Annual Report 2014

PanaHome Corporation

For the year ended March 31, 2014

PanaHome

» Corporate Profile

As the housing company of the Panasonic Group, PanaHome Corporation is committed to securing an unparalleled position as an innovative provider of distinctive smart living environments that redefines the concept of lifestyle 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 innovative technologies cultivated over 50 years in the housing industry and exceptional design capabilities, and by leveraging the advanced energy technologies of the Panasonic Group. The Company also promotes the development of environment-friendly "smart city" developments. Looking ahead, PanaHome will continue to take a long-term perspective as it strives to enrich the lives of families by providing homes that deliver sustainable value.

CONTENTS

» Financial Highlights

PanaHome Corporation and Consolidated Subsidiaries
Years ended March 31, from 2009 to 2014

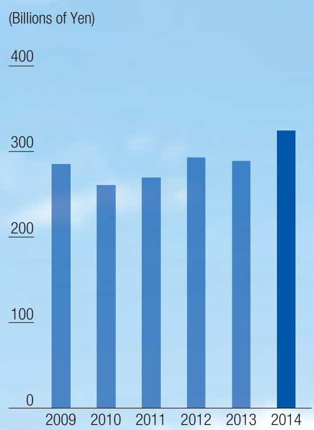
	Millions of Yen						Thousands of U.S. Dollars
	2009	2010	2011	2012	2013	**2014**	**2014**
Net Sales	¥284,625	¥260,389	¥269,450	¥293,152	¥289,403	**¥324,458**	**$3,150,078**
Operating Income	9,492	5,344	7,831	10,666	11,089	**14,223**	**138,087**
Income before Income Taxes and Minority Interests	8,237	5,063	6,768	10,692	11,741	**14,520**	**140,971**
Net Income	2,948	2,428	4,325	6,123	7,332	**8,926**	**86,660**
Total Assets	202,855	198,048	205,908	216,734	221,787	**245,861**	**2,387,000**
Equity	117,437	117,417	119,234	123,010	127,540	**129,080**	**1,253,204**
Return on Equity	2.5%	2.1%	3.7%	5.1%	5.9%	**7.0%**	
Equity Ratio	57.5%	58.9%	57.6%	56.4%	57.4%	**52.4%**	

	Yen						U.S. Dollars
Per Share Amounts:							
Net Income	¥17.53	¥14.45	¥25.73	¥36.44	¥43.64	**¥53.13**	**$0.52**
Cash Dividends	15.00	15.00	15.00	15.00	15.00	**20.00**	**0.19**

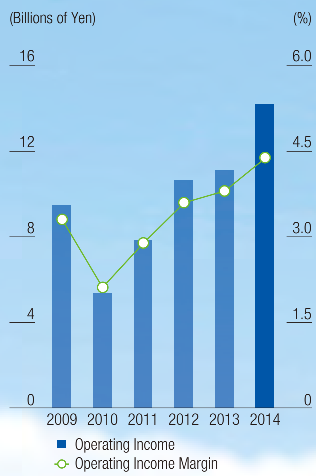
Number of Employees at Year-End (Persons)	5,076	5,011	5,093	5,099	5,161	**5,218**	

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 ¥103 = US$1, the approximate rate of exchange at March 31, 2014, 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.

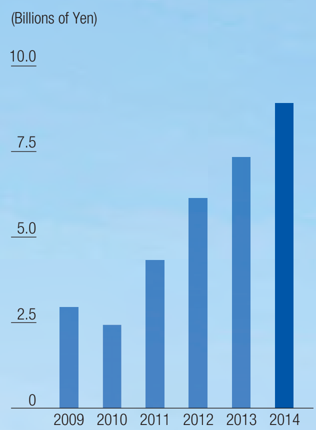
Net Sales



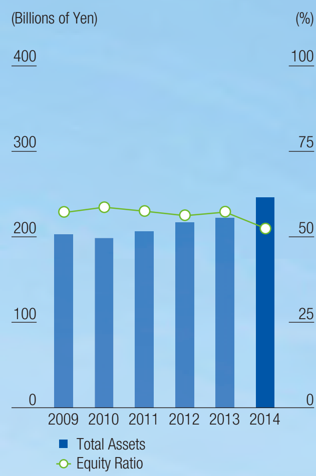
Operating Income / Operating Income Margin



Net Income



Total Assets / Equity Ratio



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.

» A Message from the President

We are working to expand the scope of our operations and reinforce our operating foundation with the aim of achieving the targets of our current medium-term business plan, which will guide our efforts through fiscal 2015.

Operating in an environment that reflected a demand rush in advance of an increase in Japan's consumption tax, in fiscal 2013, ended March 31, 2014, we pushed ahead with efforts to expand the scope of our operations beyond housing, in line with our mission to secure an unparalleled position as an innovative provider of distinctive smart living environments that redefines the concept of lifestyle value. Thanks to these and other efforts, we achieved a 12.1% increase in consolidated net sales, to ¥324.5 billion (US$3,150 million). Operating income climbed 28.3%, to ¥14.2 billion (US$138 million), as we marked our fourth consecutive year of operating income growth.

In recent years, rising public awareness of energy-related and environmental issues has heightened peoples' expectations of homes. In another key development, the Panasonic Group has positioned its housing business as a major pillar of growth in its new medium-term management plan.

In response to evolving social imperatives, we will redouble our efforts to drive growth by keeping abreast of changes in demand and consumer concerns and providing environment-friendly smart houses that deliver safety and security and support ecologically sound lifestyles, thereby contributing to the realization of a low-carbon green society. We will also step up efforts to bolster our profitability by reducing materials and construction costs and improving the efficiency of our operations.

July 2014

Y. Fujii

Yasuteru Fujii,
President and CEO

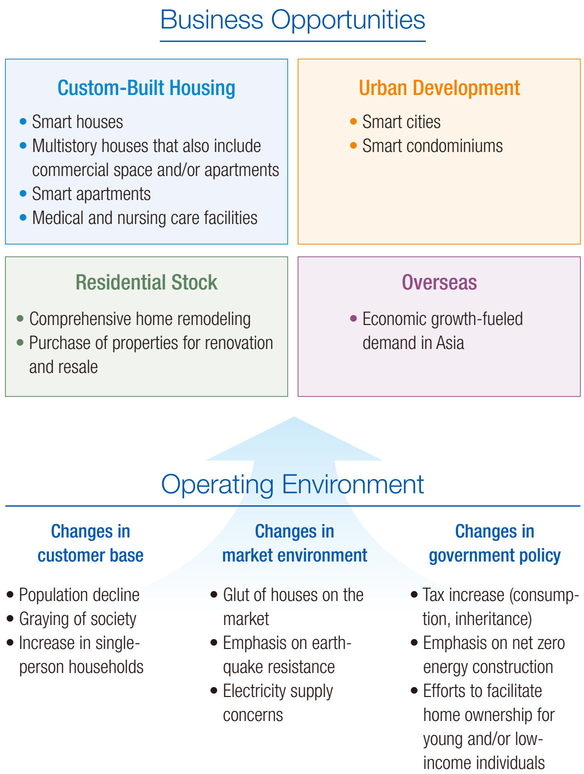
An Interview with Yasuteru Fujii

Q What can you tell us about the medium-term business plan that was introduced in fiscal 2013?

With the market for newly built houses shrinking, we are working to capitalize on business opportunities and implement new growth strategies.

The operating environment for Japan's housing industry continues to present challenges. Housing starts are expected to dwindle over the medium to long term, owing to the fact that housing stock currently exceeds the number of households in Japan, meaning there is a glut of houses on the market, as well as to factors including population decline. Nonetheless, steady growth is expected in such areas as smart houses, multistory houses for urban areas, housing complexes for seniors that provide nursing care services—which remain in short supply—and attractive, environment-friendly smart city developments, as well as in the home remodeling and real estate businesses. Housing companies must also enhance their responsiveness to soaring demand in overseas markets.

To capitalize on these and other promising business opportunities, we have positioned our custom-built housing, urban development, residential stock and overseas businesses as our four core businesses, thus creating a framework for the implementation of growth strategies. Our medium-term business plan also sets targets for fiscal 2015, namely, consolidated net sales of ¥340.0 billion, operating income of ¥17.0 billion and an operating income margin of 5%.



Q Fiscal 2013 was the first year of the plan. What sort of progress was made?

Both net sales and operating income exceeded our expectations, underscoring a strong start.

We reported consolidated net sales of ¥324.5 billion, well above our initial forecast of ¥310.0 billion. Operating income was ¥14.2 billion, while the operating income margin was 4.4%, exceeding our initial forecasts of ¥13.0 billion and 4.2%, respectively. Orders rose sharply on the strength of a demand rush prior to a consumption tax hike in Japan in April 2014, and while the trend reversed into decline in the second half, orders for the year were robust, bolstered by, among others, focused efforts to capitalize on business opportunities, which enabled us to secure more than 1,000 orders for *CASART ECO CORDIS*, a new house launched in 2013 to commemorate our 50th anniversary that is equipped with a 10 kW-plus capacity solar power generation system. As of March 31, 2014, our backlog of orders was up 15%, or ¥24.7 billion, from the fiscal 2012 year-end.

Our results forecasts for fiscal 2014 are for consolidated net sales of ¥333.0 billion and operating income of ¥16.5 billion, both up from fiscal 2013. We thus also expect to achieve our 5% operating income margin target a full year ahead of schedule.

What is PanaHome's position within the Panasonic Group?

PanaHome will play a major role in the Panasonic Group's drive to expand its housing business.

One target of the Panasonic Group's current medium-term management plan—which it seeks to achieve in fiscal 2018—is to boost annual sales in its housing business to ¥2 trillion. As the Panasonic Group's housing company, PanaHome will play a major role in, and bear significant responsibility for, expanding the Panasonic Group's housing business. Having set our own target of generating ¥500.0 billion of the targeted ¥2 trillion in sales, we will step up efforts to expand our operations and increase our profitability. To this end, we will collaborate with our own Group companies to promote practical measures under our medium-term business plan, which concludes in fiscal 2015, including new initiatives through our four-business framework.

Do you intend to make use of PanaHome's abundant cash reserves to fund growth strategies?

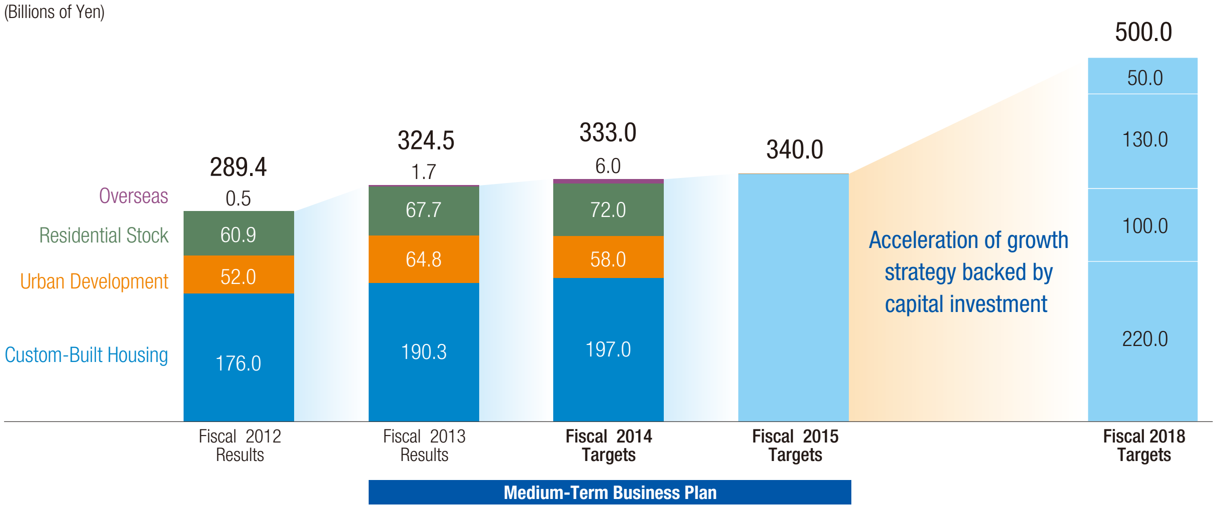
We plan to make decisive investments to achieve net sales of ¥500.0 billion by fiscal 2018.

With the aim of achieving significant growth by fiscal 2018 and at the same time maintaining a healthy financial position, we have set a limit of ¥50.0 billion for investments over the next three years. We anticipate steady demand for investment in our urban development, residential stock and overseas businesses—three key growth drivers—to fund, among others, the purchase of land and buildings and the formation of strategic capital alliances.

In terms of specific goals, we will work to build urban development into a business capable of generating annual net sales of ¥100.0 billion. To this end, we will actively expand efforts to secure essential land while observing rigorous selection standards. We will also take steps to expand our overseas business' annual sales to ¥50.0 billion. These include continuing exploring various ideas for working with local developers in markets where we already have a presence, such as projects involving homes built by us on land furnished by developers and collaboration on the sales front. Having already set up operations in Taiwan and Malaysia, we are now looking to expand our focus to include other Association of Southeast Asian Nations (ASEAN) member countries.

Outlook for Expansion of Businesses

(Billions of Yen)



Note: Effective from fiscal 2013, we have revised the business categories used in our annual report.

What specific initiatives does the current business plan outline for your four core businesses?

Custom-Built Housing In custom-built housing, we will sharpen our competitive edge by offering distinctive new products.

Encouraged by rising general acceptance of solar power generation systems and energy storage batteries, and by the increasing number of houses installing the Panasonic Group's Home Energy Management System (HEMS), we will endeavor to establish the zero-energy house (ZEH) concept—which describes houses that realize net zero energy consumption—in all newly built PanaHome detached houses by 2018, two years ahead of the 2020 target set by the Japanese government to implement the ZEH concept as the standard for all newly built houses in Japan.

We will also reinforce efforts to market multistory houses (up to seven stories) in Tokyo and other major urban centers. Capable of accommodating a wide range of site sizes and shapes, these houses can be built as a primary residence combined with commercial space and/or apartments, an apartment complex or a multigenerational home. They also offer an attractive tax shelter for people concerned about the impact of revisions to Japan's inheritance tax scheduled for January 2015. In the area of housing for seniors, we will continue to expedite marketing efforts by leveraging our solid track record and the wealth of expertise we have accumulated since the establishment of our medical and nursing care facilities business in 1999, as well as by capitalizing on our Care Link System, whereby we match landowners and facility operators with compatible needs.


Housing complex for seniors with nursing care services provided

Vieuno houses, which can be built from three to seven stories, accommodating a variety of needs

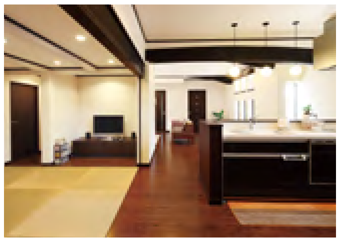
Urban Development In urban development, we will promote the construction of net zero energy communities.

The core concept of our urban development business is to build smart city developments comprising houses that use state-of-the-art information and other technologies to optimize the management of energy consumption, supporting smart lifestyles and maximizing asset value for owners, thereby creating communities that future generations will want to call home. Building on Panasonic's participation in advanced environmental initiatives in the flagship *Fujisawa Sustainable Smart Town (Fujisawa SST)* development, we will promote the construction of net zero energy developments that achieve energy independence on a community scale, not only for individual houses. In the area of smart condominiums, we seek to further differentiate our offerings by utilizing our know-how in the installation of HEMS in detached houses to incorporate the Panasonic Group's Mansion Energy Management System (MEMS), a HEMS for condominiums, as well as to add security, community and other lifestyle support services, and will step up efforts to increase market awareness of our *Parknade* brand.


Fujisawa SST, under development in collaboration with Panasonic

Residential Stock In the residential stock business, we will enhance our ability to propose full-scale home remodeling services.

To create a business model that improves the efficiency of our home remodeling services from initial proposal through to delivery, in October 2013 we spun off this business to PanaHome Reform Co., Ltd., a subsidiary established for this purpose, which began operating the same month. In addition to providing remodeling services for existing PanaHome houses, PanaHome Reform makes use of Panasonic showrooms to advertise its capabilities with the goal of expanding orders for full-scale home remodeling services for wooden detached houses and condominiums. We are also working with real estate and condominium management firms to expand our property development and other new businesses, as well as augmenting our real estate brokerage services by increasing the number of rental detached houses we manage, particularly in the Tokyo, Nagoya and Osaka metropolitan areas.


A remodeled older traditional Japanese home

Overseas Overseas, we will continue to capitalize on the Panasonic brand to expand our operations.

We will continue to leverage the wealth of know-how we have accumulated in the domestic housing and urban development businesses and the strength of the Panasonic brand to expand our operations in overseas markets. In custom-built housing, we will seek to differentiate ourselves from competitors by extending the same meticulous design services and superior quality we are known for in Japan, as well as to establish joint ventures with local developers with the aim of building smart city developments and smart condominiums. We are also looking to expand our focus to include other ASEAN member countries as another effective approach to expanding our overseas business.

Artist's conception of a condominium complex for which PanaHome Taiwan accepted an order

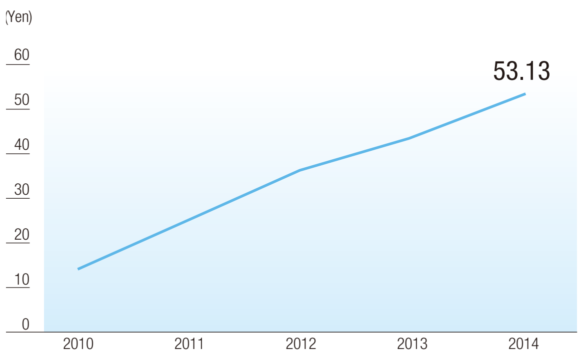
Q What is your policy regarding returns to shareholders?

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 and have maintained a policy of ensuring consistent, stable dividends. In line with this philosophy, we continue to determine dividends based on an overall assessment of trends in our operating performance, our financial condition and other factors, as well as our need to reinforce our operating foundation.

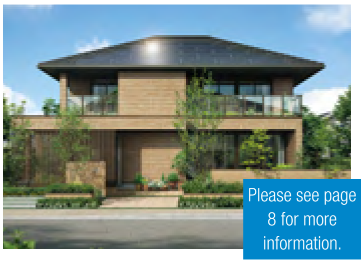
Our operating results have improved steadily since the financial downturn precipitated by the collapse of Lehman Brothers, and we continue to see solid growth in net income per share. For fiscal 2013, we declared a regular year-end dividend of ¥7.50 per share and a 50th anniversary commemorative dividend of ¥5.00 per share which, combined with an interim dividend, brought the dividend for the period to ¥20.00 per share. Going forward, we will continue striving to ensure income growth, as well as to enhance returns to shareholders. In fiscal 2014, we expect to pay a regular annual dividend of ¥20.00 per share.

Net Income per Share



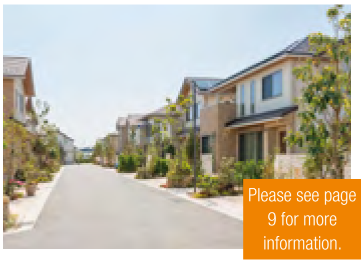
» PanaHome at a Glance

Custom-Built Housing



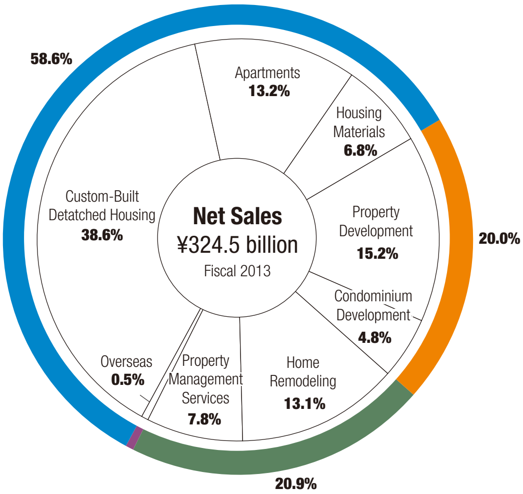
Please see page 8 for more information.

Urban Development

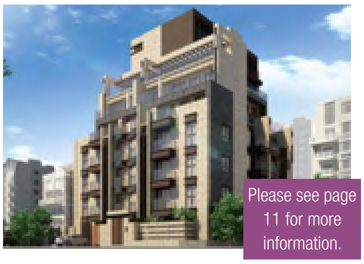


Please see page 9 for more information.

Sales Breakdown by Business Category

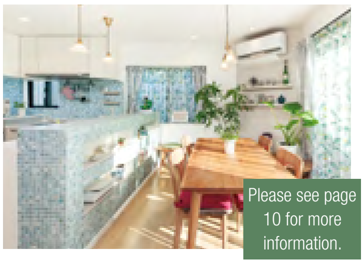


Overseas



Please see page 11 for more information.

Residential Stock



Please see page 10 for more information.

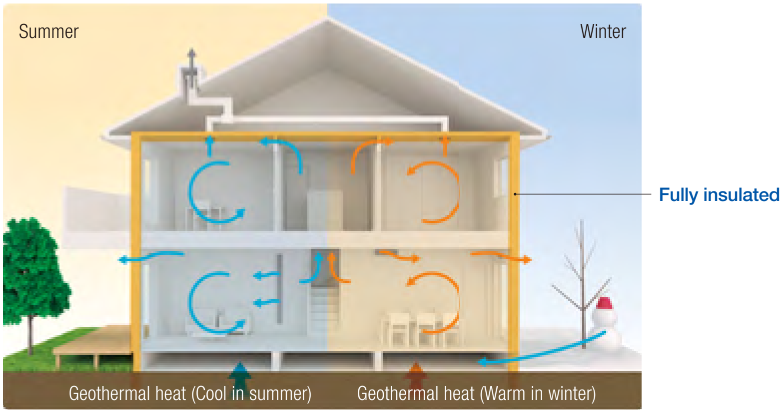
State-of-the-art technologies for the creation, saving and use of energy

PanaHome builds well-insulated structures that earn top marks in terms of environmental performance. This, together with advanced systems supplied by the Panasonic Group and its own stringent specifications, enables PanaHome to deliver houses and condominiums that leverage state-of-the-art technologies for the creation, saving and use of energy to realize net zero or better energy consumption.

Hybrid ventilation system with *ECO NAVI*

Automatically adjusts ventilation as needed

Air flow



Solar power generation system

Creates energy

Smart HEMS

Makes energy use clearly visible, facilitating effective management thereof

21.65 cm-thick double exterior walls

Exterior walls prevent deterioration of insulation and cladding and impart excellent insulating and soundproofing qualities

» Review of Operations

Custom-Built Detached Housing

In the custom-built detached housing category, we continued to harness advanced energy technologies developed by the Panasonic Group, as well as our own know-how in the creation of attractive homes, with the aim of expanding sales of smart houses. In April 2013, we launched *CASART ECO CORDIS*, a zero-energy house (ZEH) boasting a variety of advanced features, including Panasonic's Heterojunction with Intrinsic Thin layer (HIT) solar power generation system, which achieves industry-leading generating efficiency, making it possible to install solar panels with a total generating capacity of 10 kW. In response to demand in densely built-up urban areas, where lots are small and building regulations stringent, we expanded our *Vieuno* lineup of stainless steel-framed houses, which employ wide-span construction to realize airy, open living spaces. Marshaling our accumulated experience and know-how in the construction of three- to five-story *Vieuno* houses, in April 2014 we launched *Vieuno 7*, Japan's first seven-story prefabricated house*. We also opened three *Vieuno Plaza* sales offices in the Tokyo metropolitan area with the aim of publicizing the appeal of multistory houses.

A seven-story *Vieuno 7* house

FICASA ECOSOLEIL rental apartment complexes, which enable owners to earn income from rentals and from sales of electric power

Apartments

In apartments and housing for seniors, we promoted initiatives aimed at capitalizing on the business opportunity provided by revisions to Japan's inheritance tax scheduled for January 2015, including organizing a variety of seminars for landowners. In June 2013, we launched *FICASA ECOSOLEIL*, a rental apartment complex that is mounted with solar panels with a 10 kW-plus generating capacity. We also sought to expand marketing of subsidized residential facilities for seniors that provide nursing care services. New apartment complexes included *Vieuno La Maison*, designed specifically for urban areas, which was launched in April 2014. In addition, we moved to strengthen our business relationship with Panasonic, including securing a contract to build housing complexes for seniors that will be managed by a Panasonic Group company established for this purpose in February 2014.

* As of March 2014; Source: PanaHome research

Vieuno La Maison rental apartment complexes, featuring high-grade finishings comparable to those of condominium complexes

Panasonic Group-operated housing complex for seniors with nursing care services provided

Urban Development

Property Development

PanaHome Smart City Kusatsu, estimated to produce 20% more energy than it consumes
(Source: The Mainichi Newspapers Co., Ltd.)

In the property development category, our efforts continued to center on housing developments that support ecologically sound lifestyles, contributing to the reduction of CO_2 emissions as well to environmental protection. At *PanaHome Smart City Kusatsu*, in the city of Kusatsu in Shiga Prefecture, we built 87 homes, including *CASART ECO CORDIS* homes mounted with 10 kW-plus capacity solar panels, thereby realizing a total solar power generating capacity of approximately 540 kW. With a net zero energy[*1] achievement rate of 121%, *PanaHome Smart City Kusatsu* is top among developments in Japan comprising self-owned homes[*2]. Other highlights included the installation of energy creation–storage linked systems in all houses in the *Fujisawa Sustainable Smart Town (Fujisawa SST)* development in Fujisawa, Kanagawa Prefecture, a smart city development built by a consortium of companies, including Panasonic, and the city of Fujisawa. In addition to achieving net zero CO_2 emissions for the community as a whole, these systems provide backup electric power in the event regular supplies are interrupted. We also took steps toward realizing net zero energy for *PanaHome Smart City Shioashiya*, a 480-structure development in Ashiya, Hyogo Prefecture, making this the first development in Japan comprising both detached houses and condominiums to earn this distinction[*3]. This achievement also contributed to efforts to ensure superior environmental performance for *Parknade Shioashiya*, an 83-unit smart condominium complex, each unit of which is equipped with an ENE-FARM fuel cell.

Detached houses in *PanaHome Smart City Shioashiya*

Condominiums in *PanaHome Smart City Shioashiya*

Condominium Development

In the area of condominium developments, we continued to promote sales of units in *Majesty House Shinjuku Gyoen Parknade*, in Tokyo's Shinjuku ward, as well as in *Parknade Moto Azabu* and *Parknade Minami Azabu*, both in the city's centrally situated Minato ward, efforts that helped to expand awareness of the *Parknade* brand.

Parknade Moto Azabu, a condominium complex in central Tokyo

*1 A net zero energy building or community is one that produces as much energy as it uses.
*2 As of November 14, 2013; Source: PanaHome research
*3 As of August 2013; Comparison of developments comprising detached houses and condominiums with more than 400 structures; Source: PanaHome research

Residential Stock

Residential stock includes home remodeling and property management services.

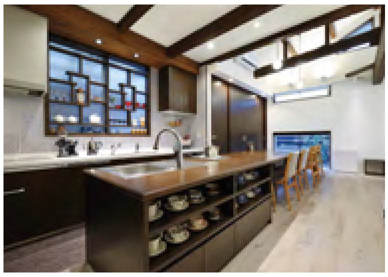
Home Remodeling

Marshaling our exceptional design and proposal capabilities, cultivated over 50 years in the housing industry, together with the advanced technologies of the Panasonic Group and our wealth of experience in the home remodeling field, subsidiary PanaHome Reform Co., Ltd. offers extensive remodeling services that add value to homes, a basic approach it markets under the watchword “ReVALUED.”

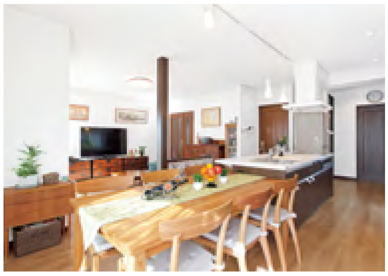
In fiscal 2013, PanaHome Reform provided “eco-reform packages,” which include the installation of solar panels, among others, as well as renovations to improve earthquake-proofing and insulation for standard wooden detached houses and condominiums. The company also collaborated with the PanaHome Customer Center and PanaHome Real Estate Corporation, capitalizing on the former’s regular inspection services and the latter’s wealth of information on older properties on the market, to promote full-scale remodeling services that include proposals for enhancing living environments. PanaHome Reform will continue to leverage the facility and design know-how of other Panasonic Group companies to propose innovative renovations that enhance living environments.

On another front, in October 2013 we established condominium management company PanaHome Gojin Community Co., Ltd. in a joint venture with Gojin Co., Ltd., a noted company in this field, and began offering remodeling proposals for condominiums under the joint venture’s management. In November 2013 PanaHome Reform entered into a business alliance with Intellix Co., Ltd., a well-known name in condominium redevelopment, which centers on the purchase, renovation and resale of older condominiums. These moves are part of a larger strategy to expand cooperation with other companies in the after-sales services and real estate sectors.

A home remodeled to create a streamlined, open living space



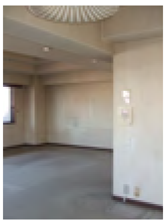
A 24-year-old wooden house remodeled into a café and art gallery



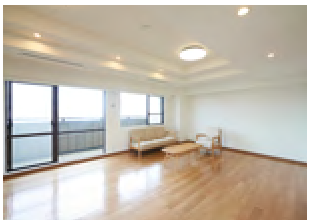
Home remodeled to create a large, open living room–dining room area suitable for parties with large numbers of guests

Purchase, renovation and resale of older condominiums

Before



After



Overseas

Overseas, we have established a solid presence in Taiwan and Malaysia.

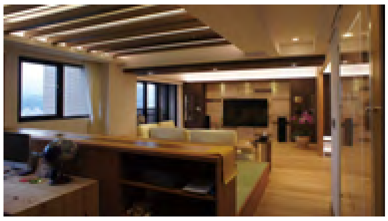
Taiwan

In the custom-built housing business, we are currently building four condominium complexes in Taiwan, combined total project costs for which are estimated at approximately ¥6.8 billion. Local recognition of our housing business, as well as our interior decoration business—the first market sector we entered in Taiwan—continues to increase. Going forward, we will look to establish a joint venture with a local developer with the aim of building smart city developments. We will also step up efforts to secure orders for interior decoration services for both the residential and common areas of the condominium complexes we build.

Artist's conception of a condominium complex currently under construction in Taiwan

Summary of Condominium Complexes Currently Under Development in Taiwan

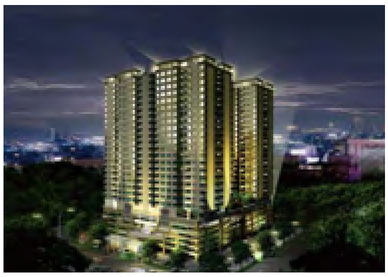
Name	Start of construction	Project cost	Type of development
Xinzhuang	December 2012	¥1.0 billion	12 stories above ground/ 2 stories below
Roosevelt Road	July 2013	¥0.8 billion	8 stories above ground/ 3 stories below
Luzhou 1	July 2013	¥4.1 billion	26 stories above ground/ 3 stories below
Luzhou 2	January 2014	¥0.9 billion	10 stories above ground/ 3 stories below, 13 stories above ground/3 stories below



Remodeled home in Taiwan

Malaysia

In Malaysia, we secured orders for a large-scale condominium complex and finalized a development scheme for our local smart city business involving a joint venture with a local developer. Looking ahead, we will work to leverage our competitive edge in terms of construction prowess and ability to propose attractive ideas.



Artist's conception of a condominium complex currently under construction in Malaysia

Artist's conception of a smart city development currently under construction in Malaysia

» 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 distinctive smart 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.

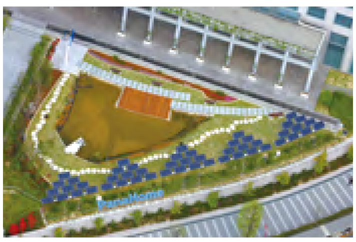
PanaHome wins key awards in Japan

In fiscal 2013, we were chosen to receive the New Energy Foundation Chairman's Award at the New Energy Awards, which are sponsored by the New Energy Foundation. We were also honored to receive the Special Grand Prize and Excellent Corporation Prize—both for the second consecutive year—at Japan House of the Year in Energy 2013, sponsored by the Japan Center for Area Development Research.

The New Energy Award commendation was in recognition of our *CASART ECO CORDIS* detached house and *FICASA ECOSOLEIL* rental apartment complex, which have attracted attention to our distinctive technologies for mounting high-capacity solar panels and have helped popularize net zero energy consumption. The two Japan House of the Year in Energy awards also acknowledged the outstanding environmental performance of *CASART ECO CORDIS*, praising the house's high-capacity solar panels and our exclusive insulation and ventilation systems.

Osaka Biodiversity Partners Compact signed

Osaka Prefecture, the city of Toyonaka, Osaka Prefecture University, the Research Institute of Environment, Agriculture and Fisheries of Osaka Prefecture, and PanaHome recently signed the Osaka Biodiversity Partners Compact. The compact will use the biotope in PanaHome's *Tsunagari no Hiroba* ("Community Ties Plaza") green zone, which opened in April 2013, to promote ongoing initiatives designed to protect rare species and contribute to the local community.


Overview of *Tsunagari no Hiroba*

PanaHome Family Forests opened

In fiscal 2013, PanaHome opened a PanaHome Family Forest—a forest planted using donations from PanaHome employees—in Miyako, Iwate Prefecture and in Takayama, Gifu Prefecture. We also promoted an initiative to support forest regeneration whereby we planted a sapling for every contract signed for a newly built house over a set period of time.

Promoting diversity

With the aim of creating a corporate culture that appreciates various perspectives and encourages respect for different values, we are implementing initiatives aimed at encouraging diversity. To further advance opportunities for female employees, we are taking decisive steps to increase recruiting of female applicants and to expand the range of positions open to women, and continue to see substantial improvements on both fronts. 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. In addition, we actively promote career advancement initiatives for female employees, including specialized training for managers on track for promotion to general manager and director positions and career stretch seminars that prepare employees for appointment to managerial positions.


Career stretch seminar

Female Employees as a Percentage of PanaHome's Total Labor Force

Management-level positions	1.7%
Permanent employees	14.1%
New recruits (career track)	34.7%

» 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 nine-member Board of Directors concentrates on management-related decision making and on supervision.

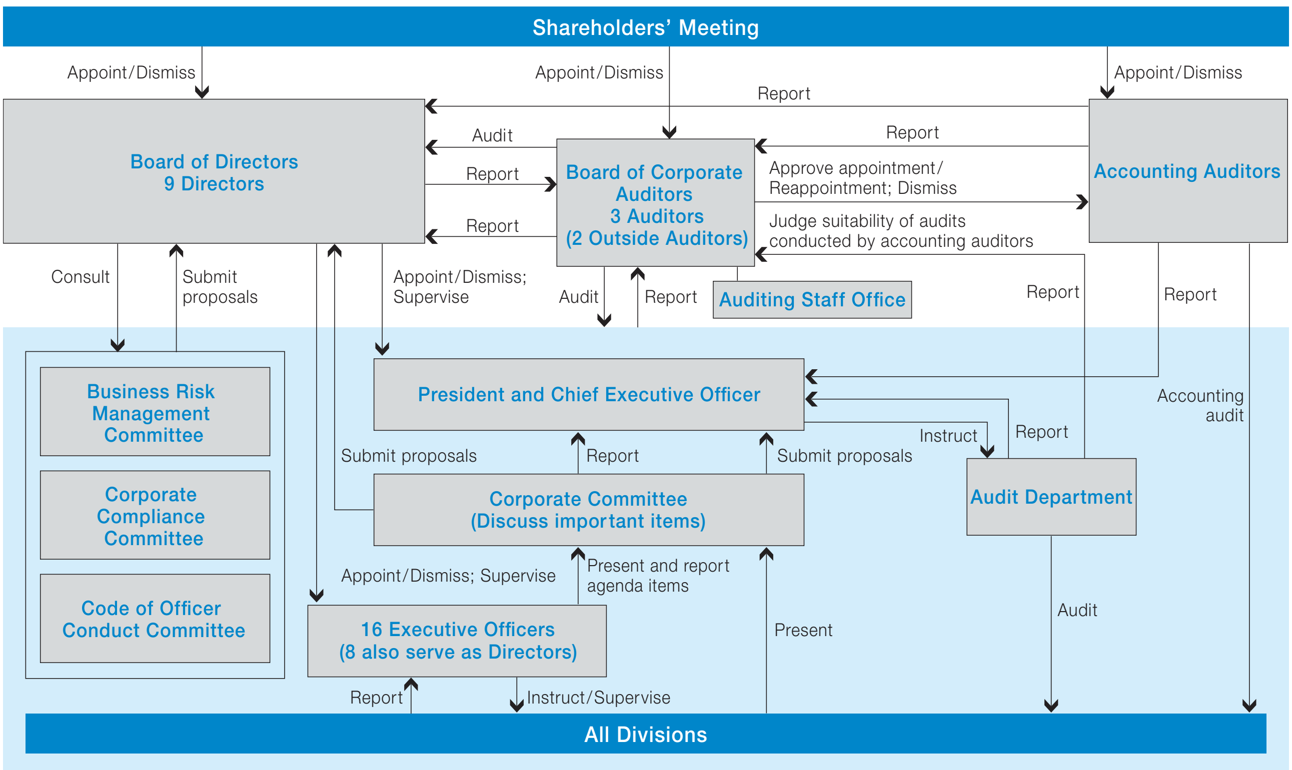
The Corporate Decision Committee and other Companywide committees serve as forums for thorough deliberation pertaining to matters that must be decided by resolution of the Board of Directors. Such matters are then submitted to the Board of Directors to be ruled on.

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 Japan's Financial Instruments and Exchange 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 24, 2014)



» 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, 2014.

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 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. 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.

8. Fluctuations in the value of real estate or fixed assets

The business of the PanaHome Group involves the purchase, development and sale of real estate. Accordingly, there is a risk that fluctuations in the value of real estate for sale held by the Group, or of other fixed assets, precipitated by declines in land prices could result in the Group being forced to report losses on impairment or to write down the value of said assets.

9. Overseas business

The PanaHome Group has operations in overseas markets, notably Taiwan and Malaysia. These operations are vulnerable to the impact of sharp increases in inflation, fluctuations in foreign exchange rates, amendments to laws or tax systems, and changing socioeconomic conditions.

» Financial Review

Operating Results

Net sales

Owing to firm sales in our custom-built housing business and the completion of large-scale condominium complexes, consolidated net sales increased 12.1%, to ¥324,458 million (US$3,150 million).

Cost of sales and selling, general and administrative expenses

Cost of sales in the period under review rose 12.3%, to ¥248,568 million (US$2,413 million), while cost of sales as a percentage of net sales edged up 0.1 percentage point, to 76.6%, reflecting the negative impact of a change in the composition of sales. Nonetheless, gross profit expanded.

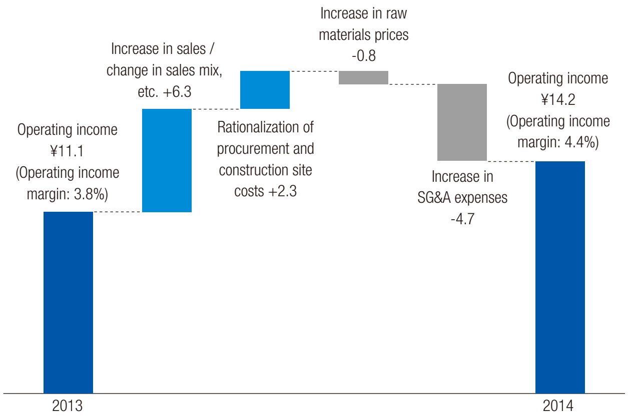
Selling, general and administrative (SG&A) expenses swelled 8.3%, to ¥61,667 million (US$599 million), a consequence of, among others, the expansion of investments in sales promotions.

Earnings

Although SG&A expenses were up, operating income climbed 28.3%, to ¥14,223 million (US$138 million), bolstered by the increase in net sales and by efforts to rationalize production, procurement and construction site costs. Net income advanced 21.7%, to ¥8,926 million (US$87 million). Net income per share was ¥53.13 (US$0.52), up from ¥43.64 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, 2014, total assets amounted to ¥245,861 million (US$2,387 million), up 10.9% from the end of fiscal 2012. Total current assets advanced 18.8%, to ¥183,955 million (US$1,786 million), a consequence largely of increases in contracts in progress—attributable to an upsurge in work-in-process construction projects—and in parent company deposits and cash and cash equivalents.

Net property, plant and equipment shrank 3.5%, to ¥38,881 million (US$377 million), reflecting a tightening of selection standards and an increase in accumulated depreciation. Total investments and other assets declined 13.6%, to ¥23,025 million (US$224 million), owing primarily to a decline in prepaid pension costs attributable to the adoption of a new accounting standard for retirement benefits, as a result of which the difference between projected benefit obligation and fair value of plan assets shrank.

Total current liabilities, at ¥97,953 million (US$951 million), were up 27.9%, as efforts to improve the recovery of our investments bolstered advances received from customers, while an increase in construction projects pushed up trade payables. Total long-term liabilities rose 6.7%, to ¥18,828 million (US$183 million), as the adoption of a new accounting standard for retirement benefits pushed up unrecognized actuarial differences.

Total equity rose 1.2%, to ¥129,080 million (US$1,253 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, and a decline in net accumulated other comprehensive income attributable to the aforementioned adoption of a new accounting standard for retirement benefits.

Cash Flows

Net cash provided by operating activities amounted to ¥27,126 million (US$263 million). Factors behind this result included net income and increases in advances received from customers and trade payables.

Net cash used in investing activities was ¥12,971 million (US$126 million). This result was due mainly to deposits paid to parent company due more than three months from the deposit date.

Net cash used in financing activities came to ¥2,788 million (US$27 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, 2014, of ¥62,322 million (US$605 million), an increase of ¥11,374 million from the previous fiscal year-end.

» Consolidated Balance Sheet

PanaHome Corporation and Consolidated Subsidiaries
March 31, 2014

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 15)	¥ 62,322	¥ 50,948	$ 605,068
Short-term investments (Note 15)	510	—	4,951
Receivables (Notes 13 and 15):			
Trade	6,631	3,970	64,379
Other	965	737	9,369
Allowance for doubtful receivables	(12)	(13)	(117)
Inventories (Note 4)	68,543	63,638	665,466
Parent company deposits (Notes 13 and 15)	40,000	30,000	388,350
Deferred tax assets (Note 11)	2,926	3,384	28,408
Other current assets	2,070	2,172	20,097
Total current assets	183,955	154,836	1,785,971
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	20,736	20,962	201,320
Buildings and structures (Note 6)	51,161	50,029	496,709
Machinery and equipment (Note 6)	19,223	19,236	186,631
Lease assets	1,579	1,740	15,330
Construction in progress	103	485	1,000
Total	92,802	92,452	900,990
Less accumulated depreciation	(53,921)	(52,165)	(523,505)
Net property, plant and equipment	38,881	40,287	377,485
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	825	1,022	8,010
Investments in associated companies	7,574	7,291	73,534
Long-term loans (Notes 7 and 15)	1,870	2,146	18,155
Long-term loans to employees (Note 15)	307	431	2,981
Asset for employees' retirement benefits (Note 8)	2,839	8,568	27,563
Deferred tax assets (Note 11)	2,944	226	28,582
Intangibles and other assets	7,080	7,469	68,738
Allowance for doubtful accounts	(414)	(489)	(4,019)
Total investments and other assets	23,025	26,664	223,544
TOTAL	¥ 245,861	¥ 221,787	$ 2,387,000

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 95	¥ —	$ 922
Payables (Notes 13 and 15):			
Trade	43,813	36,697	425,369
Other	7,901	6,362	76,708
Accrued income taxes	3,586	3,485	34,816
Advances received from customers	31,608	19,565	306,874
Accrued expenses and other current liabilities	10,950	10,499	106,311
Total current liabilities	97,953	76,608	951,000
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	877	1,151	8,515
Liability for employees' retirement benefits (Note 8)	7,518	5,802	72,990
Deferred tax liabilities (Note 11)	—	218	—
Deferred tax liabilities on land revaluation (Note 5)	1,805	1,841	17,524
Asset retirement obligations (Note 9)	637	574	6,184
Long-term deposits received	7,845	7,869	76,165
Other long-term liabilities	146	184	1,418
Total long-term liabilities	18,828	17,639	182,796
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 2014 and 2013	28,376	28,376	275,495
Capital surplus	31,985	31,985	310,534
Retained earnings	79,628	73,339	773,087
Treasury stock - at cost, 587,809 shares in 2014 and 559,390 shares in 2013	(314)	(294)	(3,048)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	348	470	3,379
Land revaluation difference (Note 5)	(6,417)	(6,533)	(62,301)
Foreign currency translation adjustments	14	10	136
Defined retirement benefit plans (Note 8)	(4,735)	—	(45,971)
Total	128,885	127,353	1,251,311
Minority interests	195	187	1,893
Total equity	129,080	127,540	1,253,204
TOTAL	¥ 245,861	¥ 221,787	$ 2,387,000

» Consolidated Statement of Income

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
NET SALES (Note 13)	¥ 324,458	¥ 289,403	$ 3,150,078
COST OF SALES (Note 13)	248,568	221,354	2,413,282
Gross profit	75,890	68,049	736,796
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 14)	61,667	56,960	598,709
Operating income	14,223	11,089	138,087
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 13)	244	248	2,369
Interest expense	(84)	(100)	(816)
Equity in earnings of affiliated companies	385	245	3,738
Gain on sales of property, plant and equipment	18	3	175
Loss on disposal and sales of property, plant and equipment	(101)	(29)	(981)
Loss on impairment of long-lived assets (Note 6)	(232)	(78)	(2,252)
Other – net	67	363	651
Other income – net	297	652	2,884
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	14,520	11,741	140,971
INCOME TAXES (Note 11):			
Current	5,410	4,250	52,524
Deferred	176	152	1,709
Total	5,586	4,402	54,233
NET INCOME BEFORE MINORITY INTERESTS	8,934	7,339	86,738
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	8	7	78
NET INCOME	¥ 8,926	¥ 7,332	$ 86,660

	Yen 2014	Yen 2013	U.S. Dollars 2014
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 53.13	¥ 43.64	$ 0.52
Diluted net income	—	—	—
Cash dividends applicable to the year	20.00	15.00	0.19

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥ 8,934	¥ 7,339	$ 86,738
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gains (losses) on available-for-sale securities	(128)	276	(1,243)
Foreign currency translation adjustments	4	3	39
Share of other comprehensive income in associates	6	2	58
Total other comprehensive income	(118)	281	(1,146)
COMPREHENSIVE INCOME (Note 18)	¥ 8,816	¥ 7,620	$ 85,592
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥ 8,808	¥ 7,613	$ 85,514
Minority interests	8	7	78

See notes to consolidated financial statements.

» Consolidated Statement of Changes in Equity

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2014

	Thousands	Millions of Yen			
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 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)
Net income	—	—	—	8,926	—
Cash dividends, ¥20.00 per share	—	—	—	(2,521)	—
Reversal of land revaluation difference	—	—	—	(116)	—
Purchase of treasury stock	(31)	—	—	—	(22)
Disposal of treasury stock	3	—	—	—	2
Net change in the year	—	—	—	—	—
BALANCE, MARCH 31, 2014	167,976	¥ 28,376	¥ 31,985	¥ 79,628	¥ (314)

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2013	$ 275,495	$ 310,534	$ 712,029	$ (2,854)
Net income	—	—	86,660	—
Cash dividends, $0.19 per share	—	—	(24,476)	—
Reversal of land revaluation difference	—	—	(1,126)	—
Purchase of treasury stock	—	—	—	(213)
Disposal of treasury stock	—	—	—	19
Net change in the year	—	—	—	—
BALANCE, MARCH 31, 2014	$ 275,495	$ 310,534	$ 773,087	$ (3,048)

(Continued)

See notes to consolidated financial statements.

» Consolidated Statement of Changes in Equity (Continued)

PanaHome Corporation and Consolidated Subsidiaries

Year ended March 31, 2014

	Millions of Yen						
	Accumulated other comprehensive income						
	Net unrealized gains on available-for-sale securities	Land revaluation difference	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
BALANCE, APRIL 1, 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
Net income	—	—	—	—	8,926	—	8,926
Cash dividends, ¥20.00 per share	—	—	—	—	(2,521)	—	(2,521)
Reversal of land revaluation difference	—	—	—	—	(116)	—	(116)
Purchase of treasury stock	—	—	—	—	(22)	—	(22)
Disposal of treasury stock	—	—	—	—	2	—	2
Net change in the year	(122)	116	4	(4,735)	(4,737)	8	(4,729)
BALANCE, MARCH 31, 2014	¥ 348	¥ (6,417)	¥ 14	¥ (4,735)	¥ 128,885	¥ 195	¥ 129,080

	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	Defined retirement benefit plans	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2013	$ 4,563	$ (63,427)	$ 97	$ —	$ 1,236,437	$ 1,815	$ 1,238,252
Net income	—	—	—	—	86,660	—	86,660
Cash dividends, $0.19 per share	—	—	—	—	(24,476)	—	(24,476)
Reversal of land revaluation difference	—	—	—	—	(1,126)	—	(1,126)
Purchase of treasury stock	—	—	—	—	(213)	—	(213)
Disposal of treasury stock	—	—	—	—	19	—	19
Net change in the year	(1,184)	1,126	39	(45,971)	(45,990)	78	(45,912)
BALANCE, MARCH 31, 2014	$ 3,379	$ (62,301)	$ 136	$ (45,971)	$ 1,251,311	$ 1,893	$ 1,253,204

(Concluded)

See notes to consolidated financial statements.

» Consolidated Statement of Cash Flows

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 14,520	¥ 11,741	$ 140,971
Adjustments for:			
Depreciation	3,968	3,640	38,524
Loss on impairment of long-lived assets	232	78	2,252
Interest and dividend income	(244)	(248)	(2,369)
Interest expense	84	100	816
Equity in earnings of affiliated companies	(385)	(245)	(3,738)
Loss on disposal and sales of property, plant and equipment	101	29	981
Increase in trade receivables	(2,570)	(353)	(24,951)
Increase in inventories	(4,897)	(4,415)	(47,544)
Increase (decrease) in trade payables	7,103	(1,029)	68,961
Increase in advances received from customers	12,033	1,147	116,825
Increase in liability for employees' retirement benefits	88	382	854
Other	2,216	(2,115)	21,515
Subtotal	32,249	8,712	313,097
Interest and dividend income received	273	290	2,651
Interest expense paid	(84)	(101)	(816)
Income taxes paid	(5,312)	(2,665)	(51,573)
Net cash provided by operating activities	27,126	6,236	263,359
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for time deposits	(1,019)	(34)	(9,893)
Proceeds from time deposits	509	108	4,942
Additions to property, plant and equipment	(1,960)	(3,267)	(19,029)
Proceeds from sales of property, plant and equipment	147	20	1,427
Additions to intangibles	(1,014)	(832)	(9,845)
Deposits paid to parent company	(75,000)	(60,000)	(728,155)
Withdrawal of parent company deposits	65,000	60,000	631,068
Other	366	539	3,553
Net cash used in investing activities	(12,971)	(3,466)	(125,932)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	94	(45)	913
Repayments of long-term debt	(249)	(658)	(2,417)
Purchase of treasury stock	(22)	(12)	(213)
Cash dividends paid	(2,521)	(2,520)	(24,476)
Other	(90)	(267)	(875)
Net cash used in financing activities	(2,788)	(3,502)	(27,068)
Effect of exchange rate changes on cash and cash equivalents	7	11	68
Net decrease in cash and cash equivalents	11,374	(721)	110,427
Cash and cash equivalents at beginning of year	50,948	51,569	494,641
Cash and cash equivalents of newly consolidated subsidiaries	—	100	—
Cash and cash equivalents at end of year	¥ 62,322	¥ 50,948	$ 605,068

See notes to consolidated financial statements.

» Notes to Consolidated Financial Statements

PanaHome Corporation and Consolidated Subsidiaries
Year ended March 31, 2014

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥103 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its 17 (16 in 2013) 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 associated companies are accounted for by the equity method.

Investment in the remaining unconsolidated subsidiaries and associated company is stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would not be material.
The excess of cost of acquisition 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 also eliminated.

b. ***Business Combinations -*** In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition, and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

c. ***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.

d. ***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 the purpose of earning capital gains in the near term.

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

Nonmarketable 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.

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

f. ***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 (See Note 4).

g. ***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.

h. ***Long-lived Assets -*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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.

i. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. 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.

j. ***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, 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. Revenue and the related costs from contracts with a short-term construction schedule are recorded under the completed-contract method.

k. ***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.

The Company and domestic subsidiaries accounted for the asset and liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Because certain subsidiaries are classified as small enterprises, the simplified method (the amount that would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) is applied for the calculation of the projected benefit obligations.

In May 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 were followed by partial amendments from time to time through 2009.

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

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period 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 are 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 (see Note 2.*s*).

(c) 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 applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥4,735 million ($45,971 thousand).

l. ***Asset Retirement Obligations -*** In March 2008, the ASBJ issued 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 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 the 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. ***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 income tax rate to the temporary differences.

n. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the 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.

o. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rate at 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.

p. ***Derivative and Hedging Activities -*** 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 that 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.

q. 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 167,993 thousand shares and 168,013 thousand shares for the years ended March 31, 2014 and 2013, respectively. Diluted net income per share is not presented as the effect of including potential common shares is anti-dilutive.

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.

r. 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.

s. 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 service periods 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 applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014. As a result of applying the revised accounting standard for (c) above, retained earnings would increase by ¥706 million ($6,854 thousand) at April 1, 2014.

Accounting Standards for Business Combinations and Consolidated Financial Statements - On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

Transactions with noncontrolling interest

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

Presentation of the consolidated statement of income

In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

Provisional accounting treatments for a business combination

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

Acquisition-related costs

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for "transactions with noncontrolling interest," "acquisition-related costs" and "presentation changes in the consolidated financial statements" are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs," accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for "provisional accounting treatments for a business combination" is effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance 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 standards and guidance in future applicable periods.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Non-current:			
Equity securities	¥ 825	¥ 1,022	$ 8,010

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen 2014			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 224	¥ 526	¥ 1	¥ 749

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

	Thousands of U.S. Dollars 2014			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 2,175	$ 5,106	$ 10	$ 7,271

4. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Real estate for sale	¥ 55,430	¥ 56,103	$ 538,155
Contracts in progress	11,893	6,343	115,466
Finished goods	1,021	977	9,913
Work in process, raw materials and supplies	199	215	1,932
Total	¥ 68,543	¥ 63,638	$ 665,466

5. LAND REVALUATION

Under the "Act on Revaluation of Land," 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, 2014, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥5,439 million ($52,806 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2014 and 2013.
As a result, for the year ended March 31, 2014, the Group recognized an impairment loss of ¥232 million ($2,252 thousand) as other expenses for certain idle assets in Fukuoka Prefecture due to substantial declines in the fair market value. The carrying amounts of those assets were written down to the estimated recoverable amounts.
The estimated recoverable amounts of the idle assets were measured by their net selling price at disposition.

For the year ended March 31, 2013, the Group recognized an impairment loss of ¥78 million as other expenses for certain rental properties and idle assets 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.

Impairment losses which the Group recognized for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Rental properties:			
Land	¥ —	¥ 70	$ —
Total	¥ —	¥ 70	$ —
Idle assets:			
Land	¥ 102	¥ 4	$ 990
Buildings and structures	125	—	1,214
Other	5	4	$ 48
Total	¥ 232	¥ 8	$ 2,252

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

Long-term debt, excluding finance leases of ¥52 million ($505 thousand), at March 31, 2014, consisted of collateralized loans from banks of ¥825 million ($8,010 thousand) due serially to 2020, with the annual interest rate of 1.73%.

Annual maturities of long-term debt, excluding finance leases of ¥52 million ($505 thousand), at March 31, 2014, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 110	$ 1,068
2016	113	1,097
2017	117	1,136
2018	121	1,175
2019	125	1,214
2020 and thereafter	239	2,320
Total	¥ 825	$ 8,010

At March 31, 2014, long-term loans of ¥1,754 million ($17,029 thousand) were pledged as collateral for long-term debt of ¥825 million ($8,010 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.

Year Ended March 31, 2014

(1) The changes in defined benefit obligation (excluding simplified method) for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 43,580	$ 423,107
Current service cost	1,696	16,466
Interest cost	872	8,466
Actuarial gains	(109)	(1,058)
Benefits paid	(1,830)	(17,767)
Balance at end of year	¥ 44,209	$ 429,214

(2) The changes in plan assets (excluding simplified method) for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 35,956	$ 349,087
Expected return on plan assets	1,079	10,476
Actuarial losses	2,096	20,349
Contributions from the employer	2,346	22,777
Benefits paid	(1,630)	(15,825)
Balance at end of year	¥ 39,847	$ 386,864

(3) The changes in the liability for employees' retirement benefits calculated in the simplified method for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 392	$ 3,806
Periodic benefit costs	135	1,311
Benefits paid	(211)	(2,049)
Balance at end of year	¥ 316	$ 3,068

(4) Reconciliation between the liability for employees' retirement benefits recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets (including simplified method)

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 38,058	$ 369,495
Plan assets	(41,018)	(398,233)
Subtotal	(2,960)	(28,738)
Unfunded defined benefit obligation	7,639	74,165
Net liability arising from defined benefit obligation	¥ 4,679	$ 45,427

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥ 7,518	$ 72,990
Asset for retirement benefits	(2,839)	(27,563)
Net liability arising from defined benefit obligation	¥ 4,679	$ 45,427

(5) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 1,696	$ 16,466
Interest cost	872	8,466
Expected return on plan assets	(1,079)	(10,476)
Recognized actuarial losses	1,220	11,845
Costs calculated in the simplified method	135	1,311
Net periodic benefit costs	¥ 2,844	$ 27,612

(6) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior actuarial loss	¥ 7,356	$ 71,417
Total	¥ 7,356	$ 71,417

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Domestic bonds	68 %
Domestic stocks	12
Foreign bonds	4
Foreign stocks	12
Cash and cash equivalents	4
Total	100 %

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	2.0 %
Expected rate of return on plan assets	3.0

Year Ended March 31, 2013

The liability for employees' retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 44,869
Fair value of plan assets	(36,852)
Unrecognized actuarial loss	(10,783)
Net assets	(2,766)
Prepaid pension costs	8,568
Liability for employees' retirement benefits	¥ 5,802

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

	Millions of Yen
Service cost	¥ 1,764
Interest cost	849
Expected return on plan assets	(927)
Recognized actuarial loss	1,420
Net periodic benefit costs	¥ 3,106

Assumptions used for the year ended March 31, 2013, were as follows:

Discount rate	2.0%
Expected rate of return on plan assets	3.0%
Recognition period of actuarial gain (loss)	Principally 19 years

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Balance at beginning of year	¥ 574	¥ 535	$ 5,573
Additional provisions associated with the acquisition of new subsidiary	—	6	—
Additional provisions associated with the acquisition of property, plant and equipment	96	90	932
Reconciliation associated with passage of time	1	1	9
Reduction associated with meeting asset retirement obligations	(34)	(58)	(330)
Balance at end of year	¥ 637	¥ 574	$ 6,184

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 including (1) having a 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 (noncash 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 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 years ended March 31, 2014 and 2013.

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Loss carryforward	¥ 413	¥ 334	$ 4,010
Accrued expenses	1,676	1,739	16,272
Depreciation	1,193	1,030	11,583
Employees' retirement benefits	1,673	154	16,243
Write-down of inventories	287	862	2,785
Other	2,341	2,067	22,728
Subtotal	7,583	6,186	73,621
Valuation allowance	(1,485)	(1,359)	(14,417)
Total	6,098	4,827	59,204
Deferred tax liabilities:			
Employees' retirement benefits	—	(1,137)	—
Unrealized gains on available-for-sale securities	(176)	(244)	(1,709)
Other	(52)	(54)	(505)
Total	(228)	(1,435)	(2,214)
Net deferred tax assets	¥ 5,870	¥ 3,392	$ 56,990

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013, was as follows:

	2014	2013
Normal effective statutory rate	38.0%	38.0%
Per capita levy	1.1	1.3
Expenses permanently not deductible for income tax purposes	0.5	0.5
Increase (decrease) in valuation allowance	0.0	(0.5)
Equity in gains of affiliated companies	(1.0)	(0.8)
Gain on negative goodwill	—	(0.8)
Unrealized intercompany profits	—	0.2
Effect of tax rate reduction	1.2	—
Other – net	(1.3)	(0.4)
Actual effective rate	38.5%	37.5%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38.0% to 35.6%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥175 million ($1,699 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥175 million ($1,699 thousand).

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,250 million ($12,136 thousand) and ¥1,256 million for the years ended March 31, 2014 and 2013, respectively.

13. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥21,088 million ($204,738 thousand) and ¥19,681 million for the years ended March 31, 2014 and 2013, respectively. Trade accounts receivable due from associated companies were ¥832 million ($8,078 thousand) and ¥816 million at March 31, 2014 and 2013, respectively.

Purchases from Panasonic Corporation, the parent company of the Company, were ¥8,689 million ($84,359 thousand) and ¥6,564 million for the years ended March 31, 2014 and 2013, respectively. Trade accounts payable due to Panasonic Corporation were ¥3,537 million ($34,340 thousand) and ¥2,476 million at March 31, 2014 and 2013, respectively.

The Company has entered into contracts for 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 ¥54,518 million ($529,301 thousand) and ¥44,129 million for the years ended March 31, 2014 and 2013, respectively. The assets related to the contracts were recorded as cash and cash equivalents of ¥45,000 million ($436,893 thousand) and ¥36,000 million, and parent company deposits of ¥40,000 million ($388,350 thousand) and ¥30,000 million in the consolidated balance sheet as of March 31, 2014 and 2013, respectively. Interest income received from Panasonic Corporation was ¥137 million ($1,330 thousand) and ¥114 million for the years ended March 31, 2014 and 2013, respectively.

14. LEASES

The Group leases certain showrooms and other assets.

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥1 million ($10 thousand) and ¥3 million for the years ended March 31, 2014 and 2013, 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		
	2014		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥ 4	¥ —	¥ 4
Accumulated depreciation	4	—	4
Net leased property	¥ 0	¥ —	¥ 0

	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

	Thousands of U.S. Dollars		
	2014		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	$ 39	$ —	$ 39
Accumulated depreciation	39	—	39
Net leased property	$ 0	$ —	$ 0

Obligations under such finance leases as of March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 0	¥ 1	$ 1
Due after one year	—	0	—
Total	¥ 0	¥ 1	$ 1

Depreciation expense and other information under finance leases for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Depreciation expense	¥ 1	¥ 3	$ 10
Lease payments	1	3	10

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, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 17,463	¥ 16,701	$169,544
Due after one year	9,150	9,312	88,835
Total	¥ 26,613	¥ 26,013	$258,379

The minimum rental commitments (lessor) under noncancellable operating leases at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 27	¥ 27	$ 262
Due after one year	212	239	2,058
Total	¥ 239	¥ 266	$ 2,320

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 13 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 23 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, 2014	Millions of Yen Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 62,322	¥ 62,322	¥ —
Short-term investment	510	510	—
Receivables – Trade	6,631	6,631	—
Parent company deposits	40,000	40,000	—
Investment securities	750	750	—
Long-term loans (including long-term loans to employees)	2,177		
Allowance for doubtful accounts	(59)		
Subtotal	2,118	2,123	5
Total	¥ 112,331	¥ 112,336	¥ 5
Payables – Trade	¥ 43,813	¥ 43,813	¥ —
Accrued income taxes	3,586	3,586	—
Long-term debt (excluding finance leases)	825	825	—
Total	¥ 48,224	¥ 48,224	¥ —

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, 2014	Thousands of U.S. Dollars Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 605,068	$ 605,068	$ —
Short-term investment	4,951	4,951	—
Receivables – Trade	64,379	64,379	—
Parent company deposits	388,350	388,350	—
Investment securities	7,282	7,282	—
Long-term loans (including long-term loans to employees)	21,136		
Allowance for doubtful accounts	(573)		
Subtotal	20,563	20,612	49
Total	$ 1,090,593	$ 1,090,642	$ 49
Payables – Trade	$ 425,369	$ 425,369	$ —
Accrued income taxes	34,816	34,816	—
Long-term debt (excluding finance leases)	8,009	8,009	—
Total	$ 468,194	$ 468,194	$ —

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
	2014	2013	2014
Investment securities and investments in associated companies that do not have a quoted market price in an active market	¥ 7,648	¥ 7,366	$ 74,252

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

	Millions of Yen			
March 31, 2014	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	¥ 62,322	¥ —	¥ —	¥ —
Short-term investments	510	—	—	—
Receivables – Trade	6,631	—	—	—
Parent company deposits	40,000	—	—	—
Long-term loans (including long-term loans to employees)	136	567	797	618
Total	¥109,599	¥ 567	¥ 797	¥ 618

	Thousands of U.S. Dollars			
March 31, 2014	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	$ 605,068	$ —	$ —	$ —
Short-term investments	4,951	—	—	—
Receivables – Trade	64,379	—	—	—
Parent company deposits	388,350	—	—	—
Long-term loans (including long-term loans to employees)	1,320	5,505	7,738	6,000
Total	$ 1,064,068	$ 5,505	$ 7,738	$ 6,000

Long-term loans in the table above exclude the doubtful accounts of ¥59 million ($573 thousand). Annual maturities of long-term debt excluding finance leases are disclosed in Note 7.

16. DERIVATIVES

The Group enters into interest rate swap contracts to manage its interest rate risks associated with long-term loans. The Group uses derivatives only for the purpose of reducing interest rate risks. It is the Group's policy not to use derivatives for speculative purposes.

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

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

Derivative transactions to which hedge accounting was applied at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	¥ 1,645	¥ 1,534	—

	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	—

	Thousands of U.S. Dollars			
March 31, 2014	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps	Long-term loans	$ 15,971	$ 14,893	—

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, 2014, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥11,189 million ($108,631 thousand).

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (196)	¥ 424	$ (1,903)
Income tax effect	68	(148)	660
Total	¥ (128)	¥ 276	$ (1,243)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 4	¥ 3	$ 39
Total	¥ 4	¥ 3	$ 39
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 6	¥ 2	$ 58
Total	¥ 6	¥ 2	$ 58
Total other comprehensive income	¥ (118)	¥ 281	$ (1,146)

19. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2014, was resolved at the Board of Directors' meeting held on April 25, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12.5 ($0.12) per share	¥ 2,100	$ 20,388

» Independent Auditor's Report

Deloitte.

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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, 2014, 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, 2014, 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 24, 2014

Member of
Deloitte Touche Tohmatsu Limited

» Corporate Information

Corporate Data (As of March 31, 2014)

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 Listing
Tokyo

Capital
¥28,376 million

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

Number of Shareholders
6,999

Management (As of June 24, 2014)

Members of the Board
President and Chief Executive Officer
Yasuteru Fujii*

Directors
Makoto Hatakeyama*
Mitsuhiko Nakata
Tomiharu Yamada
Atsushi Hongo
Kazuo Kitagawa
Hideyo Hamatani
Ryuji Matsushita
Shinichi Watabe
* Representative Director

Corporate Auditors
Senior Standing Corporate Auditor
Yoshifumi Tsuruda

Standing Corporate Auditor
Katsuhiko Arita*

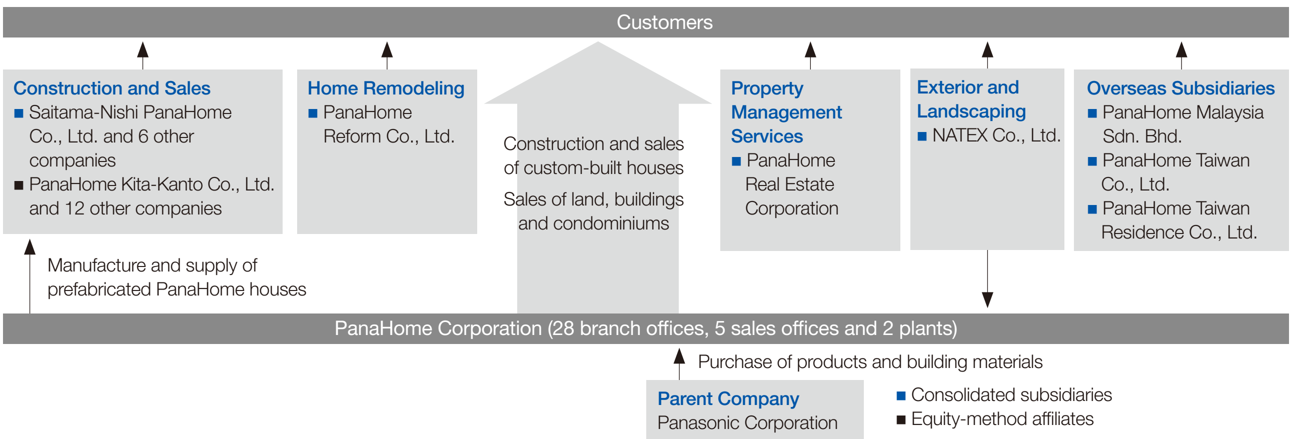
Corporate Auditor
Shigemitsu Matsuda*
* Outside Corporate Auditor

Corporate Executive Officers
Senior Managing Executive Officers
Makoto Hatakeyama
Mitsuhiko Nakata

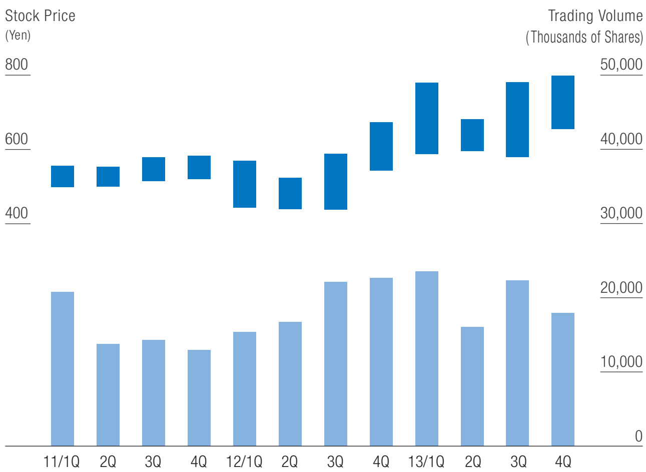
Managing Executive Officers
Tomiharu Yamada
Atsushi Hongo
Kazuo Kitagawa
Hideyo Hamatani
Hiroshi Hirasawa

Executive Officers
Ryuji Matsushita
Shinichi Watabe
Hirohiko Nagata
Masato Nadamoto
Taku Hirao
Ryoji Sakata
Kenichi Takahashi
Akihiro Hosoya
Yoshiyuki Takebayashi

Subsidiaries and Affiliates (As of March 31, 2014)



Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Major Shareholders (As of March 31, 2014)

Name	Thousands of Shares Held	Shareholding Ratio (%)
Panasonic Corporation	91,036	54.00
Northern Trust Co. (AVFC) RE-SSD00	3,875	2.29
PanaHome Employee Shareholding Association	3,247	1.92
State Street Bank and Trust Company	2,778	1.64
The Master Trust Bank of Japan, Ltd. (trust account)	2,665	1.58
Sumitomo Mitsui Banking Corporation	2,358	1.39
The Bank of New York Mellon SA/NV 10	2,310	1.37
UBS AG London A/C IPB Segregated Client Account	2,272	1.34
Japan Trustee Services Bank, Ltd. (trust account)	2,194	1.30
RBC ISB A/C Dub non Resident-Treaty Rate	2,000	1.18

Note: PanaHome holds 556,786 shares of its own common stock.

PanaHome

PanaHome Corporation

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