Annual Report 2013

50th Anniversary

PanaHome Corporation

For the year ended March 31, 2013

PanaHome

Corporate Profile

In 2013, PanaHome Corporation celebrates its 50th anniversary. While recognizing this as an important milestone, PanaHome remains firmly focused on the next half century and beyond and on its fundamental mission of contributing to lifestyles that nurture strong family bonds and creating new value.

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 houses befitting the vital role they play in people's lives. In the years since, PanaHome has helped customers across Japan bring their dream homes to life.

PanaHome seeks to provide homes that are in harmony with the environment and that will be passed on to future generations. By marshalling its exceptional design capabilities, cultivated over 50 years in the housing industry, and the advanced energy technologies of the Panasonic Group, PanaHome also promotes the development of environment-friendly smart cities—sustainable residential communities centered on smart houses.

Looking ahead, PanaHome will continue working to provide homes that incorporate its commitment to the future of this planet and to the true meaning of the word "home" to offer enriching living environments with enduring appeal.

1961

Introduces *Matsushita Type-One Housing Units,* its first product

1963

PanaHome (originally called National House Industrial Co. Ltd.) is established.

1978

Launches *SOLANA,* a home that brings together state-of-the-art technologies from across the Matsushita Group

1982

Markets *National House 55,* developed as part of a national housing project

1988

Develops Health and Comfort Air Conditioning System

2004

Launches *EL・SLOLANA KIRATECH,* a home featuring self-cleaning tile exterior walls that employ advanced photocatalytic technology

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.

2013

Launches *CASART ECO CORDIS*, a home that achieves a superior environmental performance

2012

Introduces *Smart PanaHome*, a home that incorporates state-of-the-art energy environmental technologies to maximize energy efficiency

Begins promoting the development of PanaHome Smart City developments across Japan

2011

Markets *CASART*, a home built with a newly developed hyperspace (HS) construction technique, which facilitates a variety of structural adjustments in 15 cm increments

CONTENTS

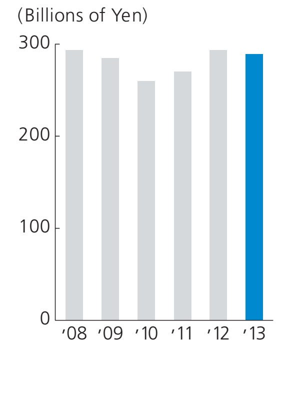
Financial Highlights

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, from 2008 to 2013

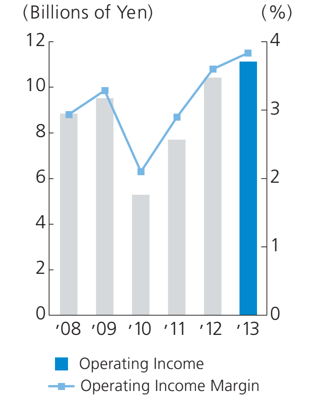
	Millions of Yen						Thousands of U.S. Dollars
	2008	2009	2010	2011	2012	**2013**	**2013**
Net Sales	¥293,617	¥284,625	¥260,389	¥269,450	¥293,152	**¥289,403**	**$3,078,755**
Operating Income	8,757	9,492	5,344	7,831	10,666	**11,089**	**117,969**
Income (Loss) before Income Taxes and Minority Interests	(1,188)	8,237	5,063	6,768	10,692	**11,741**	**124,904**
Net Income (Loss)	(606)	2,948	2,428	4,325	6,123	**7,332**	**78,000**
Total Assets	206,750	202,855	198,048	205,908	216,734	**221,787**	**2,359,436**
Equity	117,357	117,437	117,417	119,234	123,010	**127,540**	**1,356,809**
Return on Equity	-0.5%	2.5%	2.1%	3.7%	5.1%	**5.9%**	
Equity Ratio	56.3%	57.5%	58.9%	57.6%	56.4%	**57.4%**	
	Yen						U.S. Dollars
Per Share Amounts:							
Net Income (Loss)	¥ (3.61)	¥ 17.53	¥ 14.45	¥ 25.73	¥ 36.44	**¥ 43.64**	**$ 0.46**
Cash Dividends	15.00	15.00	15.00	15.00	15.00	**15.00**	**0.16**
Number of Employees at Year-End (Persons)	5,097	5,076	5,011	5,093	5,099	**5,161**	

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 ¥94 = US$1, the approximate rate of exchange at March 31, 2013, 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.

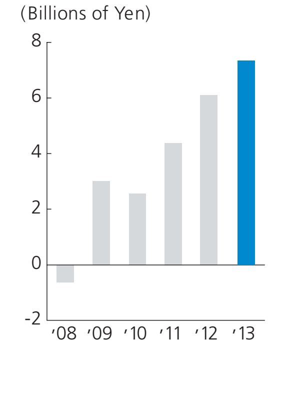
Net Sales



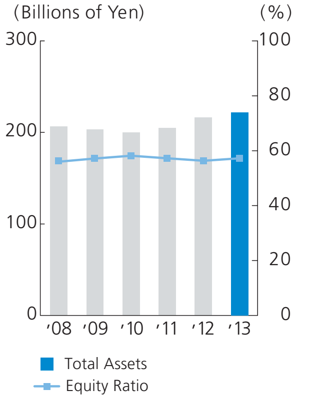
Operating Income / Operating Income Margin



Net Income (Loss)



Total Assets / Equity Ratio



A Message from the President

We are working to secure growth by implementing decisive measures to expand our businesses with a medium- to long-term perspective.

Amidst a gradual improvement in operating conditions in the housing industry, in fiscal 2012, ended March 31, 2013, we pressed forward with the implementation of growth strategies that reflect two priorities—namely, environmental contribution and business growth—with the aim of fulfilling our mission, as the housing company of the Panasonic Group, to provide homes that support ecologically sound smart lifestyles. Despite these efforts, we recorded a 1.3% decline in consolidated net sales, to ¥289.4 billion (US$3,079 million). Nonetheless, consolidated operating income rose 4.0%, to ¥11.1 billion (US$118 million).

New homes today are expected to incorporate advanced technologies that will contribute to sustainability. In addition to a renewed appreciation for homes that are safe, secure and conducive to the nurturing of family bonds, we are seeing a greater awareness of the need for homes to be ecologically sound and energy-efficient, underscoring the importance of equipping homes with advanced energy management capabilities.

Going forward, we will redouble our efforts to drive growth by recognizing and responding effectively to increasingly diverse demand, as well as to the concerns of consumers, by supplying earthquake-resistant, environment-friendly smart houses that deliver safety and security and help to realize a low-carbon green society.

July 2013

Y. Fujii

Yasuteru Fujii, President and CEO

An Interview with Yasuteru Fujii

PanaHome has launched a new medium-term business plan that will guide its efforts to solidify its position as an innovative provider of living environments that redefines the concept of lifestyle value.

A New Medium-Term Business Plan: Guiding Efforts through Fiscal 2015

Q. What is your outlook for the housing industry in the coming years?

A. ***With the market for newly built houses shrinking, housing companies must offer new lifestyle ideas.***

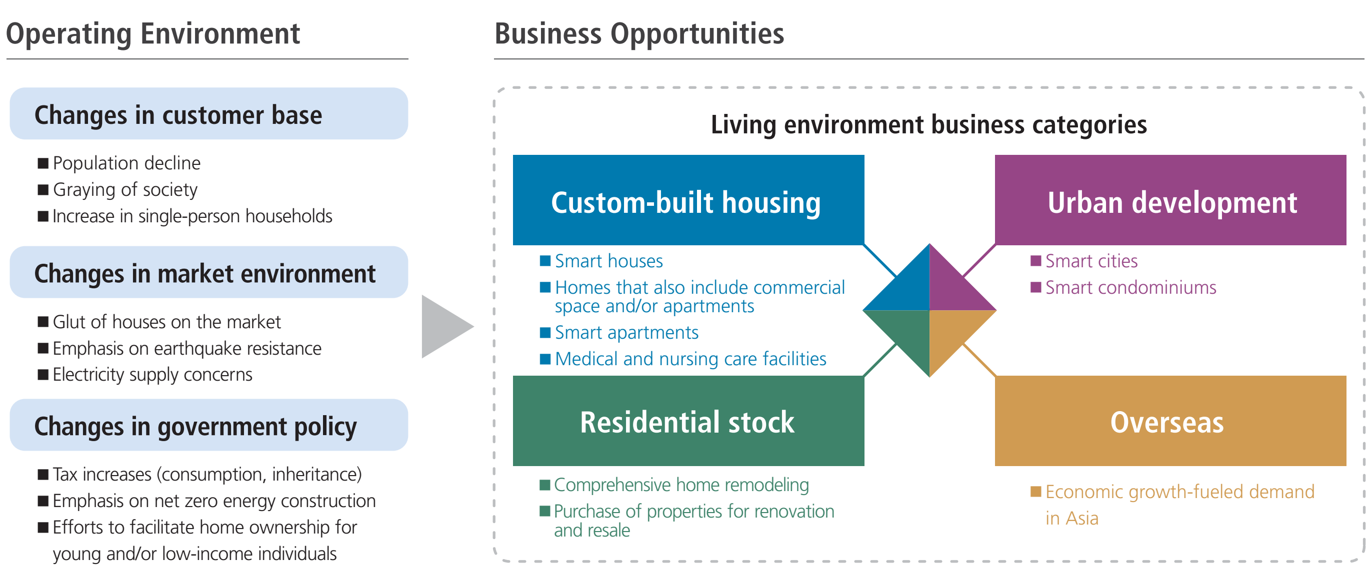
Despite the prospect of market fluctuations in the immediate future as a consequence of tax reforms and fluctuating interest rates, housing starts are expected to dwindle over the medium to long term, owing to such factors as a glut of houses on the market—underscored by the fact that housing stock currently exceeds the number of households in Japan—and to changes in household composition brought about by population decline, the graying of society and an increase in single-person households. However, with the Japanese government strengthening its emphasis on the long-term use of quality housing, we anticipate steady growth in our residential stock business, which also encompasses our home remodeling business. Moreover, increasing consumer awareness of the need for homes to be ecologically sound and energy-efficient underscores the importance of equipping homes with advanced energy management capabilities.

Q. Given that substantial growth in the market for newly built houses is unlikely, what strategies will you pursue to drive business growth?

A. ***We will step up efforts to differentiate our offerings, thereby securing our position as a provider of living environments that redefines the concept of lifestyle value.***

Over the medium term, we will strive to transform our identity by expanding our focus to encompass lifestyle value, rather than simply seeing ourselves as a housing company that specializes in custom-built housing. To this end, we will step up efforts to differentiate our offerings, thereby securing an unparalleled position as an innovative provider of living environments that redefines the concept of lifestyle value.

We will of course work to grow our custom-built housing business by reinforcing competitiveness. We will also implement key growth strategies aimed at significantly expanding the scale of our urban development, residential stock and overseas businesses.



Q. How will you go about achieving the quantitative targets set forth in your new medium-term business plan?

A. *We have set targets for consolidated net sales of ¥340 billion, operating income of ¥17 billion and an operating margin of 5% in fiscal 2015.*

We have implemented decisive measures in recent years to reinforce our operating foundation. As a consequence, we are confident that we have positioned ourselves to achieve consolidated net sales of ¥340 billion and operating income of ¥17 billion, yielding an operating margin of 5%, in fiscal 2015.

To achieve our net sales target, we will bolster results in our custom-built housing business by expanding sales of smart houses that optimize energy use, as well as by responding to rising demand in urban areas for homes that also include commercial space and/or apartments, actively marketing smart apartments as a means of increasing asset value, and reinforcing sales of community housing options for seniors. We will also work to fortify our other businesses by incorporating townscape design concepts and lifestyle support features into the development of smart cities and smart condominiums, enhancing our interior and spatial design capabilities to expand comprehensive home remodeling orders, stepping up the purchase of properties for renovation and resale, and locking in economic growth-fueled demand in Asia.

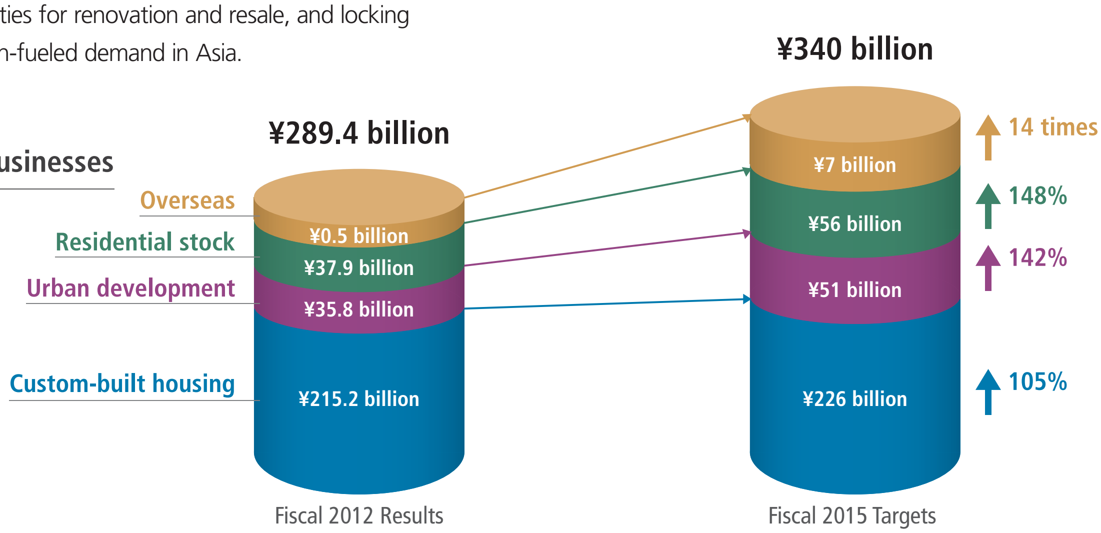
Q. How is PanaHome positioned within the Panasonic Group's new medium-term management plan?

A. *As the Panasonic Group's housing company, our goal is to generate sales of ¥500 billion in fiscal 2018.*

The Panasonic Group's new medium-term management plan, announced in March 2013, outlines four strategic business areas—"residential space," "nonresidential space," "mobility" and "personal"—and singles out the automotive and housing businesses for expansion into businesses with annual sales of ¥2 trillion in fiscal 2018.

PanaHome will play a major role in, and bear a significant responsibility for, expanding the Panasonic Group's housing business. Our goal is to generate ¥500 billion of the ¥2 trillion sales target. Both management and employees are aware of and have committed to this goal, recognizing both the weight of the challenge we face and the sense of pride and fulfillment that will come from its achievement.

Outlook for Expansion of Businesses



Q. What can you tell us about strategies outlined in your new medium-term business plan for differentiating your four core businesses?

CASART TERRA three-story home

Sun Village rental apartment complex, offering a superior living environment that benefits towns, neighborhoods and tenants

Large-scale apartment complex for seniors with nursing care services provided

A. *In our custom-built housing business, we will secure a sharp competitive edge by ensuring exceptional environmental performance features, design and technological prowess and the ability to propose attractive ideas for homes.*

In custom-built detached housing, we will harness energy technologies developed by the Panasonic Group, as well as our own know-how in the creation of appealing homes, with the aim of expanding sales of smart houses. In April 2013, we launched the first such new house, *CASART ECO CORDIS,* which boasts a variety of features, including a roof consisting of solar panels, that ensure a superior environmental performance. By increasing sales of this strategically important model, we will work to drive the evolution and acceptance of smart houses. In the area of homes that can also be built to include commercial space and/or apartments, we will respond to the growing needs of urban dwellers by applying proprietary technologies for building on small and narrow lots—including a multimodular system that facilitates the adjustment of facade length, structure depth and roof pitch in 15 cm increments and a non-scaffolding construction method—to promote sales of *Vieuno,* a stainless steel-framed home that can be up to five stories, and *CASART TERRA,* a lightweight steel-framed home that can be up to three stories.

In the smart apartments category, we will promote the development of variations in our popular *Lacine* line, tailored specifically to the concerns and preferences of women. We will also strive to differentiate our offerings in this area by promoting our *Sun Village* line of rental apartment complexes, developed to offer superior living environments to tenants while maximizing asset value for owners, as well as by increasing the installation of large-capacity solar power generation systems.

In the area of community housing for seniors, we will continue to leverage the wealth of expertise we have accumulated since the establishment of our medical and nursing care facilities business in 1999 to design large-scale facilities and further enhance construction quality. We have established a department to specialize in development for commercial operators of such facilities and accelerate efforts to market our offerings to such firms. By maximizing our unique Care Link System, whereby we match landowners and facility operators with compatible needs, we work to secure new orders for residential facilities for seniors that provide nursing care.

In urban development, we will promote the construction of net zero energy communities.

Capitalizing on Panasonic's participation in advanced environmental initiatives in the flagship Fujisawa Sustainable Smart Town (Fujisawa SST) development, we will promote the construction of large-scale PanaHome Smart City communities, suburban residential developments that achieve net zero energy on a community scale. In the area of smart condominiums, we will work to further differentiate our offerings by incorporating the Panasonic Group's state-of-the-art Mansion Energy Management System (MEMS), a Home Energy Management System (HEMS) for condominiums, as well as by adding security, healthcare and other lifestyle support features.

PanaHome Smart City Shioashiya, which boasts PanaHome's Energy Creation–storage Linked System for Home Use

In our home remodeling business, we will capitalize on the spinning off of our remodeling business to broaden our service menu.

In April 2013, we established a new subsidiary, PanaHome Reform Co., Ltd., to which we spun off our home remodeling services for major markets. The new company, which will commence operations in October 2013, will actively promote collaboration with other companies in the Panasonic Group to expand orders for comprehensive home remodeling services. By working with real estate agents and condominium management firms, PanaHome Reform will also seek to expand its service menu to include, among others, renovations for people moving house, condominium remodeling and the purchase of properties for renovation and resale.

Attractive interior after full-scale home remodeling

Overseas, we will continue to leverage our know-how in the provision of environment-friendly smart houses.

In Taiwan, where the role of housing companies putting up condominiums is traditionally limited to construction of the building, while responsibility for arranging contractors for interior fixtures and finishings falls to the purchaser, we will look to expand our operations by promoting our pioneering comprehensive condominium development scheme, which encompasses everything from design, construction and the installation of interior fixtures and finishings through to follow-up services and warranties.

Experimental smart house developed for Southeast Asian markets (Malaysia)

In Malaysia, in line with our goal of providing environment-friendly smart houses we completed construction of an innovative prototype home that boasts a solar power generation system and a wide range of other environment-friendly features. Going forward, we will seek to expand orders by using this prototype home as a sales base from which we will market homes to buyers, as well as negotiate with local real estate developers.

Q. One of PanaHome's principal advantages is its financial strength. Do your long-term strategies involve investments to be funded from your abundant cash reserves?

A. *We anticipate a certain level of demand for funds for the purchase of land and structures, as well as for capital alliances with other firms, and will continue to promote the flexible and effective application of cash reserves.*

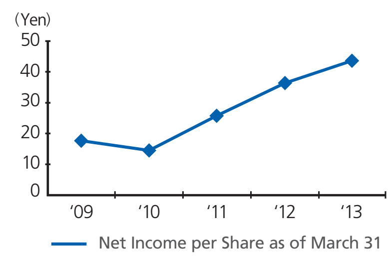
As I mentioned earlier, we aim to generate ¥500 billion of the ¥2 trillion in sales targeted for the Panasonic Group's housing business in fiscal 2018. For this to happen, it is imperative that we expand sales in both our urban development and residential stock businesses. To this end, we intend to step up purchases of attractive plots of land for future development, as well as to seek out promising business alliances. Overseas, we are currently exploring various ideas for working with local property developers in markets where we already have a presence, including projects that use homes built by us, land furnished by developers and collaboration on the sales front.

Q. What is your policy regarding your return to shareholders?

A. *We will continue to determine dividends based on an overall assessment of trends in our operating performance, our financial condition and other factors.*

We recognize the provision of a fair return to shareholders as one of our most important management responsibilities. Accordingly, we have maintained annual dividends at ¥15.00 per share. 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. Seeing an increase in our dividend as both an important objective and a natural outcome of income growth, we will make every effort to further enhance our operating results and our return to shareholders.

Net Income per Share



PanaHome at a Glance

Custom-Built Detached Housing

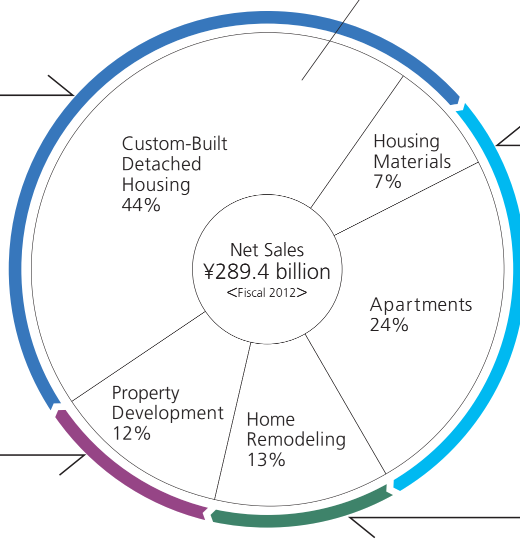
Please see page 8 for more information.

Apartments

Please see page 9 for more information.

Sales Breakdown by Business Category

% = Share of Total



Property Development

Please see page 10 for more information.

Home Remodeling

Please see page 9 for more information.

Three distinctive technologies

Outstanding earthquake-resistant steel-framed 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 homes 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 Panasonic Corporation's ECO NAVI system 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 alleviate the burden of maintenance, these walls contribute to significant savings in terms of both costs and resources. They also break down hazardous atmospheric pollutants, including nitrogen oxide (NOx), thereby purifying the surrounding air.

Business Operations

Custom-Built Detached Housing

CASART ECO CORDIS, launched in April 2013 in commemoration of our 50th anniversary

CASART ECO CORDIS boasts a variety of advanced features, including a roof that actually consists of solar panels. This innovative model also incorporates Panasonic's exclusive Heterojunction with Intrinsic Thin layer (HIT) solar power generation system, which delivers industry-leading generating efficiency, thereby making it possible to install 10 kW of capacity, significant given the total floor space of approximately 115 m^2, which is average for two-story houses in Japan. Under Japan's feed-in tariff (FIT) scheme, which aims to encourage renewable energy investment by purchasing energy from renewable energy producers, this system has the potential—depending on a number of factors—to bring in approximately ¥10 million over 20 years (PanaHome calculation based on the current per-kWh FIT for systems over 10 kW).

A word from the development team

Roof consisting of solar panels

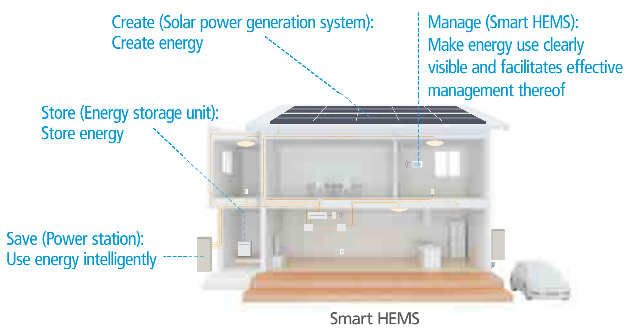
Yachiyo Ito
House Planning and Product Development Department

The standard approach is to mount solar panels on the roof. Development started with the idea of turning this approach on its ear by actually making the roof from solar panels, which was definitely a challenge. We also incorporated a number of truly innovative design features. We worked closely with other Panasonic Group companies throughout the development process, and everyone involved was committed to the success of this endeavor. We really worked as a team, with everyone contributing ideas and expertise, so despite time constraints we succeeded in completing development of this unique home.

Multipurpose entry hall offers the perfect place to chat with visitors

Natsuko Asao
Lifestyle and Design Department

Designed as a home that supports practical, technologically advanced and forward-looking lifestyles, *CASART ECO CORDIS* features a front walk that is safe, convenient and inherently accessible to everyone, from children through to seniors and a living room-like front entry hall that offers the potential for a multitude of different uses.



Smart HEMS

Vieuno 5,
a five-story detached home

By making full use of our design prowess and the comprehensive strengths of the Panasonic Group, we sought to create homes that offered a comfortable living environment with only minimal energy use and at the same time also achieved a reduction in CO_2 emissions.

In April 2012, we introduced the concept of "Smart PanaHome" homes—homes that incorporate our Energy Creation–storage Linked System for Home Use—across our entire custom-built detached housing portfolio. In October 2012, we also began offering Panasonic Smart HEMS in all custom-built detached homes, thereby positioning these homes as smart houses that deliver improved energy self-sufficiency and flexibility.

In response to growing needs for homes for two-generation families, we introduced *two·do·ie* ("two do house"), with layout variations that cater to generational lifestyle differences. To fortify marketing in urban areas, we opened a *Vieuno 5* model home to encourage awareness of the considerable layout flexibility available with *Vieuno 5*, a stainless steel-framed five-story home that can be built to include commercial space and/or apartments.

Going forward, we will redouble our efforts to provide next-generation homes that are both environment- and people-friendly, as well as conducive to the nurturing of family bonds.

Apartments

Rental apartment housing

Our portfolio features a diverse range of rental apartments that combine pleasant living environments with outstanding design and superb environmental performance. We also assist owners by offering an integrated management service whereby we lease multiple units in the building and take responsibility for everything from the screening of potential renters, tenant management and renovations when needed.

In fiscal 2012, we began marketing our *Lacine* rental apartment complexes nationwide. We also sought to increase returns for owners by proposing the addition of solar power generation systems and other high-value-added features. Additionally, we took steps to expand our selection of three-story rental apartments.

FICASA ECOSOLEIL rental apartments, which facilitate the installation of up to 10 kW of solar power generation capacity

Lacine rental apartment complexes

Kimi Komatsu
Manager of *Lacine* Laboratories

Rental apartments with layouts, fixtures and interior designs tailored to the preferences of sophisticated urban-dwelling women

To further development efforts for our *Lacine* rental apartment complexes, designed with a woman's perspective, in July 2012 we established the *Lacine* Laboratories. In addition to workshops given by a team of in-house and outside experts, the institute promotes a variety of other initiatives aimed at reinforcing our understanding of the lifestyle preferences of *Lacine* tenants of all ages. By conducting extensive research into, among others, issues of concern to women renting apartments and lifestyle preferences, the institute seeks ways to add further value to the *Lacine* brand.

Medical and nursing care facilities

We were one of the first housing companies in Japan to enter the field of specialized housing options for seniors that offer medical and nursing care. In fiscal 2012, we promoted a number of initiatives aimed at advancing sales of such housing. These included conducting seminars for property owners and medical treatment and nursing care service providers; proposing the use of our Care Link System, a scheme for whole-building leasing of specialized rental housing with nursing care services that matches up owners and service providers and extends support to facilitate the stable operation of such facilities; and making use of subsidies available for assisted-living residences for seniors.

Looking ahead, we will continue working to enhance living environments and ensure stable housing options for seniors, a challenge that will continue to grow in importance in Japan as the country's population ages. To this end, we will advance the construction of assisted-living residences adjacent to nursing care service facilities and of group homes.

Rental housing for seniors with nursing care services provided

Home Remodeling

We provide comprehensive home remodeling services that extend to residential exteriors and landscaping for a wide range of residences, from wooden detached houses to condominiums.

In fiscal 2012, we promoted the installation of solar power generation systems, as well as marketed "eco reform packages," which are designed to enhance the environmental performance and durability of existing homes and include the installation of, among others, *KIRATECH* tile exterior walls. We also participated in renovations trade shows, organized tours to view completed remodeling projects and offered consultations at exhibitions across the country, in addition to which we promoted services to owners of older PanaHome and other wooden detached homes and of condominiums, including renovations to improve insulation and make homes more airtight, as well as solutions for seniors that include redesigning floor plans and making barrier-free modifications.

Through collaboration with other companies of the Panasonic Group, we will continue seeking to propose innovative ideas for enhancing living environments, as well as to expand orders for full-scale home remodeling.

Before
After

Before
After

Property Development

PanaHome Smart City Sakai-Hatsushiba, comprising homes equipped with a solar power generation system and an ENE-FARM fuel cell

Artist's conception of the completed *Majesty House Shinjuku Gyoen Parknade* smart condominium development

Our efforts in this category, which focus primarily in the Tokyo, Nagoya and Osaka metropolitan areas, center on housing developments and condominium complexes that support ecologically sound lifestyles, contributing to the reduction of CO_2 emissions and to preservation of the environment.

In fiscal 2012, we continued to promote the creation of timelessly attractive sustainable smart urban developments that support ecologically sound smart lifestyles. Of particular note, we commenced sales of homes in *PanaHome Smart City Sakai–Hatsushiba*, in Sakai, Osaka Prefecture, each of which features an energy system that combines solar power generation and an ENE-FARM fuel cell, and of homes in *PanaHome Smart City Shioashiya*, in Ashiya, Hyogo Prefecture, comprising homes that boast Panasonic's Energy Creation-storage Linked System for Home Use.

Condominium developments in progress during the period included *Majesty House Shinjuku Gyoen Parknade*, in Tokyo's Shinjuku ward, which is scheduled for completion in January 2014. Units in this complex boast a solar power generation system, an energy storage system with lithium-ion batteries and the Eco Management System, which draws on our accumulated expertise as a housing company.

In line with our commitment to building smart towns, we will press ahead with the construction of PanaHome Smart City developments. At the same time, we will continue to leverage our expertise in development and design, as well as the latest technologies of the Panasonic Group, to advance the development of attractive condominiums under the *Parknade* name.

Overseas Business

In the period under review, housing company PanaHome Taiwan Co., Ltd., secured its first condominium development orders. In March 2013, we completed construction of an experimental smart house in the Malaysian capital of Kuala Lumpur that will serve as a base for marketing activities for detached homes in Malaysia going forward.

Local staff members

PanaHome Taiwan

In fiscal 2012, PanaHome Taiwan secured orders for two condominium developments and one remodeling project. Since the beginning of fiscal 2013, the company has already secured an additional order for a condominium development. Going forward, the company will continue to propose innovative ideas for condominium, detached houses and renovations options suited to local needs through collaboration with other companies of the Panasonic Group.

Artist's conception of completed condominium development currently under construction in Taiwan

Corporate Social Responsibility

Environmental Initiatives

We are engaged in a variety of initiatives in line with our goal of securing an unparalleled position as an innovative provider of living environments that redefines the concept of lifestyle value. With the aim of contributing further to environmental preservation through our operations, we are taking decisive steps to reduce our environmental footprint across all aspects of our business activities, including our supply chain, and promoting efforts to foster environment-friendly housing and lifestyles that will help ensure a healthy future for our planet.

PanaHome wins Eco Products category prize at 9th Eco Products Awards

In fiscal 2012, we were honored to receive the Minister of Land, Infrastructure, Transport and Tourism Award at the 9th Eco Products Awards, held in Tokyo and sponsored by the Global Environmental Forum. The award was in recognition of a comprehensive home solution combining a hybrid ventilation system with Panasonic's ECO NAVI system to supply fresh air—cooler in summer, warmer in winter—under floorboards, and full insulation, including for internal walls, to minimize heat loss and conserve energy while keeping occupants comfortable.

Poster of award winners in the 9th Eco Products Awards

Tsunagari no Hiroba green zone established at PanaHome head office to commemorate the Company's 50th anniversary

In the period under review, we established *Tsunagari no Hiroba* ("Community Ties Plaza"), a large green zone, at our head office in Osaka's Senri district. The goals of this initiative are threefold. First, the plaza will help preserve local ecological networks. Second, it will serve as an integral part of our business continuity planning (BCP) infrastructure, facilitating the prompt restart of operations following a disaster. Third, it will provide a gathering place for people who are unable to return home due to public transportation disruptions. In addition to a biotope, the zone's highlights include a forested area featuring trees suited to local climatic conditions, a solar power generation system and a wind power system with a 145 W generating capacity.

Overview of *Tsunagari no Hiroba*

Enhancing the Quality of Management Systems

In fiscal 2012, we became the first company in the housing industry to receive the Director General for Commerce, Distribution and Industry Safety Policy Award, given as part of the Ministry of Economy, Trade and Commerce's Best Contributors to Product Safety Awards. Judges praised the thoroughness of our procedures for assessing procured materials, as well as the extensive safety information we provide when we give customers the keys to their new homes and the fact that we collect and analyze customer feedback to propose modifications to suppliers.

Best Contributors to Product Safety Awards logo

Promoting Diversity

With the aim of creating a corporate culture that values various perspectives and encourages respect for different values, we are promoting initiatives aimed at encouraging diversity.

To further advance opportunities for female employees, we are taking steps to increase recruiting of female applicants and to expand the range of positions open to women. In recognition of these initiatives, we received an award from the Osaka Labour Bureau Director in the Family-Friendly Enterprise category of the fiscal 2011 Equal Employment/Work–Family Balance Corporation Awards, sponsored by the Ministry of Health, Labour and Welfare. Recognizing the effectiveness of cross-company career support networks for female employees in improving retention rates and enhancing skill development, we also collaborate with other housing companies to organize networking sessions for female employees in sales positions in which current female PanaHome sales office directors serve as role models and mentors, providing career support for female colleagues across the industry.

Targets for Advancing Opportunities for Female Employees for the Three Years Ending March 31, 2014

Female employees as a percentage of total employees hired through regular annual hiring: More than 30%

Percentage of managerial positions occupied by female employees: Double over the three-year period

Corporate Governance

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.

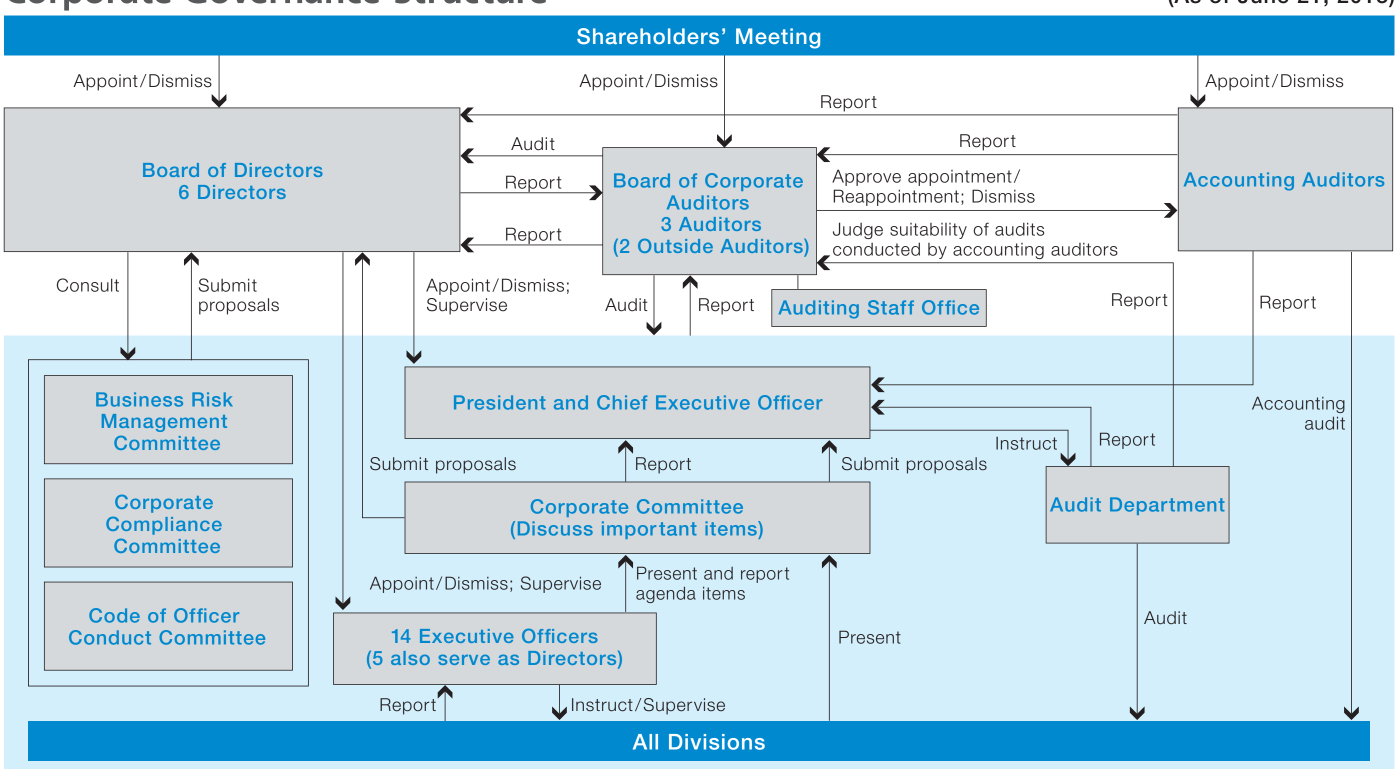
The Corporate Committee and other Companywide committees serve as forums for thorough deliberation pertaining to matters that must be decided by resolution of the Board of Directors. Such matters are then submitted to the Board of Directors to be ruled on.

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 21, 2013)



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, 2013.

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, consumption tax 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 the 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.

Financial Review

Operating Results

Net sales

Sales in our property development business were firm in fiscal 2012, owing to contributions from sales of PanaHome Smart City developments. Nonetheless, consolidated net sales edged down 1.3%, to ¥289,403 million (US$3,079 million), as orders in our custom-built detached housing business struggled from the second half of fiscal 2011 through the first quarter of the period under review, pushing down sales in the business.

Cost of sales and selling, general and administrative expenses

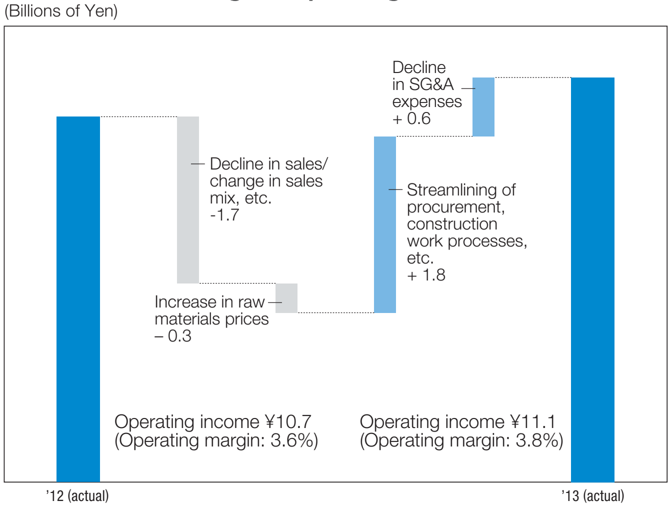
Cost of sales in the period under review dipped 1.6%, to ¥221,354 million (US$2,355 million). Despite the negative impact of a change in the composition of sales, combined with rising prices for materials purchased, cost of sales as a percentage of net sales declined 0.2 percentage point, to 76.5%, reflecting efforts to rationalize production, procurement and construction site costs.

Selling, general and administrative (SG&A) expenses declined 1.0%, to ¥56,960 million (US$606 million), owing to successful moves to trim fixed costs by improving operating efficiency Companywide.

Earnings

Operating income rose 4.0%, to ¥11,089 million (US$118 million), as the reductions in cost of sales and fixed costs countered the impact of the decline in net sales. Net income climbed 19.7%, to ¥7,332 million (US$78 million). Net income per share was ¥43.64 (US$0.46), up from ¥36.44 in the previous fiscal year.

Factors Behind Change in Operating Income (Year on Year)
(Billions of Yen)



Years ended March 31

Financial Position

As of March 31, 2013, total assets amounted to ¥221,787 million (US$2,359 million), up 2.3% from the end of fiscal 2011.

Total current assets rose 3.5%, to ¥154,836 million (US$1,647 million), owing primarily to expanded inventories of real estate for sale resulting from efforts to reinforce our property development business.

Net property, plant and equipment advanced 1.2%, to ¥40,287 million (US$429 million), a consequence of steps taken to enhance showrooms and sales offices, as well as to boost production efficiency. Total investments and other assets declined 2.1%, to ¥26,664 million (US$284 million), a consequence largely of a decrease in long-term loans.

Total current liabilities, at ¥76,608 million (US$815 million), were up 1.7%, as efforts to improve the recovery of our investments, among others, bolstered advances received from customers. Total long-term liabilities declined 4.2%, to ¥17,639 million (US$188 million), owing mainly to the repayment of long-term debt.

Total equity rose 3.7%, to ¥127,540 million (US$1,357 million). Contributing factors included the increase in 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 ¥6,236 million (US$66 million). This result was primarily attributable to net income, which was offset to some extent by cash outflows attributable to an increase in inventories and income taxes paid.

Net cash used in investing activities was ¥3,466 million (US$37 million). The foremost factor behind this result was a cash outflow for additions to property, plant and equipment.

Net cash used in financing activities amounted to ¥3,502 million (US$37 million), the principal application of which was cash dividends paid.

Operating, investing and financing activities thus resulted in cash and cash equivalents as of March 31, 2013, of ¥50,948 million (US$542 million), a decrease of ¥621 million from the previous fiscal year-end.

Consolidated Balance Sheet

PanaHome Corporation and Consolidated Subsidiaries
March 31, 2013

ASSETS	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 15)	¥ 50,948	¥ 51,569	$ 542,000
Short-term investments (Note 15)	—	74	—
Receivables (Notes 13 and 15):			
Trade	3,970	3,613	42,234
Other	737	809	7,840
Allowance for doubtful receivables	(13)	(12)	(138)
Inventories (Note 4)	63,638	58,750	677,000
Parent company deposits (Notes 13 and 15)	30,000	30,000	319,149
Deferred tax assets (Note 11)	3,384	3,749	36,000
Other current assets	2,172	1,112	23,106
Total current assets	154,836	149,664	1,647,191
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	20,962	20,918	223,000
Buildings and structures (Note 6)	50,029	48,847	532,223
Machinery and equipment (Note 6)	19,236	18,262	204,638
Lease assets	1,740	1,703	18,511
Construction in progress	485	613	5,160
Total	92,452	90,343	983,532
Less accumulated depreciation	(52,165)	(50,523)	(554,947)
Net property, plant and equipment	40,287	39,820	428,585
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	1,022	559	10,872
Investments in associated companies	7,291	7,301	77,564
Long-term loans (Notes 7 and 15)	2,146	2,805	22,830
Long-term loans to employees (Note 15)	431	525	4,585
Prepaid pension costs (Note 8)	8,568	8,592	91,149
Deferred tax assets (Note 11)	226	256	2,405
Intangibles and other assets	7,469	7,695	79,457
Allowance for doubtful accounts	(489)	(483)	(5,202)
Total investments and other assets	26,664	27,250	283,660
TOTAL	¥ 221,787	¥ 216,734	$ 2,359,436

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2013	2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ —	¥ 39	$ —
Payables (Notes 13 and 15):			
Trade	36,697	37,513	390,394
Other	6,362	6,792	67,681
Accrued income taxes	3,485	1,948	37,074
Advances received from customers	19,565	17,744	208,138
Accrued expenses and other current liabilities	10,499	11,282	111,691
Total current liabilities	76,608	75,318	814,978
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	1,151	1,849	12,245
Liability for employees' retirement benefits (Note 8)	5,802	5,428	61,723
Deferred tax liabilities (Note 11)	218	312	2,319
Deferred tax liabilities on land revaluation (Note 5)	1,841	1,841	19,585
Asset retirement obligations (Note 9)	574	535	6,106
Long-term deposits received	7,869	7,725	83,713
Other long-term liabilities	184	716	1,958
Total long-term liabilities	17,639	18,406	187,649
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 16 and 17)			
EQUITY (Notes 10 and 19):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2013 and 2012	28,376	28,376	301,872
Capital surplus	31,985	31,984	340,266
Retained earnings	73,339	68,538	780,202
Treasury stock - at cost, 559,390 shares in 2013 and 542,892 shares in 2012	(294)	(284)	(3,127)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	470	192	5,000
Land revaluation difference (Note 5)	(6,533)	(6,543)	(69,500)
Foreign currency translation adjustments	10	7	107
Total	127,353	122,270	1,354,820
Minority interests	187	740	1,989
Total equity	127,540	123,010	1,356,809
TOTAL	¥ 221,787	¥ 216,734	$ 2,359,436

Consolidated Statement of Income

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET SALES (Note 13)	¥ 289,403	¥ 293,152	$ 3,078,755
COST OF SALES (Note 13)	221,354	224,929	2,354,829
Gross profit	68,049	68,223	723,926
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 14)	56,960	57,557	605,957
Operating income	11,089	10,666	117,969
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 13)	248	253	2,638
Interest expense	(100)	(119)	(1,064)
Equity in earnings (losses) of affiliated companies	245	(60)	2,606
Gain on sales of property, plant and equipment	3	0	32
Loss on disposal and sales of property, plant and equipment	(29)	(62)	(309)
Loss on impairment of long-lived assets (Note 6)	(78)	(129)	(830)
Other - net	363	143	3,862
Other income - net	652	26	6,935
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,741	10,692	124,904
INCOME TAXES (Note 11):			
Current	4,250	1,880	45,213
Deferred	152	2,665	1,617
Total	4,402	4,545	46,830
NET INCOME BEFORE MINORITY INTERESTS	7,339	6,147	78,074
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	7	24	74
NET INCOME	¥ 7,332	¥ 6,123	$ 78,000
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 43.64	¥ 36.44	$ 0.46
Diluted net income	—	—	—
Cash dividends applicable to the year	15.00	15.00	0.16

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET INCOME BEFORE MINORITY INTERESTS	¥ 7,339	¥ 6,147	$ 78,074
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gains (losses) on available-for-sale securities	276	(106)	2,936
Land revaluation difference	—	261	—
Foreign currency translation adjustments	3	9	32
Share of other comprehensive income (losses) in associates	2	(2)	21
Total other comprehensive income	281	162	2,989
COMPREHENSIVE INCOME (Note 18)	¥ 7,620	¥ 6,309	$ 81,063
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥ 7,613	¥ 6,285	$ 80,989
Minority interests	7	24	74

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Thousands	Millions of Yen			
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 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)
Net income	—	—	—	7,332	—
Cash dividends, ¥15.00 per share	—	—	—	(2,521)	—
Reversal of land revaluation difference	—	—	—	(10)	—
Purchase of treasury stock	(22)	—	—	—	(12)
Disposal of treasury stock	5	—	1	—	2
Net change in the year	—	—	—	—	—
BALANCE, MARCH 31, 2013	168,004	¥ 28,376	¥ 31,985	¥ 73,339	¥ (294)

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2012	$ 301,872	$ 340,255	$ 729,128	$ (3,021)
Net income	—	—	78,000	—
Cash dividends, $0.16 per share	—	—	(26,819)	—
Reversal of land revaluation difference	—	—	(107)	—
Purchase of treasury stock	—	—	—	(128)
Disposal of treasury stock	—	11	—	22
Net change in the year	—	—	—	—
BALANCE, MARCH 31, 2013	$ 301,872	$ 340,266	$ 780,202	$ (3,127)

(Continued)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity (Continued)

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	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, 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
Net income	—	—	—	7,332	—	7,332
Cash dividends, ¥15.00 per share	—	—	—	(2,521)	—	(2,521)
Reversal of land revaluation difference	—	—	—	(10)	—	(10)
Purchase of treasury stock	—	—	—	(12)	—	(12)
Disposal of treasury stock	—	—	—	3	—	3
Net change in the year	278	10	3	291	(553)	(262)
BALANCE, MARCH 31, 2013	¥ 470	¥ (6,533)	¥ 10	¥ 127,353	¥ 187	¥ 127,540

	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, 2012	$ 2,043	$ (69,606)	$ 74	$ 1,300,745	$ 7,872	$ 1,308,617
Net income	—	—	—	78,000	—	78,000
Cash dividends, $0.16 per share	—	—	—	(26,819)	—	(26,819)
Reversal of land revaluation difference	—	—	—	(107)	—	(107)
Purchase of treasury stock	—	—	—	(128)	—	(128)
Disposal of treasury stock	—	—	—	33	—	33
Net change in the year	2,957	106	33	3,096	(5,883)	(2,787)
BALANCE, MARCH 31, 2013	$ 5,000	$ (69,500)	$ 107	$ 1,354,820	$ 1,989	$ 1,356,809

(Concluded)

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 11,741	¥ 10,692	$ 124,904
Adjustments for:			
Depreciation	3,640	3,144	38,723
Loss on impairment of long-lived assets	78	129	830
Provision for retirement and severance benefits	382	(84)	4,064
Interest and dividend income	(248)	(253)	(2,638)
Interest expense	100	119	1,064
Equity in losses (earnings) of affiliated companies	(245)	60	(2,606)
Loss on disposal and sales of property, plant and equipment	29	62	309
Amortization of goodwill	—	112	—
Decrease (increase) in trade receivables	(353)	308	(3,756)
Increase in inventories	(4,415)	(11,505)	(46,968)
Increase (decrease) in trade payables	(1,029)	5,289	(10,947)
Increase in advances received from customers	1,147	1,199	12,202
Other	(2,115)	(414)	(22,500)
Subtotal	8,712	8,858	92,681
Interest and dividend income received	290	289	3,085
Interest expense paid	(101)	(121)	(1,075)
Income taxes paid	(2,665)	(325)	(28,351)
Net cash provided by operating activities	6,236	8,701	66,340
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(3,267)	(3,314)	(34,755)
Proceeds from sales of property, plant and equipment	20	17	213
Additions to intangibles	(832)	(1,785)	(8,851)
Proceeds from sales and redemption of investment securities	—	500	—
Acquisition of shares of consolidated subsidiary	—	(119)	—
Deposits paid to parent company	(60,000)	(70,000)	(638,298)
Withdrawal of parent company deposits	60,000	40,000	638,298
Other	613	355	6,521
Net cash used in investing activities	(3,466)	(34,346)	(36,872)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	(45)	28	(479)
Repayments of long-term debt	(658)	(442)	(7,000)
Purchase of treasury stock	(12)	(7)	(128)
Cash dividends paid	(2,520)	(2,521)	(26,808)
Other	(267)	(362)	(2,840)
Net cash used in financing activities	(3,502)	(3,304)	(37,255)
Effect of exchange rate changes on cash and cash equivalents	11	(3)	117
Net decrease in cash and cash equivalents	(721)	(28,952)	(7,670)
Cash and cash equivalents at beginning of year	51,569	80,521	548,606
Cash and cash equivalents of newly consolidated subsidiaries	100	—	1,064
Cash and cash equivalents at end of year	¥ 50,948	¥ 51,569	$ 542,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

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 ¥94 to $1, the approximate rate of exchange at March 31, 2013. 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, 2013 include the accounts of the Company and its 16 (14 in 2012) 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 13 (14 in 2012) associated companies are accounted for by the equity method. Investment in 1 associated company (1 associated company in 2012) 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 is computed by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures, and from 4 to 8 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

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

h. ***Leases -*** In March 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions 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. 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 statement 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 consolidated statement 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 is 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 168,013 thousand shares and 168,028 thousand shares for the years ended March 31, 2013 and 2012, 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, 2013 and 2012.
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.

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, and 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, is 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 any resulting 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*

The revised accounting standard does 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 have not yet been 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.

(c) *Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases*

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both 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 for (a) and (b) above from the end of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Non-current:			
Equity securities	¥ 1,022	¥ 559	$ 10,872

The cost amounts and aggregate fair values of investment securities at March 31, 2013 and 2012, were as follows:

	Millions of Yen			
	2013			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 224	¥ 723	¥ 1	¥ 946

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

	Thousands of U.S. Dollars			
	2013			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 2,383	$ 7,692	$ 11	$ 10,064

4. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Real estate for sale	¥ 56,103	¥ 50,039	$ 596,840
Contracts in progress	6,343	7,468	67,479
Finished goods	977	1,067	10,394
Work in process, raw materials and supplies	215	176	2,287
Total	¥ 63,638	¥ 58,750	$ 677,000

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, 2013, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥5,455 million ($58,032 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2013 and 2012.

As a result, for the year ended March 31, 2013, the Group recognized an impairment loss of ¥78 million ($830 thousand) as other expenses for certain rental properties in Ibaragi Prefecture due to substantial declines in the fair market value and sluggish rental 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, 2012, the Group recognized an impairment loss of ¥129 million as other expenses for certain rental properties in Tokyo and others 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 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, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Rental properties:			
Land	¥ 70	¥ 43	$ 744
Total	¥ 70	¥ 43	$ 744
Idle assets:			
Land	¥ 4	¥ 16	$ 43
Buildings and structures	—	58	—
Other	4	12	43
Total	¥ 8	¥ 86	$ 86

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 there were no short-term bank loans at March 31, 2013.

Long-term debt, excluding finance leases of ¥77 million ($820 thousand), at March 31, 2013, consisted of collateralized loans from banks of ¥1,074 million ($11,425 thousand) due serially to 2023, with the annual interest rate of 1.84%.

Annual maturities of long-term debt, excluding finance leases of ¥77 million ($819 thousand), at March 31, 2013, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 115	$ 1,223
2015	118	1,255
2016	122	1,298
2017	126	1,340
2018	131	1,394
2019 and thereafter	462	4,915
Total	¥ 1,074	$ 11,425

At March 31, 2013, long-term loans of ¥2,008 million ($21,362 thousand) were pledged as collateral for long-term debt of ¥1,074 million ($11,425 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, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥ 44,869	¥ 43,601	$ 477,330
Fair value of plan assets	(36,852)	(31,562)	(392,043)
Unrecognized actuarial loss	(10,783)	(15,202)	(114,713)
Net assets	(2,766)	(3,163)	(29,426)
Prepaid pension costs	8,568	8,591	91,149
Liability for employees' retirement benefits	¥ 5,802	¥ 5,428	$ 61,723

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 1,764	¥ 1,705	$ 18,766
Interest cost	849	964	9,032
Expected return on plan assets	(927)	(864)	(9,862)
Prior service benefit	—	(424)	—
Recognized actuarial loss	1,420	1,255	15,106
Gain on revision of retirement benefit plan	—	(23)	—
Net periodic benefit costs	¥ 3,106	¥ 2,613	$ 33,042

Assumptions used for the years ended March 31, 2013 and 2012, were as follows:

	2013	2012
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Amortization period of prior year service benefit	—	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, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Balance at beginning of year	¥ 535	¥ 514	$ 5,691
Additional provisions associated with the acquisition of new subsidiary	6	—	64
Additional provisions associated with the acquisition of property, plant and equipment	90	88	957
Reconciliation associated with passage of time	1	1	11
Reduction associated with meeting asset retirement obligations	(58)	(68)	(617)
Balance at end of year	¥ 574	¥ 535	$ 6,106

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 an Audit & Supervisory Board, 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 normal effective statutory tax rates of approximately 38.0% for the year ended March 31, 2013, and 40.7% for the year ended March 31, 2012.

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets:			
Loss carryforward	¥ 334	¥ 240	$ 3,553
Accrued expenses	1,739	2,114	18,500
Depreciation	1,030	974	10,958
Employees' retirement benefits	154	186	1,638
Write-down of inventories	862	855	9,170
Other	2,067	2,109	21,990
Subtotal	6,186	6,478	65,809
Valuation allowance	(1,359)	(1,315)	(14,457)
Total	4,827	5,163	51,352
Deferred tax liabilities:			
Employees' retirement benefits	(1,137)	(1,326)	(12,096)
Unrealized gains on available-for-sale securities	(244)	(96)	(2,596)
Other	(54)	(48)	(574)
Total	(1,435)	(1,470)	(15,266)
Net deferred tax assets	¥ 3,392	¥ 3,693	$ 36,086

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, 2013 and 2012 were as follows:

	2013	2012
Normal effective statutory rate	38.0%	40.7%
Per capita levy	1.3	1.5
Expenses permanently not deductible for income tax purposes	0.5	0.8
Decrease in valuation allowance	(0.5)	(1.4)
Equity in losses (gains) of affiliated companies	(0.8)	0.2
Unrealized intercompany profits	0.2	(1.9)
Effect of tax rate reduction	—	2.7
Gain on negative goodwill	(0.8)	(0.0)
Other - net	(0.4)	(0.1)
Actual effective rate	37.5%	42.5%

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.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,256 million ($13,362 thousand) and ¥1,342 million for the years ended March 31, 2013 and 2012, respectively.

13. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥19,681 million ($209,372 thousand) and ¥20,984 million for the years ended March 31, 2013 and 2012, respectively. Trade accounts receivable due from associated companies were ¥816 million ($8,681 thousand) and ¥1,077 million at March 31, 2013 and 2012, respectively.

Purchases from Panasonic Corporation, the parent company of the Company, were ¥6,564 million ($69,830 thousand) and ¥4,799 million for the years ended March 31, 2013 and 2012, respectively. Trade accounts payable due to Panasonic Corporation were ¥2,476 million ($26,340 thousand) and ¥2,526 million at March 31, 2013 and 2012, respectively.

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 ¥44,129 million ($469,457 thousand) and ¥46,529 million for the years ended March 31, 2013 and 2012, respectively. The assets related to the contracts were recorded as cash and cash equivalents of ¥36,000 million ($382,979 thousand) and ¥28,000 million, and parent company deposits of ¥30,000 million ($319,149 thousand) and ¥30,000 million in the consolidated balance sheet as of March 31, 2013 and 2012, respectively. Interest income received from Panasonic Corporation was¥114 million ($1,213 thousand) and ¥110 million for the years ended March 31, 2013 and 2012, 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 ¥3 million ($32 thousand) and ¥164 million for the years ended March 31, 2013 and 2012, 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, on an "as if capitalized" basis was as follows:

	Millions of Yen		
	2013		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥ 4	¥ 11	¥ 15
Accumulated depreciation	4	10	14
Net leased property	¥ 0	¥ 1	¥ 1

	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

	Thousands of U.S. Dollars		
	2013		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	$ 43	$ 117	$ 160
Accumulated depreciation	43	106	149
Net leased property	$ 0	$ 11	$ 11

Obligations under such finance leases as of March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥ 1	¥ 3	$ 11
Due after one year	0	1	0
Total	¥ 1	¥ 4	$ 11

Depreciation expense and other information under finance leases for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Depreciation expense	¥ 3	¥ 164	$ 32
Lease payments	3	164	32

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, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥16,701	¥15,362	$177,670
Due after one year	9,312	8,734	99,064
Total	¥26,013	¥24,096	$276,734

The minimum rental commitments (lessor) under noncancellable operating leases at March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥ 27	¥ 27	$ 287
Due after one year	239	266	2,543
Total	¥ 266	¥ 293	$ 2,830

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 14 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 24 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, 2013	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 50,948	¥ 50,948	¥ —
Receivables - Trade	3,970	3,970	—
Parent company deposits	30,000	30,000	—
Investment securities	947	947	—
Long-term loans (including long-term loans to employees)	2,577		
Allowance for doubtful accounts	(61)		
Subtotal	2,516	2,529	13
Total	¥ 88,381	¥ 88,394	¥ 13
Payables - Trade	¥ 36,697	¥ 36,697	¥ —
Long-term debt (excluding finance leases)	1,074	1,074	—
Total	¥ 37,771	¥ 37,771	¥ —

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, 2013	Thousands of U.S. Dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 542,000	$ 542,000	$ —
Receivables - Trade	42,234	42,234	—
Parent company deposits	319,149	319,149	—
Investment securities	10,074	10,074	—
Long-term loans (including long-term loans to employees)	27,415		
Allowance for doubtful accounts	(649)		
Subtotal	26,766	26,904	138
Total	$ 940,223	$ 940,361	$ 138
Payables - Trade	$ 390,394	$ 390,394	$ —
Long-term debt (excluding finance leases)	11,425	11,425	—
Total	$ 401,819	$ 401,819	$ —

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
	2013	2012	2013
Investment securities and investments in associated companies that do not have a quoted market price in an active market	¥ 7,366	¥ 7,338	$ 78,362

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

	Millions of Yen			
March 31, 2013	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	¥ 50,948	¥ —	¥ —	¥ —
Short-term investments	—	—	—	—
Receivables - Trade	3,970	—	—	—
Parent company deposits	30,000	—	—	—
Long-term loans (including long-term loans to employees)	148	625	856	887
Total	¥ 85,066	¥ 625	¥ 856	¥ 887

	Thousands of U.S. Dollars			
March 31, 2013	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	$ 542,000	$ —	$ —	$ —
Short-term investments	—	—	—	—
Receivables - Trade	42,234	—	—	—
Parent company deposits	319,149	—	—	—
Long-term loans (including long-term loans to employees)	1,574	6,649	9,106	9,436
Total	$ 904,957	$ 6,649	$ 9,106	$ 9,436

Long-term loans in the table above exclude the doubtful accounts of ¥61 million ($649 thousand). Annual maturities of long-term debt excluding finance leases are disclosed in Note7.

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, 2013 and 2012, were as follows:

	Millions of Yen			
March 31, 2013	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	¥ 1,893	¥ 1,778	—

	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	—

	Thousands of U.S. Dollars			
March 31, 2013	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	$ 20,138	$ 18,915	—

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 is 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, 2013, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥12,556 million ($133,574 thousand).

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 424	¥ (180)	$ 4,510
Income tax effect	(148)	74	(1,574)
Total	¥ 276	¥ (106)	$ 2,936
Land revaluation difference:			
Income tax effect	¥ —	¥ 261	$ —
Total	¥ —	¥ 261	$ —
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 3	¥ 9	$ 32
Total	¥ 3	¥ 9	$ 32
Share of other comprehensive income (losses) in associates:			
Gains (losses) arising during the year	¥ 2	¥ (2)	$ 21
Total	¥ 2	¥ (2)	$ 21
Total other comprehensive income	¥ 281	¥ 162	$ 2,989

19. SUBSEQUENT EVENT

Appropriation of Retained Earnings **-** The following appropriation of retained earnings at March 31, 2013, was resolved at the Board of Directors' meeting held on April 25, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.08) per share	¥ 1,260	$ 13,404

Independent Auditor's Report

Deloitte.

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Osaka 541-0042
Japan

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To the Board of Directors of PanaHome Corporation:

We have audited the accompanying consolidated balance sheet of PanaHome Corporation and its subsidiaries as of March 31, 2013, 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 accordance 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 accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. 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 its subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance 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 accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 21, 2013

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information

Corporate Data (As of March 31, 2013)

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*
* The cash equity market of the Osaka Securities Exchange was integrated into the Tokyo Stock Exchange on July 16, 2013.

Capital
¥28,376 million

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

Number of Shareholders
7,503

Management (As of June 21, 2013)

Members of the Board

President and 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

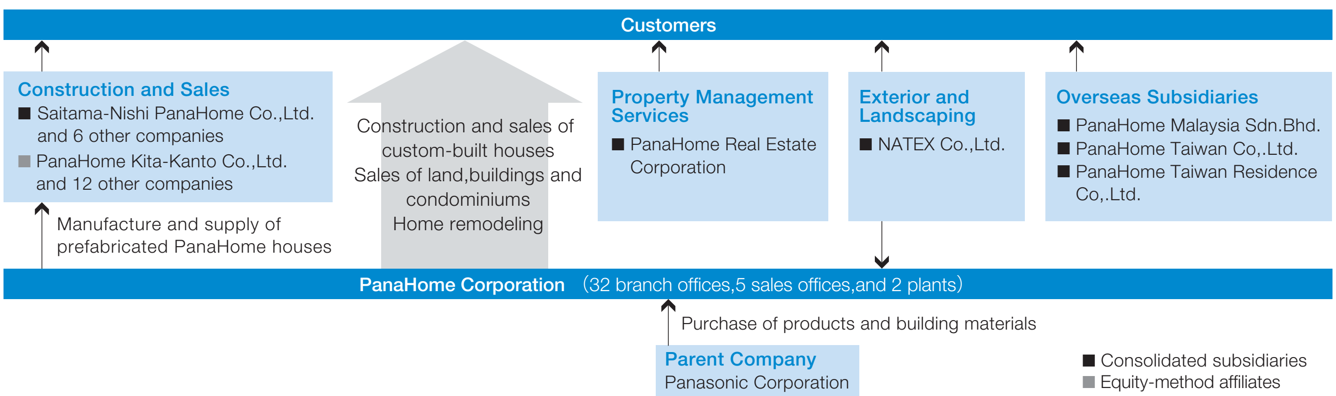
Corporate Executive Officers

Senior Managing Executive Officers
Hirofumi Yasuhara
Makoto Hatakeyama

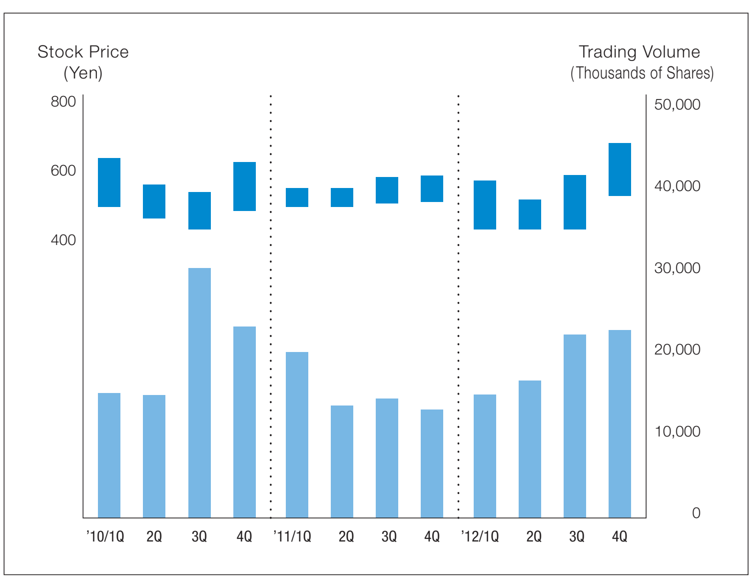
Managing Executive Officers
Tomiharu Yamada
Mitsuhiko Nakata
Hiroshi Hirasawa
Toshimitsu Sakai

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

Subsidiaries and Affiliates (As of March 31, 2013)



Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Major Shareholders (As of March 31, 2013)

Name	Thousands of Shares Held	Shareholding Ratio (%)
Panasonic Corporation	91,036	54.00
Northern Trust CO. (AVFC) Sub A/C American Clients	4,524	2.68
The Master Trust Bank of Japan,Ltd. (trust account)	3,958	2.34
PanaHome Employee Shareholding Association	3,387	2.00
Japan Trustee Services Bank,Ltd. (trust account)	3,374	2.00
The Bank Of New York,Treaty Jasdec Account	2,430	1.44
State Street Bank and Trust Company	2,405	1.42
Sumitomo Mitsui Banking Corporation	2,358	1.39
Northern Trust Co. AVFC RE U.S. Tax Exempted Pension Funds	1,708	1.01
Northern Trust Co AVFC RE Northern Trust Guernsey Non Treaty Clients	1,700	1.00

Note: PanaHome holds 528,367 shares of its own common stock.

PanaHome

PanaHome Corporation

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

www.panahome.jp/english/