Annual Report 2010

PanaHome Corporation

For the year ended March 31, 2010






Corporate Profile

Established in 1963, PanaHome Corporation's origins can be traced back to the passionate vision of Konosuke Matsushita, the founder of Panasonic, to build quality homes worthy of the vital role they play in people's lives. Today, the Company draws on the trust that comes with years of experience using the latest technologies and the comprehensive strengths of the Panasonic Group.

PanaHome aims to build homes that are in harmony with the global environment and ones which people will wish to pass down to future generations.The Company will continue to make use of its outstanding technologies and design capabilities to provide long-life housing solutions that offer home dwellers peace of mind and exceptional comfort. By harnessing nature yoked to advanced eco-technologies, PanaHome will take the lead with 'eco ideas' for new energy applications, reductions in CO_2 emissions, and the conservation of natural resources.

Contents

Forward-Looking Statements

The forward-looking statements contained within this annual report, including PanaHome's plans and performance forecasts, are based upon certain assumptions deemed to be reasonable by the Company at the time the document was prepared. Actual performance may differ substantially from the forward-looking statements due to a variety of factors such as changes in economic conditions and market trends, changes in financial conditions, and major fluctuations in land prices.

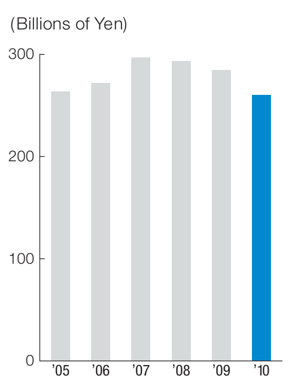
Financial Highlights

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, from 2005 to 2010

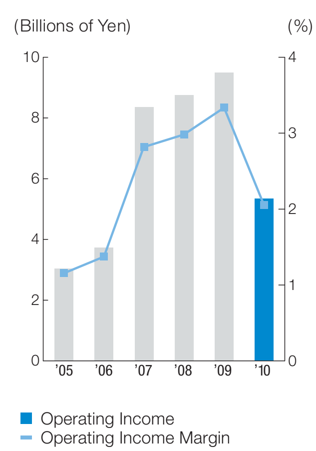
	Millions of Yen						Thousands of U.S. Dollars
	2005	2006	2007	2008	2009	**2010**	**2010**
Net Sales	¥263,826	¥272,294	¥296,817	¥293,617	¥284,625	**¥260,389**	**$2,799,882**
Operating Income	3,045	3,738	8,363	8,757	9,492	**5,344**	**57,462**
Income (Loss) before Income Taxes and Minority Interests	3,213	(1,779)	6,893	(1,188)	8,237	**5,063**	**54,441**
Net Income (Loss)	3,772	(2,701)	5,240	(606)	2,948	**2,428**	**26,108**
Total Assets	233,365	214,019	216,771	206,750	202,855	**198,048**	**2,129,548**
Equity	122,273	117,107	120,543	117,357	117,437	**117,417**	**1,262,548**
Return on Equity	3.1%	(2.3)%	4.4%	(0.5)%	2.5%	**2.1%**	
Equity Ratio	52.4%	54.7%	55.3%	56.3%	57.5%	**58.9%**	
	Yen						U.S. Dollars
Per Share Amounts:							
Net Income (Loss)	¥ 22.48	¥ (16.10)	¥ 31.21	¥ (3.61)	¥ 17.53	**¥ 14.45**	**$ 0.16**
Diluted Net Income	22.47	–	31.18	–	–	**–**	**–**
Cash Dividends	15.00	15.00	15.00	15.00	15.00	**15.00**	**0.16**
Number of Employees at Year-end (Persons)	6,493	5,978	5,750	5,097	5,076	**5,011**	

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 ¥93 = US$1, the approximate rate of exchange at March 31, 2010, 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.

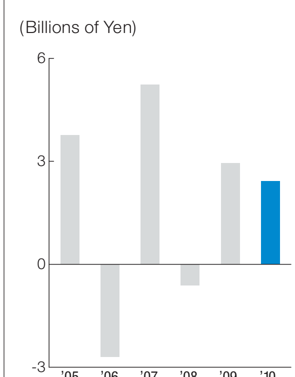
Net Sales



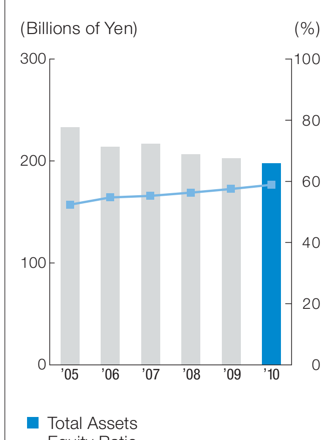
Operating Income/ Operating Income Margin



Net Income (Loss)



Total Assets/ Equity Ratio



PanaHome at a Glance

PanaHome's broad range of business activities encompasses detached housing and the creation of communities through housing development, home remodeling, and asset management.

Custom-built Detached Housing

With two-story homes as our mainstay product, PanaHome offers a wide range of detached housing from single-story homes to five-story multipurpose dwellings. Excellent quality and performance combined with advanced eco-technologies enable us to offer housing solutions delivering long-life comfort with little demand on the environment.

Please see page 11 for more information.

Asset Management

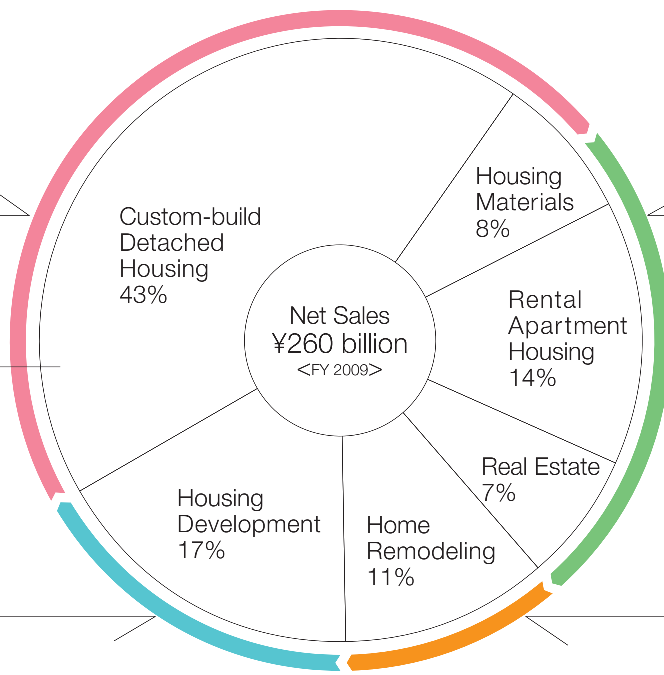
PanaHome provides comprehensive support to landowners looking to utilize their property for rental housing that ranges from business planning to design and construction, to its rental and management.

We are also working to support senior citizens by supplying special rental housing with nursing care services tailored to suit the needs of the elderly.

Please see page 12 for more information.

Sales Breakdown by Business Category

%=Share of Total



Housing Development

Whether individual homes or entire residential communities, PanaHome is striving to create enriching living environments. With our 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 tiles, and exterior and gardening services. We also offer premium condominiums utilizing our expertise in building homes.

Please see page 13 for more information.

Home Remodeling

Backed by our abundant experience in design consulting, we offer highly satisfying home remodeling services to our clients. We also offer environment-friendly Eco-Life remodeling that results in savings on utility costs by making use of the advanced energy-saving technologies offered by the Panasonic Group. We are able to meet the remodeling requirements of a variety of structures, from wooden houses to condominiums, and, of course, our own PanaHome residences.

Please see page 13 for more information.

PanaHome's Strengths

Energy Generation and Conservation

PanaHome delivers homes that contribute to environmental protection and reduce household expenses through high-performance insulation and airtight construction that meet the next generation of energy saving standards. We also 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. Our KIRATECH tile exterior walls using advanced photocatalytic technology require virtually no maintenance due to their self-cleaning capacity when exposed to the sun and rain. This innovation not only saves money and resources, but also purifies the surrounding air, much as a natural forest would, by breaking down hazardous atmospheric pollutants such as nitrogen oxides.

Safety and Security

PanaHome residences feature a proprietary earthquake-resistant steel-frame structure that offers safety and security. Thanks to the robust construction that is able to withstand major quakes and repeated tremors, none of PanaHome's houses in Japan have been severely damaged to date. The durability of PanaHome residences has even been verified with punishing vibration testing performed on full-sized homes, that withstood seismic waves of approximately 4.3 times the intensity of the Great Hanshin-Awaji Earthquake of Kobe. Adopting building methods that increase the total durability and facilitate remodeling enables us to deliver homes in which people can continue to live in safety for many years to come.

Health and Comfort

PanaHome has paid careful attention to air quality in the home for many years. Using an original integrated hybrid ventilation system that combines mechanical and natural ventilation, air is passed through an under-floor space that is cool in summer and warm in winter, supplying fresh air to the living room while conserving energy. Our building materials also incorporate Wakkanai diatomite, which provides excellent humidity regulation. Furthermore, we implement rigorous measures for reducing volatile organic compounds (VOCs).

Manufaturing System

PanaHome has established a custom off-site production system in which principal structural building components tailored to each home are manufactured at state-of-the-art factories and assembled on the construction site. We strive to achieve high precision and high quality based on rigorous quality control and have obtained the international quality assurance standard ISO 9001 certification.

Home Testing Center

PanaHome's Home Testing Center is one of the industry's leading facilities, where we conduct rigorous environmental tests to confirm the quality and durability of our buildings. We rank first* among Japanese housing companies in the cumulative number of patents and utility models registered.

* As of May 2009

To Our Stakeholders

For many years, PanaHome has not only built homes, but also built customer satisfaction on the solid foundation of our abundant experience. We provide quality and performance that ensures excellent security and safety, and a support system that continues long after homes have been built. In addition to the outstanding performance of our buildings, they are also environment-friendly as they make use of the latest eco-technologies.

Homes of the future must provide the quality and design able to respond to changes in family grouping and changes of inhabitants. They must also offer a comfortable lifestyle without taking a toll on the environment. Underlining our philosophy of making homes that are tailored to homedwellers and to the global environment, is our brand slogan: ‘Homes Fit for long use.’

Through craftsmanship that combines years of experience and the comprehensive strengths of the Panasonic Group, we fully acknowledge our customers’ attachment to their homes, and continue to build homes that retain high asset value for generations.

We hope to enjoy your continued support in the future.

July 2010

Yasuteru Fujii
President & CEO

Corporate Strategy

Our Performance in Fiscal 2009

Reduced revenue and earnings under harsh business conditions

In Fiscal 2009, the year ended March 2010, despite numerous government initiatives to spark housing demand, such as augmented tax breaks on mortgages, measures to reduce gift tax, subsidies for the purchase of solar power generation systems, the doubling of feed-in tariff rates and the establishment of an eco-points system, these were unable to eliminate the lack of transparency in the economy, and the business environment and home purchases in particular continued to stagnate.

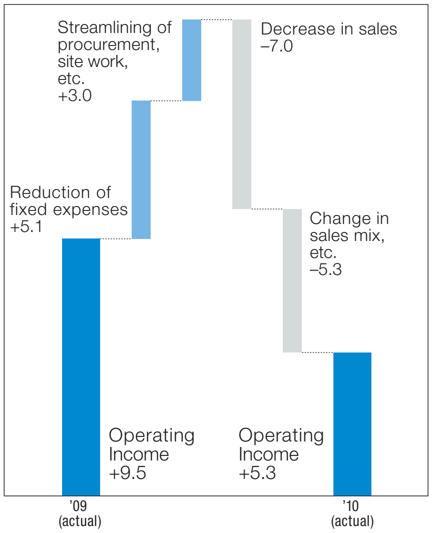
Amid such conditions, PanaHome's consolidated net sales declined 8.5% year on year to ¥260.4 billion (US$2,800 million). There was an increase in revenue in the Home Remodeling business due to the effect of the eco-points system, the strengthening of marketing capabilities and through a shift of personnel. However, there has been a slump in the number of orders received for Custom-built Detached Housing and Rental Apartment Housing since October of the previous fiscal year, resulting in a significant decline in revenue. Housing Development revenue grew as a result of a recovery in home-buying sentiment among first-time home owners and an increase in condominium properties sold.

Consolidated operating income fell by 43.7% to ¥5.3 billion (US$57 million). In an attempt to strengthen the Company's management structure, we implemented thorough cost controls throughout all aspects of management, closing showrooms that attracted fewer customers, cutting personnel costs through more efficient operations, concentrating and streamlining quantity surveys and the outsourcing of construction work by establishing Construction Centers to lower our break-even point. However, these efforts were not enough to offset the reduced income stemming from the decline in sales.

In terms of our financial position, our equity ratio increased 1.4 points year on year to 58.9% and net cash increased by ¥15.2 billion to ¥69.7 billion (US$750 million).

Change in Operating Income (Year on Year)

(Billions of Yen)



Years ended March 31

The State of the Housing Industry

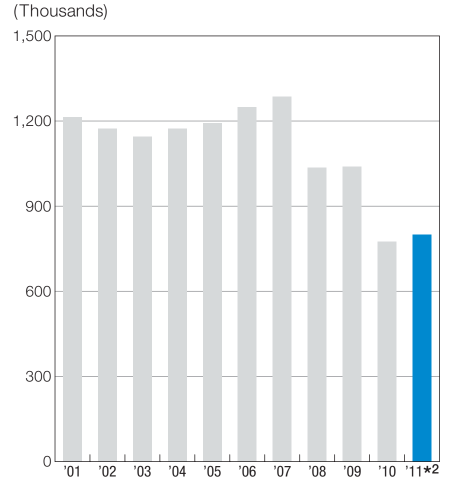
The housing market is shifting away from volume toward more quality

Over the past few years, the number of new housing starts has declined by around 40% from 1.29 million in fiscal 2006 to 780,000 in fiscal 2009 due to the impact of a revision to the Building Standards Law in 2007 and the financial crisis in 2008. In the medium term, the needed volume of housing has already been reached, reflecting an ageing society with fewer children and thus a declining population with fewer households. We estimate that the number of new housing starts will flatten out at around 800,000 without returning to the one million mark.

Meanwhile, much demand is expected in housing improvement projects in the future based on the fact that 11.5 million homes built before 1981 have insufficient earthquake proofing, and from shifting attitudes toward used housing.

The housing business is the mainstay of our domestic demand. As mentioned, the government implemented numerous housing initiatives to spark housing demand in fiscal 2009. In the long term, these are aimed at making homes into high-quality social assets that are environmentally friendly and provide comfortable living for many years. New measures are in place to facilitate the construction of houses with reduced CO_2 output and energy savings, and include the Act for the Promotion of Quality Long-Life Housing, which promotes highly durable and variable housing. PanaHome is ready to assist in the transition of our society from one that builds and demolishes houses to one that builds quality homes, takes care of them, and uses them for a long time.

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

A Strategy of Growth

We aim to provide comfortable homes that in the long term are passed on as quality assets even if their inhabitants change. We will implement a growth strategy based in clear differentiation and the concept that 'Fit for long use' for creating assets that have true value not only when built, but also when lived in, leased out or sold.

Improved productivity in the new home business

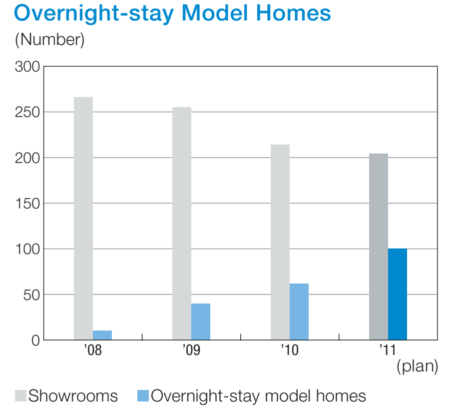
▸*Collaboration with Panasonic dealers*
We are intensifying efforts to gain referrals to potential customers through Panasonic's electronics dealers who have been select members of the Panasonic network for many years. The number of electronics dealers' customers is considerable, and the number of referrals in fiscal 2009 grew to 122% of that in the previous year. As a result of our sales personnel approaching such customers as housing advisors, the number of orders received was 96% of the previous year's level despite difficult business conditions, and in particular, the number for the latter half of the fiscal year was 107% the number of orders for the same period in the previous year. Orders can be secured more efficiently because we are able to approach select customers with little competition. We will actively develop this new sales channel to which we have unique access.

▸*Active deployment of overnight-stay model homes*
An overnight-stay model home temporarily utilizes a house built within a housing development as a marketing tool for prospective home buyers to experience the excellence in insulation, soundproofing and air quality, and the latest fittings and home appliances of the Panasonic Group. At the end of the fiscal year under review, the number of these overnight-stay model homes had increased by 22 from the previous year to 62. The proportion of prospective buyers trying out these model homes who later decided to make a purchase rose by 3 points year on year to 27%, maintaining a higher success rate than the regular visits to conventional showrooms. As these model homes also display the latest electronics and home appliances, we will continue to effectively use these as sales points for the entire Panasonic Group.

Environmental and energy-saving initiatives

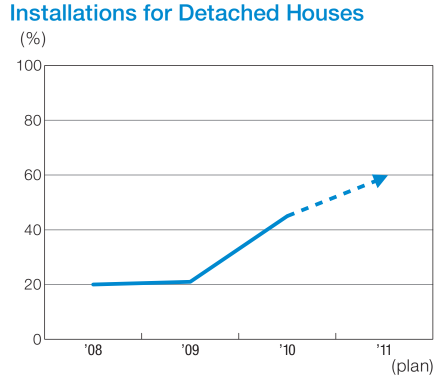
Since making the 'Eco-Life Home Declaration' in August 2003, PanaHome has endeavored to reduce any burden it imposes upon the environment. As a result of its focus on solar power generation systems in fiscal 2009, the percentage of their use to our detached houses almost doubled (on an order basis) to 45% this fiscal year. All-electric specifications also maintained a high percentage at 87%. In the future, we aim to further improve environmental and energy-saving performance.

Number of Showrooms and Overnight-stay Model Homes



As of March 31

Ratio of Solar Power Generation Installations for Detached Houses



Years ended March 31

Strengthening our residential stock-related business

▸*Full-scale entry into the renovation business*

We believe the Japanese housing market will see the emergence of houses as assets in the way they are in Europe and the United States, with people moving into, renting and selling used homes instead of simply building new ones. We intend to establish a specialized new business to respond to this change in the market. Renovation can become a new function to improve performance and value by making large-scale repairs or modifications to an existing building. This means larger projects involving more design aspects than for conventional remodeling, and which comprise wooden houses, condominiums and our own existing PanaHome properties. We will begin by focusing upon the Tokyo, Nagoya and Osaka areas, where there is much demand for such services. We can take advantage of the construction expertise we have accumulated to date, along with the confidence in being part of the Panasonic Group. We would like to fully leverage such strengths to build this into a solid new business of PanaHome.

▸*Fortifying remodeling and maintenance*

We will continue to strengthen the remodeling and maintenance objectives for existing PanaHome properties that we currently carry out. We hope to improve customer satisfaction through periodic and continuous contact with PanaHome homeowners.

▸*Enhancing information gathering on the used-home market*

We will bolster our information gathering and brokerage functions concerning the used-home market that are critical for the promotion of our stock-related business. Our efforts will include increased collaboration with real estate agents, including the formation of alliances.

Overseas business expansion

In March 2010, we established PanaHome Taiwan Residence Co., Ltd., as an overseas subsidiary. Results of market research indicated there is a market for our condominium and detached housing interior remodeling and for our accomplished design skills. We decided to set up business in Taiwan because the market is anticipated to grow in the future and the Panasonic Group has long been well regarded there.

Financial and Investment Overview

Promoting housing development sales to secure liquidity

As of March 31, 2010, our inventory of land for use in housing development had decreased by ¥13.8 billion (US$148 million) from the previous year to ¥27.0 billion (US$290 million) due to sales promotion efforts.
By reducing inventory of land for use in housing developments, we secured liquidity for the following purposes:

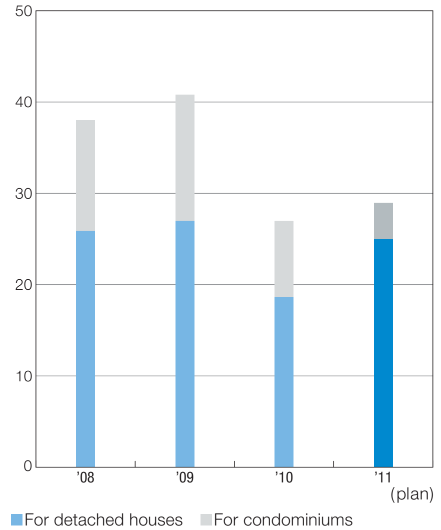
(1) Maintain more than sufficient solvency for current account payments in a difficult business environment.
(2) Maintain dynamic funds for acquiring carefully selected land for use in housing developments.
(3) Secure funding for projects such as alliances and investments aimed at expanding stock-related management in the future.

As a result, net cash increased by ¥15.2 billion including the recording of income to provide total cash amounting to ¥69.7 billion (US$750 million) at the end of the fiscal year.

We will require land for first-time homebuyers in fiscal 2010, and will seek attractive plots of land within the scope of a certain inventory value. As land for condominium development decreases, land for detached hosing development is expected to increase by ¥6.3 billion to ¥25.0 billion (US$269 million) compared to the end of the previous year, resulting in a total increase of ¥2.0 billion to ¥29.0 billion (US$312 million). We will purchase small lots primarily in urban areas to increase our turnover rate.

Inventory of Land for Housing Development

(Billions of Yen)



As of March 31

Our Approach to Shareholder Returns

Maintaining stable dividends of ¥15 per year

We see the interests of our shareholders as among the most vital aspects of management, and position the continuous payment of stable dividends as the most important measure with regard to our shareholders. For the fiscal year ended March 31, 2010, PanaHome has declared a full-year dividend of ¥15 (US$0.16) per share, comprising interim and year-end dividends of ¥7.5 (US$0.08), the same as in the previous fiscal year.

We intend to continue managing our operations with the conviction that maintaining stable dividends and striving to improve performance to enhance corporate value and subsequently raise our share value is the way to provide returns to our shareholders.

Featured Topic

NEW EL·SOLANA Series Released

With the advent of an ageing society with fewer children being born and a decline in both the population and the number of households, the quantity of housing in the Japanese market is already sufficient. As a result, no significant increases in demand for new construction can be foreseen in the medium term. Meanwhile, a look at the demographics of homebuyers reveals an increasing proportion of people in their thirties.

Based on the national government's housing policy, emphasis has shifted from quantity to quality and become more stock-oriented as indicated by the Basic Act for Housing effective from 2006 and the Act for the Promotion of Quality Long-Life Housing effective from June 2009.

With such developments, housing in the future needs to provide comfortable living in the long term, excellent quality enabling the retention of asset value, and environmental-friendly energy-efficient living at an affordable price.

We have taken this opportunity to update our product lineup to respond to such needs.

Features of the *NEW EL·SOLANA Series*

—Homes that change in step with the lives of their inhabitants—

1 We employ a 'forward-thinking design' that enables the layout within a home to be modified to match changes in the family grouping and a change of inhabitants.

Children can sleep in the same room as their parents while they are still small. The hall can be enjoyed as a home library or gallery.

When children start school, the hall can then be partitioned off for use as the parents' room. The rooms of brothers and sisters can be partially separated using movable storage cabinets that also serve as room dividers.

When the children grow older, these can be used to completely separate the rooms. Access to each of the rooms is possible because the original layout already includes two doors.

2 In addition to the high-performance insulation and airtight construction, the use of solar power generation systems and all-electric specifications enables us to reduce CO_2 emissions from each house by approximately 3.5 metric tons per year* and significantly reduce utility costs.

With excellent earthquake resistance, measures to prevent deterioration and those for energy-saving performance, the *NEW EL·SOLANA Series* meets the criteria set out by the Ministry of Land, Infrastructure, Transport and Tourism for certifying Quality Long-Life Housing.

*Under testing conditions specified by PanaHome.

3 In an effort to expand our client base in the high-volume demographic of people in their thirties, we have altered the specifications to suit each stage of a client's life and increased the pricing variations available.

EL·SOLANA S: for newlyweds and families raising small children

EL·SOLANA F: for families with children in school or becoming independent

EL·SOLANA E: for couples living alone

Business Operations

Custom-built Detached Housing

PanaHome houses are built with an emphasis on safety and security, health and comfort, and energy generation and conservation. We vigorously pursue ongoing improvements in basic performance and the reduction of lifecycle cost (LCC) through the development of innovative proprietary technology and the comprehensive strengths of the Panasonic Group.

In fiscal 2009, we ceaselessly pursued excellence in environmental performance and the development of energy-saving technology by employing solar power generation systems and all-electric specifications, in addition to high-performance insulation and airtight construction. We paid particular attention to the sale of solar powered homes as they rose in popularity thanks to government subsidies and the doubling of feed-in tariff rates.

We renewed our product lineup with the *NEW EL·SOLANA Series* released in January 2010, and pushed to expand our customer base by providing new products with excellent environmental performance and quality at an affordable price.

We will continue to strive for further improvements in environmental and energy-saving performance, for example houses with a zero carbon footprint, by ensuring buildings are more airtight with even better insulation performance alongside advanced eco-technologies such as all-electric specifications, solar power generation systems, fuel cells and LED lighting.

To be more competitive in the key Tokyo metropolitan market we will introduce the *EL·SOLANA HS*, a new three-floor structure with a versatile design that meets the stringent building codes and requirements common to urban areas.

EL·SOLANA HS

Asset Management

Rental Apartment Housing

PanaHome is engaged in the development of rental apartment housing able to provide stable management to property owners.

In fiscal 2009, we released the *EL MAISON LIMITED* line of rental apartments bringing high profitability to owners by lowering the sales price thanks to revised specifications including those used for exterior materials and equipment. We endeavored to increase sales also by proposing to manage environment-friendly rental apartment housing with high added value provided through a combination of solar power generation systems and all-electric specifications.

In the future, we aim to provide rental housing that meets a wide number of criteria by accurately understanding trends in the rental market and the requirements of tenants to enable owners to more effectively utilize their land assets.

EL MAISON LIMITED

Medical and Welfare Facilities

PanaHome is actively engaged in providing housing tailored to the needs of elderly residents who require support in their everyday lives by leveraging the expertise the Company has accumulated building houses.

In fiscal 2009, we made progress in our efforts to provide housing communities for the elderly, and our operating expertise and track record to date were recognized when three of our proposals were chosen as Model Project for the Stable Provision of Housing for the Elderly by the Ministry of Land, Infrastructure, Transport and Tourism.

We will continue to supply special rental housing with nursing care services for the elderly which enables them to live on pension incomes and to work toward providing them with quality housing in an effort to reduce the waiting list that is believed to number around 420,000.

Care Village Living Premium; senior rental housing with nursing care services

Real Estate Management

The PanaHome Group has established a comprehensive support system spanning from business planning, design and construction of rental housing to accurately reflect tenant requirements and site conditions, to rental and refurbishment.

In fiscal 2009, we continued to offer the secure management of rental housing by providing a finely tuned lineup of services, including a whole-building leasing system that eliminates the burden of property management and enables owners to rent out all units at a fixed price per unit.

Looking ahead, we will promote new uses for land assets such as whole-building leasing for special rental housing with nursing care services tailored to meet the needs of the elderly.

Housing Development

PanaHome develops housing for sale that meets the needs of first-time homebuyers, with an emphasis on the Tokyo, Nagoya, and Osaka areas.

In fiscal 2009, we created communities of detached dwellings oriented toward coexistence with the environment, like our *Eco-Life Town Nerima Takanodai* (Nerima-ku, Tokyo), which was a proposal adopted by the Ministry of Land, Infrastructure, Transport and Tourism in its initiative called Model Project for Reducing CO_2 Emissions from Residential and Commercial Buildings. In addition, our efforts to build and manage environment-oriented communities have been highly recognized, like our *PanaHome-City Seishin Minami I and II*, where solar power generation systems were installed in all 100 homes, which was chosen as a model case of advanced introduction of new energy by the Ministry of Economy, Trade and Industry and the New Energy and Industrial Technology Development Organization.

Condominium sales included *Crevia Wakabadai Parknade* (Inagi-shi, Tokyo) and *Parknade Kamikoshien* (Nishinomiya-shi, Hyogo).

In the future, we will strive to improve our inventory turnover rate by entirely selling off our condominium properties and selling detached housing in small lots mainly in urban areas.

Eco-Life Town Nerima Takanodai

Home Remodeling

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

In fiscal 2009, PanaHome worked to lay the foundations for operating a stock-related business centered on existing PanaHome houses. We have periodically held “remodeling fairs” in locations throughout Japan to increase orders by actively proposing Eco-Life remodeling services that are gentle on the environment and the wallet, leveraging the trust and the technology portfolio of the Panasonic Group, while also highlighting the benefits of various government initiatives.

We plan to work on our renovation business as well (complete renovation of entire houses) for wooden houses, condominiums, and for our own PanaHomes in an effort to further expand our stock-related business in the years to come.

Example of Remodeling

Corporate Social Responsibility

Environmental Initiatives

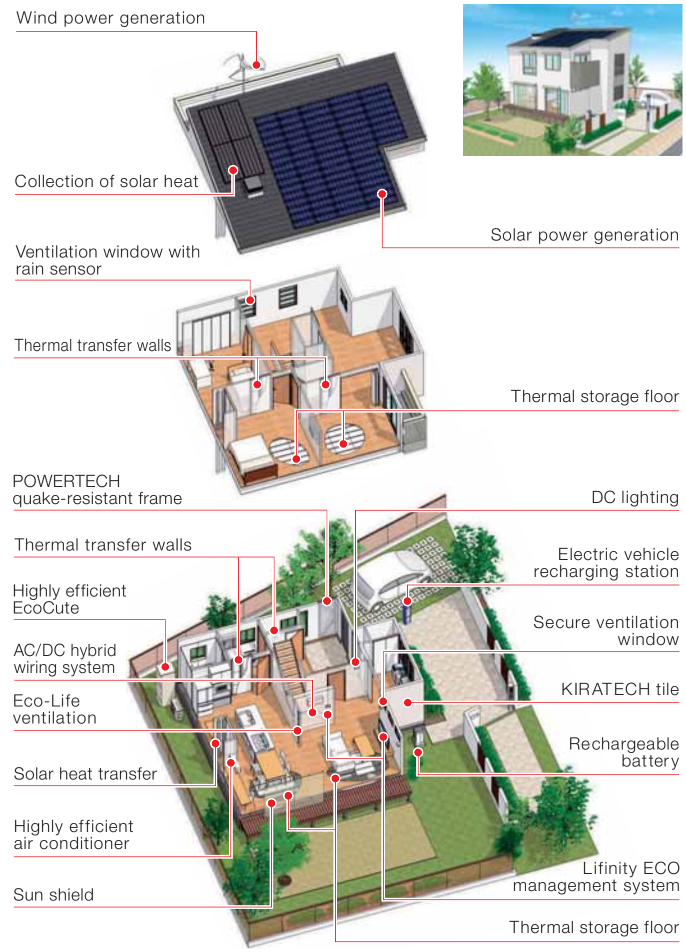
PanaHome is engaged in initiatives based in three ‘eco ideas’ being promoted by the Panasonic Group.

The ‘eco ideas’ for Products include housing with excellent energy-saving performance and all-electric specifications. In recognition of the achievements made through these efforts, PanaHome received a prize of excellence for the House of the Year in Electric 2009, marking the third consecutive year the Company has received an award in the program.

In our ‘eco ideas’ for Manufacturing, we continue to reduce CO_2 through energy-saving activities in all processes required for building houses. In fiscal 2009, we were able to reduce CO_2 emitted in factory production, transportation by using Company vehicles and office operations, by 12% from the previous year.

In our ‘eco ideas’ for Everybody, Everywhere, we are aiming to provide eco idea-based PanaHome housing to as many people as possible by raising the environmental awareness of all employees and enhancing their ability to present solutions to customers through environmental e-learning and the tracking of CO_2 emitted by each household.

The Panasonic Group aims to be the No. 1 Green Innovation Company in the Electronics Industry in 2018, the 100th anniversary of its founding. One of the specific measures PanaHome implements to achieve this is the construction of an experimental “zero carbon footprint house” through a collaborative effort between the University of Tokyo and the Panasonic Group. Beginning in July 2010, verification tests will be continue for 3 years with the aim of commercial release in the future.



Specifications and layout of facilities in the “zero carbon footprint house”

Initiatives for Improving Management Quality

In December 2009, PanaHome’s IT Division received ISO 27001 certification for information security, the first time such certification has been received by a prefabricated housing manufacturer. Due to the combination of quality and the environmental management system we have established, we have also received ISO 9001 (quality) and ISO 14001 (environment) at our product development, production and procurement divisions, as well as atsome sales and construction divisions (including Group companies) as we ensure improved quality and reduce environmental impact.

Fulfilling Our Social Responsibilities

Links with local communities are vital for a housing business. Each of our branches and offices supports local communities through initiatives such as the beautification of public spaces, participation in events held by local governments, and by holding sporting events for children.

Beach cleaning and coral regeneration activities by Okinawa branch

Corporate Governance and Compliance

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 conduct of individual Directors, 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 whereby Executive Officers are held responsible for business execution, and the responsibilities of Directors are clearly stated within the governance system concentrating management decision making and supervision to the Board of Directors.

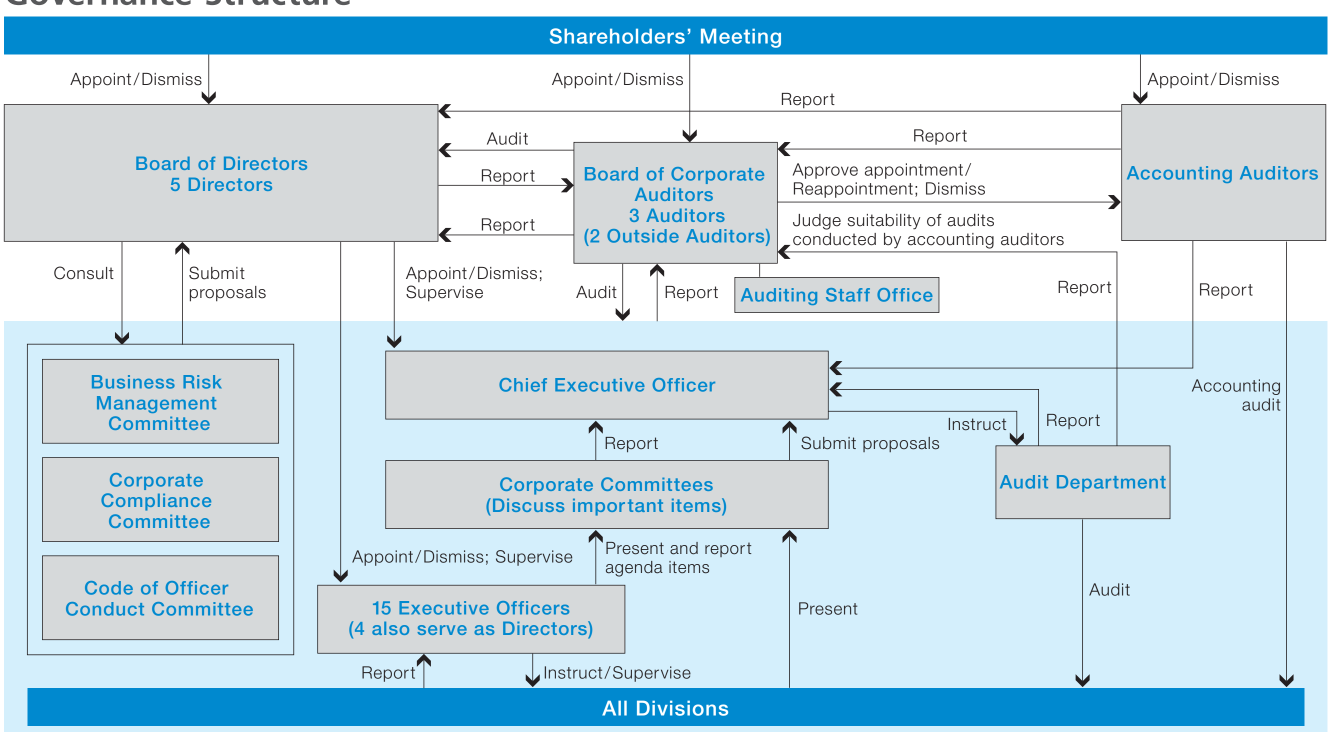
Regarding internal control systems, the Company conducts business operations in accordance with its Basic Policy Regarding the Establishment of Internal Control Systems.

Compliance

In its efforts to maintain compliance, the Company strictly 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 to gauge compliance-related issues and the degree to which the culture of compliance has taken hold. 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.

To address risk management, the Business Risk Management Committee plays a central role 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 stamps out any relationships with antisocial forces or groups.

Governance Structure



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, fluctuating land prices, interest rate trends and housing tax policy.

2. Increases in Cost of Raw Materials and Resources

Procurement prices could 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 over the development, production and purchase of materials, components and fittings, along with housing construction work. However, because of the variations in materials and processes (in particular, construction processes vary according to each construction site) and degradation of materials and components over time, the possibility of quality issues occurring cannot be completely ruled out.

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 external retirement and pension plans applicable to certain 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 the management of pension assets.

6. Statutory Regulations

The PanaHome Group acquires building enterprise permits, real estate transaction licenses and registration of architect offices in the course of operating its business, and 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 an amendment to the Consumer Product Safety Act. In the event that any of these statutory regulations are revised or abolished, 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 entire Group, should a leak of customer information occur, it could inflict substantial damage to the public's trust in the Group.

Financial Section

Financial Review

Net Sales

Orders stagnated due to the economic downturn after October 2008, and sluggish sales of custom-built detached housing and rental apartment housing led consolidated net sales to decline by 8.5% year on year to ¥260,389 million (US$2,800 million).

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales declined 7.2% year on year to ¥201,248 million (US$2,164 million). Although efforts were made to lower the purchase price of materials and streamline construction site costs, reduced sales combined with a shift in the composition of sales caused by reduced contract work and more housing development business led to the cost of sales ratio rising by 1.1 points to 77.3%.

Selling, general and administrative (SG&A) expenses decreased by 7.8% to ¥53,797 million (US$578 million), reflecting reductions in personnel expenses achieved through more efficient operations, closure of unprofitable showrooms and ongoing Companywide efforts to reduce fixed expenses.

Profit

Although steady progress has been made in reducing costs, the decline in sales resulted in consolidated operating income falling by 43.7% to ¥5,344 million (US$57 million).

Consolidated net income declined 17.6% year on year to ¥2,428 million (US$26 million).

The consolidated net income per share for the year under review was ¥14.45 (US$0.16).

Financial Position

As of March 31, 2010, total assets amounted to ¥198,048 million (US$2,130 million), a decrease of 2.4% from the previous fiscal year-end.

Although mainly cash and cash equivalents increased, inventories decreased due to a marketing promotion of land and buildings for sale in lots, resulting in a 0.9% decrease in current assets to ¥129,929 million (US$1,397 million). Property, plant and equipment declined 2.1% year on year to ¥39,089 million (US$420 million), primarily as a result of depreciation. Investments and other assets fell 8.9% to ¥29,030 million (US$312 million), stemming from the redemption of investment securities and a decrease in deferred income tax assets.

Current liabilities were down 6.3% to ¥61,800 million (US$665 million), because of a decrease in trade payables due to the fall in the number of construction sites. Long-term liabilities declined 3.3% year on year to ¥18,831 million (US$202 million), mainly due to the repayment of long-term debt.

Equity for the fiscal year under review was on a par with the previous year at ¥117,417 million (US$1,263 million). Contributing factors included the recording of a net income for the year, offset by payment of dividends.

Cash Flows

Net cash provided by operating activities was ¥15,531 million (US$167 million). This primarily reflected the recording of income and a reduction in inventories, while trade payables decreased.

Net cash provided by investing activities amounted to ¥2,998 million (US$32 million). This was mostly due to sales and redemption of marketable securities and investment securities.

Net cash used in financing activities was ¥3,319 million (US$36 million), which primarily went toward payment of dividends.

As a result, cash and cash equivalents as of March 31, 2010 stood at ¥69,736 million (US$750 million), an increase of ¥15,211 million compared with the previous fiscal year-end.

Consolidated Balance Sheets

PanaHome Corporation and Consolidated Subsidiaries
March 31, 2010 and 2009

ASSETS	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 69,736	¥ 54,525	$ 749,849
Marketable securities (Note 3)	—	2,006	—
Short-term investments (Note 14)	47	20	505
Receivables (Notes 12 and 14):			
Trade	2,985	3,399	32,097
Other	654	1,022	7,032
Allowance for doubtful receivables	(47)	(65)	(505)
Inventories (Note 4)	50,548	63,275	543,527
Deferred income tax assets (Note 10)	5,360	5,630	57,635
Other current assets	646	1,257	6,946
Total current assets	129,929	131,069	1,397,086
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	21,215	21,051	228,118
Buildings and structures (Note 6)	46,497	46,426	499,968
Machinery and equipment	18,726	19,608	201,355
Lease assets (Note 6)	1,404	934	15,097
Construction in progress	49	100	527
Total	87,891	88,119	945,065
Less accumulated depreciation	(48,802)	(48,204)	(524,753)
Net property, plant and equipment	39,089	39,915	420,312
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	1,270	3,171	13,656
Investments in associated companies	7,279	7,600	78,269
Long-term loans (Notes 7 and 14)	3,793	4,302	40,785
Long-term loans to employees (Note 14)	610	629	6,559
Prepaid pension costs (Note 8)	6,725	5,692	72,312
Deferred income tax assets (Note 10)	3,215	5,366	34,570
Intangibles and other asset	7,038	6,063	75,677
Allowance for doubtful accounts	(900)	(952)	(9,678)
Total investments and other assets	29,030	31,871	312,150
TOTAL	¥ 198,048	¥ 202,855	$ 2,129,548

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2010	2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 100	¥ 125	$ 1,075
Payables (Notes 12 and 14):			
Trade	29,840	33,544	320,860
Other	6,201	6,526	66,678
Accrued income taxes	344	376	3,699
Deposits received	14,507	14,163	155,989
Accrued expenses and other current liabilities	10,808	11,205	116,215
Total current liabilities	61,800	65,939	664,516
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	3,291	3,718	35,387
Liability for employees' retirement benefits (Note 8)	4,611	4,259	49,581
Deferred income tax liabilities on land revaluation (Note 5)	2,125	2,128	22,849
Long-term deposits received	8,125	8,713	87,366
Other long-term liabilities	679	661	7,301
Total long-term liabilities	18,831	19,479	202,484
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Notes 9 and 18):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2010 and 2009	28,376	28,376	305,118
Capital surplus	31,983	31,983	343,903
Retained earnings	63,098	63,188	678,473
Net unrealized gains on available-for-sale securities	158	108	1,699
Land revaluation difference (Note 5)	(6,770)	(6,767)	(72,796)
Foreign currency translation adjustments	1	—	11
Treasury stock - at cost, 501,797 shares in 2010 and 477,478 shares in 2009	(262)	(248)	(2,817)
Total	116,584	116,640	1,253,591
Minority interests	833	797	8,957
Total equity	117,417	117,437	1,262,548
TOTAL	¥ 198,048	¥ 202,855	$ 2,129,548

Consolidated Statements of Income

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES (Note 12)	¥ 260,389	¥ 284,625	$ 2,799,882
COST OF SALES (Note 12)	201,248	216,786	2,163,957
Gross profit	59,141	67,839	635,925
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	53,797	58,347	578,463
Operating income	5,344	9,492	57,462
OTHER INCOME (EXPENSES):			
Interest and dividend income	275	413	2,957
Amortization of negative goodwill	—	8	—
Interest expense	(179)	(228)	(1,925)
Equity in losses of affiliated companies	(476)	(335)	(5,118)
Gain on sales of property, plant and equipment	5	9	54
Loss on disposal and sales of property, plant and equipment	(89)	(268)	(957)
Loss on impairment of long-lived assets (Note 6)	(24)	(103)	(258)
Loss on closure of showrooms (Note 6)	—	(584)	—
Other - net	207	(167)	2,226
Other expenses - net	(281)	(1,255)	(3,021)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,063	8,237	54,441
INCOME TAXES (Note 10):			
Current	247	283	2,656
Deferred	2,373	5,032	25,516
Total	2,620	5,315	28,172
MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES	15	(26)	161
NET INCOME	¥ 2,428	¥ 2,948	$ 26,108
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 14.45	¥ 17.53	$ 0.16
Diluted net income	—	—	—
Cash dividends applicable to the year	15.00	15.00	0.16

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	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, APRIL1, 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
Net income	—	—	—	2,428	—
Cash dividends, ¥15.00 per share	—	—	—	(2,522)	—
Reversal of land revaluation difference	—	—	—	4	—
Purchase of treasury stock	(28)	—	—	—	—
Disposal of treasury stock	4	—	0	—	—
Net change in the year	—	—	—	—	50
BALANCE, MARCH 31, 2010	168,062	¥ 28,376	¥ 31,983	¥ 63,098	¥ 158

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities
BALANCE, MARCH 31, 2009	$ 305,118	$ 343,903	$ 679,440	$ 1,161
Net income	—	—	26,108	—
Cash dividends, $0.16 per share	—	—	(27,118)	—
Reversal of land revaluation difference	—	—	43	—
Purchase of treasury stock	—	—	—	—
Disposal of treasury stock	—	0	—	—
Net change in the year	—	—	—	538
BALANCE, MARCH 31, 2010	$ 305,118	$ 343,903	$ 678,473	$ 1,699

(Continued)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity (Continued)

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen					
	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, APRIL1, 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
Net income	—	—	—	2,428	—	2,428
Cash dividends, ¥15.00 per share	—	—	—	(2,522)	—	(2,522)
Reversal of land revaluation difference	—	—	—	4	—	4
Purchase of treasury stock	—	—	(16)	(16)	—	(16)
Disposal of treasury stock	—	—	2	2	—	2
Net change in the year	(3)	1	—	48	36	84
BALANCE, MARCH 31, 2010	¥ (6,770)	¥ 1	¥ (262)	¥ 116,584	¥ 833	¥ 117,417

	Thousands of U.S. Dollars (Note 1)					
	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2009	$ (72,763)	$ —	$ (2,667)	$ 1,254,192	$ 8,570	$ 1,262,762
Net income	—	—	—	26,108	—	26,108
Cash dividends, $0.16 per share	—	—	—	(27,118)	—	(27,118)
Reversal of land revaluation difference	—	—	—	43	—	43
Purchase of treasury stock	—	—	(172)	(172)	—	(172)
Disposal of treasury stock	—	—	22	22	—	22
Net change in the year	(33)	11	—	516	387	903
BALANCE, MARCH 31, 2010	$ (72,796)	$ 11	$ (2,817)	$ 1,253,591	$ 8,957	$ 1,262,548

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 5,063	¥ 8,237	$ 54,441
Adjustments for:			
Depreciation	2,993	2,836	32,183
Loss on impairment of long-lived assets	24	103	258
Loss on closure of showrooms	—	584	—
Provision for retirement and severance benefits	(681)	(1,078)	(7,323)
Interest and dividend income	(275)	(413)	(2,957)
Interest expense	179	228	1,925
Equity in losses of affiliated companies	476	335	5,118
Loss on disposal and sales of property, plant and equipment	89	268	957
Amortization of goodwill	—	23	—
Decrease in trade receivables	221	947	2,376
Decrease in other receivables	367	5,711	3,946
Decrease (increase) in inventories	12,565	(6,890)	135,108
Decrease in trade payables	(3,704)	(600)	(39,828)
Increase (decrease) in advances received	344	(1,690)	3,699
Other	(2,044)	(870)	(21,979)
Sub total	15,617	7,731	167,924
Interest and dividend income received	316	446	3,398
Interest expense paid	(185)	(232)	(1,989)
Income taxes paid	(217)	(397)	(2,333)
Net cash provided by operating activities	15,531	7,548	167,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and redemption of marketable securities	2,006	2,178	21,570
Additions to property, plant and equipment	(965)	(998)	(10,376)
Proceeds from sales of property, plant and equipment	23	63	247
Additions to intangibles	(689)	(664)	(7,409)
Proceeds from sales and redemption of investment securities	2,010	715	21,613
Other	613	697	6,592
Net cash provided by investing activities	2,998	1,991	32,237
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term bank loans	(25)	(874)	(269)
Repayments of long-term debt	(480)	(697)	(5,161)
Purchase of treasury stock	(16)	(39)	(172)
Cash dividends paid	(2,520)	(2,523)	(27,097)
Other	(278)	(100)	(2,989)
Net cash used in financing activities	(3,319)	(4,233)	(35,688)
Effect of exchange rate changes on cash and cash equivalents	1	(11)	10
Net increase in cash and cash equivalents	15,211	5,295	163,559
Cash and cash equivalents at beginning of year	54,525	48,874	586,290
Cash and cash equivalents of newly consolidated subsidiaries (Note 17)	—	374	—
Cash and cash equivalents of subsidiaries excluded from consolidation	—	(18)	—
Cash and cash equivalents at end of year	¥ 69,736	¥ 54,525	$ 749,849

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

PanaHome Corporation and Consolidated Subsidiaries

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.

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 ¥93 to $1, the approximate rate of exchange at March 31, 2010. 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, 2010 include the accounts of the Company and its 14 significant (13 in 2009) 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 2009) associated companies are accounted for by the equity method.

Investments in 1 unconsolidated subsidiary and 1 associated company (1 unconsolidated subsidiary and 1 associated company in 2009) 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 is 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 both 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 -*** Inventories are stated at the lower of cost, determined by the specific identified cost method for real estate for sale and contracts in progress, and by the average cost method for finished goods, work in progress, raw materials and supplies, or net selling value.

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 structures, 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 Accounting Standards Board of Japan (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. All other leases are accounted for as operating leases.

i. ***Construction Contracts -*** In December 2007, the ASBJ issued ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts". Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account 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 should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a 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. The Group applied the new accounting standard effective April 1, 2009. Revenue and the related costs from the constructions with short term construction schedule is recorded under the completed-contract method. Other constructions are recorded under the percentage-of completion method, if the outcome of construction contract can be reliably estimated. The effect of this change was not material.

j. ***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.

k. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax law to the temporary differences.

l. ***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 income to the extent that they are not hedged by forward exchange contracts.

m. ***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.

n. ***Derivative Financial Instruments -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce 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 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.

o. ***Per Share Information -*** Basic net income per share is computed by dividing net income 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 years ended March 31, 2010 and 2009.

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

p. ***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.

Accounting Changes and Error Corrections - In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies
When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.
(2) Changes in Presentations
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current:			
Government and corporate bonds	¥ —	¥ 2,006	$ —
Non-current:			
Marketable equity securities	¥ 770	¥ 671	$ 8,280
Government and corporate bonds	500	2,500	5,376
Total	¥ 1,270	¥ 3,171	$ 13,656

The costs amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
	2010			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 538	¥ 216	¥ 1	¥ 753
Debt securities	—	—	—	—
Held-to-maturity	500	—	1	499

	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

	Thousands of U.S. Dollars			
	2010			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 5,785	$ 2,322	$ 10	$ 8,097
Debt securities	—	—	—	—
Held-to-maturity	5,376	—	10	5,366

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 14.

	Carrying Amount
	Millions of Yen
Available-for-sale:	2009
Equity securities	¥ 17
Total	¥ 17

4. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Real estate for sale	¥ 43,008	¥ 56,098	$ 462,452
Contracts in progress	6,546	6,005	70,387
Finished goods	877	986	9,430
Work in process, raw materials and supplies	117	186	1,258
Total	¥ 50,548	¥ 63,275	$ 543,527

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 income. 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, 2010, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,853 million ($52,183 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2010 and 2009.

As a result, for the year ended March 31, 2010, the Group recognized an impairment loss of ¥24 million ($258 thousand) as other expenses for certain idle assets in Shiga Prefecture and others due to substantial declines in the fair market value. The carrying amounts of those assets were written down to the estimated recoverable amounts.

The estimated recoverable amounts of the idle assets were measured by their net selling price at disposition, principally calculated by the appraisal value.

For the year ended March 31, 2009, the Group recognized an impairment loss of ¥454 million 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 income.

Impairment losses which the Group recognized for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Rental properties:			
Buildings and structures	¥ —	¥ 53	$ —
Total	¥ —	¥ 53	$ —
Idle assets:			
Land	¥ 3	¥ 3	$ 32
Buildings and structures	—	19	—
Other	21	28	226
Total	¥ 24	¥ 50	$ 258
Business properties:			
Finance lease assets (see Note 13) and others	¥ —	¥ 352	$ —
Total	¥ —	¥ 352	$ —

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

For short-term bank loans at March 31, 2010 and 2009, the annual interest rates were 1.48% and ranged from 1.48% to 2.70%, respectively.

Long-term debt, excluding finance leases ¥681 million ($7,323 thousand), at March 31, 2010 consisted of collateralized loans from banks of ¥2,610 million ($28,065 thousand) due serially to 2023, with the annual interest rate of 2.21%.

Annual maturities of long-term debt, excluding finance leases of ¥681 million ($7,323 thousand), at March 31, 2010, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 160	$ 1,720
2012	165	1,774
2013	171	1,839
2014	176	1,893
2015	182	1,957
2016 and thereafter	1,756	18,882
Total	¥ 2,610	$ 28,065

At March 31, 2010, long-term loans of ¥3,572 million ($38,409 thousand) were pledged as collateral for long-term debt of ¥2,610 million ($28,065 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, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥ 38,024	¥ 36,485	$ 408,861
Fair value of plan assets	(27,820)	(23,201)	(299,140)
Unrecognized prior service benefit	1,697	2,948	18,247
Unrecognized actuarial loss	(14,015)	(17,665)	(150,699)
Prepaid pension costs	6,725	5,692	72,312
Net liability	¥ 4,611	¥ 4,259	$ 49,581

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 1,685	¥ 1,640	$ 18,118
Interest cost	889	849	9,559
Expected return on plan assets	(688)	(771)	(7,397)
Prior service benefit	(1,251)	(1,247)	(13,452)
Recognized actuarial loss	1,340	988	14,409
Loss on revision of retirement benefit plan	—	91	—
Net periodic benefit costs	¥ 1,975	¥ 1,550	$ 21,237

Assumptions used for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	3.0%	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

Japanese companies are 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, 2010 and 2009.

The significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Loss carryforward	¥ 4,564	¥ 7,503	$ 49,075
Accrued expenses	2,466	2,651	26,516
Depreciation	913	1,021	9,817
Employees' retirement benefits	255	267	2,742
Write-down of inventories	979	925	10,527
Other	2,545	2,821	27,366
Subtotal	11,722	15,188	126,043
Valuation allowance	(1,986)	(3,337)	(21,355)
Total	9,736	11,851	104,688
Deferred tax liabilities:			
Employees' retirement benefits	(1,114)	(854)	(11,978)
Unrealized gains on available-for-sale securities	(47)	(1)	(505)
Total	(1,161)	(855)	(12,483)
Net deferred tax assets	¥ 8,575	¥ 10,996	$ 92,205

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Normal effective statutory rate	40.7%	40.7%
Per capita levy	2.7	2.0
Expenses permanently not deductible for income tax purposes	1.5	1.2
Increase of valuation allowance	3.6	17.7
Equity in losses of affiliated companies	3.8	1.7
Amortization of goodwill	—	0.1
Unrealized intercompany profits	(2.1)	0.3
Other - net	1.5	0.8
Actual effective rate	51.7%	64.5%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,338 million ($14,387 thousand) and ¥1,407 million for the years ended March 31, 2010 and 2009, respectively.

12. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥21,191 million ($227,860 thousand) and ¥26,778 million for the years ended March 31, 2010 and 2009, respectively. Trade accounts receivable due from associated companies were ¥764 million ($8,215 thousand) and ¥867 million at March 31, 2010 and 2009, respectively.

Purchases from Panasonic Electric Works Co., Ltd., a majority-owned subsidiary of Panasonic Corporation, the parent company of the Company, were ¥5,149 million ($55,366 thousand) and ¥6,640 million for the years ended March 31, 2010 and 2009, respectively. Trade accounts payable due to Panasonic Electric Works Co., Ltd. were ¥2,087 million ($22,441 thousand) and ¥2,253 million at March 31, 2010 and 2009, respectively.

The average balance of short-term loans to Panasonic Corporation for the year ended March 31, 2010 was ¥14,699 million ($158,054 thousand). There were no related balances at March 31, 2010.

13. 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 ¥1,374 million ($14,774 thousand) and ¥1,991 million for the years ended March 31, 2010 and 2009, respectively.

For the year ended March 31, 2009, the Group recorded an impairment loss of ¥350 million 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 whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Group applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions.

Pro forma information of leased property whose lease inception was before March 31, 2008 that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen			
	2010			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 4,093	¥ 117	¥ —	¥ 4,210
Accumulated depreciation	3,275	94	—	3,369
Accumulated impairment loss	16	—	—	16
Net leased property	¥ 802	¥ 23	¥ —	¥ 825

	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

	Thousands of U.S. Dollars			
	2010			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	$ 44,011	$ 1,258	$ —	$ 45,269
Accumulated depreciation	35,215	1,011	—	36,226
Accumulated impairment loss	172	—	—	172
Net leased property	$ 8,624	$ 247	$ —	$ 8,871

Obligations under such finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥ 657	¥ 1,222	$ 7,065
Due after one year	168	993	1,806
Total	¥ 825	¥ 2,215	$ 8,871

Depreciation expense and other information under finance leases for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Depreciation expense	¥ 1,374	¥ 1,991	$ 14,774
Lease payments	1,374	1,991	14,774
Reversal of allowance for impairment loss on leased property	334	—	3,591
Impairment loss	—	350	—

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

The minimum rental commitments (Lessee) under noncancellable operating leases at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥11,964	¥10,997	$128,646
Due after one year	7,131	7,395	76,677
Total	¥19,095	¥18,392	$205,323

The minimum rental commitments (Lessor) under noncancellable operating leases at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥ 27	¥ 27	$ 290
Due after one year	320	346	3,441
Total	¥ 347	¥ 373	$ 3,731

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group policy for financial instruments

The Group uses financial instruments, long-term debt including bank loans or bonds considering environment of market, if necessary. Cash surpluses, if any, are invested only in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk.

Long-term loans due up to 18 years are mainly loans for constructions of nursing-care homes from a special purpose company which is a consolidated subsidiary of the Company. Most long-term loans to employees are due up to 27 years, and are for housing loans. Both loan types are exposed to credit risks and market risks from changes in variable interest rates partially hedged by using interest-rate swaps.

Marketable and investment securities, primarily held-to-maturity securities and certificate of deposits, are exposed to the risk of market price fluctuations and default risk.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Long-term debt is primarily long-term bank loans as corresponding to the long-term loans receivables of the special purpose company.

(3) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables and long-term loans on the basis of internal guidelines, which include monitoring of payment term and balances of major customers and borrowers by administrative department of each business office to identify the default risk of them in early stage.

Market risk management

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning by the corporate financial department. Also, the Group uses a cash management system for a flexible finance in the Group.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The details of fair value for derivatives are described in Note 15.

(a) Fair value of financial instruments

	Millions of Yen		
At March 31, 2010	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 69,736	¥ 69,736	¥ —
Short-term investments	47	47	—
Receivables - Trade	2,985	2,985	—
Investment securities	1,253	1,252	(1)
Long-term loans (including long-term loans to employees)	4,403		
Allowance for doubtful accounts	(139)		
Sub total	4,264	4,234	(30)
Total	¥ 78,285	¥ 78,254	¥ (31)
Payables - Trade	¥ 29,840	¥ 29,840	¥ —
Long-term debt (excluding finance leases)	2,610	2,610	—
Total	¥ 32,450	¥ 32,450	¥ —

At March 31, 2010	Thousands of U.S. Dollars Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 749,849	$ 749,849	$ —
Short-term investments	505	505	—
Receivables - Trade	32,097	32,097	—
Investment securities	13,473	13,463	(10)
Long-term loans (including long-term loans to employees)	47,344		
Allowance for doubtful accounts	(1,494)		
Sub total	45,850	45,527	(323)
Total	$ 841,774	$ 841,441	$ (333)
Payables - Trade	$ 320,860	$ 320,860	$ —
Long-term debt (excluding finance leases)	28,065	28,065	—
Total	$ 348,925	$ 348,925	$ —

Cash and cash equivalents, short-term investment, receivables and payables

The carrying values of cash and cash equivalents, short-term investment, receivables and payables are used as the fair values because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the investment securities by classification is included in Note 3.

Long-term loans (including long-term loans to employees)

The carrying values of long-term loans with variable interest approximate fair value since the credit risk of borrowers has not changed significantly since the origination. The fair values of long-term loans with fixed rates are determined by discounting the cash flows related to loans at the rate reflecting credit risk for each classification of the loans.

Long-term debt (excluding finance lease)

The carrying values of long-term debt (excluding finance lease) approximate fair value because long-term debt consists of long-term bank loans by the variable rate and there was no significant change in the credit risk of the Group after the origination.

Derivatives

The information of the fair value for derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined

At March 31, 2010	Carrying amount Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 7,296	$ 78,452

(5) Maturity analysis for financial assets and securities with contractual maturities

At March 31, 2010	Millions of Yen Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 69,736	¥ —	¥ —	¥ —
Short-term investments	47	—	—	—
Receivables - Trade	2,985	—	—	—
Investment securities				
Held-to-maturity securities	—	500	—	—
Long-term loans (including long-term loans to employees)	198	840	1,166	2,060
Total	¥ 72,966	¥ 1,340	¥ 1,166	¥ 2,060

At March 31, 2010	Thousands of U.S. Dollars Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 749,849	$ —	$ —	$ —
Short-term investments	505	—	—	—
Receivables - Trade	32,097	—	—	—
Investment securities				
Held-to-maturity securities	—	5,376	—	—
Long-term loans (including long-term loans to employees)	2,129	9,032	12,538	22,151
Total	$ 784,580	$ 14,408	$ 12,538	$ 22,151

Long-term loans in the table above exclude the doubtful accounts of ¥139 million ($1,494 thousand).
Annual maturities of long-term debt excluding finance leases are disclosed in Note 7.

15. DERIVATIVES

The Group enters into interest rate swap contracts to manage its interest rate risks associated with long-term loans.
The Group uses derivatives only for the purpose of reducing 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 prohibit 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.

Derivative transactions to which hedge accounting was applied at March 31, 2010 were as follows:

At March 31, 2010	Millions of Yen Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	¥3,425	¥3,264	—

At March 31, 2010	Thousands of U.S. Dollars Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	$36,828	$35,097	—

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.
The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest income. In addition, the fair value of such interest rate swaps is included in that of long-term loans in Note 14.

As noted in Note 14, the Group applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and related disclosures". The Accounting Standard and the Guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

16. CONTINGENT LIABILITIES

Guarantees of Loans - At March 31, 2010, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥7,716 million ($82,968 thousand).

17. SUPPLEMENTARY CASH FLOWS INFORMATION

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

	Millions of Yen
	2009
Current assets	¥ 672
Non-current assets	148
Current liabilities	(884)
Non-current liabilities	(191)
Equity at the inception of consolidation	255
Acquired price of stocks	—
Cash and cash equivalents of newly consolidated subsidiaries	374
Difference	¥ 374

Non-cash investing and financing activities for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Finance lease obligation for property and equipment recorded for the fiscal year	¥471	¥934	$5,065

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2010 was resolved at the Board of Directors' meeting held on April 27, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.08) per share	¥1,261	$13,559

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
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Osaka 541-0042
Japan

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To the Board of Directors of PanaHome Corporation:

We have audited the accompanying consolidated balance sheets of PanaHome Corporation (the "Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, 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, 2010 and 2009 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.

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 LLC

June 23, 2010

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data (As of March 31, 2010)

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

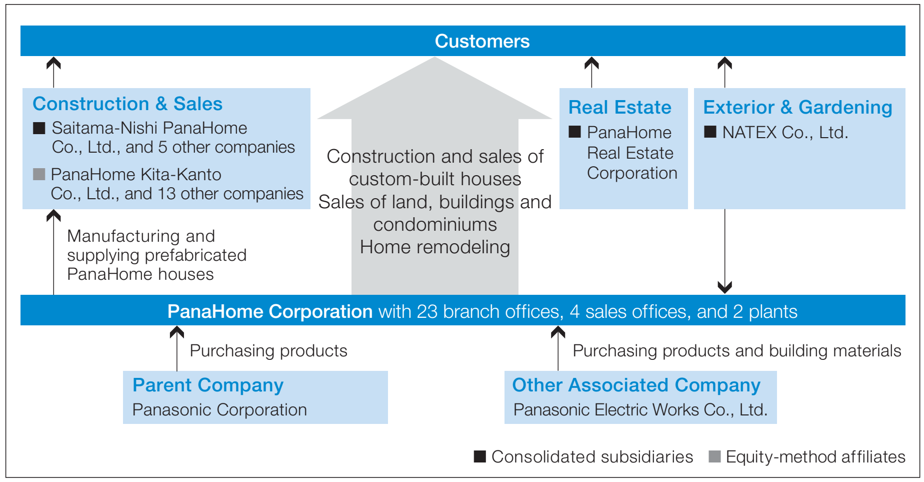
Stock Exchange Listings
Tokyo, Osaka

Capital
¥28,376 million

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

Number of Shareholders
7,705

Subsidiaries and Affiliates (As of March 31, 2010)



Management (As of June 23, 2010)

Members of the Board

President & Chief Executive Officer
Yasuteru Fujii

Directors
Hidehiko Nonomura
Hirofumi Yasuhara
Tomiharu Yamada
Makoto Hatakeyama

Corporate Auditors

Senior Standing Corporate Auditor
Yukimitsu Kodama

Standing Corporate Auditor
Yasuhiro Nakamura

Corporate Auditor
Jun Demizu

Corporate Executive Officers

Senior Managing Executive Officer
Hidehiko Nonomura

Managing Executive Officers
Hirofumi Yasuhara
Tomiharu Yamada
Makoto Hatakeyama

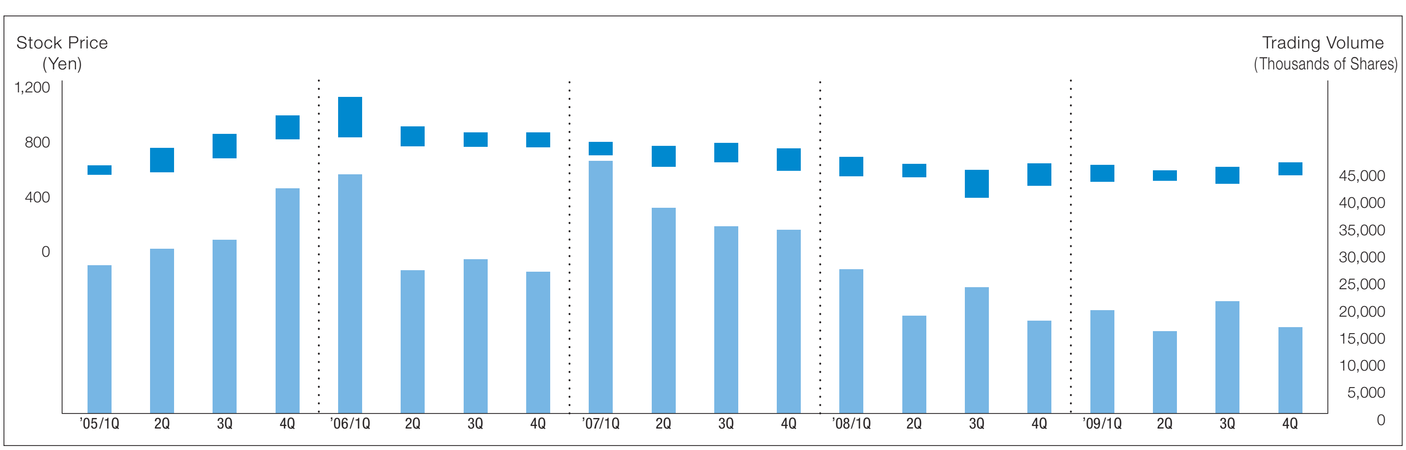
Executive Officers
Hiroki Umiguchi
Yoshifumi Tsuruta
Hirohiko Nagata
Hiroshi Hirasawa
Toshimitsu Sakai
Mitsuhiko Nakata
Kazuo Kitagawa
Masato Nadamoto
Tadashi Manabe
Atsushi Hongo
Taku Hirao

Major Shareholders (As of March 31, 2010)

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)	5,843	3.46
Japan Trustee Services Bank, Ltd. (trust account)	5,115	3.03
Northern Trust Co. (AVFC) Sub A/C American Clients	3,705	2.19
National Mutual Insurance Federation of Agricultural Cooperatives	3,697	2.19
Trust & Custody Services Bank, Ltd. (security investment trust account)	3,530	2.09
PanaHome Employee Shareholding Association	2,640	1.56
Sumitomo Mitsui Banking Corporation	2,358	1.39
The Bank of New York, Treaty Jasdec Account	1,839	1.09

Note: PanaHome holds 466,922 shares of its own common stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



PanaHome

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

PanaHome Corporation