Annual Report 2012

PanaHome Corporation

For the year ended March 31, 2012

PanaHome

Corporate Profile

PanaHome Corporation, the housing company of the Panasonic Group, has set the objective of becoming the 'No.1 Green Innovation Company in the Housing Industry.'

Established in 1963, PanaHome traces its roots back to the passionate vision of Konosuke Matsushita, founder of the company known today as Panasonic Corporation, who sought to build quality homes befitting the vital role they play in people's lives. In the years since, PanaHome has accumulated a wealth of experience, earning the trust of customers nationwide.

PanaHome seeks to build houses that are in harmony with the environment and that will be passed on to future generations, leveraging its outstanding technological and design capabilities to provide homes that deliver peace of mind and lasting comfort. By harnessing the power of nature and the advanced technologies of the entire Panasonic Group, PanaHome is also working to build 'eco ideas' homes, that is, homes that are comfortable, appealing and ecologically sound. Through these and other efforts, PanaHome seeks to provide smart house that reflect its commitment to the future of this planet and to the true meaning of the word 'home.'

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 of publication. Actual performance may differ substantially from the forward-looking statements, owing to a variety of factors, including, but not limited to, changes in economic conditions and market trends, changes in financial conditions and major fluctuations in land prices.

Financial Highlights

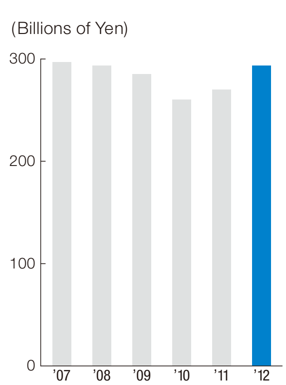
PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, from 2007 to 2012

	Millions of Yen						Thousands of U.S. Dollars
	2007	2008	2009	2010	2011	2012	2012
Net Sales	¥296,817	¥293,617	¥284,625	¥260,389	¥269,450	**¥293,152**	**$3,575,024**
Operating Income	8,363	8,757	9,492	5,344	7,831	**10,666**	**130,073**
Income (Loss) before Income Taxes and Minority Interests	6,893	(1,188)	8,237	5,063	6,768	**10,692**	**130,390**
Net Income (Loss)	5,240	(606)	2,948	2,428	4,325	**6,123**	**74,671**
Total Assets	216,771	206,750	202,855	198,048	205,908	**216,734**	**2,643,098**
Equity	120,543	117,357	117,437	117,417	119,234	**123,010**	**1,500,123**
Return on Equity	4.4%	(0.5)%	2.5%	2.1%	3.7%	**5.1%**	
Equity Ratio	55.3%	56.3%	57.5%	58.9%	57.6%	**56.4%**	

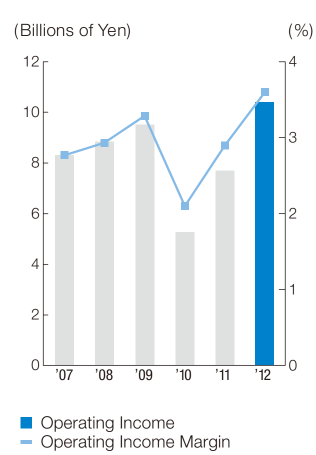
	Yen						U.S. Dollars
Per Share Amounts:							
Net Income (Loss)	¥ 31.21	¥ (3.61)	¥ 17.53	¥ 14.45	¥ 25.73	**¥ 36.44**	**$ 0.44**
Diluted Net Income	31.18	–	–	–	–	**–**	**–**
Cash Dividends	15.00	15.00	15.00	15.00	15.00	**15.00**	**0.18**
Number of Employees at Year-end (Persons)	5,750	5,097	5,076	5,011	5,093	**5,099**	

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 ¥82 = US$1, the approximate rate of exchange at March 31, 2012, 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.

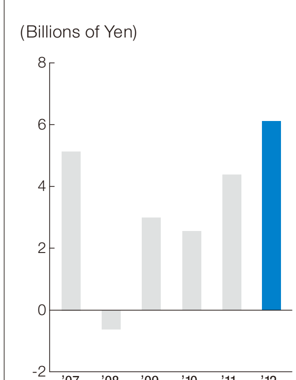
Net Sales



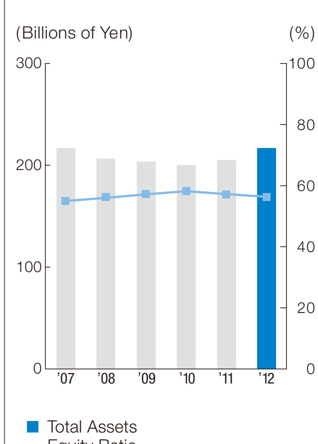
Operating Income/ Operating Income Margin



Net Income (Loss)



Total Assets/ Equity Ratio



A Message from the President

The Great East Japan Earthquake, which struck on March 11, 2011, and its attendant disasters, was a major wakeup call for the housing companies of Japan. In addition to bringing the issue of energy consumption to the fore for people across the country, the quake heightened awareness of the need to be better prepared for disasters, as well as the importance of homes and lifestyles that nurture strong family bonds and loving memories.

As a housing company, we have helped build homes and design lifestyles for the people of this country for nearly half a century. We are thus uniquely positioned to propose new ideas for homes and communities that take into account the perspectives and expectations of inhabitants in the future. As the housing company of the Panasonic Group—which has set the goal of becoming the No.1 Green Innovation Company in the Electronics Industry—we will step up efforts to achieve growth by meticulously incorporating environmental contribution into everything we do, as well as by providing homes that respond to the needs of each and every one of our customers.

Our Performance in Fiscal 2011

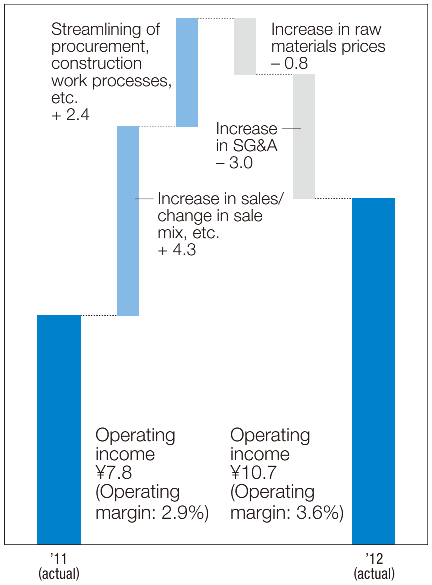
Robust results for mainstay custom-built detached housing supported increases in net sales and operating income

In fiscal 2011, the year ended March 31, 2012, brisk results for custom-built detached housing, together with the provision of emergency temporary dwellings in earthquake-stricken areas, contributed to an 8.8% increase in consolidated net sales, to ¥293.2 billion (US$3,575 million). Although a decline in condominium unit sales pushed down sales in the property development business, healthy orders from the second half of fiscal 2010 forward—attributable to, among others, a promotional campaign that focused on our highly acclaimed *KIRATECH* tile exterior walls—contributed to sales in our mainstay custom-built detached housing business.

Consolidated operating income climbed 36.2%, to ¥10.7 billion (US$130 million), bolstered by higher net sales and ongoing efforts to rationalize procurement and construction site costs. The increase in operating income occurred despite rising prices for materials purchased, elevated personnel costs attributable to the higher net sales and expanded advance investments in advertising and sales promotions.

Factors Behind Change in Operating Income (Year on Year)

(Billions of yen)



Years ended March 31

Conditions in the Housing Industry

Key concepts include safety and peace of mind, family bonds and energy-consciousness

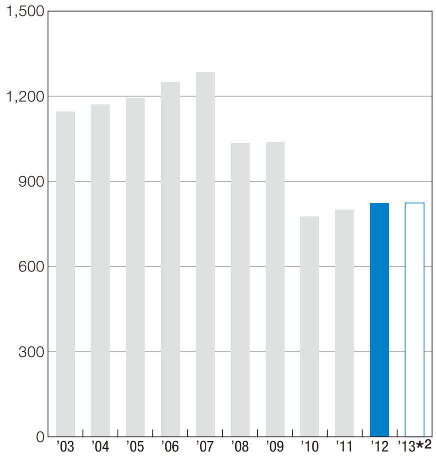
Housing starts have rallied since fiscal 2010, bolstered by government measures aimed at stimulating housing demand. Nonetheless, with the positive impact of orders related to reconstruction efforts in areas devastated by the Great East Japan Earthquake likely be countered by such factors as the global economic slowdown, we expect new housing starts in fiscal 2012 to be in the area of 840,000 units, essentially level with fiscal 2011.

Given that Japan's housing stock is currently at a sufficient level, housing starts are likely to decline gradually over the medium to long term. However, with the government strengthening its emphasis on the long-term use and reuse of quality housing, steady growth is expected in the home remodeling business and in sales of pre-owned homes. Additionally, the disaster Japan experienced in 2011 brought renewed appreciation for homes that are safe, secure and conducive to the nurturing of family bonds, as well as underscored the need to ensure homes are energy-efficient and equipped with energy creation, storage and management capabilities.

Going forward, we will redouble our efforts to contribute to the realization of a low-carbon green society by supplying earthquake-resistant, environment-friendly smart houses that deliver safety and security.

Number of New Housing Starts in Japan*1

(Thousands)



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

Years ended March 31

Strategies for Fiscal 2012

Making 'Eco & Smart' the cornerstone of our operations

For 2018, the 100th anniversary of its founding, Panasonic Corporation has set the goal of becoming the No.1 Green Innovation Company in the Electronics Industry. With this in mind, Panasonic has identified 'Eco & Smart' as a key concept that will define lifestyles in the future. The entire Panasonic Group is promoting comprehensive solutions for homes, commercial structures and towns by advancing the use of energy-saving equipment and developing systems that incorporate energy creation, storage and management capabilities.

As the housing company of the Panasonic Group, we are taking the lead in applying the 'Eco & Smart' concept to the development of homes and communities.

Smart Houses for Smart Lifestyles

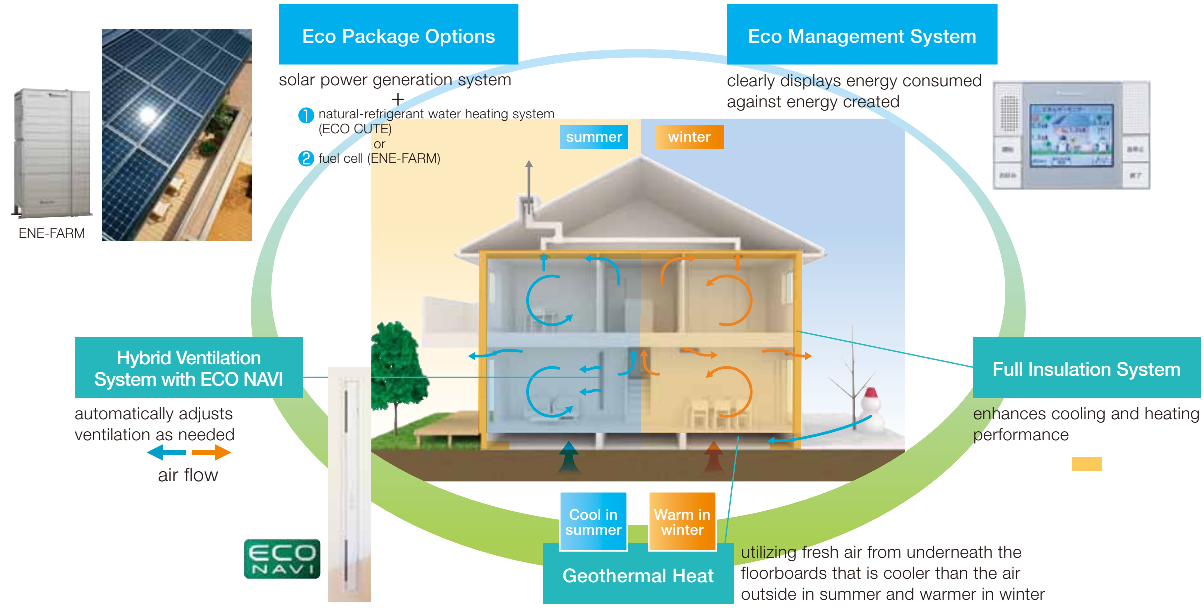
Since the Great East Japan Earthquake, consumer awareness of energy-related issues has soared in Japan, driving interest in smart houses that incorporate energy creation, storage and management capabilities and which reduce energy consumption. The government in Japan is accelerating efforts to introduce policies supporting such homes, including considering various subsidies for homeowners. Recognizing a promising opportunity, many companies from other industries have entered the housing market.

Having garnered acclaim for our 'eco ideas' homes, and with the objective of reducing the environmental footprint of our houses, in April 2010 we embarked on the development of an experimental zero carbon footprint house, part of a research project involving collaboration between industry and academia and across the entire Panasonic Group. In July of the same year, we completed construction of the experimental house and commenced R&D aimed at achieving commercialization. As a consequence, in October 2011 we launched *CASART TERRA*, our first zero carbon footprint house. In addition to a full insulation system employing geothermal heat, with its constant year-round temperature, and an integrated hybrid ventilation system, equipped with Panasonic Corporation's ECO NAVI, that automatically adjusts ventilation as needed, each *CASART TERRA* home comes with energy-creating and energy-saving equipment, all of which combine to reduce its net carbon footprint to virtually zero.

In April 2012, we commenced sales of our first smart house model, which combines the outstanding environmental performance of our original *CASART TERRA* with Panasonic Corporation's new Energy Creation–storage Linked System for Home Use, thereby ensuring the comfort of inhabitants, while at the same time making it easy to conserve energy and contributing to greater energy independence. We are currently promoting the development of another new smart house that will also permit comprehensive energy management.

CASART TERRA

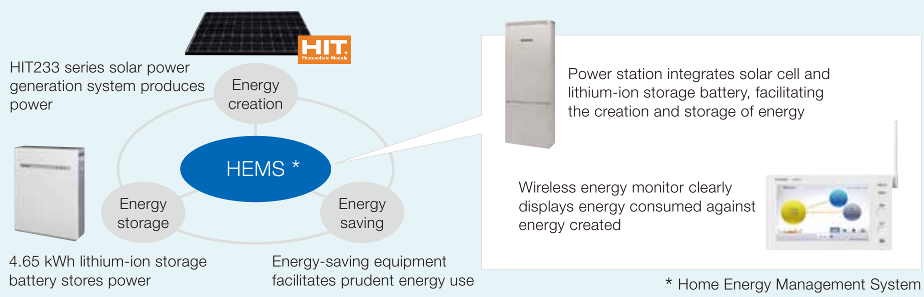
Features of *CASART TERRA*



Panasonic's Energy Creation–storage Linked System for Home Use

Comprehensive energy technologies for the home

Leveraging the distinctive capabilities of the Panasonic Group



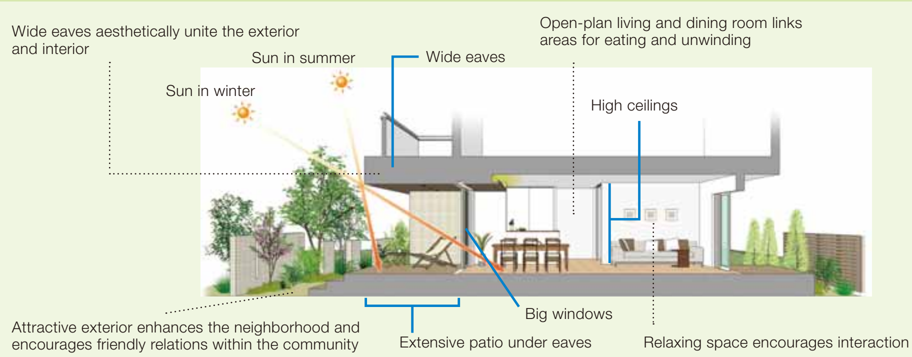
* Home Energy Management System

PanaHome offers homes that support smart lifestyles, which combine responsible energy use with comfortable living. In addition to installing energy creating and storage devices, we capitalize on our proprietary building technologies, as well as our extensive experience and knowhow, to offer enriching living environments for families that deliver security and tranquility and help foster strong community bonds.

Design flexibility facilitates airy, open living room

Enriching living environments for families

Leveraging the distinctive capabilities of PanaHome



PanaHome Smart City: Comprehensive Solutions for Communities

In May 2011, Panasonic announced that it would partner with eight other companies to spearhead advanced environmental initiatives in urban development. These nine companies are working with the city of Fujisawa, Kanagawa, to build a new smart town dubbed *Fujisawa Sustainable Smart Town (Fujisawa SST)*. Our participation has involved the development of the original concept, as well as site preparation and the construction and sale of homes. The grand opening of *Fujisawa SST* is scheduled for fiscal 2013.

Looking ahead, we will capitalize on our participation in the *Fujisawa SST* project to promote the development of PanaHome Smart City developments, smart residential communities comprising 50 to 100 homes, across Japan.

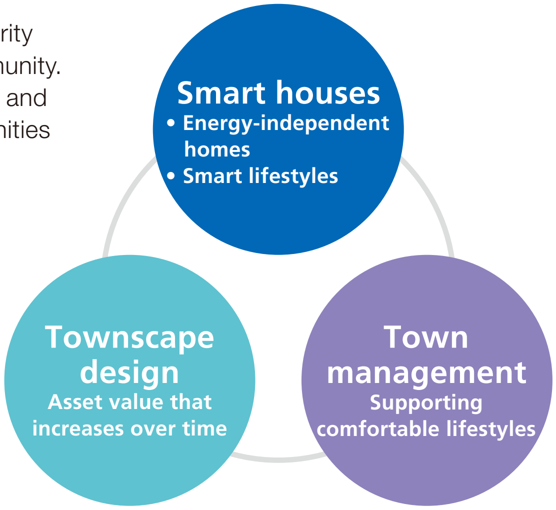
Artist's conception of *Fujisawa Sustainable Smart Town*

Distinguishing Features of PanaHome Smart City Communities

The PanaHome Smart City concept calls for the use of state-of-the-art equipment and IT technologies to optimize the management of energy consumption, enabling us to create sustainable communities that embrace the idea of 'Eco & Smart' lifestyles and prioritize the preservation of nature and beautiful scenery, a place where homes remain quality assets as they are passed down through the generations.

In accordance with this concept, PanaHome Smart City communities will center on *CASART TERRA* smart houses, thus giving them greater energy independence, and townscape designs that help ensure the development's value grows over time. Home exteriors and town planning are governed by our proprietary townscape design guidelines, which emphasize abundant green spaces, set criteria for the types of trees and flowers planted and the height of private fences, among others, and specify setback from street and neighboring homes, as well as mandate the application of universal design.

Another distinguishing feature is the provision of town management. For example, we collect a portion of funds raised through the sale of electricity from the community's solar power generation systems from residents, which we then use to fund such services as gardening and landscaping; home concierge services, including housekeeping, childcare and nursing care; and town security services, one example being security cameras installed throughout the community. Our menu of town management services is designed to help provide security and peace of mind, as well as to enhance lifestyles, ensuring homes and communities will maintain their appeal into the future.



Taking the ‘Eco & Smart’ Concept Global

Environmental and energy issues are worldwide concerns. Recent years have seen an increase in awareness in many areas, particularly Asia. Capitalizing on our expertise in the development of homes and communities to build ‘Eco & Smart’ houses in a number of overseas markets, we are working with local Panasonic Group subsidiaries to establish a business presence in Taiwan and Malaysia.

In Taiwan, in March 2010 we established interior design and decorating firm PanaHome Taiwan Residence Co., Ltd. In September 2011, we obtained a construction license and set up housing company PanaHome Taiwan Co., Ltd., which is actively proposing ideas to local development and nursing care firms.

In Malaysia, we are currently in the process of carrying out research and undertaking market studies. In September 2011, we participated in Asia’s largest environmental exhibition, held in Kuala Lumpur in cooperation with Panasonic Malaysia Sdn Bhd. Our booth, which attracted considerable interest, exhibited a number of unique PanaHome environmental and building technologies. In August 2012, we will construct an experimental smart house in Kuala Lumpur tailored to Southeast Asian market needs and will conduct extensive research, including cost–performance analyses, while simultaneously negotiating with leading local real estate developers.


Interior décor of apartment in Taiwan


Artist’s conception of experimental smart house designed for Southeast Asian markets

Securing Growth Potential and Profitability and Ensuring Fair Returns to Shareholders

By promoting assertive capital investment, we will strive to accelerate growth in net sales and operating income and bolster shareholder value

By implementing the growth strategies I have outlined in the preceding paragraphs, we will strive to increase PanaHome’s growth potential and profitability in fiscal 2012.

Since fiscal 2010, we have sought to ensure growth over the medium to long term by using cash from reserves built up as a result of increases in operating income and the sale of long-held land assets to purchase attractive plots of land for future development. This has positioned us to reinforce our mainstay detached housing business by locking in demand for first-time homebuyers who do not currently own land. We will also capitalize on opportunities to build environment-friendly residential communities and condominiums in areas targeted for urban redevelopment. Through these and other efforts, we will also strive to increase sales in our property development business, to around ¥100 billion by fiscal 2015.

We have always considered providing shareholders with a fair return on their investment as one of our most important responsibilities. Accordingly, our policy is to maintain stable annual dividends. For fiscal 2011, annual dividends were once again declared at ¥15.00 (US$0.18) per share, comprising interim and year-end dividends of ¥7.50 (US$0.09) each.

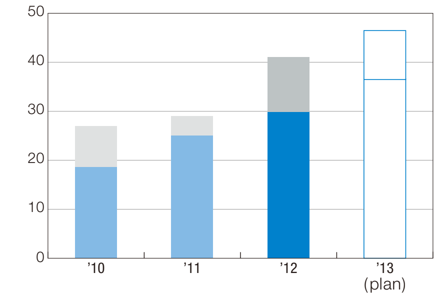
In fiscal 2013, we will celebrate PanaHome’s 50th anniversary. Our operating results have improved steadily since the financial downturn precipitated by the collapse of Lehman Brothers and we continue to see steady growth in net income per share. With this in mind, we will make every effort to further enhance our operating results and our return to shareholders. In these and all our efforts, we thank you for ongoing input and support.

July 2012

Yasuteru Fujii, President & CEO

Inventory of Land for Property Development

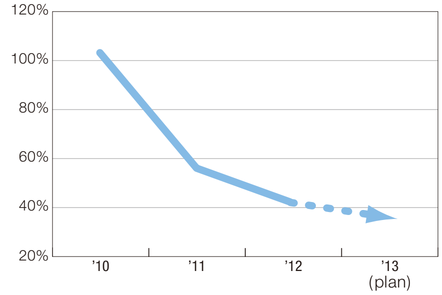
(Billions of Yen)



For detached houses For condominiums

As of March 31

Dividend Payout Ratio



Dividend payout ratio

As of March 31

PanaHome at a Glance

Custom-Built Detached Housing

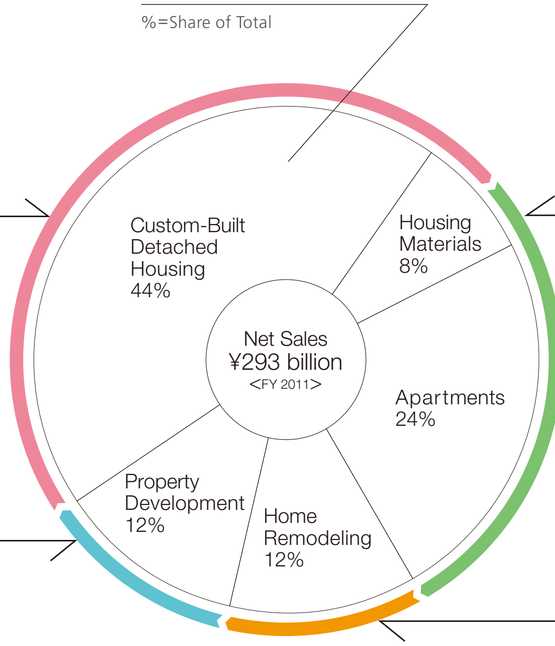
Please see page 9
for more information.

Apartments

Please see page 10
for more information.

Sales Breakdown by Business Category

%=Share of Total



Please see page 11
for more information.

Property Development

Please see page 11
for more information.

Home Remodeling

Three distinctive technologies

Outstanding steel-framed earthquake-resistant structures

PanaHome homes feature a proprietary earthquake-resistant steel-framed structure. As a result, they are able to withstand sizeable earthquakes and recurring tremors. The durability of PanaHome's houses has been verified through rigorous vibration testing, repeated 140 times, in which houses are subjected to seismic intensity approximately 4.3 times the intensity of the Great Hanshin-Awaji Earthquake of 1995 and 1.8 times the recent Great East Japan Earthquake. Testing was conducted on *CASART* homes in June 2011. Our steel-framed structure also accommodates future remodeling and ensures long-term security and comfort.

A commitment to clean air

We build homes featuring a full insulation system that takes advantage of the potential of geothermal heat, with its constant year-round temperature, and a proprietary integrated hybrid ventilation system with ECO NAVI that combines mechanical and natural ventilation. The system supplies cool fresh air under the floorboards in summer and warm fresh air in winter, thereby keeping the occupants comfortable and helping to conserve energy. Additionally, the use of diatomite from Wakkanai, in Hokkaido, in building materials ensures excellent regulation of humidity. Rigorous steps have also been taken to minimize emissions of volatile organic compounds (VOCs).

Photocatalytic tiles keep exterior walls clean

KIRATECH tile exterior walls employ advanced photocatalytic technology, which allows them to self-clean when exposed to sun or rain, meaning they remain clean long term. Because they are virtually maintenance-free, these walls contribute to significant savings in terms of both costs and resources. They also break down hazardous atmospheric pollutants, including nitrogen oxide (NOx), and purify the surrounding air, functioning in much the same way as does a natural forest.

Custom-Built Detached Housing

Capitalizing on innovative proprietary technologies and the comprehensive strengths of the Panasonic Group, we are addressing the challenge of building homes that have a reduced environmental footprint and provide lasting comfort to occupants.

In fiscal 2011, we expanded nationwide marketing of the *CASART* series of mid-level to high-end detached houses, which combine outstanding earthquake resistance and design flexibility—thanks to our innovative hyperspace (HS) construction technique—with superb environmental and energy-saving features. We also launched *Vieuno* homes, which incorporate stainless steel framing and provide considerable layout flexibility and comply with stringent urban building regulations. In October 2011, we introduced *CASART TERRA*, a zero carbon footprint house that boasts a full insulation system employing geothermal heat and an integrated hybrid ventilation system equipped with Panasonic's ECO NAVI, that automatically adjusts ventilation as needed, as well as a solar power generation system combined with either a natural-refrigerant water heating system or a fuel cell.

In April 2012, we reinforced our lineup of 'eco ideas' homes, introducing *CASART FAMIO*, which combines full insulation with the ECO NAVI ventilation system in a mid-priced home targeted at first-time homebuyers.

Looking ahead, we will work to enhance appeal and offer new and better variations by reinforcing the performance features of our custom-built smart houses that facilitate comprehensive energy management, thanks to solar power generation and energy storage systems.

PanaHome detached houses: Model and layout variations accommodate a wide range of customer needs and regional differences

CASART TERRA, a zero carbon footprint house boasting advanced earthquake resistance and environmental performance features

CASART FAMIO, a mid-priced option for first-time homebuyers

Ranch-style detached home for seniors

Vieuno, a reinforced steel-framed home designed for urban settings

Vieuno 5 a five-story home that can also be built to include commercial space and apartments

Apartments

Rental apartment housing

Our portfolio features a diverse variety of rental apartment housing designed to reflect local market characteristics and appeal to tenants.

In fiscal 2011, we sought to expand sales of apartments in our *EL MAISON FICASA* line of rental apartments, which combines industry-leading environmental performance with exceptional earthquake resistance and adaptability to various building lot features, both thanks to our HS construction technique. We also worked to ensure sufficient returns in a wide range of rental markets by enhancing the design and layout variations available for existing product lines. Additionally, we actively applied insights about design and security features gained through the operation of *Lacine Inokashira*—'trial stay' apartments for women in Tokyo's Mitaka area, which give individuals the opportunity to try independent living without having to make a long-term financial commitment—to other models. On another front, we added a reserve fund system to our menu of management support services for property owners to cover scheduled building maintenance and renovation.

Lacine Inokashira, an urban apartment complex for women with a common 'community zone' and enhanced security features

High-end apartment complex

Suburban rental home

In the coming years, we will broaden our selection of three-story rental apartments designed for urban areas. We will also continue to provide high-value-added, competitive rental housing that exemplifies market trends and responds to the needs of prospective tenants.

Medical and nursing care facilities

Leveraging our expertise in home building, we provide a wide range of community housing options tailored to the needs and lifestyles of the elderly.

In fiscal 2011, in line with the Japanese government's Act for the Stable Living of the Elderly subsidized housing initiative, we continued to submit proposals and advance the construction of assisted-living residences for seniors and other options for individuals requiring nursing care.

We will continue working to help provide secure, comfortable housing for the elderly by, for example, building on our expertise and wealth of design and construction experience to expand our selection of assisted-living residences, of three stories and higher, for seniors in Japan's major urban areas, where demand for such housing is rising.

Urban three-story apartment complex for seniors with nursing care services provided

Property management services

The PanaHome Group has established a comprehensive support system encompassing everything from business planning, design and construction through to building management, the acceptance and screening of potential tenants and building renovation.

In fiscal 2011, we took steps to respond to growing demand for specialized housing with medical and nursing care services. Efforts included offering the Care Link system, a scheme for whole-building leasing of specialized rental housing with care services that matches up building owners with medical treatment and nursing care service providers and extends support to facilitate the stable operation of such facilities.

Looking ahead, we will continue to make the most of our extensive experience to help ensure stable rental income for owners.

Property Development

PanaHome develops housing primarily in the Tokyo, Nagoya and Osaka metropolitan areas with an emphasis on homes based on the 'Eco & Smart' concept.

In fiscal 2011, we launched our first PanaHome Smart City developments. These included *PanaHome Smart City Shioashiya* in Ashiya, Hyogo, comprising homes that boast Panasonic's Energy Creation–storage Linked System for Home Use as a standard feature, and *PanaHome Smart City Sakai Hatsushiba*, in Sakai, Osaka, offering homes equipped with a solar power generation system and an ENE-FARM fuel cell as standard features.

Condominium sales during the period included *Nestia Kikuna–Sakurayama Koen*, in Kohoku, Yokohama. Units in this complex come with an extensive range of high-performance, environment-friendly Panasonic equipment, such as a solar power generation system, LED lighting and the Eco Management System, which indicates the effectiveness of energy saving efforts.

In line with our commitment to building sustainable smart towns, we will press ahead with plans to construct PanaHome Smart City communities, each comprising 50 to 100 homes, across Japan. We will also advance the development of attractive condominiums in Japan's principal metropolitan areas.

PanaHome Smart City Shioashiya

PanaHome Smart City Sakai Hatsushiba

Home Remodeling

Our home remodeling services focus on making full use of the design prowess we have accumulated in the construction of new homes, together with the brand strength of the Panasonic Group, to provide comprehensive home remodeling services encompassing everything from interior design and equipment selection and installation, to residential exteriors and landscaping.

In fiscal 2011, we developed and promoted 'eco reform' packages, which are designed to enhance the environmental performance of existing homes. These packages include renovation projects aimed at improving insulation and making homes more airtight, as well as such services as the installation of solar power generation systems and *KIRATECH* tile exterior walls. In addition, we marketed comprehensive home renovation packages for improving the earthquake resistance and insulation of wooden detached houses and older condominiums, as well as renovation solutions for seniors that include redesigning floor plan and making barrier-free modifications. To enrich services to customers, we introduced the Reform Safety and Security System, a follow-up service scheme that includes an around-the-clock helpline, the issue of warranties for specific renovations and a cumulative record of renovations completed. With the aim of reducing costs, thereby enhancing both productivity and profitability, we pressed ahead with efforts to encourage the standardization of design work and project implementation practices.

As the housing company of the Panasonic Group, we will continue to evolve our home remodeling business by proposing ideas for comfortable and environmentally sound living. We will also seek to bolster orders by creating attractive comprehensive home renovation packages that combine a variety of services.

Before

After

Remodeled home

Corporate Social Responsibility

Environmental Initiatives

We continue to promote a variety of initiatives in line with our stated goal of becoming the No.1 Green Innovation Company in the Housing Industry. In addition to evolving our ‘eco ideas’ homes, which offer superb environmental performance features, and marketing them to an increasing number of customers, we are helping to protect our planet by reducing the environmental impact of all activities associated with the construction of homes.

Lowering the environmental impact of housing construction

We continue working to lower CO_2 emissions attributable to housing construction, as well as to promote the effective use of recycled materials and to minimize emissions of chemical substances. To these ends, we are implementing measures to reduce energy consumption and promoting modal shift in all processes, from the transport of materials manufactured in factories to construction sites, through to on-site work.

PanaHome wins the 12th Logistics Environmental Grand Prize

In fiscal 2011, we were honored to receive the 12th Logistics Environmental Grand Prize, awarded by the Japan Federation of Freight Industries. The award recognized our efforts to promote reciprocal shipping for the transport of materials and collection of waste—which enabled us to reduce CO_2 emissions associated with logistics by approximately 30%—and to increase our recycle rate, which enabled us to achieve zero emissions for the disposal of waste from construction sites.

Logistics Environmental Grand Prize trophy

Tsukuba factory takes steps to reduce summer power consumption

In response to restrictions placed on the use of electricity in the service areas of Tokyo Electric Power Company (TEPCO) from July 1 through September 22, 2011, our factory in Tsukuba, Ibaraki, cooperated with factories belonging to other housing companies to operate in rotation. As a consequence, the factory succeeded in reducing its power consumption by approximately 27% from the summer 2010 peak.

Participating in the Panasonic Group’s tree planting campaign

From October through December 2011, we participated in a global Panasonic Group campaign to plant trees at schools. For every sale of a *CASART TERRA* or *Vieuno* home—all of which are equipped with ECO NAVI ventilation systems—we sponsored a tree planting at a school in Japan or overseas.

Tree planting campaign poster

ECO NAVI ventilation system

Establishing eco forests

With the aim of helping preserve biodiversity, we promoted afforestation initiatives at our Tsukuba and Shiga factories. Another goal was to create restful green areas for customers and local elementary and junior high school students visiting the facilities on organized tours, as well as for our employees.

Eco forest (Tsukuba Factory)

Eco forest (Shiga Factory)

Enhancing the Quality of Management Systems

We have earned ISO 9001 and ISO 14001 certification for our quality assurance and environmental management systems. By linking efforts in all processes related to housing construction—from building and after-sale follow-up, to remodeling services—we strive constantly to enhance the quality of our management systems in accord with the globally recognized ISO standards.

Corporate Governance

We view reinforcing corporate governance as a key management goal. Accordingly, we have inaugurated a corporate governance structure that encompasses the Board of Directors, which makes important decisions pertaining to business execution and which oversees the conduct of directors, and the Board of Corporate Auditors and the corporate auditors, which are charged with auditing the conduct of directors independently of the Board of Directors.

We have also set up an executive officer system. Responsibility for frontline business execution is vested with the executive officers. This facilitates a corporate governance structure whereby directors' responsibilities are clarified and the six-member Board of Directors concentrates on management-related decision making and on supervision.

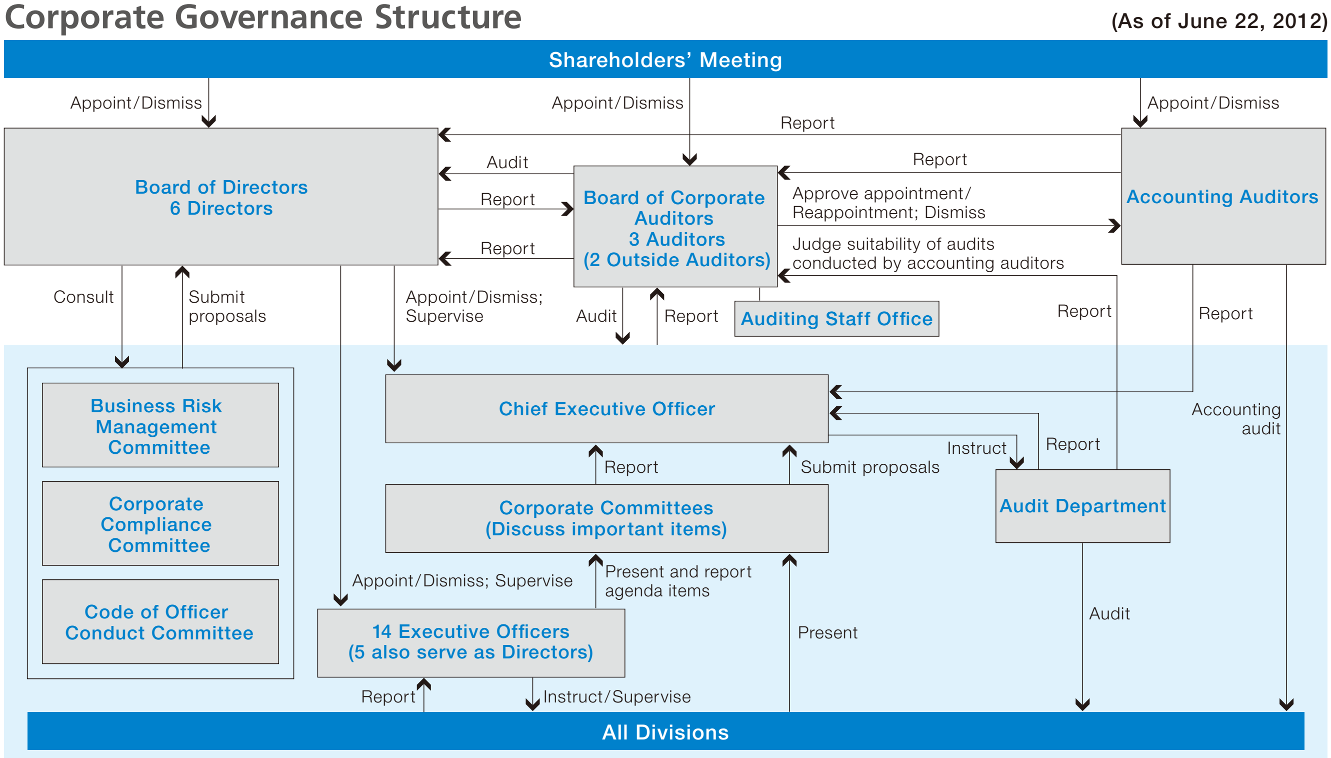
The Corporate Committee and other Companywide committees serve as forums for thorough deliberation pertaining to matters that must be decided by resolution of the Board of Directors. Such matters are then submitted to the Board of Directors to be ruled on.

As mandated under Japan's Companies Act, the Board of Directors has established a basic internal controls policy, in line with which it has formulated and operates a framework for the implementation of these controls. Under this framework, the Board of Directors employs a system of internal controls that complies with the provisions of the U.S. Sarbanes–Oxley Act, required of all Panasonic Group companies, which is applied Companywide.

The Board of Corporate Auditors comprises three members, two of whom are outside auditors. The Board of Corporate Auditors develops annual auditing plans, in accordance with which corporate auditors attend meetings of the Board of Directors and pertinent committees; are briefed by directors, executive officers, employees and accounting auditors; and inspect principal business sites. This approach ensures the effectiveness of auditing activities. We have also established the PanaHome Group Board of Corporate Auditors, which is chaired by one of the parent company's standing corporate auditors, to facilitate cooperation between the corporate auditors and corporate auditors of Group companies.

Corporate Governance Structure

(As of June 22, 2012)



Compliance and Business Risks

Compliance

As a member of the Panasonic Group, we are guided by a corporate philosophy that emphasizes contributing to society through our business activities. In putting this philosophy into practice, we adhere strictly to the Code of Conduct of the Panasonic Group. In addition to designating every October as Compliance Month, we provide ongoing web-based compliance training for employees. We also conduct annual awareness surveys to reinforce the culture of compliance throughout the Company and ascertain possible areas of difficulty. With the aim of promptly identifying and resolving ethical and legal noncompliance issues, we have installed a corporate ethics hotline, a sexual/power harassment hotline and a system for reporting to the corporate auditors.

To effectively manage risk, the Business Risk Management Committee spearheads an annual risk assessment effort that involves compiling and evaluating risk information for the entire Company in a thorough and integrated manner. Further, we have established a Corporate Compliance Committee, which is charged with rigorously eradicating relationships with antisocial elements, whether individuals or groups.

Business Risks

The businesses and operations of the PanaHome Group involve risks that have the potential to significantly affect the decisions of investors. As of the date of publication of this document, these risks included, but were not limited to, the risks listed below. Forward-looking statements in this document are based on management's assumptions and beliefs in light of information available as of March 31, 2012.

1. Trends in the housing market

Orders may be negatively influenced by changes in external market conditions including, but not limited to, conditions in the job market, fluctuations in land prices, interest rate trends and policies governing housing taxes.

2. Rising prices for raw materials

Sudden sharp increases in prices for materials essential to housing construction, including steel and timber, have the potential to drive procurement prices up.

3. Product quality assurance

The PanaHome Group maintains stringent quality control over the development, production and purchase of the materials, components and fittings it uses, as well as over the houses it builds, using a quality assurance system that has been certified under both Japan's domestic prefabricated housing performance certification system and ISO 9001. Nonetheless, owing to variations in the quality of materials used and in processes, and to the degradation of materials and components over time, it is impossible to entirely rule out the possibility of quality issues.

4. Natural disasters

In the event of a major earthquake, typhoon or other natural disaster, there is a risk PanaHome Group may incur significant costs for the repair of damage to its own facilities and/or to construction sites, as well as for initial and subsequent customer support, including building inspections and emergency measures. There is also a risk that the time required to repair damaged facilities will force the suspension of production and/or that infrastructure damage may temporarily disrupt supplies of materials and components, thus delaying the completion and delivery of houses.

5. Retirement benefit liabilities

PanaHome and certain of its domestic consolidated subsidiaries maintain external retirement and pension plans for eligible employees. There is a risk that at some point in the future changes in actuarial assumptions and/or the management of pension assets may lead to increases in unrecognized actuarial pension losses, resulting in higher net periodic pension plan benefit costs.

6. Laws and regulations

The PanaHome Group acquires building permits, real estate business licenses and architectural office registrations in the course of conducting its businesses and complies with laws and regulations pertaining to the environment and recycling. Owing to an amendment to the Consumer Product Safety Act on May 14, 2007, the Group is required to report consumer product accidents. In the event any of these laws or regulations are revised or abolished, or new legal regulations established, or in the unlikely event violations of any of these laws or regulations occurs, there is a risk that it may negatively affect the Group's business activities.

7. Protection of personal information

Due to the nature of its business, the PanaHome Group handles a significant volume of personal information relevant to its customers. Measures to protect personal information are implemented on an ongoing basis throughout the entire Group. However, in the unlikely event of a leak or other problem pertaining to such information, there is a risk of substantial damage to public trust in the Group.

Operating Results

Net sales

Consolidated net sales rose 8.8% from the previous fiscal year, to ¥293,152 million (US$3,575 million), owing to brisk results in our mainstay custom-built detached housing business, together with the provision of emergency temporary dwellings in areas devastated by the Great East Japan Earthquake.

Cost of sales and selling, general and administrative expenses

Cost of sales increased 8.6%, to ¥224,929 million (US$2,743 million). Although prices for materials purchased rose, cost of sales as a percentage of net sales declined 0.2 percentage point, to 76.7%, reflecting the increase in net sales, together with efforts to rationalize procurement and construction site costs.

Despite Companywide efforts to reduce fixed costs, selling, general and administrative (SG&A) expenses advanced 5.6%, to ¥57,557 million (US$702 million), a consequence of elevated personnel costs attributable to the higher net sales and expanded advance investments in advertising and sales promotions.

Earnings

Spurred by higher net sales, among other factors, operating income in the period under review surged 36.2%, to ¥10,666 million (US$130 million). Net income climbed 41.6%, to ¥6,123 million (US$75 million). Net income per share was ¥36.44 (US$0.44), up from ¥25.73 in the previous fiscal year.

Financial Position

As of March 31, 2012, total assets of the Company amounted to ¥216,734 million (US$2,643 million), up 5.3% from the end of fiscal 2010.

Current assets rose 6.7%, to ¥149,664 million (US$1,825 million), owing primarily to expanded inventories of real estate for sale resulting from efforts to reinforce our property development business. As part of an effort to facilitate the efficient temporary investment of surplus funds in the current low-interest-rate environment, effective from the period under review we entered into contracts of bailment of cash for consumption with Panasonic Corporation, which is our parent company. The balance of the deposit under this contract as of March 31, 2012, is accounted for as parent company deposits.

Net property, plant and equipment advanced 3.6%, to ¥39,820 million (US$486 million), mainly as a consequence of the construction of new home showrooms. Owing to an increase in intangibles and other assets and a decrease in investment securities, investments and other assets remained level at ¥27,250 million (US$332 million).

Current liabilities, at ¥75,318 million (US$919 million), were up 11.5%, as trade payables and advances received from customers expanded in tandem with an increase in construction projects in progress. Long-term liabilities declined 3.9%, to ¥18,406 million (US$224 million), owing mainly to the repayment of long-term debt.

Equity rose 3.2%, to ¥123,010 million (US$1,500 million). Contributing factors included the advance of net income for the period, which was partially countered by the distribution of earnings for the payment of dividends.

Cash Flows

Net cash provided by operating activities amounted to ¥8,701 million (US$106 million). This result was primarily attributable to net income, which was offset to some extent by cash outflows attributable to an increase in inventories.

Net cash used in investing activities was ¥34,346 million (US$419 million). The chief factor behind this result was parent company deposits due more than three months from the deposit date.

Net cash used in financing activities amounted to ¥3,304 million (US$40 million), the foremost application of which was cash dividends paid.

Operating, investing and financing activities thus resulted in cash and cash equivalents as of March 31, 2012, of ¥51,569 million (US$629 million), a decrease of ¥28,952 million from the previous fiscal year-end.

Consolidated Balance Sheet

PanaHome Corporation and Consolidated Subsidiaries
March 31, 2012

ASSETS	Millions of Yen 2012	Millions of Yen 2011	Thousands of U.S. Dollars (Note 1) 2012
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 15)	¥ 51,569	¥ 80,521	$ 628,890
Short-term investments (Note 15)	74	74	902
Receivables (Notes 13 and 15):			
Trade	3,613	3,884	44,061
Other	809	955	9,866
Allowance for doubtful receivables	(12)	(62)	(146)
Inventories (Note 4)	58,750	47,245	716,463
Parent company deposits (Notes 13 and 15)	30,000	—	365,854
Deferred tax assets (Note 11)	3,749	6,351	45,720
Other current assets	1,112	1,267	13,561
Total current assets	149,664	140,235	1,825,171
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	20,918	21,002	255,098
Buildings and structures (Note 6)	48,847	47,061	595,695
Machinery and equipment (Note 6)	18,262	18,158	222,707
Lease assets	1,703	1,720	20,768
Construction in progress	613	131	7,476
Total	90,343	88,072	1,101,744
Less accumulated depreciation	(50,523)	(49,645)	(616,134)
Net property, plant and equipment	39,820	38,427	485,610
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	559	1,210	6,817
Investments in associated companies	7,301	7,341	89,037
Long-term loans (Notes 7 and 15)	2,805	3,192	34,207
Long-term loans to employees (Note 15)	525	583	6,402
Prepaid pension costs (Note 8)	8,592	8,108	104,780
Deferred tax assets (Note 11)	256	293	3,122
Intangibles and other assets (Note 6)	7,695	7,109	93,841
Allowance for doubtful accounts	(483)	(590)	(5,889)
Total investments and other assets	27,250	27,246	332,317
TOTAL	¥ 216,734	¥ 205,908	$ 2,643,098

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2012	Millions of Yen 2011	Thousands of U.S. Dollars (Note 1) 2012
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 39	¥ 11	$ 476
Payables (Notes 13 and 15):			
Trade	37,513	32,224	457,476
Other	6,792	7,246	82,829
Accrued income taxes	1,948	417	23,756
Advances received from customers	17,744	16,544	216,390
Accrued expenses and other current liabilities	11,282	11,089	137,585
Total current liabilities	75,318	67,531	918,512
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	1,849	2,562	22,549
Liability for employees' retirement benefits (Note 8)	5,428	5,028	66,195
Deferred tax liabilities (Note 11)	312	360	3,805
Deferred tax liabilities on land revaluation (Note 5)	1,841	2,102	22,451
Asset retirement obligations (Note 9)	535	514	6,524
Long-term deposits received	7,725	7,928	94,207
Other long-term liabilities	716	649	8,732
Total long-term liabilities	18,406	19,143	224,463
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 16 and 17)			
EQUITY (Notes 10 and 20):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2012 and 2011	28,376	28,376	346,049
Capital surplus	31,984	31,984	390,049
Retained earnings	68,538	64,935	835,829
Treasury stock - at cost, 542,892 shares in 2012 and 530,508 shares in 2011	(284)	(278)	(3,463)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	192	300	2,341
Land revaluation difference (Note 5)	(6,543)	(6,804)	(79,793)
Foreign currency translation adjustments	7	(1)	86
Total	122,270	118,512	1,491,098
Minority interests	740	722	9,025
Total equity	123,010	119,234	1,500,123
TOTAL	¥ 216,734	¥ 205,908	$ 2,643,098

Consolidated Statement of Income

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET SALES (Note 13)	¥ 293,152	¥ 269,450	$ 3,575,024
COST OF SALES (Note 13)	224,929	207,110	2,743,036
Gross profit	68,223	62,340	831,988
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 14)	57,557	54,509	701,915
Operating income	10,666	7,831	130,073
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 13)	253	264	3,085
Interest expense	(119)	(139)	(1,451)
Equity in earnings (losses) of affiliated companies	(60)	20	(732)
Gain on sales of property, plant and equipment	0	10	0
Loss on disposal and sales of property, plant and equipment	(62)	(36)	(756)
Loss on impairment of long-lived assets (Note 6)	(129)	(635)	(1,573)
Effect of application of accounting standard for asset retirement obligations	—	(373)	—
Losses from a natural disaster	—	(397)	—
Other - net	143	223	1,744
Other income (expenses) - net	26	(1,063)	317
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	10,692	6,768	130,390
INCOME TAXES (Note 11):			
Current	1,880	310	22,927
Deferred	2,665	2,145	32,500
Total	4,545	2,455	55,427
NET INCOME BEFORE MINORITY INTERESTS	6,147	4,313	74,963
MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES	24	(12)	292
NET INCOME	¥ 6,123	¥ 4,325	$ 74,671
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 36.44	¥ 25.73	$ 0.44
Diluted net income	—	—	—
Cash dividends applicable to the year	15.00	15.00	0.18

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET INCOME BEFORE MINORITY INTERESTS	¥ 6,147	¥ 4,313	$ 74,963
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gains (losses) on available-for-sale securities	(106)	140	(1,293)
Land revaluation difference	261	—	3,183
Foreign currency translation adjustments	9	(3)	110
Share of other comprehensive income (losses) in associates	(2)	1	(24)
Total other comprehensive income	162	138	1,976
COMPREHENSIVE INCOME (Note 18)	¥ 6,309	¥ 4,451	$ 76,939
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥ 6,285	¥ 4,464	$ 76,646
Minority interests	24	(13)	293

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2012

	Thousands	Millions of Yen			
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 2010	168,062	¥ 28,376	¥ 31,983	¥ 63,098	¥ (262)
Net income	—	—	—	4,325	—
Cash dividends, ¥15.00 per share	—	—	—	(2,522)	—
Reversal of land revaluation difference	—	—	—	34	—
Purchase of treasury stock	(32)	—	—	—	(17)
Disposal of treasury stock	3	—	1	—	1
Net change in the year	—	—	—	—	—
BALANCE, MARCH 31, 2011	168,033	28,376	31,984	64,935	(278)
Net income	—	—	—	6,123	—
Cash dividends, ¥15.00 per share	—	—	—	(2,520)	—
Reversal of land revaluation difference	—	—	—	—	—
Purchase of treasury stock	(14)	—	—	—	(7)
Disposal of treasury stock	2	—	(0)	—	1
Net change in the year	—	—	—	—	—
BALANCE, MARCH 31, 2012	168,021	¥ 28,376	¥ 31,984	¥ 68,538	¥ (284)

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2011	$ 346,049	$ 390,049	$ 791,890	$ (3,390)
Net income	—	—	74,671	—
Cash dividends, $0.18 per share	—	—	(30,732)	—
Reversal of land revaluation difference	—	—	—	—
Purchase of treasury stock	—	—	—	(85)
Disposal of treasury stock	—	(0)	—	12
Net change in the year	—	—	—	—
BALANCE, MARCH 31, 2012	$ 346,049	$ 390,049	$ 835,829	$ (3,463)

(Continued)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity (Continued)

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2012

	Millions of Yen					
	Accumulated other comprehensive income					
	Net unrealized gains on available-for-sale securities	Land revaluation difference	Foreign currency translation adjustments	Total	Minority interests	Total equity
BALANCE, APRIL 1, 2010	¥ 158	¥ (6,770)	¥ 1	¥ 116, 584	¥ 833	¥ 117,417
Net income	—	—	—	4,325	—	4,325
Cash dividends, ¥15.00 per share	—	—	—	(2,522)	—	(2,522)
Reversal of land revaluation difference	—	—	—	34	—	34
Purchase of treasury stock	—	—	—	(17)	—	(17)
Disposal of treasury stock	—	—	—	2	—	2
Net change in the year	142	(34)	(2)	106	(111)	(5)
BALANCE, MARCH 31, 2011	300	(6,804)	(1)	118,512	722	119,234
Net income	—	—	—	6,123	—	6,123
Cash dividends, ¥15.00 per share	—	—	—	(2,520)	—	(2,520)
Reversal of land revaluation difference	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(7)	—	(7)
Disposal of treasury stock	—	—	—	1	—	1
Net change in the year	(108)	261	8	161	18	179
BALANCE, MARCH 31, 2012	¥ 192	¥ (6,543)	¥ 7	¥ 122,270	¥ 740	¥ 123,010

	Thousands of U.S. Dollars (Note 1)					
	Accumulated other comprehensive income					
	Net unrealized gains on available-for-sale securities	Land revaluation difference	Foreign currency translation adjustments	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2011	$ 3,659	$ (82,976)	$ (12)	$ 1,445,269	$ 8,805	$ 1,454,074
Net income	—	—	—	74,671	—	74,671
Cash dividends, $0.18 per share	—	—	—	(30,732)	—	(30,732)
Reversal of land revaluation difference	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(85)	—	(85)
Disposal of treasury stock	—	—	—	12	—	12
Net change in the year	(1,318)	3,183	98	1,963	220	2,183
BALANCE, MARCH 31, 2012	$ 2,341	$ (79,793)	$ 86	$ 1,491,098	$ 9,025	$ 1,500,123

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 10,692	¥ 6,768	$ 130,390
Adjustments for:			
Depreciation	3,144	2,986	38,341
Loss on impairment of long-lived assets	129	635	1,573
Effect of application of accounting standard for asset retirement obligations	—	373	—
Losses from a natural disaster	—	397	—
Provision for retirement and severance benefits	(84)	(965)	(1,024)
Interest and dividend income	(253)	(264)	(3,085)
Interest expense	119	139	1,451
Equity in losses (earnings) of affiliated companies	60	(20)	732
Loss on disposal and sales of property, plant and equipment	62	36	756
Amortization of goodwill	112	—	1,366
Decrease (increase) in trade receivables	308	(949)	3,756
Decrease (increase) in inventories	(11,505)	3,302	(140,305)
Increase in trade payables	5,289	2,384	64,500
Increase in advances received from customers	1,199	2,037	14,622
Other	(414)	(644)	(5,048)
Subtotal	8,858	16,215	108,025
Interest and dividend income received	289	302	3,524
Interest expense paid	(121)	(144)	(1,476)
Income taxes paid	(325)	(236)	(3,963)
Net cash provided by operating activities	8,701	16,137	106,110
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(3,314)	(1,900)	(40,415)
Proceeds from sales of property, plant and equipment	17	14	207
Additions to intangibles	(1,785)	(1,022)	(21,768)
Proceeds from sales and redemption of investment securities	500	330	6,098
Acquisition of shares of consolidated subsidiary	(119)	—	(1,451)
Deposits paid to parent company	(70,000)	—	(853,659)
Withdrawal of parent company deposits	40,000	—	487,805
Other	355	644	4,329
Net cash used in investing activities	(34,346)	(1,934)	(418,854)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	28	(89)	341
Repayments of long-term debt	(442)	(437)	(5,390)
Purchase of treasury stock	(7)	(17)	(85)
Cash dividends paid	(2,521)	(2,522)	(30,744)
Other	(362)	(350)	(4,415)
Net cash used in financing activities	(3,304)	(3,415)	(40,293)
Effect of exchange rate changes on cash and cash equivalents	(3)	(3)	(36)
Net increase (decrease) in cash and cash equivalents	(28,952)	10,785	(353,073)
Cash and cash equivalents at beginning of year	80,521	69,736	981,963
Cash and cash equivalents at end of year	¥ 51,569	¥ 80,521	$ 628,890

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2012

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 ¥82 to $1, the approximate rate of exchange at March 31, 2012. 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, 2012 include the accounts of the Company and its 14 significant (13 in 2011) 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 2011) associated companies are accounted for by the equity method.

Investment in 1 associated company (1 associated company in 2011) is stated at cost. If the equity method of accounting had been applied to the investment in this company, 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. 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, certificate of deposits and parent company 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 of property, plant and equipment of the Group is computed, on the estimated useful lives of the assets, by the straight-line method for the year ended March 31, 2012 and by the declining-balance method while the straight-line method is applied to buildings for the year ended March 31, 2011. 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.

Effective April 1, 2011, the Group changed the depreciation method for property, plant and equipment except for buildings from the declining-balance method to the straight-line method upon introducing new production method. The depreciation method of buildings had been the straight-line method and remained unchanged. The Group believes that the straight-line method better reflects the pattern of consumption of the future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets' estimated useful lives. The effect of this change was to decrease depreciation cost by ¥313 million ($3,817 thousand) and increase operating income by ¥295 million ($3,598 thousand) and income before income taxes by ¥295 million ($3,598 thousand), respectively, for the year ended March 31, 2012.

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 was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions 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 continues to account 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 this 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 was effective for fiscal years beginning on or after April 1, 2009. The Group applied the accounting standard effective April 1, 2009. Revenue and the related costs from contracts with a short-term construction schedule are recorded under the completed-contract method. Other contracts are accounted for under the percentage-of completion method, if the outcome of construction contract can be reliably estimated.

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. ***Asset Retirement Obligations -*** In March 2008, the ASBJ published the 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 law 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.

l. ***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.

m. ***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.

n. ***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" under accumulated other comprehensive income in a separate component of equity.

o. ***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.

p. ***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 number of shares used in the computations was 168,028 thousand shares and 168,053 thousand shares for the years ended March 31, 2012 and 2011, respectively. 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, 2012 and 2011.

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.

q. Accounting Changes and Error Corrections - In December 2009, the 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, the 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.

r. New Accounting Pronouncements

Accounting Standard for Retirement Benefits - On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(*a*) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(*b*) *Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)*

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Non-current:			
Equity securities	¥ 559	¥ 710	$ 6,817
Government and corporate bonds	—	500	—
Total	¥ 559	¥ 1,210	$ 6,817

The cost amounts and aggregate fair values of investment securities at March 31, 2012 and 2011 were as follows:

	Millions of Yen			
	2012			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 225	¥ 299	¥ 2	¥ 522

	Millions of Yen			
	2011			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 225	¥ 479	¥ 1	¥ 703
Held-to-maturity	500	1	—	501

	Thousands of U.S. Dollars			
	2012			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 2,744	$ 3,646	$ 24	$ 6,366

The impairment losses on available-for-sale equity securities for the year ended March 31, 2011 was ¥20 million, and there were no losses for the year ended March 31, 2012.

4. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Real estate for sale	¥ 50,039	¥ 37,956	$ 610,232
Contracts in progress	7,468	7,651	91,073
Finished goods	1,067	1,231	13,012
Work in process, raw materials and supplies	176	407	2,146
Total	¥ 58,750	¥ 47,245	$ 716,463

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, 2012, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥5,220 million ($63,659 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2012 and 2011.
As a result, for the year ended March 31, 2012, the Group recognized an impairment loss of ¥129 million ($1,573 thousand) as other expenses for certain rental properties in Tokyo due to substantial declines in the fair market value and sluggish rental market value, certain idle assets in Ehime 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 rental properties were measured at their value in use or by their net selling price at disposition. The estimated recoverable amounts of the idle assets were measured by their net selling price at disposition. The discount rate used for computation of present value of future cash flows for value in use was 5%. Net selling price at disposition was principally calculated by the appraisal value.

For the year ended March 31, 2011, the Group recognized an impairment loss of ¥635 million as other expenses for certain rental properties in Fukushima Prefecture and others due to substantial declines in the fair market value and sluggish rental market value, certain idle assets in Fukuoka Prefecture and others due to substantial declines in the fair market value, and certain business properties in Shiga Prefecture and others due to plans to dispose of old facilities and replace them with new ones. 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 or by their net selling price at disposition. The estimated recoverable amounts of the idle assets were measured by their net selling price at disposition. The discount rate used for computation of present value of future cash flows for value in use was 5%. Net selling price at disposition was principally calculated by the appraisal value.

Impairment losses which the Group recognized for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Rental properties:			
Land	¥ 43	¥ 213	$ 524
Buildings and structures	—	333	—
Total	¥ 43	¥ 546	$ 524
Idle assets:			
Land	¥ 16	¥ —	$ 195
Buildings and structures	58	5	707
Other	12	2	147
Total	¥ 86	¥ 7	$ 1,049
Business properties:			
Machinery and equipment	¥ —	¥ 58	$ —
Intangibles and other asset	—	24	—
Total	¥ —	¥ 82	$ —

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

For short-term bank loans at March 31, 2012, the annual interest rate was 1.23%, and for short-term bank loans at March 31, 2011, the annual interest rates ranged from 1.08% to 1.11%.
Long-term debt, excluding finance leases of ¥117 million ($1,427 thousand), at March 31, 2012 consisted of collateralized loans from banks of ¥1,732 million ($21,122 thousand) due serially to 2023, with the annual interest rate of 1.84%.

Annual maturities of long-term debt, excluding finance leases of ¥117 million ($1,427 thousand), at March 31, 2012, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 133	$ 1,622
2014	137	1,671
2015	142	1,732
2016	146	1,780
2017	151	1,841
2018 and thereafter	1,023	12,476
Total	¥ 1,732	$ 21,122

At March 31, 2012, long-term loans of ¥2,550 million ($31,098 thousand) were pledged as collateral for long-term debt of ¥1,732 million ($21,122 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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥ 43,601	¥ 39,728	$ 531,720
Fair value of plan assets	(31,562)	(29,375)	(384,902)
Unrecognized prior service benefit	—	424	—
Unrecognized actuarial loss	(15,202)	(13,857)	(185,390)
Prepaid pension costs	8,591	8,108	104,767
Net liability	¥ 5,428	¥ 5,028	$ 66,195

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Service cost	¥ 1,705	¥ 1,657	$ 20,793
Interest cost	964	925	11,756
Expected return on plan assets	(864)	(822)	(10,537)
Prior service benefit	(424)	(1,273)	(5,171)
Recognized actuarial loss	1,255	1,186	15,305
Gain on revision of retirement benefit plan	(23)	—	(280)
Net periodic benefit costs	¥ 2,613	¥ 1,673	$ 31,866

Assumptions used for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	2.0%	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. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Balance at beginning of year	¥ 514	¥ 492	$ 6,268
Additional provisions associated with the acquisition of property, plant and equipment	88	64	1,073
Reconciliation associated with passage of time	1	1	12
Reduction associated with meeting asset retirement obligations	(68)	(43)	(829)
Balance at end of year	¥ 535	¥ 514	$ 6,524

10. 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 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.

11. 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, 2012 and 2011.

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

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Loss carryforward	¥ 240	¥ 2,980	$ 2,927
Accrued expenses	2,114	2,392	25,780
Depreciation	974	1,025	11,878
Employees' retirement benefits	186	229	2,268
Write-down of inventories	855	953	10,427
Other	2,109	2,014	25,720
Subtotal	6,478	9,593	79,000
Valuation allowance	(1,315)	(1,615)	(16,037)
Total	5,163	7,978	62,963
Deferred tax liabilities:			
Employees' retirement benefits	(1,326)	(1,484)	(16,171)
Unrealized gains on available-for-sale securities	(96)	(171)	(1,171)
Other	(48)	(40)	(585)
Total	(1,470)	(1,695)	(17,927)
Net deferred tax assets	¥ 3,693	¥ 6,283	$ 45,036

The reconciliations 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, 2012 and 2011 were as follows:

	2012	2011
Normal effective statutory rate	40.7%	40.7%
Per capita levy	1.5	2.2
Expenses permanently not deductible for income tax purposes	0.8	1.3
Decrease of valuation allowance	(1.4)	(4.8)
Equity in losses (gains) of affiliated companies	0.2	(0.1)
Unrealized intercompany profits	(1.9)	(0.4)
Effect of tax rate reduction	2.7	—
Other - net	(0.1)	(2.6)
Actual effective rate	42.5%	36.3%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.7% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterwards. The effect of this change was to decrease deferred tax assets (current), deferred tax assets (non-current) and deferred tax liabilities in the consolidated balance sheet as of March 31, 2012 by ¥284 million ($3,463 thousand), ¥35 million ($427 thousand) and ¥48 million ($585 thousand), respectively, and to increase income taxes-deferred in the consolidated statement of income for the year then ended by ¥285 million ($3,476 thousand). In addition, the effect of this change was to decrease deferred tax liabilities on land revaluation and to increase land revaluation difference by ¥261 million ($3,183 thousand).

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,342 million ($16,366 thousand) and ¥1,406 million for the years ended March 31, 2012 and 2011, respectively.

13. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥20,984 million ($255,902 thousand) and ¥21,318 million for the years ended March 31, 2012 and 2011, respectively. Trade accounts receivable due from associated companies were ¥1,077 million ($13,134 thousand) and ¥579 million at March 31, 2012 and 2011, respectively.

Purchases from Panasonic Electric Works Co., Ltd., which was absorbed by Panasonic Corporation on January 1, 2012, the parent company of the Company, were ¥4,799 million ($58,524 thousand) and ¥5,413 million for the years ended March 31, 2012 and 2011, respectively. After the absorption, the Company's purchases from Panasonic Corporation amounted ¥1,761 million ($21,476 thousand) for the year ended March 31, 2012. Trade accounts payable due to Panasonic Corporation were ¥2,526 million ($30,805 thousand) at March 31, 2012 and due to Panasonic Electric Works Co., Ltd. were ¥2,242 million at March 31, 2011.

The Company has entered into contracts of bailment of cash for consumption with Panasonic Corporation for cash management purposes. Under the terms of the contracts, excess cash generated at the Company is bailed to Panasonic Corporation. The Company receives relevant interest from Panasonic Corporation. The funds are accounted for as cash and cash equivalents and parent company deposits, depending on the initial contract periods. The average balance of deposits to Panasonic Corporation were ¥46,529 million ($567,427 thousand) and ¥40,960 million for the years ended March 31, 2012 and 2011, respectively. The assets related to the contracts were recorded as cash and cash equivalents of ¥28,000 million ($341,463 thousand) and parent company deposits of ¥30,000 million ($365,854 thousand) in the consolidated balance sheet as of March 31, 2012. There were no related balances at March 31, 2011. Interest income received from Panasonic Corporation was ¥110 million ($1,341 thousand) and ¥96 million for the years ended March 31, 2012 and 2011, respectively.

14. LEASES

The Group leases certain showrooms and other assets.

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥164 million ($2,000 thousand) and ¥673 million for the years ended March 31, 2012 and 2011, respectively.

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, 2012 and 2011 were as follows:

	Millions of Yen		
	2012		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥ 4	¥ 19	¥ 23
Accumulated depreciation	3	16	19
Net leased property	¥ 1	¥ 3	¥ 4

	Millions of Yen		
	2011		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥ 1,223	¥ 62	¥ 1,285
Accumulated depreciation	1,064	53	1,117
Net leased property	¥ 159	¥ 9	¥ 168

	Thousands of U.S. Dollars		
	2012		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	$ 49	$ 232	$ 281
Accumulated depreciation	37	195	232
Net leased property	$ 12	$ 37	$ 49

Obligations under such finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥ 3	¥ 164	$ 37
Due after one year	1	4	12
Total	¥ 4	¥ 168	$ 49

Depreciation expense and other information under finance leases for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Depreciation expense	¥ 164	¥ 673	$ 2,000
Lease payments	164	673	2,000
Reversal of allowance for impairment loss on leased property	—	16	—

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, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥15,362	¥14,059	$187,341
Due after one year	8,734	8,273	106,512
Total	¥24,096	¥22,332	$293,853

The minimum rental commitments (Lessor) under noncancellable operating leases at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥ 27	¥ 27	$ 329
Due after one year	266	293	3,244
Total	¥ 293	¥ 320	$ 3,573

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group uses financial instruments, long-term debt, including bank loans, or bonds considering the environment of the 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.

Parent company deposits are exposed to Panasonic Corporation's credit risk. Information regarding "Parent company deposits" is disclosed in Note 13.

Long-term loans due up to 15 years are mainly loans for construction 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 25 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.

Investment securities 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 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

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 16.

(a) Fair value of financial instruments

March 31, 2012	Millions of Yen Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 51,569	¥ 51,569	¥ —
Short-term investments	74	74	—
Receivables - Trade	3,613	3,613	—
Parent company deposits	30,000	30,000	—
Investment securities	522	522	—
Long-term loans (including long-term loans to employees)	3,330		
Allowance for doubtful accounts	(76)		
Subtotal	3,254	3,251	(3)
Total	¥ 89,032	¥ 89,029	¥ (3)
Payables - Trade	¥ 37,513	¥ 37,513	¥ —
Long-term debt (excluding finance leases)	1,732	1,732	—
Total	¥ 39,245	¥ 39,245	¥ —

March 31, 2011	Millions of Yen Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 80,521	¥ 80,521	¥ —
Short-term investments	74	74	—
Receivables - Trade	3,884	3,884	—
Investment securities	1,203	1,204	1
Long-term loans (including long-term loans to employees)	3,775		
Allowance for doubtful accounts	(125)		
Subtotal	3,650	3,632	(18)
Total	¥ 89,332	¥ 89,315	¥ (17)
Payables - Trade	¥ 32,224	¥ 32,224	¥ —
Long-term debt (excluding finance leases)	2,174	2,174	—
Total	¥ 34,398	¥ 34,398	¥ —

March 31, 2012	Thousands of U.S. Dollars Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 628,890	$ 628,890	$ —
Short-term investments	902	902	—
Receivables - Trade	44,061	44,061	—
Parent company deposits	365,854	365,854	—
Investment securities	6,366	6,366	—
Long-term loans (including long-term loans to employees)	40,609		
Allowance for doubtful accounts	(926)		
Subtotal	39,683	39,647	(36)
Total	$ 1,085,756	$ 1,085,720	$ (36)
Payables - Trade	$ 457,476	$ 457,476	$ —
Long-term debt (excluding finance leases)	21,122	21,122	—
Total	$ 478,598	$ 478,598	$ —

Cash and cash equivalents, short-term investments, parent company deposits, receivables and payables

The carrying values of cash and cash equivalents, short-term investments, parent company deposits, 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 leases)

The carrying values of long-term debt (excluding finance leases) approximate fair value because long-term debt consists of variable rate long-term bank loans 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 16.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Investment securities and investments in associated companies that do not have a quoted market price in an active market	¥7,338	¥7,348	$89,488

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

	Millions of Yen			
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 51,569	¥ —	¥ —	¥ —
Short-term investments	74	—	—	—
Receivables - Trade	3,613	—	—	—
Parent company deposits	30,000	—	—	—
Long-term loans (including long-term loans to employees)	167	708	978	1,401
Total	¥ 85,423	¥ 708	¥ 978	¥ 1,401

	Thousands of U.S. Dollars			
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 628,890	$ —	$ —	$ —
Short-term investments	902	—	—	—
Receivables - Trade	44,061	—	—	—
Parent company deposits	365,854	—	—	—
Long-term loans (including long-term loans to employees)	2,037	8,634	11,927	17,085
Total	$ 1,041,744	$ 8,634	$ 11,927	$ 17,085

Long-term loans in the table above exclude the doubtful accounts of ¥76 million ($926 thousand).
Annual maturities of long-term debt excluding finance leases are disclosed in Note 7.

16. 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, 2012 and 2011 were as follows:

	Millions of Yen			
March 31, 2012	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	¥2,550	¥2,417	—

	Millions of Yen			
March 31, 2011	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	¥2,881	¥2,734	—

	Thousands of U.S. Dollars			
March 31, 2012	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	$31,098	$29,476	—

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 15.

17. CONTINGENT LIABILITIES

Guarantees of Loans - At March 31, 2012, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥11,379 million ($138,768 thousand).

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012 were as follows:

	2012	
	Millions of Yen	Thousands of U.S. Dollars
Unrealized losses on available-for-sale securities:		
Losses arising during the year	¥ (180)	$ (2,195)
Income tax effect	74	902
Total	¥ (106)	$ (1,293)
Land revaluation difference:		
Income tax effect	¥ 261	$ 3,183
Total	¥ 261	$ 3,183
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ 9	$ 110
Total	¥ 9	$ 110
Share of other comprehensive losses in associates:		
Losses arising during the year	¥ (2)	$ (24)
Total	¥ (2)	$ (24)
Total other comprehensive income	¥ 162	$ 1,976

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

19. SUPPLEMENTARY CASH FLOWS INFORMATION

Non-cash investing and financing activities for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Asset retirement obligations recorded for the fiscal year	¥ —	¥556	$ —

20. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2012 was resolved at the Board of Directors' meeting held on April 26, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.09) per share	¥1,260	$15,366

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1, Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 6 4560 6000
Fax: +81 6 4560 6001
www.deloitte.com/jp

To the Board of Directors of PanaHome Corporation:

We have audited the accompanying consolidated balance sheet of PanaHome Corporation and subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PanaHome Corporation and subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit 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 22, 2012

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information

Corporate Data (As of March 31, 2012)

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

Established
July 1, 1963

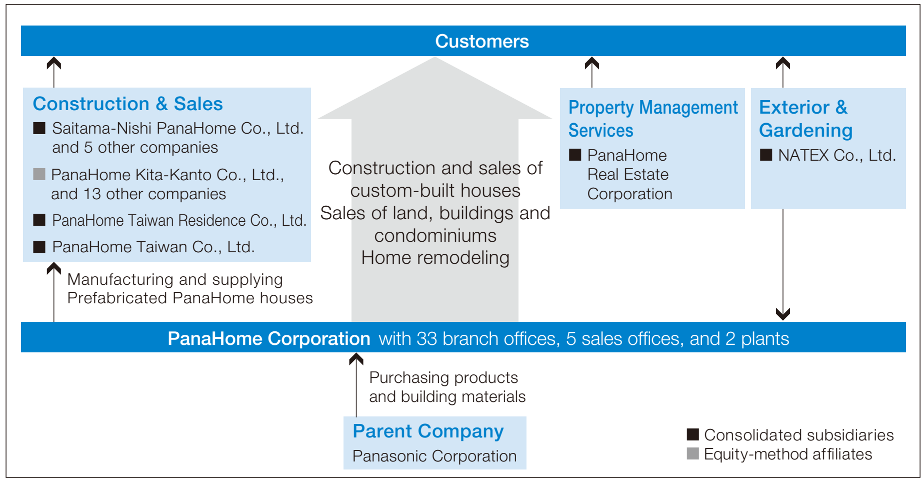
Stock Exchange Listings
Tokyo, Osaka

Capital
¥28,376 million

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

Number of Shareholders
7,592

Subsidiaries and Affiliates (As of March 31, 2012)



Management (As of June 22, 2012)

Members of the Board

President & Chief Executive Officer
Yasuteru Fujii *

Directors
Hirofumi Yasuhara *
Makoto Hatakeyama
Tomiharu Yamada
Mitsuhiko Nakata
Atsushi Hongo

* *Representative Director*

Corporate Auditors

Senior Standing Corporate Auditor
Yoshifumi Tsuruda

Standing Corporate Auditor
Yasuhiro Nakamura *

Corporate Auditor
Jun Demizu *

* *Outside Corporate Auditor*

Corporate Executive Officers

Senior Managing Executive Officers
Hirofumi Yasuhara
Makoto Hatakeyama

Managing Executive Officers
Tomiharu Yamada
Mitsuhiko Nakata
Hiroshi Hirasawa
Toshimitsu Sakai

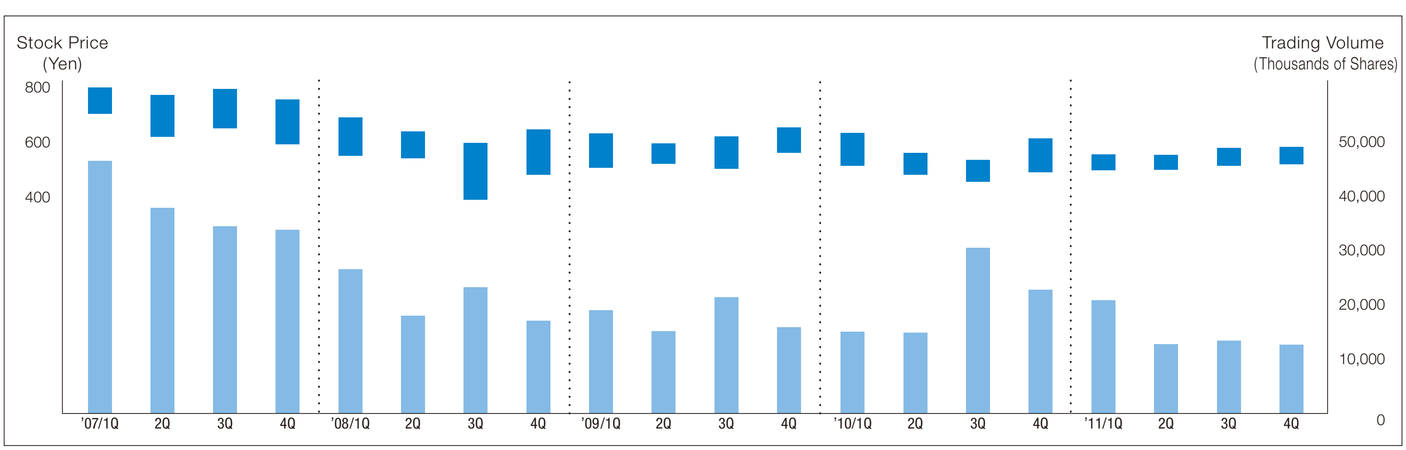
Executive Officers
Atsushi Hongo
Hirohiko Nagata
Kazuo Kitagawa
Masato Nadamoto
Tadashi Manabe
Taku Hirao
Ryoji Sakata
Kenichi Takahashi

Major Shareholders (As of March 31, 2012)

Name	Thousands of Shares Held	Shareholding Ratio (%)
Panasonic Corporation	91,036	54.00
Northern Trust Co. (AVFC) Sub A/C American Clients	5,093	3.02
Japan Trustee Services Bank, Ltd. (trust account)	3,327	1.97
PanaHome Employee Shareholding Association	3,228	1.91
The Master Trust Bank of Japan, Ltd. (trust account)	2,611	1.54
The Bank of New York, Treaty Jasdec Account	2,363	1.40
Sumitomo Mitsui Banking Corporation	2,358	1.39
State Street Bank and Trust Company	2,064	1.22
Northern Trust Co. AVFC RE U.S. Tax Exempted Pension Funds	1,705	1.01
Northern Trust Co AVFC RE Northern Trust Guernsey Non Treaty Clients	1,700	1.00

Note: PanaHome holds 508,992 shares of its own common stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



PanaHome

PanaHome Corporation

1-4, Shinsenrinishimachi 1-chome,
Toyonaka, Osaka 560-8543, Japan

www.panahome.jp/english/