00
The Master Trust Bank of Japan, Ltd. (trust account)	5,662	3.35
Northern Trust Company (AVFC) Sub-account American Client	4,504	2.67
Japan Trustee Services Bank, Ltd. (trust account)	3,854	2.28
National Mutual Insurance Federation of Agricultural Cooperatives	3,697	2.19
Japan Trustee Services Bank, Ltd. (trust account 4G)	3,615	2.14
Trust & Custody Services Bank, Ltd. (security investment trust account)	3,507	2.08
PanaHome Employee Shareholding Association	2,416	1.43
Sumitomo Mitsui Banking Corporation	2,358	1.39

Note: PanaHome holds 440,654 shares of its own common stock.

Subsidiaries and Affiliates (As of March 31, 2009)



Stock Price Range and Trading Volume (Tokyo Stock Exchange)



PanaHome

http://www.panahome.jp/english/

PanaHome Corporation