Financial Report 2011

Fiscal year ended March 31, 2011

YAMADA DENKI CO., LTD.

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March 31, 2011

1. OVERVIEW OF PERFORMANCE

Despite signs of recovery in some areas of the Japanese economy during the fiscal year under review, uncertainties remained strong, as seen in the protracted stagnation of stock markets and appreciation of the yen, rising crude oil prices caused by the unstable situation in the Middle East, and volatile political climate. Harsh conditions also continued in the employment and income environments.

The Great East Japan Earthquake (the "Earthquake"), which occurred on March 11, 2011 was the largest earthquake in recorded history in Japan, and caused enormous damage in terms of human life and property, and had a profound psychological impact on people. Sharply depressed markets attributed to the subsequent rolling blackouts and a prevailing mood of self-restraint in terms of consumption seriously interfered with corporate activities and further increased the degree of confusion.

In the consumer electric appliance retail industry, the "Eco-Points" program, extremely hot and lingering summer and harsh winter stimulated sales of some products. However, selection and concentration at the time of purchasing consumer electronics and sharp declines in consumer confidence after the Earthquake intensified competition among stores vying to survive in the recession.

Striving for "real customer satisfaction" under such circumstances, the Yamada Denki Group (The "Group") was committed to establishing familiar store networks, a strong selection of products and guaranteeing comfortable, reasonable prices. The Group was also dedicated to enhancing points services, providing reliable after-sale services by making various guarantees and offering courteous services to actively ensure greater customer satisfaction through practical reforms based on a hands-on approach.

From a product perspective, sales of televisions were robust, supported by the migration toward digital terrestrial television and the "Eco-Points" program. Among seasonal items, air conditioners, refrigerators and fans fared well thanks to the hot and lingering summer heat, and so did heaters owing to the cold winter. Sales of other products such as washing machines, personal computers (with releases of tablet computers and new model CPUs) and mobile phones (substantial growth in smartphones in particular) were robust.

In sales promotion, while the difference of the sales promotion policy on the point-based sales and cash discount sales from the previous fiscal year continued to reduce unit prices, well-balanced promotions through sensitive responses to changes in consumers' consumption behavior brought significant results.

The Group continued its three-tier operational reforms that started in the latter half of 2008, "Retail Store Efficiency Improvement," "Cash Flow Improvement," and "Cost Reduction Reform," leading to improved profitability and a strengthened management culture.

The Earthquake caused products to fall down, internal and external damage and tsunami damage at 112 stores, forcing 54 of them to close temporarily. However, realizing that early reopening is an important responsibility to help rebuild infrastructures in communities, each and every employee of the Group mobilized all available resources to bring stores back into good condition and procure and ship products. As a result, the number of closed stores decreased to 11 as of March 31 and to two (of which one was closed due to problems at the Fukushima Daiichi Nuclear Power Station) as of June 29. The damage caused by this Earthquake was recorded at ¥3,906 million in extraordinary losses.

The Group was also actively involved in CSR activities. These included holding fund-raising campaigns at stores; donating relief money to cover damage from foot-and-mouth disease in Miyazaki Prefecture, the eruption of the Shinmoedake and the Earthquake; organizing photo contests; holding lectures and speeches at high schools, technical colleges and universities as part of educational assistance; and participating in regional events.

As responses to the Earthquake, in particular, the Group has been engaged in full-scale support activities through donating relief money (including fund-raising at stores), transporting relief goods such as drinks, foods and daily necessities to disaster-affected areas via its own logistics network, opening stores as temporary evacuation areas on the evening of the day the Earthquake occurred, helping to save power inside and outside the stores in the target areas, and reopening stores at an early stage.

Details of our CSR activities are published in our CSR REPORT 2010 as well as Monthly CSR Activities posted on our website (http://www.yamada-denki.jp/csr/index.html).

With regard to store development, we opened 41 stores including the LABI Shinjuku Higashiguchikan, and closed nine stores including the Tecc Land Hino store in line with our scrap-and-build policy. Consequently, the number of consolidated retail stores at the end of the fiscal year under review is 600 (436 directly managed stores and 164 stores operated by consolidated subsidiaries). The total number of stores, including stores managed by non-consolidated subsidiaries and franchise stores is 2,729.

In addition, the first overseas store, the "Yamada Denki Shenyang store," was opened in Shenyang, Liaoning Province, China on December 10, 2010. The store is receiving positive reviews, with an abundant selection of the newest and most advanced home electrical appliances in the world in a bright and clean Japanese-style marketplace, friendly and respectful employee service and quality after-service.

As a result of the above, consolidated net sales increased 6.8% year on year to ¥2,153,259 million, operating income increased 40.6% to ¥122,765 million and net income increased 26.5% to ¥70,755 million. Net sales, operating income, ordinary income and net income were all at the highest levels ever recorded.

The Group has been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, the disclosure related to segment information is omitted.

2. SALES PERFORMANCE

(1) Sales results

The Group has been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, the table below shows sales for the segment by item category.

Items	Year ended March 31, 2011 Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances			
Color televisions	508,428	23.6	9.5
Video/DVD players	135,626	6.3	2.7
Audio equipment	54,726	2.5	(1.2)
Refrigerators	125,945	5.8	12.5
Washing machines	82,800	3.8	8.5
Cooking appliances	73,687	3.4	10.1
Air conditioners	123,681	5.7	36.5
Other home cooling and heating equipment	35,214	1.6	15.3
Others	345,171	16.3	13.9
	1,485,278	69.0	11.6
Home information appliances			
Personal computers	226,229	10.5	5.6
PC peripheral equipment	124,654	5.8	(4.4)
PC software	12,163	0.6	1.2
Telephones/fax machines	9,392	0.4	(5.4)
Mobile phones	93,437	4.3	5.5
Others	55,956	2.6	(4.8)
	521,831	24.2	1.5
Other products			
Audio and visual software and books	106,152	4.9	(15.7)
Others	39,998	1.9	(10.8)
	146,150	6.8	(14.5)
	2,153,259	100.0	6.8

Notes: 1. "Others" in "Home electrical appliances" includes luminaries, hairdressing and beauty supplies and tapes; "Others" in "Home information appliances" includes ink cartridges; "Others" in "Other products" includes jewelry, clothing and sundries.
2. The figures shown above do not include consumption tax.

(2) Sales Per Unit

	Year ended March 31, 2011	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	2,153,259	6.8
Sales floor space (average) - m^2	1,802,289	5.1
Sales per square meter - thousands of yen	1,195	1.7
Employees (average) - persons	23,135	5.2
Sales per employee - millions of yen	93	1.6

Notes: 1. "Sales floor space" is the store area based on the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment (or, depending on when the data was submitted, the Large-Scale Retail Store Law prior to revision).
2. The figures shown above do not include consumption tax.
3. "Employees" includes temporary employees.

3. ISSUES THE GROUP WILL BE ADDRESSING

Given a prolonged period of falling stock prices and rising yen, unstable labor markets and sharp declines in consumer confidence after the Earthquake, the economic environment surrounding the Group remains unclear and a difficult business environment is expected to continue in the future.

To capitalize on the shift to terrestrial digital broadcasting in July 2011, we will further market and promote digital televisions, recorders and tuners compatible with such broadcasting.

In order to enhance smart house business development, we will promote the use of renewable energy sources, which are issues that Japan faces, by proactively proposing solar power systems, all-electric products, electric vehicles (EV) and home-use storage batteries.

Furthermore, we will actively propose energy-saving home appliances to customers in preparation for power shortages which are expected this coming summer.

We will also actively work to expand sales of next-generation products such as 3D televisions, smartphones and tablet computers to create markets.

Adopting "Year of Reform by Breaking the Status Quo" as a management slogan, we will work on various measures and continue with the three conventional management reforms, "Retail Store Efficiency Improvement," "Cash Flow Improvement," and "Cost Reduction Reform," to further differentiate ourselves from our competitors and aim for real customer satisfaction.

In developing stores, along with the urban retail store LABI and the suburban retail store Tecc Land (large-scale store), we will focus on opening new-concept Tecc Land stores (for small-scale trading areas) reinforcing services based on the communities close to the customers' living areas that are untapped with a trading area population of less than 150,000 people. We will also continue to focus on overseas development.

We will actively implement the above measures and strive to thoroughly carry out low-cost operations, improve cash flows, enhance profitability and strengthen management culture.

4. RISK FACTORS

Of the items relating to the status of the business and accounting as described in the Annual Securities Report, those that may materially affect the decisions of investors are provided below.

Items in the text that concern the future were determined by the Group as of the end of the fiscal year under review.

(1) Expansion of the Interstore Network

The Group currently has stores in all the 47 prefectures of Japan and the first overseas store was opened in Shenyang, Liaoning Province, China, in December 2010. Going forward, the Group continues to plan retail store openings overseas, in addition to the continued development of a nationwide chain of stores in urban centers, suburbs, small-scale trading areas and community-based retail areas. However, in order to engage in such extreme expansion efforts, the Group will have to secure for itself adequately priced land in favorable locations making it susceptible to competition with competitor companies. We expect competition with competitors already established in the area of our store locations to be fierce and outlays for labor and equipment costs to increase in connection with an increase in the number of new stores and the expansion of retail floor space and territories. It is also possible that the profitability of existing stores will be affected by new store openings depending on the region due to saturated store count and area conditions. In addition, there is the possibility that stores closed due to a revision of store development policy could not be subleased or sold off. The Group will generally weigh conditions such as rent expenses and guarantee deposits for store openings as well as competition, trading area population and various laws and regulations in order to make careful decisions, however, there is always the possibility that changes or delays occur in planning since property preparations do not proceed. Conditions such as those described above may obstruct effective store development efforts and ultimately have a negative impact on the Group’s performance and financial position. Another consideration is the large amounts of capital necessary for expanding stores. At present, it is covered by retained earnings and loans, however, in the future, any circumstance that thwarts capital procurement efforts could block the execution of business plans.

(2) Competition

The consumer electrical appliance retail industry is encompassed in an environment of fierce competition and we are faced with competitor companies in the form of not only large-scale consumer electronics retailers but also businesses that handle household electronics such as supermarkets, mail-order companies and internet shopping companies. Although we recognize our leading position in the industry, we are confronted with variegated forms of competition such as with respect to pricing, new store openings and customer and human resource acquisition. Until now, the Group has concentrated its openings in suburban areas, however, it has been recently opening stores in large cities and has, as a result, exacerbated the level of competition with companies whose store development policy is urban centric. We believe that the future holds the possibility of aggravated competition from the appearance of new companies on the market as well as an intensified competition in the area of purchasing as a result of M&As and alliances between companies vying to compete against the Group. If, for instance, the Group was not able to successfully adapt to these changes, its performance and financial position would most likely suffer. It is also likely that the slashing of sale prices due to the need to compete against other companies which have started offering products at prices lower than the Group would also result in decreased profits further worsening performance and the financial condition.

(3) Risks Related to M&As and Alliances

The Company may effectuate organizational restructurings, M&As, alliances and sales for the purpose of strengthening its business. We will carefully study and examine conditions before acting in order to alleviate risk, however, there is the possibility of contingency liabilities arising after such actions take place or some other unforeseeable problems. We also believe there exists the possibility that initially expected effects would not materialize or that investments would not be recovered. Depending on the circumstances, extraordinary loss or extraordinary income may occur detrimentally affecting the performance and financial position of the Group.

(4) Regulations

Similarly to other retailers, the Group is subject to the laws and regulations such as the "Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment,", the "Designation of Specific Unfair Trade Practices by Large-Scale Retailers Relating to Trade with Suppliers" based on the "Act on Prohibition of Private Monopolization and Maintenance of Fair Trade" (Antimonopoly Act), the "Act against Unjustifiable Premiums and Misleading Representations" (Premiums Law), the "Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors" (Subcontract Act) and the "Act on Recycling of Specified Kinds of Home Appliances," (Home Appliance Recycling Act) upon application of such. Newly established laws or regulations, or revisions to existing rules, or stricter interpretations of laws and regulations by the regulating authorities may lead to a decrease in demand for the products and services offered by the Group or an increase in the cost of doing business thus negatively affecting the performance and financial position of the Group.

Pertaining to the opening of new stores with store area exceeding 1,000 square meters, or the expansion in existing stores beyond that size, local governments enact and enforce regulations, in accordance with the provisions of the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment, on the opening of stores from certain perspectives such as preservation of the living environment of the surrounding region. The Group is aware that its new store openings and expansion in existing stores are subject to regulations as per that Act and it shall observe that Act for the consideration of the living environment of the surrounding region etc. Depending on the time required for the examination process under that Act, delays etc. in the opening of new stores or the expansion planning for existing stores may affect the store opening policy of the Group.

Transactions between large-scale retailers and suppliers are subject to regulations as per the Designation of Specific Unfair Trade Practices by Large-Scale Retailers Relating to Trade with Suppliers, and being a large-scale retailer, the Group is subject to those regulations. The Group shall observe that Designation, but those regulations may affect conventional trading practices as well as the operating results of the Group.

(5) Economic Trends

The Group is dependent on the Japanese market for most of its sales and domestic consumer trends impact its performance. Each revision in laws and regulations or change in economic factors such as interest rates, fuel prices, the number of housing starts or the unemployed, and increases in tax rates, etc. may not only push up the cost of sales and business expenses but also reduce disposable incomes and drive down demand for our products. Despite signs of recovery in some areas of the Japanese economy, uncertainties remain strong, as seen in the protracted stagnation of stock markets and appreciation of the yen, rising crude oil prices caused by the unstable situation in the Middle East, and volatile political climate. Conditions in the environments for employment and income also continue to be harsh. The Earthquake, which occurred on March 11, 2011, was the largest earthquake in recorded history in Japan, and caused enormous damage in terms of human life and property, and has had a profound psychological impact on people. Sharply depressed markets attributed to the subsequent rolling blackouts and a prevailing mood of self-restraint in terms of consumption are seriously impeding corporate activities and further increasing the degree of confusion. The fall in disposable incomes and consumer spending in Japan may especially result in lower prices and sales of high-priced, high-function electric appliances, some of the products handled by the Group. With the American economy now mired with uncertainty, there is absolutely no guarantee that the Japanese economy will continue growing, or stop receding. The Group's business, performance and financial condition may be negatively affected by the decrease in domestic consumer spending.

(6) Demand Associated with Seasonal and Weather Factors or Events, etc.

As with other retailers, sales and revenue fluctuate monthly. Generally, we see increases during bonus season, at the end of the fiscal year and during months with many holidays. There are also increases when sales of seasonal products fare well. Meanwhile, sales of air conditioners, heaters, drying machines, etc. fluctuate greatly with the weather. Sales are known to drop during cool summers, warm winters and dry rainy seasons. Also, there are products such as televisions that tend to go up whenever there is a special event such as the Olympics or the World Cup. Sadly, it is difficult to accurately predict irregular demand springing up due to seasonal changes, weather conditions or events, etc. not to mention demand for our products in general. Any significant deviation from such predictions may negatively impact the Group's business, performance and financial condition.

(7) Changes in Consumer Wants and Preferences

In order to maintain and increase the Group's net sales and income, it is necessary to predict which products consumers will want or prefer, assure that sufficient quantities are in stock and supply them. It is considered important to spur demand by regularly introducing new products and technologies to consumers. If these activities fail to bare fruit, the Group's performance and financial condition may be negatively affected. This can be exemplified as a lack of a certain product due to competition with other retailers or a change in our relationship with manufacturers or the new product or technology on which a manufacturer is focusing on is inconsistent with consumer needs, etc. Also, the introduction of a new product may result in a decrease in the sales of existing products.

(8) Product Purchasing

For favorable Group performance, it is essential to always have in place a system under which the necessary products are purchased in the necessary quantity and at the appropriate price. Unfortunately, if maintaining regular product supplies becomes difficult due to a change in the relationship with business partners or a natural disaster, etc., product purchasing according to a preconceived plan may become unfeasible. Such circumstances may negatively affect the Group's performance and financial condition.

(9) Managing Franchises

The Group is increasing the number of franchises managed as small, community-based retail stores. However, we cannot guarantee that we will be able to continually open franchises in favorable locations or renew existing franchise agreements. If the number of franchises does not increase as planned or decreases, royalties may decline thus negatively affecting the Group's performance and financial condition. Also, because franchises are not completely under the control of the Group, they may be managed in a manner that is inconsistent with Group standards. This may not only negatively affect the Group's performance and financial condition, but also its reputation.

(10) Handling Personal and Other Secret Information

The Group handles a significant amount of customers' personal information in relation to the issue of point card certificates, the processing of credit card applications, and pay service subscription of the several long-term product warranties, etc. This information is handled under an internal control system by which awareness with respect to information management is heightened and ample caution is taken to prevent leaks. Any such leak may damage the reputation of the Group and negatively affect its performance and financial position.

(11) Natural Disasters

In cases where our operations are interrupted by damage to our store facilities or blackouts as a result of natural disasters from typhoons or earthquakes, or an obstruction arises to our procurement of products due to the effects of radioactive materials from an accident at a nuclear power station, or operations at our stores are partially impeded due to the occurrence of a disaster from an infectious disease, such as a new strain of influenza, there may be a significant decrease in our sales, which may have a significant impact on the Group's performance.

5. IMPORTANT AGREEMENTS

Credit Sales Franchise Agreements

The Company has executed franchise agreements with consumer credit companies regarding credit sales. Under these Agreements, consumer credit companies would effectuate credit checks on the customers of the Company and, based on results, pay the Company the amount owed by approved customers for purchases in lieu of those customers. The consumer credit companies would then be responsible for collecting these advances. Major Agreements are as follows.

Name of consumer credit companies	Execution date	Contractual period
UC Card Co., Ltd.	July 1990	Up to a request for cancellation by one of the parties with a three-month notification period
JCB Co., Ltd.	April 2005	Same as above
Mitsubishi UFJ NICOS Co., Ltd.	August 1990	Same as above
Sumitomo Mitsui Card Company, Limited	March 2005	Same as above

6. RESEARCH AND DEVELOPMENT

No items to report.

7. ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOW POSITION

Items in the text that concern the future were determined by the Group as of the end of the fiscal year under review.

(1) Important Accounting Policies and Estimates

The consolidated financial statements of the Group are prepared based on the generally accepted accounting standards of Japan.

In their preparation, important accounting policies are as stated in “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

When calculating provisions and valuing assets etc., the Group makes estimates and judgments effectuated based on variegated factors considered reasonable as per past results and conditions of such transactions, and its results are reflected in the preparation of the consolidated financial statements.

(2) Analysis of Financial Condition

Total assets at the end of the fiscal year under review amounted to ¥929,010 million, up ¥29,397 million (3.3%) from the previous fiscal year. The major contributing factors are increases in cash and time deposits, deferred tax assets and accounts receivable, despite a decrease in merchandise and finished goods.

Total liabilities amounted to ¥458,160 million, down ¥35,072 million (7.1%) from the previous fiscal year. It was mainly due to decreases in loans payable and accounts payable, despite an increase in income taxes payable.

Net assets amounted to ¥470,850 million, up ¥64,469 million (15.9%) from the previous fiscal year, thanks to the increase of net income. As a result, the equity ratio was 50.5% (up 5.5 point compared with the end of the previous fiscal year).

(3) Analysis of Operating Results

(i) Net sales and gross profit

Net sales during the fiscal year under review increased ¥137,119 million (6.8%) to ¥2,153,259 million, compared with the previous fiscal year.

This was mainly because, from a product perspective, sales of televisions were robust, supported by the migration toward digital terrestrial television and the “Eco-Points” program. Among seasonal items, air conditioners, refrigerators and fans fared well thanks to the hot and lingering summer heat, and so did heaters, owing to the cold winter. Sales of other products such as washing machines, personal computers and mobile phones were robust.

In sales promotion, while the difference of the sales promotion policy on the point-based sales and cash discount sales from the previous fiscal year continued to reduce unit prices, well-balanced promotions through sensitive responses to changes in consumers’ consumption behavior brought significant results.

With regard to store development, we opened 41 stores including the LABI Shinjuku Higashiguchikan, and closed nine stores including the Tecc Land Hino store in line with our scrap-and-build policy.

Gross profit decreased ¥4,991 million (1.0%) to ¥506,730 million, compared with the previous fiscal year. This is attributable to the difference of the sales promotion policy from the previous fiscal year.

(ii) Selling, general and administrative expenses, other income (expense) and income before income taxes and minority interests

Selling, general and administrative expenses for the fiscal year under review decreased ¥40,452 million (9.5%) to ¥383,965 million, compared with the previous fiscal year. This was due to the various expense reduction effects from continued operational reforms and a reduction in point-related promotional expenses as a result of a difference in the sales promotion policy from the previous fiscal year, despite increases in various expenses associated with new store openings.

As a result, operating income increased ¥35,461 million (40.6%) to ¥122,765 million, compared with the previous fiscal year.

Other expenses for the fiscal year under review was ¥39 million although other income amounted to ¥7,937 million in the previous fiscal year. This was due to an increase in purchase discounts accompanying purchases made thanks to a rise in net sales; a year-on-year increase in foreign exchange loss due to foreign exchange fluctuation; a loss on disaster; a provision for loss on disaster from the Earthquake, which occurred on March 11, 2011, as well as loss on adjustment for changes of accounting standard for asset retirement obligations and an impairment loss.

As a result of the above, income before income taxes and minority interests increased ¥27,485 million (28.9%) to ¥122,726 million, compared with the previous fiscal year.

(iii) Income taxes-current, income taxes-prior periods adjustment, income taxes-deferred, income before minority interests, minority interests in income and net income

The amount of income taxes during the fiscal year under review was ¥51,660 million, income before minority interests was ¥71,066 million and minority interests in income amounted to ¥311 million.

As a result of the above, net income increased ¥14,808 million (26.5%) to ¥70,755 million, compared with the previous fiscal year.

(4) Cash Flows

As of the end of the fiscal year under review, cash and cash equivalents on a consolidated basis stood at ¥104,815 million, up ¥21,770 million (26.2%), compared with the end of the previous fiscal year.

The following are cash flows recorded in the fiscal year under review.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥93,072 million, down 30.4%, compared with the previous fiscal year.

This was mainly due to an increase in income before income taxes and minority interests and a decrease in inventories, despite decreases in income taxes paid and notes and accounts payable.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥25,238 million, down 76.7%, compared with the previous fiscal year.

This was mainly due to purchase of property and equipment associated with store openings, and payments of loans receivable of subsidiaries and affiliated companies.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥45,941 million (¥8,556 million was provided in the previous fiscal year).

This was mainly due to repayment expenditures of long-term loans and short-term loans exceeding proceeds from long-term loans and short-term loans.

8. CORPORATE GOVERNANCE

(1) Corporate Governance Structures

1) Summary of the corporate governance structures, reasons for adopting this structure and the status of internal control system development and operation

The Company adopts the Board of Corporate Auditors system, and it conducts supervision and monitoring of the execution of operations through the Board of Directors and the Board of Corporate Auditors. Also, as part of efforts to facilitate rapid responses to changes in the business environment, the Company has adopted a corporate executive officer system that establishes clear separation between the execution of operations and the business decision-making and management oversight functions. The senior executives who serve on management committees are the Chairman & CEO and the President & COO (both with representative authority), two Executive Vice-Presidents (with the roles of CIO and CMO) and one Director and Senior Managing Executive Officer (with the role of CFO). Operating under these senior executives, the executive officers assume responsibility for the management of specified functions. The Company established the CSR Committee, in addition to the existing Compliance Committee and Internal Audit Office, to oversee formulation of specific CSR-related policies and standards covering areas such as business ethics. This committee conducts ongoing activities aimed at enhancing internal awareness of CSR-related issues.

The reason the Company adopted these structures was to implement concrete corporate governance structures that can realize the basic ideals of "improving management transparency, conducting fair corporate activities and continuing to maintain and increase corporate and shareholder value."

The status of corporate governance structures and internal control systems of the Company are as follows.

(i) General Meeting of Shareholders

The General Meeting of Shareholders, the Company's top decision-making body, provides a forum for shareholders to obtain and exchange information as well as to exercise their rights. The Company has an active IR program, and it is intent on disclosing information in a timely manner to ensure its shareholders' ability to exercise their rights appropriately. Because foreigners make up a large percentage of the shareholders, the Company strives to meet their needs by preparing notices of General Meeting of Shareholders in English and mailing them out early.

(ii) Board of Directors

The Yamada Denki Board of Directors, which comprises 17 directors, convenes regularly once a month. Extraordinary Board meetings are also convened when necessary. The Board of Directors reviews any important issues related to the Company's business, discusses the Company's performance and takes prompt action as required. Directors and executive officers also attend weekly business strategy meetings at which senior management reviews progress in executing business strategies.

Please note that the Company has appointed no external directors.

(iii) Executive Committee

The Executive Committee convenes weekly, as a rule, to enable executive officers to report on the progress of operations and take prompt action as required. In addition, all executive officers attend an expanded Executive Committee meeting that is held once a month.

(iv) Board of Corporate Auditors

The Company' Board of Corporate Auditors system relies on one standing corporate auditor, and two non-standing (external) corporate auditors. These auditors participate in the Board of Directors meetings and other important business meetings to monitor the performance of duties.

(v) Internal auditing

The Company has established the Internal Audit Office to strengthen its internal auditing functions. Reporting directly to the President and employing four full-time staff, this department engages in the auditing of daily business activities, including on-site oversight of inventory-related operations, as well as in performing internal auditing functions related to the Company's internal control. Functioning in cooperation with the corporate auditors and the auditing firm such as by exchanging information as necessary, the department provides an auditing perspective to ensure that the Company's business activities are conducted properly and efficiently.

(vi) Auditing firm

With regard to independent auditing, the Company undergoes audits of its financial statements conducted by the Company's independent auditor, KPMG AZSA LLC.

(vii) Number of directors and election rules

The Company's Articles of Incorporation limit the maximum number of directors to 17. Approval of resolutions to elect directors requires a simple majority vote in favor of a resolution at a General Meeting of Shareholders attended by shareholders representing at least one-third of the total voting rights. Directors may not be elected by cumulative voting.

(viii) Others

The Company contracts with a law firm for legal advice, as needed.

2) Status of the development and operation of risk management structures

Regulations on risk of loss and other systems are as follows.

(i) With respect to risk management, the Company has established a Compliance Committee; under its direction, the compliance officers in each division work for thorough implementation of the risk management system.

(ii) To address risk that arises in the case of a major accident, disaster, or other event, the Company has prepared an "Emergency Response Manual"; and the responsible director will set up an emergency response center and promptly take action if a disaster or other untoward event occurs.

(iii) The Company has established an Internal Audit Office and In-house Legal Counseling Office independent from the operating divisions, to audit the business processes of each division, to discover and prevent sources of risk, and to improve business processes.

(2) Status of Internal Auditing and Audits by Corporate Auditors

The organizations of the Company's internal auditing and audits of corporate auditors and the cooperation between the two is described in (iv) Board of Corporate Auditors and (v) Internal auditing of (1) Corporate Governance Structures.

(3) External Directors and External Corporate Auditors

The Company has two external corporate auditors. External corporate auditor Yutaka Nakamura concurrently serves as Senior Managing Director of JIN CO., LTD. The Company has a trading relationship with JIN CO., LTD. related to product purchasing etc. Mr. Yutaka Nakamura has been elected as external corporate auditor mainly based on his wealth of business management experience. External corporate auditor Masamitsu Takahashi concurrently serves as Representative of Takahashi Tax & Management Co., Ltd. and Representative Partner of Hikari Certified Public Tax Accountants Corporation. The Company does not have personal relationships, capital relationships or trading relationships with Takahashi Tax & Management Co., Ltd. and Hikari Certified Public Tax Accountants Corporation. Mr. Masamitsu Takahashi has been elected as external corporate auditor mainly based on his capacity as a tax accountant, which will be of value with respect to the Company’s accounting system and internal auditing and which will ensure the suitability and appropriateness of decision-making by the Board of Directors. The above-mentioned external corporate auditors can be present at meetings of the Board of Directors and Board of Corporate Auditors, and can work with the Internal Audit Office and the accounting auditor in carrying out audits, and during which, may state opinions or demand explanations.

External directors have not been appointed in the Company. The Company is strengthening the function of monitoring of the Company’s management with respect to the Board of Directors, which holds the decision-making function of management and the function of management and supervision of the execution of operations by executive officers, by making two of the three corporate auditors external corporate auditors. In corporate governance, it is important for the function of management monitoring to be based on objective and neutral monitoring from an external position. In the Company’s current corporate governance structures, the function of monitoring management from an external position is fully satisfied by having two external corporate auditors conduct auditing.

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CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
ASSETS			
Current assets:			
Cash and time deposits (Notes 3 and 5)	¥ 113,269	¥ 88,258	$ 1,362,221
Notes and accounts receivable (Notes 5 and 14):			
- Trade	46,004	37,458	553,262
- Non-consolidated subsidiaries and affiliated companies	2,461	3,843	29,605
Sub-total	48,465	41,301	582,867
Inventories	152,514	170,279	1,834,208
Deferred tax assets (Note 13)	18,299	12,840	220,076
Other current assets (Notes 5 and 22)	44,666	40,729	537,168
Allowance for doubtful accounts	(190)	(123)	(2,289)
Total current assets	377,023	353,284	4,534,251
Property and equipment:			
Buildings and structures, net (Notes 8, 9, 11, 16 and 22)	178,579	176,017	2,147,676
Land (Notes 9, 11 and 22)	152,344	151,723	1,832,162
Lease assets, net (Notes 8, 9 and 10)	8,313	13,549	99,976
Other, net (Notes 8 and 9)	18,673	18,882	224,563
Total property and equipment, net	357,909	360,171	4,304,377
Intangible assets (Note 9)	32,129	30,591	386,405
Investments and other assets:			
Investment securities (Notes 5 and 6)	20,592	18,909	247,653
Guarantee deposits (Notes 5, 14 and 22)	111,066	113,403	1,335,734
Deferred tax assets (Note 13)	17,263	10,771	207,612
Other assets (Note 9)	17,572	14,862	211,321
Allowance for loss on investments in non-consolidated subsidiaries	(4,405)	(2,100)	(52,977)
Allowance for doubtful accounts (Note 5)	(139)	(278)	(1,672)
Total investments and other assets	161,949	155,567	1,947,671
Total assets	¥ 929,010	¥ 899,613	$ 11,172,704

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Note 5)	¥ 58,466	¥ 84,941	$ 703,143
Short-term loans payable (Notes 5 and 11)	1,550	2,350	18,641
Lease obligations (Notes 10 and 11)	4,544	5,634	54,645
Income taxes payable (Note 5)	43,432	29,407	522,335
Provision for bonuses	4,986	4,539	59,962
Provision for directors' bonuses	135	133	1,624
Provision for point card certificates	17,528	18,547	210,802
Provision for loss on disaster	1,664	-	20,010
Other current liabilities (Notes 11 and 22)	85,021	83,738	1,022,505
Total current liabilities	217,326	229,289	2,613,667
Long-term liabilities:			
Bonds (Notes 5 and 12)	129,134	129,204	1,553,027
Long-term loans payable (Notes 5 and 11)	66,475	99,299	799,454
Lease obligations (Notes 10 and 11)	5,064	9,109	60,907
Provision for retirement benefits (Note 15)	9,028	7,580	108,581
Provision for directors' retirement benefits	3,115	2,830	37,463
Provision for product warranties	13,994	8,010	168,303
Other long-term liabilities (Notes 13 and 16)	14,024	7,911	168,645
Total long-term liabilities	240,834	263,943	2,896,380
Total liabilities	458,160	493,232	5,510,047
Contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity (Note 17):			
Common stock:			
Authorized – 200,000,000 shares			
Issued – 96,648,974 shares in 2011 and 2010	71,059	71,059	854,586
Capital surplus	70,977	70,977	853,605
Retained earnings	351,050	287,011	4,221,894
Treasury stock, at cost – 2,438,797 shares in 2011 and 2,438,794 shares in 2010	(23,046)	(23,046)	(277,160)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes (Note 6)	(1,026)	(1,152)	(12,347)
Minority interests	1,836	1,532	22,079
Total net assets	470,850	406,381	5,662,657
Total liabilities and net assets	¥ 929,010	¥ 899,613	$ 11,172,704

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2011 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Net sales:			
- Trade	¥ 2,114,816	¥ 1,975,398	$ 25,433,749
- Non-consolidated subsidiaries and affiliated companies	38,443	40,742	462,332
Sub-total	2,153,259	2,016,140	25,896,081
Operating expenses:			
Cost of sales (Note 18)	1,646,529	1,504,419	19,801,909
Selling, general and administrative expenses (Notes 15 and 22)	383,965	424,417	4,617,745
Operating income	122,765	87,304	1,476,427
Other income (expenses):			
Interest and dividend income (Note 22)	1,367	1,304	16,445
Interest expenses	(1,818)	(1,802)	(21,862)
Purchase discounts	10,999	9,127	132,283
Gain (loss) on valuation of derivatives	120	(147)	1,441
Foreign exchange loss	(457)	(139)	(5,496)
Gain on redemption of bonds	-	1,225	-
Gain on sales of investment securities (Note 6)	10	136	115
Surrender value of insurance	10	23	125
Compensation income	98	-	1,178
Loss on sale and disposal of property and equipment, net	(190)	(1,347)	(2,289)
Loss on refund and cancellation of guarantee deposits	(109)	(292)	(1,308)
Impairment loss (Note 9)	(6,173)	(2,534)	(74,240)
Loss on valuation of investment securities (Note 6)	(515)	(106)	(6,195)
Provision of allowance for loss on investments in non-consolidated subsidiaries	(2,305)	(2,100)	(27,721)
Loss on disaster (Note 19)	(2,242)	-	(26,964)
Provision for loss on disaster	(1,664)	-	(20,010)
Loss on adjustment for changes of accounting standard for asset retirement obligations	(1,932)	-	(23,238)
Other – net	4,762	4,589	57,271
	(39)	7,937	(465)
Income before income taxes and minority interests	122,726	95,241	1,475,962
Income taxes (Note 13):			
Current	63,706	44,930	766,159
Prior periods adjustment	0	40	2
Deferred	(12,046)	(5,746)	(144,867)
	51,660	39,224	621,294
Income before minority interests (Note 1)	71,066	56,017	854,668
Minority interests in income	311	70	3,736
Net income	¥ 70,755	¥ 55,947	$ 850,932

	Yen				U.S. dollars	
	2011		2010		*2011*	
Amounts per share of common stock:						
Net income - Basic	¥	751.03	¥	594.26	$	9.03
- Diluted		-		593.85		-
Cash dividends applicable to the year		76.00		40.00		0.91

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Note 1)

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	*2011*
Income before minority interests	¥ 71,066	$ 854,668
Other comprehensive income:		
Valuation difference on available-for-sale securities, net of taxes (Note 20)	126	1,514
Total other comprehensive income	126	1,514
Comprehensive income (Note 20)	¥ 71,192	$ 856,182
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	¥ 70,881	$ 852,447
Comprehensive income attributable to minority interests	311	3,735

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2011 and 2010

	Number of shares of common stock (Thousands)	Millions of yen						
		Shareholders' equity:				Accumulated other comprehensive income:		
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities, net of taxes (Note 6)	Minority interests	Total net assets
Balance at March 31, 2009	96,450	¥ 70,702	¥ 70,620	¥ 234,972	¥ (23,045)	¥ (40)	¥ 3,243	¥ 356,452
Issuance of common stock	199	357	357					714
Cash dividends				(3,102)				(3,102)
Net income				55,947				55,947
Purchase of treasury stock					(1)			(1)
Change of scope of consolidation				(806)				(806)
Other changes in the year, net						(1,112)	(1,711)	(2,823)
Balance at March 31, 2010	96,649	71,059	70,977	287,011	(23,046)	(1,152)	1,532	406,381
Cash dividends				(3,768)				(3,768)
Net income				70,755				70,755
Purchase of treasury stock					(0)			(0)
Change by merger of a consolidated subsidiary with non-consolidated subsidiaries				(2,948)				(2,948)
Other changes in the year, net						126	304	430
Balance at March 31, 2011	96,649	¥ 71,059	¥ 70,977	¥ 351,050	¥ (23,046)	¥ (1,026)	¥ 1,836	¥ 470,850

	Thousands of U.S. dollars (Note 1)						
	Shareholders' equity:				*Accumulated other comprehensive income:*		
	Common stock	*Capital surplus*	*Retained earnings*	*Treasury stock, at cost*	*Valuation difference on available-for-sale securities, net of taxes (Note 6)*	*Minority interests*	*Total net assets*
Balance at March 31, 2010	$ 854,586	$853,605	$3,451,730	$ (277,160)	$ (13,863)	$ 18,427	$ 4,887,325
Cash dividends			(45,321)				(45,321)
Net income			850,932				850,932
Purchase of treasury stock				(0)			(0)
Change by merger of a consolidated subsidiary with non-consolidated subsidiaries			(35,447)				(35,447)
Other changes in the year, net					1,516	3,652	5,168
Balance at March 31, 2011	$ 854,586	$853,605	$4,221,894	$ (277,160)	$ (12,347)	$ 22,079	$ 5,662,657

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Yamada Denki Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 122,726	¥ 95,241	$ 1,475,962
Depreciation	21,657	23,149	260,462
Amortization of negative goodwill	(701)	(1,073)	(8,426)
Increase in provision for retirement benefits	1,448	1,527	17,418
Increase in provision for directors' retirement benefits	285	251	3,428
Increase in provision for bonuses	431	1,435	5,184
Increase (decrease) in provision for directors' bonuses	3	(4)	30
Increase (decrease) in allowance for doubtful accounts	(72)	46	(868)
Increase in allowance for loss on investments in non-consolidated subsidiaries	2,305	2,100	27,721
Increase (decrease) in provision for point card certificates	(1,072)	578	(12,895)
Increase in provision for product warranties	5,963	1,309	71,719
Increase in provision for loss on disaster	1,664	-	20,010
Interest and dividend income	(1,402)	(1,444)	(16,862)
Interest expenses	1,818	1,802	21,862
Foreign currency exchange losses	457	110	5,496
Gain on redemption of bonds	-	(1,225)	-
Loss on valuation of investment securities	515	106	6,195
Gain on sales of investment securities	(10)	(136)	(115)
Loss on sale and disposal of property and equipment, net	133	1,154	1,603
Impairment loss	6,173	2,534	74,240
Loss (gain) on valuation of derivatives	(120)	147	(1,441)
Loss on refund and cancellation of guarantee deposits	109	292	1,308
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,932	-	23,238
Increase in notes and accounts receivable	(7,673)	(8,470)	(92,277)
Decrease in inventories	18,704	4,874	224,945
Increase (decrease) in notes and accounts payable	(26,528)	26,504	(319,033)
Increase in consumption taxes payable	774	1,099	9,308
Decrease (increase) in other current assets	(6,366)	7,108	(76,561)
Increase in other current liabilities	987	10,611	11,869
Other, net	143	(783)	1,688
Sub-total	144,283	168,842	1,735,208
Interest and dividend income received	264	379	3,174
Interest expenses paid	(1,873)	(1,691)	(22,525)
Income taxes paid	(49,602)	(33,812)	(596,532)
Net cash provided by operating activities	¥ 93,072	¥ 133,718	$ 1,119,325

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	*2011*
Cash flows from investing activities:			
Payments into time deposits	¥ (13,917)	¥ (5,054)	$ (167,373)
Proceeds from withdrawal of time deposits	10,676	186	128,400
Purchase of investment securities	(1)	(2)	(16)
Proceeds from sale of investment securities	250	213	3,012
Purchase of investments in subsidiaries and affiliated companies	(2,495)	(3,147)	(30,008)
Payment of loans receivable	(6,365)	(1,618)	(76,553)
Collection of loans receivable	2,396	1,891	28,814
Purchase of property and equipment	(16,740)	(76,591)	(201,322)
Purchase of intangible assets	(1,768)	(26,433)	(21,264)
Payment for guarantee deposits	(5,625)	(10,557)	(67,648)
Proceeds from collection of guarantee deposits	8,114	12,214	97,580
Other, net	237	680	2,858
Net cash used in investing activities	(25,238)	(108,218)	(303,520)
Cash flows from financing activities:			
Proceeds from short-term loans payable	316,600	466,300	3,807,577
Repayment of short-term loans payable	(317,400)	(473,963)	(3,817,198)
Proceeds from long-term loans payable	500	61,900	6,013
Repayment of long-term loans payable	(41,865)	(32,789)	(503,490)
Redemption of bonds	-	(9,775)	-
Cash dividends paid	(3,770)	(3,106)	(45,338)
Other, net	(6)	(11)	(70)
Net cash provided by (used in) financing activities	(45,941)	8,556	(552,506)
Effect of exchange rate change on cash and cash equivalents	(220)	(110)	(2,645)
Net increase in cash and cash equivalents	21,673	33,946	260,654
Cash and cash equivalents at beginning of year	83,045	47,957	998,738
Increase in cash and cash equivalents from newly consolidated subsidiaries	-	1,142	-
Increase by merger of a consolidated subsidiary with non-consolidated subsidiaries	97	-	1,156
Cash and cash equivalents at end of year (Note 3)	¥ 104,815	¥ 83,045	$ 1,260,548

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2011 and 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Yamada Denki Co., Ltd. (the "Company"), and its consolidated subsidiaries, 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.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. In addition, certain reclassifications have been made in the 2010 financial statements to conform to the classifications used in 2011. These reclassifications had no impact on previously reported results of operations or retained earnings.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Effective from the year ended March 31, 2011, the Company adopted ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements," issued by the ASBJ on December 26, 2008, and presents "Income before minority interests" in the consolidated statements of income.

Effective from the year ended March 31, 2011, the Company adopted ASBJ Statement No. 25, "Accounting Standard for Presentation of Comprehensive Income," issued by the ASBJ on June 30, 2010. "Consolidated Statements of Comprehensive Income" is presented in "two-statement format," as defined in the standard, following to the consolidated statements of income. In addition, "Valuation and translation adjustments," which had been disclosed in "Consolidated Balance Sheets" and "Consolidated Statements of Changes in Net Assets" in previous fiscal year, have been presented as "Accumulated other comprehensive income."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 14 (17 in 2010) significant subsidiaries. Effective from the year ended March 31, 2011, Kansai Yamada Denki Co., Ltd., Chushikoku Tecc Land Co., Ltd. and Tokai Tecc Land Co., Ltd., which had been consolidated subsidiaries, were excluded from the scope of consolidation due to the merger with Daikuma Co., Ltd., a consolidated subsidiary, on September 1, 2010.

All significant inter-company accounts, transactions and unrealized profits have been eliminated in consolidation.

All the Company's non-consolidated subsidiaries are insignificant in aggregated amount of assets, net sales, net income and retained earnings, thus affecting immaterial impact on the consolidated financial statements.

Investments in the non-consolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements and therefore carried at cost.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries. Goodwill (including negative goodwill recognized before April 1, 2010) is amortized using the straight-line method over three years.

The fiscal year-end of all consolidated subsidiaries is the end of February. The financial statements of these subsidiaries as of and for the years ended February 28, 2011 and 2010 are used in preparing the consolidated financial statements. All material transactions during the periods from March 1 to March 31, 2011 and 2010 are adjusted for in the consolidation process.

(b) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily-available bank deposits and short-term highly liquid investments with minimum risk of value fluctuation with maturities not exceeding three months at the time of purchase.

(c) Securities

Under Japanese accounting standards, companies are required to examine the intent of holding each security and classify those securities as (i) securities held for trading purposes ("trading securities"), (ii) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (iii) equity securities issued by non-consolidated subsidiaries and affiliated companies, and (iv) for all other securities that are not classified in any of the above categories ("available-for-sale securities").

Equity securities issued by non-consolidated subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gain and loss on sale of such securities is computed using the moving-average cost. Other available-for-sale securities with no fair market values are stated principally at the moving-average cost. The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities.

Investments in Limited Partnership ("LPS") and similar ventures (considered as securities under the Japanese Financial Instruments and Exchange Act) are stated at the amounts of corresponding equity portion using the most recent financials available based on the reporting date stipulated in the contracts of the LPS and the ventures.

(d) Derivative Transactions and Hedge Accounting

Derivative financial instruments are stated at fair value and changes in fair value are recognized as gains or losses unless derivative transactions are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and the consolidated subsidiaries defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contact was executed.

The Company and some of its consolidated subsidiaries utilize derivatives for the purpose of hedging their exposure to adverse fluctuation in interest rates and exchange rates but do not enter into such transactions for speculative trading purposes. The Company uses interest-rate swaps to reduce the risk exposure related to its borrowings. Some of its consolidated subsidiaries use currency swaps and currency options in order to mitigate future risks of fluctuation in foreign currency exchange.

(e) Inventories

Inventories are primarily stated at the lower of moving-average cost or market.

(f) Property and Equipment (except for lease assets)

Property and equipment are stated at cost. Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of respective assets, except for the buildings (excluding building facilities) acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

The estimated useful lives of significant assets are summarized as follows:

Buildings and structures ··· 3-47 years

(g) Intangible Assets (except for lease assets)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over an estimated useful life of five years.

(h) Impairment

The Company and its consolidated subsidiaries review their property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Investment and Rental Property

On November 28, 2008, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Statement No. 20, “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property,” and the related Guidance No. 23, “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property,” which are effective for fiscal years ending on or after March 31, 2010 with early adoption permitted. The new standard requires that fair value of investment and rental property be disclosed.

Effective from the years ended March 31, 2010 and 2011, the Company and its consolidated subsidiaries adopted this new standard. However, these disclosures are omitted since the total amount of investment and rental property is immaterial, as permitted by the standard.

(j) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized using the straight-line method.

(k) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible account with respect to certain identified doubtful receivables and the amount calculated based on the historical rate of losses.

(l) Provision for Bonuses

Provision for bonuses is provided at the estimated amounts accrued during the current fiscal year, to provide for the future payment to employees.

(m) Provision for Directors' Bonuses

Provision for bonuses to directors and corporate auditors is provided at the estimated amounts accrued during the current fiscal year, to provide for the future payment to directors and corporate auditors.

(n) Provision for Point Card Certificates

The Company and its consolidated subsidiaries which conduct similar businesses provide their customers with credit points ("Yamada Points") when they make purchases at their stores. The Company and some of its consolidated subsidiaries provide provision for the estimated future costs of Yamada Points based on the historical rate of point usage.

(o) Provision for Retirement Benefits

The Company and some of its consolidated subsidiaries have defined benefit pension plans. Specifically, the Company has an unfunded lump-sum payment plan and a tax-qualified pension plan, and the subsidiaries have unfunded lump-sum payment plans and participate in the retirement benefit plan established by the government.

Provision for retirement benefits is provided based on the estimated amounts of projected benefit obligations and the fair value of plan assets at the balance sheet date.

Actuarial gains or losses incurred during the year are amortized from the succeeding fiscal year using the straight-line method over a certain period of time (five years) not exceeding the average remaining service period of the employees.

Effective from the year ended March 31, 2010, the Company and some of its consolidated subsidiaries adopted ASBJ Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," issued by the ASBJ on July 31, 2008. There was no effect of the adoption of this new standard on net income and unrecognized retirement benefit obligation.

(p) Provision for Directors' Retirement Benefits

Provision for directors' and corporate auditors' retirement benefits of the Company and some of its consolidated subsidiaries is provided based on their pertinent rules and is calculated at the estimated amount which would be payable if all officers were to retire at the balance sheet date. The payments are subject to approval of the shareholders' meeting.

(q) Provision for Product Warranties

The Company and its consolidated subsidiaries which conduct similar businesses provide provision for five-year warranty for future repair expenses at the estimated amount calculated based on repair expense in the past.

(r) Allowance for Loss on Investments in Non-consolidated Subsidiaries

Allowance for loss on investments in non-consolidated subsidiaries is provided at an amount sufficient to cover possible losses, taking into account financial condition, recoverability of the investments and other relevant factors.

(s) Provision for Loss on Disaster

Provision for loss on disaster is provided for estimated future restoration expenses associated with the Great Eastern Japan Earthquake as of March 31, 2011.

(t) Leases

Finance leases are capitalized and depreciated in the same manner as owned assets for finance leases with title transfer or based on the straight-line method over the lease terms with no residual value for other finance leases.

(u) Income Taxes

Income taxes consist of corporate income taxes, inhabitant taxes and enterprise taxes.

The provision for income taxes is computed based on the income before income taxes and minority interests included in the statements of income for the Company and each of its consolidated subsidiaries. The assets and liabilities approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statements' carrying amounts and the tax basis of assets and liabilities.

(v) Per Share Information

Basic net income per share of common stock is computed based upon the weighted-average number of shares outstanding during each year. For diluted net income per share, both net income and shares outstanding were adjusted to assume the conversion of the convertible bonds. However, dilutive effect of euro yen convertible bonds due in 2013 and in 2015 was not reflected because they are anti-dilutive. For the year ended March 31, 2011, diluted net income per share is not disclosed because the Company has no securities with dilutive effect.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(w) Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries adopted ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations," issued by the ASBJ on March 31, 2008.

Although the effect of the adoption of this new standard on operating income was immaterial, income before taxes and minority interests was decreased by ¥2,394 million ($28,796 thousand) for the year ended March 31, 2011.

(x) Business Combinations

Effective from the years ended March 31, 2011, the Company and its consolidated subsidiaries adopted ASBJ Statement No. 21, “Accounting Standard for Business Combinations,” ASBJ Statement No. 22, “Accounting Standard for Consolidated Financial Statements,” ASBJ Statement No. 23, “Partial Amendments to Accounting Standard for Research and Development Costs,” ASBJ Statement No. 7, “Revised Accounting Standard for Business Divestitures,” ASBJ Statement No. 16, “Revised Accounting Standard for Equity Method of Accounting for Investments,” and ASBJ Guidance No. 10, “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures,” issued by the ASBJ on December 26, 2008.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2011 and 2010 in the consolidated statements of cash flows consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Cash and time deposits	¥ 113,269	¥ 88,258	$ 1,362,221
Time deposits with maturities exceeding three months	(8,454)	(5,213)	(101,673)
Cash and cash equivalents	¥ 104,815	¥ 83,045	$ 1,260,548

4. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2011 were ¥1,045 million ($12,572 thousand) and ¥1,111 million ($13,366 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2010 were ¥4,496 million and ¥4,778 million, respectively.

Asset retirement obligations for the year ended March 31, 2011 were ¥7,656 million ($92,069 thousand).

5. FINANCIAL INSTRUMENTS

Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted ASBJ Statement No. 10 (revised 2008), “Accounting Standard for Financial Instruments,” and the related Guidance No. 19, “Guidance on Disclosures about Fair Value of Financial Instruments.”

I. Qualitative Information on Financial Instruments

(a) Policies for Using Financial Instruments

The Company and its consolidated subsidiaries raise necessary funds based on capital budgeting, mainly through loans from banks and bonds. Temporary surplus funds are invested in highly liquid instruments and working capital is financed by bank loans. The Company and its consolidated subsidiaries utilize derivative financial instruments only to manage risks described later and do not enter into such transactions for speculative trading purposes.

(b) Details of Financial Instruments and Related Risk

Trade notes and accounts receivable are exposed to credit risk of customers.

Investment securities, which are mainly composed of equity securities issued by those who have business relationships with the Company and its consolidated subsidiaries, are exposed to market risk.

Guarantee deposits, which are mostly related to rental of stores, are exposed to credit risk of lessors.

Most notes and accounts payable are due within two months.

Bank loans and bonds are obtained mainly for capital expenditures and redemption dates of bonds are a maximum of four years and five years after the balance sheet date for the years ended March 31, 2011 and 2010, respectively.

Most income taxes payable, which consist of unpaid corporate income taxes, inhabitant taxes and enterprise taxes, are payable within two months after the balance sheet date.

For certain loans payable, the Company utilizes interest rate (floating for fixed rate) swaps in order to manage interest rate risk. Some of its consolidated subsidiaries utilize currency swaps and currency options in order to reduce the foreign currency risk of foreign-currency-denominated monetary assets and liabilities. The Company also uses derivatives as hedging instruments, which is described in “Derivative Transactions and Hedge Accounting” in the “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.” Interest rate swap transactions entered into by the Company involve interest rate risk and currency swap and currency option transactions entered into by some of its consolidated subsidiaries contain foreign currency risk. Since the counterparties of derivative transactions are limited to highly credible domestic banks, the credit risk that arises from contractual default by counterparty is considered to be fairly low.

(c) Policies and Process of Risk Management

- Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligation. In accordance with the Company’s sales management policy, each operating department of the Company periodically monitors each counterparty and manages the due dates and balances of trade notes and accounts receivable in order to reduce credit risk by early identification of a possible default caused by financial trouble of the counterparty. Its consolidated subsidiaries also manage credit risk in the same manner as the Company.

The Company believes that the credit risk under derivative transactions is fairly low because counterparties of derivative transactions are limited to financial institutions with a high credit rating.

- Market risk management

Market risk is the risk that movements in market variables, such as foreign currency exchange rates, interest rates and market price, result in financial loss to the Company and its consolidated subsidiaries. For certain loans payable, the Company utilizes interest rate (floating for fixed rate) swaps in order to manage interest rate risk. Moreover, some of its consolidated subsidiaries utilize currency swaps and currency options in order to reduce the foreign currency risk of foreign-currency-denominated monetary assets and liabilities.

The Company continuously reviews portfolios of securities by periodically monitoring fair values of each security and financial condition of the issuer as well as market condition and the relationship with the issuer.

The basic policy, authority and maximum amount of derivative transactions are determined at Board of Directors' meetings, and the execution and management of derivative transactions are performed by the finance department. The results of transactions are reported at the Board of Directors' meetings on a regular basis.

- **Management of liquidity risk related to fund raising**

Liquidity risk is the risk of being unable to meet obligations as they come due. The Company manages liquidity risk by keeping liquidity on hand and by formulating and renewing the fund management plan based on reports from each department.

(d) Supplemental Information on Fair Value

Fair value of financial instruments is estimated based on quoted market prices, if available, or based on management estimates and assumptions. Changes in such estimates and assumptions could result in different value since these estimates and assumptions contain fluctuating factors. Additionally, notional amounts of derivative transactions, which are presented in "DERIVATIVE FINANCIAL INSTRUMENTS," do not indicate market risk of derivative transactions.

II. Fair Value of Financial Instruments

The following is a summary of carrying value and estimated fair value of financial instruments as of March 31, 2011 and 2010:

	Carrying value	Fair value	Valuation gains/(losses)
	Millions of yen		
	2011		
Financial assets:			
(1) Cash and time deposits	¥ 113,269	¥ 113,269	¥ -
(2) Notes and accounts receivable	48,465	48,465	-
(3) Investment securities:			
Available-for-sale securities	8,692	8,692	-
(4) Guarantee deposits (including current portion)	107,943	102,297	(5,646)
	¥ 278,369	¥ 272,723	¥ (5,646)
Financial liabilities:			
(1) Notes and accounts payable	¥ 58,466	¥ 58,466	¥ -
(2) Short-term loans payable	1,550	1,550	-
(3) Income taxes payable	43,432	43,432	-
(4) Bonds	129,134	125,370	(3,764)
(5) Long-term loans payable (including current portion)	99,619	99,739	120
	¥ 332,201	¥ 328,557	¥ (3,644)
Derivative transactions(*)	¥ (990)	¥ (990)	¥ -

	Carrying value	Fair value	Valuation gains/(losses)
	Thousands of U.S. dollars (Note 1)		
	2011		
Financial assets:			
(1) Cash and time deposits	$ 1,362,221	$ 1,362,221	$ -
(2) Notes and accounts receivable	582,867	582,867	-
(3) Investment securities:			
Available-for-sale securities	104,536	104,536	-
(4) Guarantee deposits (including current portion)	1,298,173	1,230,276	(67,897)
	$ 3,347,797	$ 3,279,900	$ (67,897)
Financial liabilities:			
(1) Notes and accounts payable	$ 703,143	$ 703,143	$ -
(2) Short-term loans payable	18,641	18,641	-
(3) Income taxes payable	522,335	522,335	-
(4) Bonds	1,553,027	1,507,753	(45,274)
(5) Long-term loans payable (including current portion)	1,198,066	1,199,509	1,443
	$ 3,995,212	$ 3,951,381	$ (43,831)
Derivative transactions (*)	$ (11,904)	$ (11,904)	$ -

(*) Debt and credit attributed to derivative transactions are indicated by net base, and net debt is described as ( ).

		Carrying value		Fair value		Valuation gains/(losses)
				Millions of yen		
				2010		
Financial assets:						
(1) Cash and time deposits	¥	88,258	¥	88,258	¥	-
(2) Notes and accounts receivable		41,301		41,301		-
(3) Investment securities:						
Available-for-sale securities		9,191		9,191		-
(4) Guarantee deposits						
(including current portion)		105,904				
Allowance for doubtful accounts (*1)		(222)				
		105,682		100,153		(5,529)
	¥	244,432	¥	238,903	¥	(5,529)
Financial liabilities:						
(1) Notes and accounts payable	¥	84,941	¥	84,941	¥	-
(2) Short-term loans payable		2,350		2,350		-
(3) Income taxes payable		29,407		29,407		-
(4) Bonds		129,204		123,632		(5,572)
(5) Long-term loans payable						
(including current portion)		135,163		135,392		229
	¥	381,065	¥	375,722	¥	(5,343)
Derivative transactions (*2)	¥	(1,206)	¥	(1,206)	¥	-

(*1) Allowance for doubtful accounts related to guarantee deposits is deducted.
(*2) Debt and credit attributed to derivative transactions are indicated by net base, and net debt is described as ( ).

Explanatory Notes on Fair Value of Financial Instruments

(i) Details of the Methodologies and Assumptions Used to Estimate Fair Value of Financial Instruments, and Securities and Derivative Transactions

(a) Financial Assets

- **(1) Cash and Time Deposits and (2) Notes and Accounts Receivable**

Because these assets are settled in the short term, fair value approximates book value and the amounts indicated in above table are based on book value.

- **(3) Investment Securities**

Fair value of equity securities is based on quoted market prices, and fair value of debt securities is based on quoted market prices or quotes obtained from financial institutions. Additional information on securities classified by holding purpose is presented in "SECURITIES INFORMATION."

- **(4) Guarantee Deposits**

Fair value of guarantee deposits is based on the present value discounted by the rate which reflects due date and credit risk.

(b) Financial Liabilities

- **(1) Notes and Accounts Payable, (2) Short-term loans payable and (3) Income Taxes Payable**

Since these liabilities are payable in the short term, fair value approximates book value and the amounts indicated in above table are based on book value.

- **(4) Bonds**

Fair value of bonds is based on the present value of principal discounted by the rate which reflects remaining period and credit risk.

- **(5) Long-term loans payable**

Fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the rate applicable to similar new borrowings.

For long-term loans payable with floating interest rates and hedged by interest rate swaps which meet certain criteria, fair value is based on the present value of the total of principal and interest, as adjusted as described in "Derivative Transactions and Hedge Accounting" in the "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," discounted by the rate applicable to similar new borrowings.

(c) Derivative Transactions

Details of derivative transactions are described in "DERIVATIVE FINANCIAL INSTRUMENTS."

(ii) Securities for Which Fair Value is Virtually Impossible to Estimate

The following securities are excluded from the above table because management of the Company and its consolidated subsidiaries conclude that their fair value is virtually impossible to estimate:

	Carrying value		
	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 11,432	¥ 9,146	$ 137,492
Affiliated companies	32	34	385
(2) Available-for-sale securities			
Unlisted equity securities	68	68	813
Investment in LPS (*2)	368	469	4,427
Guarantee deposits (*3)	10,030	14,278	120,630

(*1) Unlisted equity securities are excluded from "(3) Investment Securities" because they are not traded in a market and it is virtually impossible to estimate their fair value.

(*2) Investment in LPS is excluded from the disclosure of fair value because fair value of LPS's assets, such as unlisted equity securities, is virtually impossible to estimate.

(*3) Guarantee deposits whose redemption schedule is unable to be reasonably estimated and whose fair value is virtually impossible to estimate are excluded from "(4) Guarantee Deposits."

(iii) Contractual Maturity of Financial Instruments

Redemptions schedule of monetary claims and securities with fixed maturities are as follows:

	Millions of yen			
	2011			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 113,269	¥ -	¥ -	¥ -
Notes and accounts receivable	48,465	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (bonds)	-	-	200	7,400
(2) Others	-	368	-	-
Guarantee deposits	6,907	25,235	27,486	48,315
Total	¥ 168,641	¥ 25,603	¥ 27,686	¥ 55,715

	Thousands of U.S. dollars (Note 1)			
	2011			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$1,362,221	$ -	$ -	$ -
Notes and accounts receivable	582,867	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (bonds)	-	-	2,405	88,996
(2) Others	-	4,427	-	-
Guarantee deposits	83,069	303,490	330,560	581,054
Total	$2,028,157	$ 307,917	$ 332,965	$ 670,050

Redemptions schedule of monetary claims and securities with fixed maturities are as follows:

	Millions of yen			
	2010			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 88,258	¥ -	¥ -	¥ -
Notes and accounts receivable	41,301	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (bonds)	-	-	200	7,400
(2) Others	-	237	237	-
Guarantee deposits	6,779	24,440	27,070	47,614
Total	¥ 136,338	¥ 24,677	¥ 27,507	¥ 55,014

Contractual maturities of short-term and long-term loans payable and bonds are described in "SHORT-TERM AND LONG-TERM LOANS PAYABLE" and "CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES," respectively.

6. SECURITIES INFORMATION

Acquisition cost and book value of available-for-sale securities with available fair value as of March 31, 2011 and 2010 were as follows:

	Millions of yen		
	2011		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥ 726	¥ 337	¥ 389
Debt securities			
Bonds	203	200	3
Sub-total	929	537	392
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	2,051	2,451	(400)
Debt securities			
Bonds	5,705	7,400	(1,695)
Others	7	7	(0)
Sub-total	7,763	9,858	(2,095)
Total	¥ 8,692	¥ 10,395	¥ (1,703)

	Thousands of U.S. dollars (Note 1)		
	2011		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	$ 8,733	$ 4,055	$ 4,678
Debt securities			
Bonds	2,441	2,405	36
Sub-total	11,174	6,460	4,714
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	24,671	29,472	(4,801)
Debt securities			
Bonds	68,606	88,996	(20,390)
Others	85	93	(8)
Sub-total	93,362	118,561	(25,199)
Total	$ 104,536	$ 125,021	$ (20,485)

Unlisted equity securities of ¥68 million ($813 thousand) and investment in LPS of ¥368 million ($4,427 thousand) are excluded from above table because they do not have readily determinable market value and it is virtually impossible to estimate their fair value.

	Millions of yen		
	2010		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥ 432	¥ 92	¥ 340
Debt securities			
Bonds	203	200	3
Sub-total	635	292	343
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	2,520	3,376	(856)
Debt securities			
Bonds	6,028	7,400	(1,372)
Others	7	7	(0)
Sub-total	8,555	10,783	(2,228)
Total	¥ 9,190	¥ 11,075	¥ (1,885)

Unlisted equity securities of ¥68 million and investment in LPS of ¥469 million are excluded from above table because they do not have readily determinable market value and it is virtually impossible to estimate their fair value.

Securities sold during the years ended March 31, 2011 and 2010 are as follow:

	Millions of yen		
	2011		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 176	¥ 10	¥ —

	Thousands of U.S. dollars (Note 1)		
	2011		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 2,122	$ 115	$ —

	Millions of yen		
	2010		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 182	¥ 136	¥ —

If the market value of securities as of the fiscal year-end declines more than 50% compared with those acquisition costs, the difference between fair market value and the carrying amount is recognized as loss on valuation in the period of the decline.

In addition, if the market value of securities as of the fiscal year-end declines 30% to 50% compared with those acquisition costs and if such decline is considered to be material and unrecoverable, the difference between fair market value and the carrying amount is recognized as loss on valuation in the period of the decline.

Loss on valuation of marketable securities available-for-sale for the years ended March 31, 2011 and 2010 were ¥515 million ($6,195 thousand) and ¥106 million, respectively.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The aggregate amounts contracted to be paid or received and the fair value and the unrealized gains (losses) of currency-related derivative transactions other than market trades as of March 31, 2011 and 2010 (excluding hedging transactions) were as follows:

	Millions of U.S. dollars		Millions of yen		*Thousands of U.S. dollars (Note 1)*	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains (losses)	*Fair value*	*Unrealized gains (losses)*
2011						
Currency swap contracts:						
Pay yen, receive U.S. dollars	$ 6	$ 1	¥ (258)	¥ (258)	$ (3,104)	$ (3,104)
Currency option contracts:						
Buy, call	$ 19	$ 6	3	(84)	41	(1,005)
Buy, put	$ 1	$ -	15	15	177	177
Sell, call	$ 1	$ -	(0)	(0)	(0)	(0)
Sell, put	$ 35	$ 13	(750)	(389)	(9,018)	(4,685)
Total			¥ (990)	¥ (716)	$ (11,904)	$ (8,617)

	Millions of U.S. dollars, millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains (losses)
2010				
Currency swaps with knock-out option contracts:				
Pay yen, receive U.S. dollars	$ 0	$ -	¥ (20)	¥ (20)
Pay—yen	¥ 90	¥ -		
Currency swap contracts:				
Pay yen, receive U.S. dollars	$ 10	$ 6	(367)	(367)
Currency option contracts:				
Buy, call—U.S. dollars	$ 32	$ 19	54	(94)
Buy, put—U.S. dollars	$ 2	$ 1	20	20
Sell, call—U.S. dollars	$ 2	$ 1	(0)	(0)
Sell, put—U.S. dollars	$ 58	$ 35	(892)	(385)
Total			¥ (1,205)	¥ (846)

Fair value is quoted based on the price information from the contracted financial institution.

Derivative instruments which qualify as hedging instruments as of March 31, 2011 and 2010 are summarized as follows:

	Notional amount		
	Total	Over one year	Fair value
	Millions of yen		
At March 31, 2011:			
Interest rate swap contracts	¥ 77,504	¥ 53,276	¥ (*)
	Thousands of U.S. dollars (Note 1)		
At March 31, 2011:			
Interest rate swap contracts	$ 932,099	$ 640,722	$ (*)

	Notional amount		
	Total	Over one year	Fair value
	Millions of yen		
At March 31, 2010:			
Interest rate swap contracts	¥ 99,668	¥ 75,104	¥ (*)

(*) Fair value of the above derivative instruments is included in the fair value of the hedged long-term loans payable in "FINANCIAL INSTRUMENTS" since the derivative is accounted for as components of the hedged long-term loans payable.

8. ACCUMULATED DEPRECIATION ON PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Accumulated depreciation	¥ 135,270	¥ 114,363	$ 1,626,816

9. IMPAIRMENT LOSS

The Company and some of its consolidated subsidiaries recorded impairment loss on the following asset groups for the fiscal years ended March 31, 2011 and 2010:

Location	Use	Classification	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2011				
Tokyo Prefecture, Hyogo Prefecture, other	Retail store, idle assets	Buildings and structures	¥ 3,991	$ 47,994
Tokyo Prefecture, other	Retail store	Land	386	4,648
Tokyo Prefecture, Hyogo Prefecture, other	Retail store, idle assets	Lease assets	1,029	12,373
Tokyo Prefecture, Hyogo Prefecture, other	Retail store, idle assets	Other tangible assets	674	8,103
Tokyo Prefecture, other	Retail store	Intangible assets	83	1,004
Tokyo Prefecture, other	Retail store	Long-term prepaid expenses	10	118
		Total	¥ 6,173	$ 74,240
2010				
Iwate Prefecture	Retail store	Buildings and structures	¥ 177	
		Other	145	
Ibaraki Prefecture	Retail store	Buildings and structures	355	
		Other	344	
Chiba Prefecture	Retail store	Buildings and structures	0	
		Other	6	
Tokyo Prefecture	Retail store	Buildings and structures	1	
		Other	7	
Ishikawa Prefecture	Retail store	Buildings and structures	26	
		Other	54	
Fukui Prefecture	Retail store	Buildings and structures	75	
		Other	62	
Osaka Prefecture	Retail store	Buildings and structures	-	
		Other	9	
Yamaguchi Prefecture	Retail store	Buildings and structures	96	
		Other	46	
Saitama Prefecture	Retail store	Buildings and structures	85	
		Other	604	
Kanagawa Prefecture	Retail store	Buildings and structures	246	
		Other	196	
		Total	¥ 2,534	

As a minimum unit for generating cash flows, each retail store is grouped and assessed. The idle assets are individually considered. The book value of the cash-generating units which would incur operating losses continuously or have no prospect for future use was written down to the recoverable amount.

An impairment loss was recorded at the amount by which the carrying amount of each group of assets exceeded its recoverable value. The recoverable amounts from those asset groups are based on the net selling price, for which the value assessed for property tax purpose is the basis.

10. LEASE INFORMATION

As Lessee

(i) Finance lease transactions

(a) Finance lease with title transfer

The Company and its consolidated subsidiaries lease certain buildings, equipment, and leasehold for retail stores.

(b) Finance lease without title transfer

The Company and its consolidated subsidiaries lease certain buildings and equipment for retail stores, such as computer equipment and other assets.

(ii) Operating lease transactions

Future minimum lease payments under non-cancelable operating leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Due within one year	¥ 11,665	¥ 10,694	$ 140,287
Due after one year	95,813	85,646	1,152,286
Total	¥ 107,478	¥ 96,340	$ 1,292,573

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Due within one year	¥ 246	¥ 246	$ 2,959
Due after one year	1,981	2,227	23,824
Total	¥ 2,227	¥ 2,473	$ 26,783

11. SHORT-TERM AND LONG-TERM LOANS PAYABLE

The weighted-average rate of interest for short-term loans payable was approximately 1.07% and 1.03% as of March 31, 2011 and 2010, respectively.

The weighted-average rate of interest for current portion of long-term loans payable was approximately 1.36% and 1.35% as of March 31, 2011 and 2010, respectively.

The weighted-average rate of interest for long-term loans payable (excluding current portion) was approximately 1.36% and 1.35% as of March 31, 2011 and 2010, respectively, and long-term loans payable is due in 2012 through 2019 and 2011 through 2019 as of March 31, 2011 and 2010, respectively.

The weighted-average rate of interest for finance lease obligations is not disclosed since related interest charges are allocated using the straight-line method over the lease terms.

Short-term and long-term loans payable as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Short-term loans payable	¥ 1,550	¥ 2,350	$ 18,641
Long-term loans payable (due within one year)	33,144	35,864	398,612
Lease obligations (due within one year)	4,544	5,634	54,645
Sub-total	39,238	43,848	471,898
Long-term loans payable (excluding amounts due within one year)	66,475	99,299	799,454
Lease obligations (excluding amounts due within one year)	5,064	9,109	60,907
Sub-total	71,539	108,408	860,361
Total	¥ 110,777	¥ 152,256	$1,332,259

The following assets were pledged as collateral for long-term loans payable (including current portion) of ¥4,343 million ($52,236 thousand) and ¥4,110 million as of March 31, 2011 and 2010, respectively:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Buildings and structures	¥ 1,555	¥ 1,597	$ 18,698
Land	3,405	3,113	40,955
Total	¥ 4,960	¥ 4,710	$ 59,653

The aggregate annual maturities of long-term loans payable as of March 31, 2011 are summarized as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2012	¥ 33,144	$ 398,612
2013	32,011	384,984
2014	20,775	249,848
2015	12,551	150,937
Thereafter	1,138	13,685
Total	¥ 99,619	$ 1,198,066

The aggregate annual maturities of finance lease obligations as of March 31, 2011 are summarized as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2012	¥ 4,544	$ 54,645
2013	2,828	34,009
2014	1,488	17,898
2015	553	6,651
Thereafter	195	2,349
Total	¥ 9,608	$ 115,552

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($601,323 thousand) with seven financial institutions. There is no amount executed under these credit facilities as of March 31, 2011.

12. CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES

Outstanding balance of the convertible bond-type bonds of the Company and the current conversion prices into common stock as of March 31, 2011 and 2010 were as follows:

	Conversion price per share	Outstanding balance			Conversion period
	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2011	2010	*2011*	
Euro yen zero coupon convertible bonds due 2013	14,175.00	70,134	70,204	843,466	March 28, 2008 – March 14, 2013
Euro yen zero coupon convertible bonds due 2015	13,797.00	59,000	59,000	709,561	March 28, 2008 – March 17, 2015
Total		¥ 129,134	¥ 129,204	$ 1,553,027	

No subscription rights were exercised for the year ended March 31, 2011. Exercise of subscription rights for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Increase in common stock by exercise of subscription rights	¥ 357
Increase in capital surplus by exercise of subscription rights	357
Decrease in convertible bond-type bonds with subscription rights to shares	¥ 714

13. INCOME TAXES

Taxes on income consist of corporate income taxes, inhabitant taxes and enterprise taxes. The aggregate statutory tax rate on income before income taxes and minority interests was approximately 40.4% for the years ended March 31, 2011 and 2010.

For the years ended March 31, 2011 and 2010, the difference between the statutory tax rate and the effective tax rate reflected in the accompanying Consolidated Statements of Income was not disclosed since the difference was immaterial.

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	*2011*
Deferred tax assets:			
Loss on valuation of inventories	¥ 7,592	¥ 1,245	$ 91,309
Asset retirement obligations	3,064	-	36,843
Impairment loss	3,885	1,565	46,727
Loss on valuation of investment securities	1,595	1,619	19,177
Allowance for loss on investments	1,803	864	21,678
Accrued enterprise taxes	3,135	2,807	37,697
Provision for bonuses	2,015	1,835	24,234
Provision for point card certificates	7,082	7,516	85,166
Provision for retirement benefits	3,647	3,037	43,866
Provision for directors' retirement benefits	1,258	1,173	15,134
Provision for product warranties	5,654	3,235	67,995
Consolidated subsidiaries' tax loss carry-forward	6,322	7,437	76,029
Others	1,563	1,488	18,818
Sub-total	48,615	33,821	584,673
Valuation allowance	(10,973)	(10,210)	(131,969)
Total deferred tax assets	37,642	23,611	452,704
Deferred tax liabilities:			
Unrealized gains on valuation of land	1,051	1,111	12,636
Loss recognized corresponding to asset retirement obligations	2,084	-	25,063
Others	220	177	2,656
Total deferred tax liabilities	3,355	1,288	40,355
Net deferred tax assets	¥ 34,287	¥ 22,323	$ 412,349

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	*2011*
Current assets – Deferred tax assets	¥ 18,299	¥ 12,840	$ 220,076
Investments and other assets – Deferred tax assets	17,263	10,771	207,612
Long-term liabilities – Other long-term liabilities	1,275	1,288	15,339

14. CONTINGENT LIABILITIES

The Company was contingently liable for transferred receivables of ¥19,202 million to credit card companies as of March 31, 2010.

Some of the consolidated subsidiaries transferred construction assistance fund receivables due from landowners to trust banks, with a recourse provision to repurchase if the landowners fail to repay their loans to the trust banks. For the year ended March 31, 2010, transferred receivables amounted to ¥4,173 million. The outstanding balance of the transferred receivables amounted to ¥443 million as of March 31, 2010.

The Company was contingently liable for guarantees of loans of Yamada Denki (Shenyang) Co., Ltd which is a non-consolidated subsidiary. denominated in renminbi (RMB) (RMB 180 million) as of March 31, 2011 and 2010 (amounting to ¥2,282 million or $27,449 thousand and ¥2,437 million, respectively).

15. RETIREMENT BENEFITS

Provision for retirement benefits as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	*2011*
Projected benefit obligation	¥ 13,002	¥ 10,151	$ 156,380
Fair value of pension assets	(1,941)	(1,630)	(23,345)
Unrecognized actuarial loss	(2,033)	(941)	(24,454)
Net provision for retirement benefits	¥ 9,028	¥ 7,580	$ 108,581

Retirement benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	*2011*
Service costs	¥ 1,588	¥ 1,431	$ 19,093
Interest cost	200	165	2,406
Expected return on plan assets	(33)	(27)	(392)
Amortization of actuarial differences	240	290	2,888
Net periodic retirement benefit costs	¥ 1,995	¥ 1,859	$ 23,995

The discount rate and the rate of expected return on plan assets used by the Company are 2.0% for the years ended March 31, 2011 and 2010. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized as income or expense in equal amounts over five years commencing from the succeeding period.

16. ASSET RETIREMENT OBLIGATIONS

Asset Retirement Obligations Included in the Consolidated Balance Sheets

Asset retirement obligations included in the consolidated balance sheets primarily represent contractual obligations for restoration related to term leasehold interests in retail stores.

The Company and its consolidated subsidiaries mainly estimate asset retirement obligations by using a discount rate of 2.29% with the term of 34 years.

Changes in asset retirement obligations for the year ended March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	*2011*
Beginning balance (*)	¥ 7,019	$ 84,412
Increase due to purchase of property and equipment	470	5,647
Adjustments due to passage of time	167	2,010
Decrease due to implementation of asset retirement obligations	-	-
Other increases (decreases)	-	-
Ending balance	¥ 7,656	$ 92,069

(*) The above beginning balance is the effect of adoption of ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations," issued by the ASBJ on March 31, 2008.

Asset Retirement Obligations Not Included in the Consolidated Balance Sheets

Certain other asset retirement obligations for leasehold contracts, for which the related amount could not be reasonably estimated due to uncertainty about the disbursement schedule and/or the incurrence of expense, are not included in the consolidated balance sheets.

17. NET ASSETS

Net assets comprise three subsections, which are the shareholders' equity, accumulated other comprehensive income and minority interests, as applicable.

Japanese companies are subject to the Companies Act of Japan (the "Companies Act") and related regulations.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Companies Act, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Companies Act, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit, and also can be capitalized by a resolution of the shareholders' meeting. Under the Companies Act, all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Ordinary General Meeting of Shareholders held on June 29, 2011, the shareholders approved cash dividends amounting to ¥7,160 million ($86,109 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

18. COST OF SALES

The ending balance of inventories was measured at the lower of cost or market, and loss on valuation of inventories included in the cost of sales for the years ended March 31, 2011 and 2010 were ¥17,985 million ($216,298 thousand) and ¥2,857 million, respectively.

19. LOSS ON DISASTER

Loss on disaster includes the following items in relation to the Great Eastern Japan Earthquake.

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
	2011	*2011*
Loss on inventories	¥ 2,094	$ 25,180
Others	148	1,784
Total	¥ 2,242	$ 26,964

20. COMPREHENSIVE INCOME

Comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Comprehensive income attributable to owners of the parent	¥ 54,835
Comprehensive income attributable to minority interests	70
Total	¥ 54,905

Other comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Valuation difference on available-for-sale securities, net of taxes	¥ (1,112)
Total	¥ (1,112)

21. SEGMENT INFORMATION

Segment Information for the Year Ended March 31, 2011

- **Segment Information**

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries adopted ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" issued on March 27, 2009 and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" issued on March 21, 2008.

The Company and its consolidated subsidiaries have been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, the disclosure related to segment information is omitted.

- **Supplemental Information on Reportable Segment**

Information about products and services for the year ended March 31, 2011 is as follows:

	Millions of yen			
	2011			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers	¥ 1,485,278	¥ 521,831	¥ 146,150	¥ 2,153,259

	Thousands of U.S. dollars (Note 1)			
	2011			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers	$ 17,862,634	$ 6,275,775	$ 1,757,672	$25,896,081

Information about geographic area for the year ended March 31, 2011 is not disclosed because there were no sales to external customers in overseas market and no overseas property or equipment.

Information on major customers is not disclosed since no single customer accounts for more than 10% of consolidated sales.

- **Information about Impairment Loss on Long-Lived Assets in Reportable Segment**

The Company and its consolidated subsidiaries have been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, this information is omitted.

- **Information about Amortization and Unamortized Balances of Goodwill by Reportable Segment**

Not applicable.

For the year ended March 31, 2011 and as of March 31, 2011, amortization and unamortized negative goodwill as a result of the business combination occurred before April 1, 2010 were as follows:

	Sales of home electrical appliances and home information appliances retail business	
	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Amortization of negative goodwill ··························	¥ 701	$ 8,426
Ending balance ···················	¥ 367	$ 4,409

- **Information about Gain on Negative Goodwill by Reportable Segment**

Not applicable.

Segment Information for the Year Ended March 31, 2010

The Company and its consolidated subsidiaries primarily operate in the home electrical appliance and home information appliance retail market.

For the year ended March 31, 2010, business segment information is not disclosed because the proportion of the net sales and the operating income derived from the above business segment exceeded 90% of the total.

For the year ended March 31, 2010, geographic segment information is not disclosed because there were no overseas consolidated subsidiaries and major branches.

For the year ended March 31, 2010, information for overseas sales is not disclosed because there were no overseas sales during the period.

22. RELATED PARTIES

Significant balances with related parties as of March 31, 2011 and 2010, and related transactions for the years ended March 31, 2011 and 2010 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	*2011*
Balances of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director, chairman, and his relatives:			
Prepaid expense (prepaid rent)	¥ 77	¥ 82	$ 932
Guarantee deposits (due within one year)	146	146	1,761
Guarantee deposits	3,206	3,412	38,560
Other current liabilities (advance received)	-	0	-
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Short-term loan receivable	350	-	4,209
Principal transactions of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director, chairman, and his relatives:			
Payment of company house rent and lease and guarantee deposit	901	945	10,841
Rental of retail stores	-	40	-
Purchase of property	-	179	-
Purchase of land	415	-	4,990
Sale of stocks	51	-	613
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Interest income on short-term loan receivable	4	-	43
Principal transactions of a non-consolidated subsidiary:			
Simplex REIT Investment Corp., 100% indirectly owned by the Company:			
Sale of property	-	49,949	-
Finance lease transaction	-	28,289	-

23. SUBSEQUENT EVENTS

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 29, 2011:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥76 ($0.91) per share	¥ 7,160	$ 86,109

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INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

To the Board of Directors of YAMADA DENKI Co., Ltd.:

We have audited the accompanying consolidated balance sheets of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, statement of income for the year ended March 31, 2010, and statements of changes in net assets and cash flows for each of the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan
June 29, 2011