Financial Report 2013

Fiscal year ended March 31, 2013

YAMADA DENKI CO., LTD.

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Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2013

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 3)*
	As of and year ended March 31					
	2009	2010	2011	2012	2013	2013
Net sales (Note 1)	1,871,828	2,016,140	2,153,259	1,835,454	1,701,489	18,091,324
Ordinary income	64,605	101,587	137,848	102,226	47,906	509,369
Net income	33,207	55,947	70,755	58,265	22,204	236,083
Comprehensive income	-	-	71,192	58,305	21,240	225,842
Net assets	356,452	406,381	470,850	526,743	555,391	5,905,275
Total assets	778,489	899,613	929,010	937,841	1,138,389	12,104,085
Net assets per share (yen)	3,757.06	4,297.29	4,978.38	5,516.15	5,653.36	60.11 *(dollars)*
Net income per share (yen)	353.32	594.26	751.03	618.46	235.68	2.51 *(dollars)*
Diluted net income per share (yen) (Note 2)	352.47	593.84	-	-	-	- *(dollars)*
Equity ratio (%)	45.4	45.0	50.5	55.4	46.8	
Return on equity (%)	9.8	14.8	16.2	11.8	4.2	
Price earnings ratio (times)	10.92	11.61	7.47	8.36	18.22	
Cash flows from operating activities	50,499	133,718	93,072	34,259	(12,789)	(135,986)
Cash flows from investing activities	(67,347)	(108,218)	(25,238)	(38,063)	(39,232)	(417,145)
Cash flows from financing activities	(307)	8,556	(45,941)	(24,361)	47,174	501,594
Cash and cash equivalents at end of year	47,957	83,045	104,815	76,344	77,906	828,349
Employees (persons)	11,127	12,280	12,439	14,006	21,261	
[Average number of temporary employees not included in the above number (persons)]	[9,986]	[10,294]	[10,775]	[10,762]	[11,410]	

Notes: 1. Net sales did not include consumption tax.

2. Diluted net income per share for the fiscal years ended March 31, 2011, 2012 or 2013 is not presented because the Company and its consolidated subsidiaries had no securities with dilutive effects.

3. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 29, 2013, which was ¥94.05 to U.S. $1.

2. OVERVIEW OF PERFORMANCE

During the fiscal year under review, some positive signs had begun to be observed in the Japanese economy since the December 2012 changeover in government, such as the sudden weakening of the yen, rallying of the stock market and a feeling of optimism toward economic recovery. Nevertheless, the economic situation remained uncertain as not only did it continue to be impacted by the protracted slowdown in the global economy and partial slowdown in the emerging markets, but it also experienced repercussions from the end of various economic measures and the lack of any clearly decided restoration policy following the Great East Japan Earthquake.

The consumer electrical appliance retail industry continued to experience a slowdown, heavily affected by sales decreases resulting from previous demands brought forth by the “Eco-points” program (i.e., the Japanese government’s economic stimulus program to encourage consumers’ purchases of energy-saving electrical appliances) and the digitalization of televisions. The market environment continued to present the harshest conditions in this industry’s history, leading to further acceleration in movement toward industry restructuring in a fight for survival.

Operating in these circumstances, Yamada Denki Co., Ltd. (the “Company”) and its significant consolidated subsidiaries (together with the Company, the “Group”) led the industry in utilizing the stores and service network owned by the Group to strengthen coordination with its subsidiaries, SxL Corporation and Housetec Holdings Inc. By such means, as a leading company in the consumer electrical appliance retail industry, the Group expanded into new markets by taking a flexible, comprehensive approach that manufacturers are unable to provide in offering proactive smart house proposals.

However, the harsh market environment and fierce competitive circumstances of the consumer electrical appliance retail industry are expected to continue. Keeping in mind that the Group’s capability must be dramatically improved in order to further strengthen its competitiveness, the Company subscribed to a private placement of new shares by Best Denki Co., Ltd. (“Best Denki”) on July 13, 2012, and announced a capital and business alliance with Best Denki. After receiving a notice from the Japan Fair Trade Commission on December 10, 2012 that it would not issue a cease and desist order under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, the Company completed the purchase of shares on December 13, 2012, making Best Denki a consolidated subsidiary. Since March 1, 2013, integration of the two companies has been taking place to merge sales channels, logistics, business systems and sales promotion so as to gain greater efficiency.

It is expected that combining the Company’s various infrastructures and operational know-how with Best Denki’s community-based store developments centering on the Kyushu region and know-how on personnel trainings, which have been developed over many years, will result in a quantum leap in terms of advantages gained from having a large business scale for the entire Group, including Best Denki. Such combination is also expected to result in the realization of store developments that give full consideration to the two companies’ common area strategies in Japan and overseas, as well as a more efficient infrastructure and network. With this move, the Company aims to improve its competitiveness and management efficiency across the Group while at the same time improving customer satisfaction and corporate value.

In an effort to improve customer service, the Group has started matching internet prices at stores and providing same-day delivery service for customers that purchase items on the internet. Under such delivery service, the purchased item is delivered by the Company employee from a store located near the customer (see advertising pamphlets (Japanese only) for additional details). Through such effort, the Group is enhancing customer satisfaction through the utilization of its nationwide store network and service network and differentiating its services from its competitors.

From a product perspective, the market continued to experience a slowdown, heavily affected by sales decreases resulting from previous demands brought forth by the “Eco-points” program and the digitalization of televisions. Although sales were solid for energy-saving white goods, such as refrigerators and air conditioners, as well as smart phones and tablet devices, there was a big slump in the market for visual-related products such as televisions and recorders. The PC market was also sluggish over the entire year despite a partial revitalization from the launch of Windows 8.

Characteristics of the Group is that it pursues the breadth, depth and possibilities of its field of business centering on the retail sale of electrical appliances and generates profit through the proactive operation of solution businesses such as involving services, the internet, point system, corporate matters, information systems, logistics, smart house proposals and the environment. Approximately 40% of the Group's ordinary income was derived from these solution businesses in the fiscal year under review.

As a leading company in the consumer electrical appliance retail industry, the Group initiates genuine CSR activities. Specifically, the Group is working proactively to hold various events that utilize an event space named "LABI GATE" (two locations nationwide), which is each attached to an urban retail store named "LABI", and to make a contribution to local communities through various economic, cultural and sporting activities.

Details of the Group's CSR activities are continuously published in its CSR report and a publication called the "Monthly CSR Activities", which is posted on the Company website (http://www.yamada-denki.jp/csr/index.html). It is noted that these documents are published in Japanese only.

With regard to store development, the Group proactively pursues store openings and/or closing of stores in line with its scrap-and-build policy. The number of consolidated retail stores at the end of the fiscal year under review was 972 (comprising 595 stores directly managed by the Company and 377 stores operated by its consolidated subsidiaries). The total number of stores of the Group, including stores managed by non-consolidated subsidiaries and franchise stores, was 4,421.

As a result of the above, consolidated net sales decreased 7.3% year on year to ¥1,701,489 million, operating income decreased 61.9% to ¥33,931 million and net income decreased 61.9% to ¥22,204 million.

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

3. SALES PERFORMANCE

(1) Sales Results

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

Items	Year ended March 31, 2013		
	Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances			
Color televisions	116,609	6.9	(56.6)
Video/DVD players	66,635	3.9	(41.5)
Audio equipment	38,774	2.3	(7.4)
Refrigerators	120,041	7.1	7.6
Washing machines	89,658	5.3	4.7
Cooking appliances	72,170	4.2	1.1
Air conditioners	109,516	6.4	4.2
Other home cooling and heating equipment	39,565	2.3	4.4
Others	323,763	19.0	(0.7)
	976,731	57.4	(16.0)
Home information appliances			
Personal computers	205,331	12.1	(6.7)
PC peripheral equipment	112,621	6.6	(1.4)
PC software	11,169	0.7	1.9
Telephones/fax machines	7,711	0.5	(5.4)
Mobile phones	124,566	7.3	3.9
Others	50,025	2.9	(3.4)
	511,423	30.1	(2.6)
Other products			
Audio and visual software and books	95,837	5.6	(0.2)
Housing-related products	81,736	4.8	439.5
Others	35,762	2.1	(3.6)
	213,335	12.5	43.8
	1,701,489	100.0	(7.3)

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, 2013	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,701,489	(7.3)
Sales floor space (average) - m²	2,269,201	13.5
Sales per square meter - thousands of yen	750	(18.3)
Employees (average) - persons	32,402	30.6
Sales per employee - millions of yen	53	(29.0)

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 same law prior to its revision).
2. The figures shown above do not include consumption tax.
3. "Employees" includes temporary employees.

4. ISSUES TO BE ADDRESSED BY THE GROUP

Concerning the outlook for the market environment surrounding the Group, although there continues to be firm demands for white goods, especially energy-saving electrical appliances, the Company expects difficult circumstances to continue, particularly considering the impact of previous demands brought forth by various measures centered on visual-related products.

To compete successfully in such a market environment, the Group will continue to utilize its nationwide service network to strengthen coordination with subsidiaries, SxL Corporation (the name of this company was changed to YAMADA SXL HOME CO., LTD. on June 1, 2013) and Housetec Holdings Inc. (this company was combined with Housetec Inc. on June 1, 2013), and introduce the "Total Smarnity Life Corner" booths to around 190 major stores. While targeting a wide range of customer needs, such as a new house construction, renovations (from small to large) and sale of land, the Group will further expand into new markets as a leading company by taking a flexible, comprehensive approach in offering proactive smart house proposals.

Despite the absence of concrete numerical targets for saving electricity during the summer of 2013, the problem of electric power supply from a medium- to long-term perspective is an issue of considerable importance in Japan. For this reason, the Group will actively propose the use of energy-saving electrical appliances with the view that such work is part of its mission as a distributor. The Group will also work to achieve market expansion through concerted efforts to expand sales of products such as smart phones and tablet devices.

While creating a differentiation between the Group and its competitors through active development of various solution businesses, which will involve proactive efforts to develop internet-related businesses, the Group will utilize its store network for carrying out various measures to achieve true customer satisfaction.

With respect to store development, the Group will actively open stores in areas where it has yet to have a presence in proportion to the market size. The Group also will aim to further enhance its service network to respond to all customer needs through the development of a nationwide chain with potentials that are unrivalled anywhere else in the world.

By actively carrying out these management measures, the Group will rise to the challenges of discovering new potentials and developing new markets for the consumer electrical appliance retail industry while also placing utmost attention to low-cost operations, improving cash flows, enhancing profitability and strengthening its management culture.

5. 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 below 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 as well as overseas. The Group continues to plan retail store openings overseas, in addition to the continued development of a nationwide chain of stores, appropriate to the size of the Japanese market, 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, which will make it susceptible to competition from competitor companies. The Group expects competition from competitors in areas where its stores have been already established to be fierce. The Group also expects labor outlays 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 markets and conditions of the area in which such stores are opened. In addition, there is a possibility that stores that are closed due to a revision of the store development policy may 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 carefully thought-out decisions. However, there is always the possibility that changes or delays could occur in the planning due to issues relating to real property. 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, any circumstance that thwarts capital procurement efforts could block the execution of business plans in the future.

(2) Competition

The consumer electrical appliance retail industry exists in an environment of fierce competition. The Group is faced with competitor companies in the form of not only large-scale consumer electronics retailers but also all businesses that handle household electronics including supermarkets, home centers and various mail-order companies, such as internet shopping companies and the like. Although the Group recognizes its leading position in the industry, it is confronted with various 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 store openings in suburban areas. However, it has been recently opening stores in large cities. As a result, competition from other companies whose store development policy is urban-centric is expected to intensify. The Group believes that there is a possibility of aggravated competition due to the appearance of new companies on the market, as well as 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 is not able to successfully adapt to such situations, 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 result in decreased profits, further worsening the Group's performance and financial position.

(3) Risks Related to M&As and Alliances

The Company may execute organizational restructurings, M&As, alliances and sales of business in order to strengthen its business foundation. The Company will carefully study and examine the conditions before acting in order to alleviate risk. However, contingency liabilities may arise after such actions take place or due to other unforeseeable issues. The Company also believes t that initial expectations may not materialize or that investments may 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 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), as applicable. Newly established laws and/or regulations, revisions to existing rules or stricter interpretations of laws and regulations by the regulatory 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.

In relation to the opening of new stores with store area exceeding 1,000 square meters, or the expansion of existing stores beyond such size, local governments enact and enforce regulations in accordance with the provisions on store openings under the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment so as to preserve the living environment of the surrounding region. The Group is aware that its new store openings and expansion of existing stores are subject to regulations based on such Act and will observe such Act for the consideration of the living environment of the surrounding region and the like. Depending on the time required for surveys under such Act, delays or the like 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 based on 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 such regulations. The Group will observe such regulations. It is noted that such regulations may affect conventional trading practices as well as the operating results of the Group.

Furthermore, increased restrictions under the Construction Business Act, the Building Standards Act, the Building Lots and Buildings Transaction Business Act and/or other related laws and regulations applicable to the Group's housing business may negatively affect the performance 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. Various revisions in laws and regulations or changes in domestic and/or overseas economic factors, such as interest rates, fuel prices, the number of housing projects started, unemployment figures, increases in tax rates, changes in exchange rates or stock prices, a slowdown in the global economy or partial slowdown in emerging markets, may not only push up the cost of sales and business expenses but also reduce disposable incomes and drive down the demands for the Group's products. Regarding the Japanese economy, the massive damage caused by the Great East Japan Earthquake is still significant and progress of recovery efforts remains slow. Furthermore, serious, nationwide power crunch resulting from the Fukushima Daiichi Nuclear Power Plant incident is having a large impact primarily on corporate activities but also on personal consumption. The consumer electrical appliance retail industry has felt the effects of previous demands brought forth by the "Eco-points" program for electrical appliances, which ended on March 31, 2011, and the universal switch to digital televisions on July 24, 2011, and the consequent lulls in demand in reaction to the above. As a result, the slump in the market has continued. The fall in disposable incomes and consumer spending in Japan may result in lowering the prices especially of high-priced, high-function electric appliances, which are some of the products handled by the Group. Under current conditions, with the Europe's debt problems continuing, economic prospects are clouded with uncertainty, particularly in the financial markets. In view of these factors, there is absolutely no guarantee that the Japanese economy will continue growing, or stop receding. The Group's business, performance and financial position may be negatively affected by the decrease in domestic consumer spending.

Furthermore, the Group's housing business is strongly affected by employment conditions, trends in land prices and interest rates, and trends in personal consumption driven by policies relating to housing and the housing tax system. Depending on such conditions or trends, the performance of the Group may be negatively affected, particularly if there is a substantial decline in orders for houses resulting from an unforeseen deterioration in the market climate.

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

As with other retailers, sales and revenue fluctuate monthly. Generally, the Group sees increases during the 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 or the like 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 and the like, 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 demands springing up due to seasonal changes, weather conditions or other events, not to mention demand for the Group's products in general. Any significant deviation from such predictions may negatively impact the Group's business, performance and financial position.

(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 and make sure that sufficient quantities of such products are in stock to meet consumer needs. 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 position may be negatively affected. Such failure can be caused by a lack of a certain products due to competition from other retailers, change in the Group's relationship with manufacturers or the new product or technology on which a manufacturer is focusing being inconsistent with consumer needs. Also, the introduction of a new product may result in a decrease in the sales of existing products.

(8) Product Purchasing

To have favorable Group performance, it is essential to always have in place a system under which the necessary products are purchased in necessary quantities at appropriate prices. Unfortunately, if maintaining regular product supplies becomes difficult due to, among other matters, a change in the relationship with business partners or fragmentation in the distribution network caused by a natural disaster or a traffic accident, product purchasing according to a preconceived plan may become unfeasible. Such circumstances may negatively affect the Group's performance and financial position.

(9) Risks Regarding Quality Assurance for Housing

The Group thoroughly manages the quality of housing with unique, high-quality techniques it has developed as producer of housing. Even so, the performance and financial position of the Group may be negatively affected if a serious issue with quality arises due to unforeseen circumstances.

(10) Impairment on Long-Lived Assets

The Group possesses a large number of long-lived assets, including property and equipment and goodwill, and carries out impairment accounting regarding these assets. However, further recognition of impairment losses may become necessary if there is deterioration in the profitability of the Group's stores, a dramatic fall in the market price of the assets possessed by the Group or the like. Such circumstances may negatively affect the Group's performance and financial position.

(11) Managing Franchises

The Group is increasing the number of franchises managed as small, community-based retail stores. However, it cannot guarantee that it 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, which will negatively affect the Group’s performance and financial position. Also, because franchises are not completely under the control of the Group, they may be managed in a manner that is inconsistent with the Group standards. This may not only negatively affect the Group’s performance and financial position, but also its reputation.

(12) Handling Personal and Other Secret Information

The Group handles a significant amount of customers’ personal information in relation to, among other matters, point card certificates, registrations for the Group’s service for 24-hour shopping through mobile phones, the processing of credit card applications and paid service subscription of several long-term product warranties. Such information is handled by an internal control system under which awareness with respect to information management is heightened and ample caution is taken to prevent leaks. Any such leaks may damage the reputation of the Group and negatively affect its performance and financial position.

(13) Natural Disasters

In cases where the Group’s operations are interrupted by damages to its store facilities or blackouts as a result of natural disasters from typhoons or earthquakes, products cannot be procured due to an obstruction, the Group is required to close stores in accordance with evacuation advice due to the effects of radioactive materials from an accident at a nuclear power station or operations at the Group’s stores are partially impeded due to the occurrence of a disaster from an infectious disease, such as a new strain of influenza or the like, there may be a significant decrease in the Group’s sales, which may in turn have a significant impact on the Group’s performance.

6. IMPORTANT AGREEMENTS

Credit Sales Franchise Agreements

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

Name of consumer credit company	Execution date	Contract period
JCB Co., Ltd.	April 2005	Upon request for cancellation by one of the parties with three months advanced notice
Orient Corporation	November 1991	Same as above
Mitsubishi UFJ NICOS Co., Ltd.	August 1990	Same as above
UC Card Co., Ltd.	July 1990	Same as above

7. RESEARCH AND DEVELOPMENT

Since the amount of research and development activities is minimal, R&D disclosures have been omitted. There has been no material change in the research and development activities of the Group in the fiscal year under review.

8. ANALYSIS OF FINANCIAL POSITION, RESULTS OF OPERATIONS AND CASH FLOWS

Items in the text below 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 have been prepared based on the generally accepted accounting standards of Japan.

In their preparation, important accounting policies that were applied are as stated in Note 2 to the consolidated financial statements, entitled the “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES”.

When calculating provisions and valuating assets or the like, the Group makes estimates and judgments based on various factors considered reasonable given the past results and conditions of applicable transactions, and results of such estimates/judgments are reflected in the preparation of the consolidated financial statements.

(2) Analysis of Financial Position

Total assets at the end of the fiscal year under review amounted to ¥1,138,389 million, up ¥200,548 million (21.4%) from the end of the previous fiscal year. This was mainly due to increases in accounts receivable, merchandise and finished goods resulting from an increase in the number of consolidated subsidiaries, in addition to an increase in buildings and structures resulting from an increase in the number of new stores.

Total liabilities amounted to ¥582,998 million, up ¥171,900 million (41.8%) from the end of the previous fiscal year. This was mainly due to an increase in loans payable.

Net assets amounted to ¥555,391 million, up ¥28,648 million (5.4%) from the end of the previous fiscal year, mainly reflecting an increase in retained earnings and the like. As a result, the equity ratio was 46.8% (down 8.6 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 decreased ¥133,965 million (7.3%) to ¥1,701,489 million compared with the previous fiscal year.

This decrease was a result of a considerable slump in the electrical appliance market. Such market continued to experience a slowdown, heavily affected by decrease in sales resulting from previous demands brought forth by the "Eco-points" program and the digitalization of televisions. Although sales were solid for energy-saving white goods, such as refrigerators and air conditioners, as well as smart phones and tablet devices, there was a big slump in the market for visual-related products, such as televisions and recorders. The PC market was also sluggish over the entire year despite a partial revitalization from the launch of Windows 8.

Reflecting the decline in net sales, gross profit decreased 9.8% compared with the previous fiscal year to ¥418,520 million.

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

Selling, general and administrative expenses for the fiscal year under review increased ¥9,717 million (2.6%) to ¥384,589 million compared with the previous fiscal year. Despite expenses associated with consolidating Housetec Holdings Inc. and Best Denki, as well as increases in various expenses in line with new store openings, such as personnel and rent costs, the year-on-year increase in total selling, general and administrative expenses was kept at a low level, thanks to the continued implementation of money-saving measures and scrupulous efforts to control point-related costs. Operating income decreased ¥55,048 million (61.9%) to ¥33,931 million compared with the previous fiscal year.

Other income for the fiscal year under review was ¥12,234 million compared to other income of ¥11,658 million in the previous fiscal year. This increase was mainly due to increases in both income and expenses associated with consolidating Housetec Holdings Inc. and Best Denki, gain on negative goodwill associated with consolidating Best Denki, loss on valuation of investments in non-consolidated subsidiaries and affiliated companies and the provision of allowance for doubtful accounts.

As a result of the above, income before income taxes and minority interests decreased ¥54,472 million (54.1%) to ¥46,165 million compared with the previous fiscal year.

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

The amount of income taxes during the fiscal year under review was ¥25,238 million, income before minority interests was ¥20,927 million and minority interests in loss amounted to ¥1,277 million.

As a result of the above, net income decreased ¥36,061 million (61.9%) to ¥22,204 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 ¥77,906 million, up ¥1,562 million (2.0%), including an increase of ¥5,691 million due to new consolidation compared with the end of the previous fiscal year.

Cash flows during the fiscal year under review were as follows.

Cash flows from operating activities

Net cash used in operating activities amounted to ¥12,789 million.

This was mainly due to increases in income taxes paid and inventories, despite an increase in notes and accounts payable.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥39,232 million.

This was mainly due to purchases 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 provided by financing activities amounted to ¥47,174 million.

This was mainly due to proceeds from loans payable and an increase in loans payable, despite the redemption of bonds.

9. CORPORATE GOVERNANCE

(1) Corporate Governance Structures

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

The Company has adopted the Audit & Supervisory Board system, and it conducts supervision and monitoring of the execution of operations through its Board of Directors and the Audit & Supervisory Board. Also, as part of the efforts to facilitate rapid responses to changes in the business environment, the Company has adopted a corporate executive officer system that establishes a 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 President & CEO and the Executive Vice-President & COO (both with representative authority). Operating under these senior executives, the executive officers concentrate on their execution of operations and assume responsibility for the management of specified functions. The Company has established the CSR Committee, in addition to the existing Compliance Committee and Internal Audit Office, to oversee the formulation of specific CSR-related policies and standards covering areas such as business ethics and the like. The CSR Committee conducts ongoing activities aimed at enhancing internal and external awareness of CSR-related issues.

The Company adopted the above-described structures in order to implement concrete corporate governance structures that would lead to the realization of 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 an important forum for shareholders, as owners of the Company, 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 the opportunity to exercise their rights appropriately. Because foreigners make up a large percentage of the shareholders, the Company strives to figure out ways to meet their needs, in addition to preparing and delivering notices regarding the General Meeting of Shareholders in English in a timely manner.

(ii) Board of Directors

The Company’s Board of Directors, which comprises 16 directors, convenes meetings once a week. Extraordinary Board meetings are also convened when necessary. The Company’s Board of Directors reviews any important issues related to the Company’s business, discusses the status of the Company’s performance and takes prompt action as required. Separately, directors and executive officers attend weekly business strategy meetings at which senior management reviews the progress of executing business strategies.

Please note that the Company has 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) Audit & Supervisory Board

The Company's Audit & Supervisory Board system relies on one standing audit and supervisory board member and two non-standing (external) Audit and Supervisory Board members. These auditors participate in the Board of Directors meetings and other important business meetings to monitor the performance of duties. The Audit & Supervisory Board can work together with the Internal Audit Office and the auditing firm in carrying out audits such as by exchanging information as necessary and the like. The non-standing Audit and Supervisory Board member, or his or her designee, can be present at meetings of the Board of Directors and other meeting where the execution of operations is discussed, at which such person may state his/her opinions or demand explanations.

(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, such office engages in the auditing of daily business activities, observation of inventory count or the like, internal checks and internal auditing. Functioning in cooperation with the Audit & Supervisory Board members and the auditing firm, such as by exchanging information as necessary and the like, such office provides an audit perspective to ensure that the Company's business activities are conducted properly and efficiently.

(vi) Auditing firm

The Company's independent auditor, KPMG AZSA LLC, audits its financial statements.

(vii) Number of directors and election rules

The Company's Articles of Incorporation limit the maximum number of directors to 17. An approval of resolution to elect directors requires a simple majority vote in favor 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 risks that arise in the case of a major accident, disaster or other events, the Company has prepared an "Emergency Response Manual". The responsible director will set up an emergency response center and promptly take action if a disaster or other untoward events occur.

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

(2) Status of Internal Auditing and Audits by Audit & Supervisory Board Members

The organizations of the Company's internal auditing and the Audit & Supervisory Board members and cooperation between the two are described in item (iv) (Audit & Supervisory Board) and item (v) (Internal auditing) under (1) Corporate Governance Structures.

(3) External Directors and External Audit & Supervisory Board Members

The Company has two external Audit & Supervisory Board members. External Audit & Supervisory Board member Mr. 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 and the like. Mr. Yutaka Nakamura has been elected as external Audit & Supervisory Board member mainly based on his wealth of business management experience. External Audit & Supervisory Board member Mr. Masamitsu Takahashi concurrently serves as Representative Partner of Hikari Certified Public Tax Accountants Corporation. The Company does not have a personal relationship, capital relationship, trading relationship or share any other interests with Hikari Certified Public Tax Accountants Corporation. Mr. Masamitsu Takahashi has been elected as External Audit & Supervisory Board member mainly based on his capacity as a tax accountant, which is valuable with respect to the Company's accounting system and internal auditing and will help ensure sound and appropriate of decision-making by the Board of Directors. The above-mentioned External Audit & Supervisory Board members may be present at meetings of the Board of Directors and/or Audit & Supervisory Board and may work with the Internal Audit Office and the accounting auditor in carrying out audits, during which such members may state their opinions or demand explanations.

The Company has no external directors. The Company is strengthening the monitoring of its Board of Directors, which has the functions of making decisions as management and managing and supervising the execution of operations by executive officers, by having two of the three Audit & Supervisory Board members be external Audit & Supervisory Board members. In corporate governance, it is important that management is monitored externally based on objectivity and impartiality. Based on the Company's current corporate governance structures, under which there are two external Audit & Supervisory Board members conducting audits, management of the Company is being effectively monitored.

Although the Company has not established its own criteria or policies regarding the independence of external directors and external Audit & Supervisory Board members to be applied when appointing such persons, the Company refers to criteria established by other institutions, such as of the securities exchange and the like, in assessing the independence of independent director/auditor considered for appointment.

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2013 and 2012

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
ASSETS			
Current assets:			
Cash and time deposits (Notes 6 and 8)	¥ 79,522	¥ 77,145	$ 845,531
Notes and accounts receivable (Notes 8 and 17):			
- Trade	66,305	27,486	704,995
- Non-consolidated subsidiaries and affiliated companies	1,294	1,133	13,763
Sub-total	67,599	28,619	718,758
Inventories (Note 14)	270,275	190,045	2,873,733
Deferred tax assets (Note 16)	11,643	13,749	123,793
Other current assets (Notes 8 and 27)	53,893	44,475	573,026
Allowance for doubtful accounts	(657)	(300)	(6,984)
Total current assets	482,275	353,733	5,127,857
Property and equipment:			
Buildings and structures, net (Notes 4, 11, 12, 14 and 19)	223,303	189,259	2,374,301
Land (Notes 4, 12 and 14)	179,583	167,150	1,909,437
Lease assets, net (Notes 11, 12 and 13)	3,360	4,890	35,728
Others, net (Notes 11 and 12)	25,455	11,772	270,652
Total property and equipment, net	431,701	373,071	4,590,118
Intangible assets (Note 12)	43,078	34,597	458,038
Investments and other assets:			
Investment securities (Notes 8 and 9)	11,449	15,840	121,735
Long-term loans receivable	8,719	15,301	92,710
Guarantee deposits (Notes 8 and 27)	123,123	111,162	1,309,124
Deferred tax assets (Note 16)	10,805	15,978	114,882
Other assets (Notes 4 and 12)	29,752	19,378	316,339
Allowance for loss on investments in subsidiaries	(35)	(41)	(372)
Allowance for doubtful accounts	(2,478)	(1,178)	(26,346)
Total investments and other assets	181,335	176,440	1,928,072
Total assets	¥ 1,138,389	¥ 937,841	$ 12,104,085

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	*2013*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 8 and 27)	¥ 109,214	¥ 65,580	$ 1,161,232
Short-term loans payable (Notes 8 and 14)	113,835	25,000	1,210,367
Current portion of bonds (Notes 8 and 15)	-	70,064	-
Lease obligations (Notes 13 and 14)	1,988	2,973	21,141
Income taxes payable (Note 8)	1,639	6,282	17,426
Provision for bonuses	6,106	5,057	64,923
Provision for directors' bonuses	144	136	1,535
Provision for point card certificates	21,332	21,482	226,812
Provision for warranties for completed construction	232	233	2,470
Provision for loss on liquidation of subsidiaries	557	-	5,927
Other current liabilities (Note 14)	97,666	72,422	1,038,434
Total current liabilities	352,713	269,229	3,750,267
Long-term liabilities:			
Bonds (Notes 8 and 15)	59,000	59,000	627,326
Long-term loans payable (Notes 8 and 14)	102,794	35,359	1,092,974
Lease obligations (Notes 13 and 14)	2,374	2,701	25,240
Asset retirement obligations (Note 19)	12,733	9,048	135,384
Provision for retirement benefits (Note 18)	19,411	11,087	206,385
Provision for directors' retirement benefits	3,463	3,363	36,823
Provision for product warranties	13,517	14,378	143,727
Provision for loss on interest repayments	913	-	9,707
Other long-term liabilities (Note 16)	16,080	6,933	170,977
Total long-term liabilities	230,285	141,869	2,448,543
Total liabilities	582,998	411,098	6,198,810
Contingent liabilities (Note 17)			
Net assets (Note 20):			
Common stock:			
Authorized – 200,000,000 shares			
Issued – 96,648,974 shares in 2013 and 2012	71,059	71,059	755,543
Capital surplus	70,977	70,977	754,676
Retained earnings	414,484	401,729	4,407,060
Treasury stock, at cost – 2,438,797 shares in 2013 and 2012	(23,046)	(23,046)	(245,038)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes (Note 9)	(721)	(1,058)	(7,666)
Deferred gains and losses on derivatives under hedge accounting, net of taxes (Note 10)	-	17	-
Foreign currency translation adjustments	(149)	-	(1,589)
Subscription rights to shares (Note 21)	2	4	22
Minority interests	22,785	7,061	242,267
Total net assets	555,391	526,743	5,905,275
Total liabilities and net assets	¥ 1,138,389	¥ 937,841	$ 12,104,085

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, 2013 and 2012

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Net sales (Notes 26 and 27):			
- Trade	¥ 1,687,878	¥ 1,820,325	$ 17,946,603
- Non-consolidated subsidiaries and affiliated companies	13,611	15,129	144,721
Sub-total	1,701,489	1,835,454	18,091,324
Cost of sales (Notes 22 and 27)	1,282,969	1,371,603	13,641,355
Gross profit	418,520	463,851	4,449,969
Selling, general and administrative expenses (Notes 18, 23 and 27)	384,589	374,872	4,089,194
Operating income	33,931	88,979	360,775
Other income (expenses):			
Interest income (Note 27)	1,261	1,277	13,409
Interest expenses	(1,618)	(1,346)	(17,204)
Purchase discounts	4,987	7,075	53,026
Impairment loss (Note 12)	(111)	(1,476)	(1,181)
Foreign exchange gains	3,653	122	38,842
Gain on negative goodwill (Note 5)	3,920	-	41,680
Loss on valuation of stocks of subsidiaries	(2,500)	(480)	(26,581)
Provision of allowance for doubtful accounts	(1,244)	-	(13,231)
Others, net (Notes 24 and 27)	3,886	6,486	41,320
Total other income	12,234	11,658	130,080
Income before income taxes and minority interests	46,165	100,637	490,855
Income taxes (Note 16):			
Current	15,712	36,658	167,060
Deferred	9,526	5,677	101,283
Total income taxes	25,238	42,335	268,343
Income before minority interests	20,927	58,302	222,512
Minority interests in income	(1,277)	37	(13,571)
Net income	¥ 22,204	¥ 58,265	$ 236,083

	Yen		*U.S. dollars (Note 1)*
Amounts per share of common stock:			
Basic net income	¥ 235.68	¥ 618.46	$ 2.51
Cash dividends applicable to the year	60.00	76.00	0.64

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2013 and 2012

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Income before minority interests	¥ 20,927	¥ 58,302	$ 222,512
Other comprehensive income, net of taxes (Note 25):			
Valuation difference on available-for-sale securities	449	(31)	4,769
Deferred gains on derivatives under hedge accounting	(34)	34	(360)
Foreign currency translation adjustments	(107)	-	(1,131)
Share of other comprehensive income of associates accounted for using equity method	5	-	52
Total other comprehensive income	313	3	3,330
Comprehensive income	¥ 21,240	¥ 58,305	$ 225,842
Comprehensive income attributable to:			
Owners of parent company	¥ 22,375	¥ 58,250	$ 237,908
Minority interests	(1,135)	55	(12,066)

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, 2013 and 2012

	Millions of yen										
		Shareholders' equity				Accumulated other comprehensive income					
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities, net of taxes (Note 9)	Deferred gains and losses on derivatives under hedge accounting, net of taxes (Note 10)	Foreign currency translation adjustments	Subscription rights to shares (Note 21)	Minority interests	Total net assets
Balance at April 1, 2011	96,649	¥ 71,059	¥ 70,977	¥ 351,050	¥ (23,046)	¥ (1,026)	¥ -	¥ -	¥ -	¥ 1,836	¥ 470,850
Cash dividends				(7,160)							(7,160)
Net income				58,265							58,265
Changes in scope of consolidation				(426)							(426)
Other changes in the year, net						(32)	17		4	5,225	5,214
Balance at April 1, 2012	96,649	71,059	70,977	401,729	(23,046)	(1,058)	17	-	4	7,061	526,743
Cash dividends				(7,160)							(7,160)
Net income				22,204							22,204
Changes in scope of consolidation				(2,289)							(2,289)
Other changes in the year, net						337	(17)	(149)	(2)	15,724	15,893
Balance at March 31, 2013	96,649	¥ 71,059	¥ 70,977	¥ 414,484	¥ (23,046)	¥ (721)	¥ -	¥ (149)	¥ 2	¥ 22,785	¥ 555,391

	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 9)*	*Deferred gains and losses on derivatives under hedge accounting, net of taxes (Note 10)*	*Foreign currency translation adjustments*	*Subscription rights to shares (Note 21)*	*Minority interests*	*Total net assets*
Balance at April 1, 2012	$ 755,543	$ 754,676	$ 4,271,446	$ (245,038)	$ (11,261)	$ 181	$ -	$ 44	$ 75,079	$5,600,670
Cash dividends			(76,129)							(76,129)
Net income			236,083							236,083
Changes in scope of consolidation			(24,340)							(24,340)
Other changes in the year, net					3,595	(181)	(1,589)	(22)	167,188	168,991
Balance at March 31, 2013	$ 755,543	$ 754,676	$ 4,407,060	$ (245,038)	$ (7,666)	$ -	$ (1,589)	$ 22	$ 242,267	$5,905,275

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	*2013*
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 46,165	¥ 100,637	$ 490,855
Depreciation	21,718	20,246	230,925
Amortization of goodwill	964	6	10,249
Increase in provision for retirement benefits	2,439	1,930	25,932
Increase in provision for directors' retirement benefits	60	239	642
(Decrease) increase in provision for point card certificates	(555)	3,873	(5,898)
(Decrease) increase in provision for product warranties	(1,749)	384	(18,599)
Decrease in provision for loss on disaster	-	(1,664)	-
Interest income	(1,328)	(1,320)	(14,120)
Interest expenses	1,618	1,346	17,204
Foreign exchange gains	(546)	(122)	(5,800)
Gain on negative goodwill	(3,920)	-	(41,680)
Loss on valuation of investment securities	969	4	10,305
Loss on valuation of stocks of subsidiaries	2,500	480	26,581
Loss on sale and disposal of property and equipment, net	303	84	3,224
Impairment loss	111	1,476	1,181
(Increase) decrease in notes and accounts receivable	(22,897)	23,981	(243,458)
Decrease in advances received	(2,763)	(8,017)	(29,383)
Increase in inventories	(47,018)	(33,829)	(499,929)
Increase in notes and accounts payable	18,636	665	198,145
Increase (decrease) in consumption taxes payable	344	(5,512)	3,656
(Increase) decrease in other current assets	(5,919)	3,890	(62,940)
Increase (decrease) in other current liabilities	2,999	(501)	31,889
Others, net	146	872	1,551
Sub-total	12,277	109,148	130,532
Interest and dividend income received	662	294	7,039
Interest expenses paid	(1,678)	(1,380)	(17,841)
Income taxes paid	(24,050)	(73,803)	(255,716)
Net cash (used in) provided by operating activities	¥ (12,789)	¥ 34,259	$ (135,986)

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	*2013*
Cash flows from investing activities:			
Payments into time deposits	¥ (15,172)	¥ (12,792)	$ (161,319)
Proceeds from withdrawal of time deposits	15,445	20,446	164,227
Purchase of investments in subsidiaries and affiliated companies	(989)	(26)	(10,520)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(6,900)	-	(73,370)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	9,724	415	103,396
Payment of loans receivable	(3,480)	(16,143)	(37,006)
Collection of loans receivable	666	181	7,079
Purchase of property and equipment	(37,629)	(30,687)	(400,096)
Purchase of intangible assets	(1,311)	(585)	(13,935)
Payment for guarantee deposits	(8,124)	(5,429)	(86,382)
Proceeds from collection of guarantee deposits	7,823	7,476	83,176
Others, net	715	(919)	7,605
Net cash used in investing activities	(39,232)	(38,063)	(417,145)
Cash flows from financing activities:			
Net increase in short-term loans payable	88,335	19,888	939,234
Proceeds from long-term loans payable	111,457	1,200	1,185,081
Repayment of long-term loans payable	(72,206)	(33,647)	(802,246)
Redemption of bonds	(70,000)	-	(744,285)
Repayments of lease obligations	(3,246)	(4,647)	-
Cash dividends paid	(7,162)	(7,161)	(76,150)
Others, net	(4)	6	(40)
Net cash provided by (used in) financing activities	47,174	(24,361)	501,594
Effect of exchange rate change on cash and cash equivalents	718	(385)	7,632
Net decrease in cash and cash equivalents	(4,129)	(28,550)	(43,905)
Cash and cash equivalents at beginning of year	76,344	104,815	811,744
Increase in cash and cash equivalents from newly consolidated subsidiaries	5,691	79	60,510
Cash and cash equivalents at end of year (Note 6)	¥ 77,906	¥ 76,344	$ 828,349

Supplemental cash flow information (Note 7)

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, 2013 and 2012

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 the 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 2012 financial statements to conform to the classifications used in the 2013 financial statements. Such reclassifications had no impact on previously reported results of operations or retained earnings.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.05 to U.S. $1. Such 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 38 (21 in 2012) significant subsidiaries (together, the "Group"). Effective from the year ended March 31, 2013, Yamada Denki (Shenyang) Co., Ltd. and YAMADA DENKI (CHINA) CO., LTD. have been included in the scope of consolidation due to its increased materiality. In addition, effective from June 30, 2012, November 30, 2012 and February 28, 2013, Housetec Holdings Inc. ("Housetec") and its four subsidiaries, BEST DENKI CO., LTD. ("Best Denki") and its ten subsidiaries and one subsidiary newly acquired by Best Denki, respectively, have been included in the scope of consolidation as a result of the acquisition of Housetec and Best Denki shares. Presso Holdings Corporation and SxL Okinawa Corporation were excluded from the scope of consolidation because these two companies were liquidated during the year.

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

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

Investments in three affiliated companies have been accounted for using the equity method.

Investments in non-consolidated subsidiaries and the remaining affiliated companies were not accounted for using the equity method, but instead carried at cost, because their impact on the consolidated financial statements has been immaterial.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, have been 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 to ten years.

The fiscal year-ends of five foreign consolidated subsidiaries and all domestic consolidated subsidiaries are at the end of December and February, respectively. The financial statements of these subsidiaries as of and for the years ended December 31, 2012 and 2011 or February 28, 2013 and February 29, 2012, as applicable, were used in preparing the consolidated financial statements. All material transactions which occurred during the periods from their respective fiscal year-ends to March 31 have been accounted for in the consolidation process.

The accompanying consolidated financial statements reflect the financial results of Housetec and its four subsidiaries for the eight-month period from July 1, 2012 to February 28, 2013, Best Denki and its seven domestic subsidiaries for the three-month period from December 1, 2012 to February 28, 2013 and foreign subsidiaries of Best Denki, including BEST DENKI MALAYSIA SDN. BHD., BEST DENKI (SINGAPORE) PTE. LTD., and PT. BESTDENKI INDONESIA, for the three-month period from October 1 2012 to December 31, 2012.

As acquisition of Kurokawa Denki Co., Ltd. ("Kurokawa Denki"), a subsidiary of Best Denki, became effective as of February 28, 2013, only the balance sheets of Kurokawa Denki were consolidated.

(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 and maturities not exceeding three months at the time of purchase.

(c) Securities

Under Japanese GAAP, companies are required to examine their intent for holding each security and to classify their 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 or (iv) available-for-sale securities 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 values are stated at fair market value. Unrealized gains and losses on such 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 Securities or Held-to-maturity Debt Securities.

Investments in Limited Partnership ("LPS") and/or similar ventures (considered as securities under the Japanese Financial Instruments and Exchange Act) are stated at the amounts of the corresponding equity portions using the most recent financials available based on the reporting date stipulated in the contracts relating to such LPS and/or similar 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, recognition of gains or losses resulting from changes in their fair value is deferred until the related losses or gains on the hedged items are recognized.

Forward foreign exchange contracts which meet specific matching criteria are translated at the foreign exchange rate stipulated in such contracts.

Also, if an interest rate swap contract is used as hedge and meets certain hedging criteria, the net amount to be paid or received under such interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which such swap contact was executed.

Certain consolidated subsidiaries utilize forward foreign exchange contracts and currency swaps for the purpose of hedging their exposure to adverse fluctuation in interest rates and managing uncertainty on interest rates. These contracts are used to limit foreign currency exchange risk attributable to future transactions denominated in foreign currencies. The Company utilizes interest rate swaps to hedge its exposure to adverse fluctuation in exchange rates. These contracts are used for its long-term borrowings. The Company and these consolidated subsidiaries do not enter into such transactions for speculative trading purposes.

The effectiveness of hedge is assessed by the ratio of accumulated fluctuations in market value or cash flows of hedging instruments to those in market value or cash flows of hedged items. Under Japanese GAAP, however, such assessment is not required for certain derivatives which meet specific criteria.

(e) Inventories

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

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

Property and equipment are stated at cost. Depreciation is mainly computed using the declining-balance method at rates based on the estimated useful lives of the respective assets, except for 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 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 is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from continued use and eventual disposition of such asset or asset group. The impairment loss is measured as the amount by which the carrying amount of an asset exceeds its recoverable amount, which should be the higher of the discounted cash flows from continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Long-term Prepaid Expenses

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

(j) Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and the amount calculated based on historical loss experience for other doubtful receivables.

(k) Provision for Bonuses

A provision for bonuses is provided at the estimated amount accrued during the current fiscal year to cover future bonus payment to employees.

(l) Provision for Directors' Bonuses

A provision for bonuses to directors and Audit & Supervisory Board members is provided at the estimated amount accrued during the current fiscal year to cover future bonus payments to directors and Audit & Supervisory Board members.

(m) Provision for Point Card Certificates

The Company and its consolidated subsidiaries which conduct similar businesses provide their customers with credit points when they make purchases at their stores. Thus, the Company and some of its consolidated subsidiaries set aside a provision for the estimated future costs of credit points.

(n) Provision for Warranties for Completed Construction

Some of the consolidated subsidiaries provide for losses on guarantees and after-service expenses due to defects found after completed construction. The amount of such provision is calculated by multiplying related sales by the historical rate of such expenses.

(o) Provision for Losses on Interest Repayments

A consolidated subsidiary provides for losses on interest repayments at the estimated amount of future customer claims for a refund on the portion of the loan interest in excess of the maximum rate prescribed under the Interest Rate Restriction Act.

(p) Provision for Retirement Benefits

The Company has an unfunded lump-sum payment plan and a defined benefit pension plan. The subsidiaries have unfunded lump-sum payment plans and defined contribution pension plans and participate in the retirement benefit plan established by the government.

A 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.

Prior service costs are amortized from the fiscal year in which such costs are incurred using the straight-line method over a certain period of time (five years) not exceeding the average remaining service period of the eligible employees.

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 eligible employees.

(q) Provision for Directors' Retirement Benefits

The Company and some of its consolidated subsidiaries each sets aside a provision for directors' and Audit & Supervisory Board members' retirement benefits based on internal rules. Such provision is calculated at the estimated payable amount if all officers were to retire at the balance sheet date. The payment of such retirement benefits is subject to approval at a shareholders' meeting.

(r) Provision for Product Warranties

The Company and its consolidated subsidiaries which conduct similar businesses each sets aside a provision for warranty for future repair expenses at the estimated amount calculated based on historical repair expense.

(s) Allowance for Loss on Investments in Subsidiaries

An allowance for loss on investments in subsidiaries is provided at an amount sufficient to cover possible losses, taking into account the financial conditions of such subsidiaries, recoverability of the investments and other relevant factors.

(t) Provision for Loss on Liquidation of Subsidiaries

A consolidated subsidiary provides for losses on liquidation of its subsidiaries at the estimated amount of such losses.

(u) Leases

Assets of finance leases are depreciated over the lease term using the straight-line method with zero residual value.

(v) Recognition of Revenue and Costs

The methods used to recognize revenues and costs under construction contracts are as follows:

i) Construction contracts under which the portion of construction to be completed by the end of the current fiscal year may be estimated reliably: Percentage-of-completion method (The percentage of completion is measured as the ratio of the cost incurred to the estimated total cost.); and,
ii) Other construction contracts: Completed-contract method.

(w) Income Taxes

A 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 bases of assets and liabilities.

(x) 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 are adjusted based on the assumptions that convertible bonds would be converted and stock options (subscription rights to shares) exercised. However, the dilutive effect of euro yen convertible bonds due in 2013 and in 2015 and SxL Corporation stock options were not reflected because they were anti-dilutive. For either the year ended March 31, 2013 or 2012, diluted net income per share was not disclosed because the Company and its consolidated subsidiaries had no securities with dilutive effect.

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

(y) New Accounting Pronouncements

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) have been issued (together, the "New Retirement Benefits Standard").

Major changes are as follows:

(a) Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments.

For determining method of attributing expected benefit to periods, the New Retirement Benefits Standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

(b) Effective dates

Effective for the end of the fiscal years ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of the fiscal years ending on or after March 31, 2015. However, no retrospective application of the New Retirement Benefits Standard to the consolidated financial statements in prior periods will be required.

(c) Effect of application of the standard

Net assets will increase (or decrease) due to the immediate recognition of actuarial gains and losses on the consolidated balance sheet. The Companies are currently in the process of determining the effects of the New Retirement Benefits Standard on the consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

The Company and some of its consolidated domestic subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012 in accordance with the amendment of the Corporate Tax Act. As a result of this change, "Operating income" and "Income before income taxes and minority interests" for the year ended March 31, 2013 have each increased by ¥531 million ($5,645 thousand).

4. CHANGE IN METHOD OF PRESENTATION

Until the year ended March 31, 2012, "Investments in real estate" in the amount of ¥12,102 million was included in "Buildings and structures, net" and "Land" under "Property and equipment". From the year ended March 31, 2013, however, such investments have been presented in "Other assets" under "Investments and other assets" in order to present more accurately the amount of real estate investments being made. Such change came about due to the increase in number of consolidated subsidiaries, which in turn has increased the importance of real estate investments. The consolidated financial statements for the year ended March 31, 2012 have been reclassified to reflect such change in the method of presentation.

Specifically, a total of ¥5,610 million, comprising ¥4,723 million previously included and presented in "Buildings and structures, net", and ¥887 million previously included and presented in "Land", both under "Property and equipment", were reclassified as "Other assets" under "Investments and other assets".

5. BUSINESS COMBINATIONS

Business combinations that took place through stock purchase for the year ended March 31, 2013 were as follows.

(a) Business combination through acquisition of Housetec

On June 15, 2012, the Company acquired the common stock of Housetec, whose principal business is the manufacture and sale of housing and environmental equipment.

1) Outline of the business combination
   a) Primary reason for the business combination: To accelerate the development of the Group's "Smart-house Business" project by acquiring Housetec, whose primary business is the manufacture and sale of housing equipment such as a bathroom, kitchen and other products including water heaters and wastewater treatment tanks.
   b) Legal form of business combination: Acquisition of shares
   c) Name of company after combination: No change to the company's name
   d) Percentage of voting rights acquired: 100%
   e) Principal basis for determining the acquiring company: The Company paid cash in consideration for acquiring Housetec's common stock.

2) Period in which financial results of the acquired company was reflected in the consolidated financial statements for the fiscal year ended March 31, 2013: From July 1, 2012 to February 28, 2013

3) Acquisition cost and its breakdown

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Consideration for the acquisition:		
Cash paid	¥ 9,714	$ 103,279
Expenses directly related to the acquisition:		
Advisory costs, and so on	109	1,162
Total	¥ 9,823	$ 104,441

4) Goodwill arising from business combination:
   a) Amount of goodwill: ¥7,716 million ($82,039 thousand)
   b) Reason for occurrence of goodwill: The acquisition cost exceeded the net value of the assets acquired and liabilities assumed.
   c) Amortization of goodwill: Straight-line method applied over ten years

5) Assets and liabilities recognized at the date of the business combination

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 13,472	$ 143,238
Non-current assets	8,198	87,169
Total assets	¥ 21,670	$ 230,407
Current liabilities	¥ 9,286	$ 98,730
Long-term liabilities	10,277	109,275
Total liabilities	¥ 19,563	$ 208,005

6) Pro forma information in consolidated statements of income for the fiscal year ended March 31, 2013 if the business combination had been completed on April 1, 2012: Since the estimated impact, which has not been audited, was minimal, disclosure of such information has been omitted.

(b) Business combination through acquisition of Best Denki

On December 13, 2012, the Company acquired the common stock of Best Denki, whose principal business is the sale of consumer electrical appliances.

1) Outline of the business combination:
   a) Primary reason for the business combination: To implement Best Denki's know-how on launching stores that closely cater to regional areas centering on the Kyushu region and personnel development, together with the Company's know-how on various infrastructures and sales, all of which would lead to rapid expansion of economies of scale for the entire Group, including Best Denki, launching of sophisticated stores through sharing domestic/overseas strategies and realization of infrastructure network efficiency, so that competitiveness and management efficiency across the Group, as well as customer satisfaction and corporate value, may be improved/enhanced.
   b) Legal form of business combination: Acquisition of shares through subscription to private placement
   c) Name of company after combination: No change in the company's name
   d) Percentage of voting rights acquired:
      Percentage of voting rights owned before business combination ······ 7.50%
      Percentage of voting rights additionally acquired at the date of business combination ···· 43.66%
      Percentage of voting rights after acquisition ······ 51.16%
   e) Principal basis for determining the acquiring company: The Company paid cash in consideration for acquiring Best Denki's common stock.

2) Period in which financial results of the acquired company was reflected in the consolidated financial statements for the fiscal year ended March 31, 2013: From December 1, 2012 to February 28, 2013, except for those of the foreign consolidated subsidiaries of Best Denki. Their financial results were reflected in the period between October 1, 2012 and December 31, 2012.

3) Acquisition cost and its breakdown

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Consideration for the acquisition:		
Fair value of common stock of Best Denki owned before the business combination ········	¥ 1,016	$ 10,806
Cash paid for additional acquisition ················	12,120	128,868
Expenses directly related to the acquisition:		
Advisory costs, and so on ················	163	1,728
Total ················	¥ 13,299	$ 141,402

4) Difference between acquisition cost of the acquired company and total acquisition cost of individual transactions leading to acquisition:
   a) Gain on step acquisition: ¥47 million ($501 thousand)

5) Goodwill arising from business combination:
   a) Amount of gain on negative goodwill: ¥3,920 million ($41,680 thousand)
   b) Reason for occurrence of negative goodwill: The net value of the assets acquired and liabilities assumed exceeded the acquisition cost.

6) Assets and liabilities recognized at the date of the business combination

	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
Current assets	¥	63,356	$	673,639
Non-current assets		48,486		515,540
Total assets	¥	111,842	$	1,189,179
Current liabilities	¥	37,035	$	393,779
Long-term liabilities		40,376		429,300
Total liabilities	¥	77,411	$	823,079

7) The estimated impact on the consolidated statements of income for the fiscal year ended March 31, 2013 if the business combination had been completed on April 1, 2012:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
Net sales	¥	145,866	$	1,550,941
Operating income		(1,397)		(14,857)
Income before income taxes and minority interests		(3,340)		(35,510)
Net income		(1,993)		(21,194)
	Yen		*U.S. dollars (Note 1)*	
Net income per share	¥	(21.16)	$	(0.22)

The above pro forma information was measured as the difference between the amounts of net sales and profits/losses calculated on the assumption that the business combination was completed on the first day of the fiscal year and the same of the acquiring company shown in the consolidated statements of income.
The above information has not been audited.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2013 and 2012 in the consolidated statements of cash flows consisted of the following.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	*2013*
Cash and time deposits	¥ 79,522	¥ 77,145	$ 845,531
Time deposits with maturities exceeding three months	(1,616)	(801)	(17,182)
Cash and cash equivalents	¥ 77,906	¥ 76,344	$ 828,349

7. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2013 were ¥1,153 million ($12,260 thousand) and ¥1,205 million ($12,809 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2012 were ¥628 million and ¥661 million, respectively.

Asset retirement obligations for the year ended March 31, 2013 and 2012 were ¥1,123 million ($11,935 thousand) and ¥1,399 million, respectively.

Assets and liabilities of newly consolidated subsidiaries through acquisition of shares for the years ended March 31, 2013 and 2012 were as follows.

Increase in assets and liabilities due to a newly consolidated subsidiary, Housetec, and net payments for the stock acquisition:	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	*2013*
Current assets	¥ 13,472	$ 143,238
Non-current assets	8,198	87,169
Goodwill	7,716	82,039
Current liabilities	(9,286)	(98,730)
Long-term liabilities	(10,277)	(109,275)
Acquisition cost	9,823	104,441
Cash and cash equivalents from the acquisition	(2,923)	(31,071)
Net payments	¥ (6,900)	$ (73,370)

Increase in assets and liabilities due to a newly consolidated subsidiary, Best Denki, and net proceeds from the stock acquisition:	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	*2013*
Current assets	¥ 63,356	$ 673,639
Non-current assets	48,487	515,540
Current liabilities	(37,035)	(393,779)
Long-term liabilities	(40,376)	(429,300)
Gain on negative goodwill	(3,920)	(41,680)
Minority interests	(17,213)	(183,018)
Gain on step acquisition	(47)	(501)
Common stock owned before business combination	(969)	(10,305)
Acquisition cost	12,283	130,596
Cash and cash equivalents from the acquisition	(21,986)	(233,767)
Net proceeds	¥ 9,703	$ 103,171

Increase in assets and liabilities due to a newly consolidated subsidiary, SxL Corporation, and net proceeds from the stock acquisition:

	Millions of yen
	2012
Current assets	¥ 13,832
Non-current assets	11,325
Goodwill	1,245
Current liabilities	(12,705)
Long-term liabilities	(2,083)
Minority interests	(5,162)
Stock acquisition rights	(8)
Acquisition cost	6,444
Cash and cash equivalents from the acquisition	(6,859)
Net proceeds	¥ 415

8. 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 issuance of bonds. Temporary surplus funds are invested in highly liquid instruments, and working capital is financed through bank loans. The Company and its consolidated subsidiaries utilize derivative financial instruments only to manage risks described below 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 mainly comprise equity securities issued by those who have business relationships with the Company and/or 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. The redemption dates of bonds were within a maximum period of two years and three years after the balance sheet date for the years ended March 31, 2013 and 2012, 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” under Note 2, entitled 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 involve foreign currency risk. Since the counterparties of derivative transactions are limited to highly credible domestic banks, 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 counterparty will default on its contractual obligation. In accordance with the Company's sales management policy, each operating department of the Company periodically monitors the Company's counterparties 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 due to financial trouble of any counterparty. The Company's consolidated subsidiaries also manage their credit risk in the above manner.

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

- **Market risk management**

Market risk is the risk that movements in market variables, such as foreign currency exchange rates, interest rates and market prices, result in financial loss to the Company and/or 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 the 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 a Board of Directors' meeting, and the execution and management of derivative transactions are performed by the Financial Division. The results of transactions are reported at a Board of Directors' meeting 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 become due. The Company manages liquidity risk by having liquidity on hand and by formulating and renewing the fund management plan based on reports from each department.

(d) Supplemental Information on Fair Value

The fair values of financial instruments are estimated based on quoted market prices, if available, or management estimates and assumptions. Changes in estimates and assumptions used could result in different values. Additionally, notional amounts of derivative transactions, which are presented in Note 8, entitled the "DERIVATIVE FINANCIAL INSTRUMENTS", do not indicate market risk of derivative transactions.

II. Fair Values of Financial Instruments

The following is a summary of book values and estimated fair values of financial instruments as of March 31, 2013 and 2012.

	Book value	Fair value	Valuation gains/(losses)
	Millions of yen		
	2013		
Financial assets:			
(1) Cash and time deposits	¥ 79,522	¥ 79,522	¥ -
(2) Notes and accounts receivable	67,599		
Allowance for doubtful accounts (*1)	(21)		
	67,578	67,578	-
(3) Investment securities (*2)	9,877	10,400	523
(4) Guarantee deposits (*3)			
(including current portion)	114,692		
Allowance for doubtful accounts (*1)	(35)		
	114,657	115,633	976
	¥ 271,634	¥ 273,133	¥ 1,499
Financial liabilities:			
(1) Notes and accounts payable	¥ 109,214	¥ 109,214	¥ -
(2) Short-term loans payable	113,835	113,835	-
(3) Income taxes payable	1,639	1,639	-
(4) Bonds	59,000	58,215	(785)
(5) Long-term loans payable			
(including current portion)	146,662	146,549	(113)
	¥ 430,350	¥ 429,452	¥ (898)
Derivative transactions (*4)	¥ (2)	¥ (2)	¥ -

	Book value	Fair value	Valuation gains/(losses)
	Thousands of U.S. dollars (Note 1)		
	2013		
Financial assets:			
(1) Cash and time deposits	$ 845,531	$ 845,531	$ -
(2) Notes and accounts receivable	718,758		
Allowance for doubtful accounts (*1)	(220)		
	718,538	718,538	-
(3) Investment securities (*2)	105,014	110,579	5,565
(4) Guarantee deposits (*3)			
(including current portion)	1,219,483		
Allowance for doubtful accounts (*1)	(374)		
	1,219,109	1,229,482	10,373
	$ 2,888,192	$ 2,904,130	$ 15,938
Financial liabilities:			
(1) Notes and accounts payable	1,161,232	1,161,232	-
(2) Short-term loans payable	1,210,367	1,210,367	-
(3) Income taxes payable	17,426	17,426	-
(4) Bonds	627,326	618,980	(8,346)
(5) Long-term loans payable			
(including current portion)	1,559,402	1,558,208	(1,194)
	$ 4,575,753	$ 4,566,213	$ (9,540)
Derivative transactions (*4)	$ (16)	$ (16)	$ -

(*1) An allowance for doubtful accounts estimated and provided with respect to certain identifiable items was deducted from each of notes and accounts receivable and guarantee deposits.

(*2) Investment securities include investments in listed affiliated companies accounted for using the equity method. Valuation gains(losses) represents gains(losses) on valuation of such investments.

(*3) Government bonds pledged by a certain consolidated subsidiary as security deposit were included.

(*4) Debt and credit attributed to derivative transactions are indicated as net amounts, and net debt is described in parenthesis.

	Book value	Fair value	Valuation gains/(losses)
	Millions of yen		
	2012		
Financial assets:			
(1) Cash and time deposits	¥ 77,145	¥ 77,145	¥ -
(2) Notes and accounts receivable	28,619	28,619	-
(3) Investment securities	8,800	8,800	-
(4) Guarantee deposits (*1) (including current portion)	106,170	103,558	(2,612)
	¥ 220,734	¥ 218,122	¥ (2,612)
Financial liabilities:			
(1) Notes and accounts payable	¥ 65,580	¥ 65,580	¥ -
(2) Short-term loans payable	25,000	25,000	-
(3) Income taxes payable	6,282	6,282	-
(4) Bonds (including current portion)	129,064	127,033	2,031
(5) Long-term loans payable (including current portion)	67,610	67,727	(117)
	¥ 293,536	¥ 291,622	¥ 1,914
Derivative transactions (*2)	¥ (360)	¥ (360)	¥ -

(*1) Government bonds pledged by a certain consolidated subsidiary as security deposit were included.
(*2) Debt and credit attributed to derivative transactions are indicated as net amounts, and net debt is described in parenthesis.

Explanatory Notes on Fair Values of Financial Instruments

(i) Details of Methodologies and Assumptions Used to Estimate Fair Values 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, their fair values approximate their book values. Thus, the amounts indicated in the above table were based on their book values.

- **(3) Investment Securities**

The fair values of equity securities are based on quoted market prices, and the fair values of debt securities are based on quoted market prices or quotes obtained from financial institutions. Additional information on securities classified by holding purpose is presented in Note 9, entitled the “SECURITIES INFORMATION”.

- **(4) Guarantee Deposits**

The fair values of guarantee deposits are based on the present value discounted by the rate which reflects the applicable due date and credit risk. The fair value of government bonds pledged as security deposit is quoted based on the price information from the contracted financial institution. Additional information on securities classified by holding purpose is presented in Note 9, entitled the “SECURITIES INFORMATION”.

(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, their fair values approximate their book values. Thus, the amounts indicated in the above table were based on their book value.

- (4) Bonds

The fair values of bonds are each based on the present value of principal discounted by the rate which reflects the remaining maturity period and credit risk.

- (5) Long-term Loans Payable

The fair values of long-term loans payable are each based on the present value of the total of principal and interest discounted by the rate applicable to similar new loans.

For long-term loans payable with floating interest rates and hedged by interest rate swaps which meet certain criteria, their fair values are each based on the present value of the total of principal and interest, as adjusted and described in "Derivative Transactions and Hedge Accounting" under Note 2, entitled the "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES", and discounted by the rate applicable to similar new loans.

(c) Derivative Transactions

Details of derivative transactions are described in Note 10, entitled the "DERIVATIVE FINANCIAL INSTRUMENTS".

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

The following securities were excluded from the above table because management of the Company and its consolidated subsidiaries concluded that their fair values are virtually impossible to estimate.

	Book value		
	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 974	¥ 6,600	$ 10,363
Affiliated companies	44	12	469
(2) Available-for-sale securities			
Unlisted equity securities	325	143	3,453
Investment in LPS (*2)	229	285	2,436
Guarantee deposits (*3)	14,996	11,702	159,449

(*1) Unlisted equity securities were excluded from "(3) Investment Securities" because they are not traded in a market and their fair values are virtually impossible to estimate.
(*2) Investments in LPS were excluded from disclosures of fair values because the fair values of LPS's assets, such as unlisted equity securities and the like, are virtually impossible to estimate.
(*3) Guarantee deposits whose redemption schedule cannot be reasonably estimated and whose fair values are virtually impossible to estimate were excluded from "(4) Guarantee Deposits".

(iii) Contractual Maturity of Financial Instruments

The redemptions schedule of monetary claims and securities with fixed maturities were as follows.

	Millions of yen			
	2013			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 79,522	¥ -	¥ -	¥ -
Notes and accounts receivable	67,599	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	200	-	7,400
(2) Others	32	197	-	-
Guarantee deposits (*)	6,565	29,622	26,362	52,143
Total	¥ 153,718	¥ 30,019	¥ 26,362	¥ 59,543

	Thousands of U.S. dollars (Note 1)			
	2013			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 845,531	$ -	$ -	$ -
Notes and accounts receivable	718,758	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	2,127	-	78,682
(2) Others	340	2,097	-	-
Guarantee deposits (*)	69,808	314,965	280,297	554,413
Total	$ 1,634,437	$ 319,189	$ 280,297	$ 633,095

	Millions of yen			
	2012			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 77,145	¥ -	¥ -	¥ -
Notes and accounts receivable	28,619	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(3) Debt securities				
(Corporate bonds)	-	200	-	7,400
(4) Others	50	235	-	-
Guarantee deposits (*)	6,710	25,226	27,023	47,211
Total	¥ 112,524	¥ 25,661	¥ 27,023	¥ 54,611

(*) Government bonds pledged by a certain consolidated subsidiary as security deposit were included.

Contractual maturities of short-term and long-term loans payable and bonds are described in Note 14, entitled the “SHORT-TERM AND LONG-TERM LOANS PAYABLE”, and Note 15, entitled the “CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES,” respectively.

9. SECURITIES INFORMATION

The acquisition costs and book values of Available-for-sale Securities with available fair values as of March 31, 2013 and 2012 were as follows.

	Millions of yen		
	2013		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 3,682	¥ 2,093	¥ 1,589
Debt securities:			
Government bonds and others (*)	375	355	20
Others	6	6	0
Sub-total	4,063	2,454	1,609
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	198	230	(32)
Debt securities:			
Government bonds and others (*)	9	9	(0)
Corporate bonds	5,884	7,600	(1,716)
Others	2	2	(0)
Sub-total	6,093	7,841	(1,748)
Total	¥ 10,156	¥ 10,295	¥ (139)

	Thousands of U.S. dollars (Note 1)		
	2013		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 39,149	$ 22,257	$ 16,892
Debt securities:			
Government bonds and others (*)	3,992	3,772	220
Others	63	61	2
Sub-total	43,204	26,090	17,114
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	2,101	2,449	(348)
Debt securities:			
Government bonds and others (*)	100	100	(0)
Corporate bonds	62,563	80,808	(18,245)
Others	22	22	(0)
Sub-total	64,786	83,379	(18,593)
Total	$ 107,990	$ 109,469	$ (1,479)

(*) Government bonds pledged by a certain subsidiary as security deposit were included in guarantee deposits under the consolidated balance sheets.

Unlisted equity securities of ¥325 million ($3,454 thousand) and investments in LPS of ¥229 million ($2,437 thousand) were excluded from above table because they do not have readily determinable market values and their fair values are virtually impossible to estimate.

	Millions of yen		
	2012		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 783	¥ 344	¥ 439
Debt securities:			
Government bonds and others (*)	307	293	14
Sub-total	1,090	637	453
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	1,861	2,438	(577)
Debt securities:			
Government bonds and others (*)	18	18	(0)
Corporate bonds	6,149	7,600	(1,451)
Others	7	8	(1)
Sub-total	8,035	10,064	(2,029)
Total	¥ 9,125	¥ 10,701	¥ (1,576)

Unlisted equity securities of ¥143 million and investments in LPS of ¥285 million were excluded from the above table because they do not have readily determinable market values and their fair values are virtually impossible to estimate.

Securities sold during the years ended March 31, 2013 and 2012 were as follow.

	Millions of yen		
	2013		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 5	¥ -	¥ -

	Thousands of U.S. dollars (Note 1)		
	2013		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 54	$ -	$ -

	Millions of yen		
	2012		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 39	¥ 28	¥ —

If the market value of a security as of the fiscal year-end declines more than 50% compared with the acquisition cost of such security, the difference between such security’s fair market value and carrying amount is recognized as loss on valuation in the period of such decline.

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

Loss on valuation of marketable Available-for-sale Securities for the years ended March 31, 2013 and 2012 were ¥969 million ($10,305 thousand) and ¥4 million, respectively.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The aggregate amounts contracted to be paid or received under, and the fair values and unrealized gains (losses) of, currency-related derivative transactions, other than market trades (and excluding hedging transactions) as of March 31, 2013 and 2012 were as follows.

	Millions of yen		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)*
At March 31, 2013:						
Foreign currency forward contracts:						
Buy, call	¥ 741	¥ -	¥ 739	¥ (2)	$ 7,863	$ (16)
Total			¥ 739	¥ (2)	$ 7,863	$ (16)

	Millions of U.S. dollars		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains (losses)
At March 31, 2012:				
Currency swap contracts:				
Pay yen, receive U.S. dollars	$ 4	$ -	¥ (65)	¥ (65)
Currency option contracts:				
Buy, call	6	-	-	(32)
Sell, put	13	-	(284)	(143)
Total			¥ (349)	¥ (240)

The fair value has been quoted based on the price information from the contracted financial institution.

Derivative instruments which qualified as hedging instruments as of March 31, 2013 and 2012 were as follows.

	Notional amount		
	Total	Over one year	Fair value
	Millions of yen		
At March 31, 2013:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 105,352	¥ 72,850	¥ (*1)
	Thousands of U.S. dollars (Note 1)		
At March 31, 2013:			
Interest rate swap contracts:			
Pay fixed, receive floating	$ 1,120,170	$ 774,588	$ (*1)

	Notional amount		
	Total	Over one year	Fair value
	Millions of yen		
At March 31, 2012:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 53,276	¥ 27,352	¥ (*1)
Currency swap contracts:			
Buy - U.S. dollars	59	-	(11) (*2)

(*1) The fair value of an interest rate swap contract is included in the fair value of the corresponding hedged long-term loan payable described under note 8, entitled the "FINANCIAL INSTRUMENTS", since such derivative contract is accounted for as component of the corresponding hedged long-term loan payable.

(*2) The fair value has been quoted based on the price information from the contracted financial institution.

11. ACCUMULATED DEPRECIATION OF PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Accumulated depreciation	¥ 215,828	¥ 152,277	$ 2,294,818

12. IMPAIRMENT LOSS

As a minimum unit for generating cash flows, each retail store or branch office is grouped and assessed. The book values of cash-generating units which may incur operating losses continuously were written down to such units' respective recoverable amounts. Investment/rental properties and idle assets are individually considered, and an impairment loss is recognized if, with respect to an investment/rental property, the fair value becomes significantly lower than the carrying amount, or with respect to an idle asset, there is no prospect for future use.

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 such asset groups were mainly based on the net selling price, which in turn was based on the value assessed for property tax purposes. The net selling prices of intangible assets, lease assets and long-term prepaid expenses were set at zero.

The summary of impairment losses recorded for the fiscal years ended March 31, 2013 and 2012 is as follows.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Buildings and structures	¥ 50	¥ 891	$ 536
Land	-	40	-
Lease assets	28	111	296
Other tangible assets	17	295	180
Intangible assets	2	72	23
Long-term prepaid expenses	14	67	146
Total	¥ 111	¥ 1,476	$ 1,181

Impairment losses for the year ended March 31, 2013 mainly related to retail stores and a property located in Akita prefecture used for the Group's own business. Impairment losses for the year ended March 31, 2012 mainly related to retail stores and an investment/ rental property located in Kanagawa Prefecture.

13. LEASE INFORMATION

As Lessee

(i) Finance lease transactions without title transfer

The Company and its consolidated subsidiaries lease mainly retail buildings and equipment and a set of computer equipment.

(ii) Operating lease transactions

Future minimum lease payments under non-cancelable operating leases as of March 31, 2013 and 2012 were as follows.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Due within one year	¥ 12,258	¥ 11,685	$ 130,337
Due after one year	87,483	91,200	930,171
Total	¥ 99,741	¥ 102,885	$ 1,060,508

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2013 and 2012 were as follows.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Due within one year	¥ 286	¥ 246	$ 3,040
Due after one year	1,489	1,735	15,832
Total	¥ 1,775	¥ 1,981	$ 18,872

14. SHORT-TERM AND LONG-TERM DEBTS

The weighted-average rates of interest for short-term loans payable were approximately 0.55% and 1.13% as of March 31, 2013 and 2012, respectively.

The weighted-average rates of interest for current portion of long-term loans payable were approximately 1.08% and 1.33% as of March 31, 2013 and 2012, respectively.

The weighted-average rates of interest for long-term loans payable (excluding current portion) were approximately 0.86% and 1.35% as of March 31, 2013 and 2012, respectively, and long-term loans payable were to be due in 2014 through 2019 and 2013 through 2019 as of March 31, 2013 and 2012, respectively.

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

The weighted-average rate of interest for current portion of other interest bearing liabilities (current portion of long-term accounts payable) was approximately 1.59% as of March 31, 2013.

The weighted-average rate of interest for other interest bearing liabilities (long-term accounts payable) excluding current portion was approximately 2.65% as of March 31, 2013, and long-term accounts payable was to be due in 2014 through 2018 as of March 31, 2013.

Short-term and long-term debts as of March 31, 2013 and 2012 consisted of the following.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	*2013*
Short-term loans payable	¥ 113,835	¥ 25,000	$ 1,210,367
Long-term loans payable (due within one year)	43,868	32,251	466,428
Lease obligations (due within one year)	1,988	2,973	21,141
Other interest bearing liabilities			
- Long-term other payable (due within one year)	163	-	1,733
Sub-total	159,854	60,224	1,699,669
Long-term loans payable (excluding amounts due within one year)	102,794	35,359	1,092,974
Lease obligations (excluding amounts due within one year)	2,374	2,701	25,240
Other interest bearing liabilities			
- Long-term other payable (excluding amounts due within one year)	1,272	-	13,519
Sub-total	106,440	38,060	1,131,733
Total	¥ 266,294	¥ 98,284	$ 2,831,402

The following assets were pledged as collateral for, in addition to other transactions, long-term loans payable (including current portion) of ¥0 million ($0 thousand) and ¥4,286 million as of March 31, 2013 and 2012, respectively.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	*2013*
Cash and time deposits (*1)	¥ 100	¥ -	$ 1,063
Inventories (*2)	-	84	-
Buildings and structures	-	1,468	-
Land (*3)	120	3,557	1,273
Total	¥ 220	¥ 5,109	$ 2,336

(*1) Pledged as collateral for bank overdraft contracts with a maximum amount of ¥100 million ($1,063 thousand) as of March 31, 2013

(*2) Pledged as collateral for bank loans of ¥395 million of designated buyers of inventories as of March 31, 2012

(*3) Of the Land pledged, ¥120 million ($1,272 thousand) and ¥152 million were pledged as collateral for housing loans of ¥86 million ($919 thousand) and ¥101 million, respectively, of customers as of March 31, 2013 and 2012, respectively.

The aggregate annual maturities of long-term loans payable as of March 31, 2013 were as follows.

Fiscal year ending March 31,	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
2014	¥	43,868	$	466,428
2015		35,679		379,358
2016		24,188		257,183
2017		23,117		245,790
Thereafter		19,810		210,643
Total	¥	146,662	$	1,559,402

The aggregate annual maturities of finance lease obligations as of March 31, 2013 were as follows.

Fiscal year ending March 31,	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
2014	¥	1,988	$	21,141
2015		1,017		10,813
2016		546		5,802
2017		347		3,688
Thereafter		464		4,937
Total	¥	4,362	$	46,381

The aggregate annual maturities of long-term other payable as of March 31, 2013 were as follows.

Fiscal year ending March 31,	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
2014	¥	163	$	1,733
2015		165		1,760
2016		447		4,749
2017		143		1,516
Thereafter		517		5,494
Total	¥	1,435	$	15,252

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($531,632 thousand) with seven financial institutions. Under these credit facilities, ¥50,000 million ($531,632 thousand) has been executed as of March 31, 2013.

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

The outstanding balance of convertible bond-type bonds of the Company and the current conversion prices into common stock as of March 31, 2013 and 2012 were as follows.

	Conversion price per share	Outstanding balance			Conversion period
	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2013	2012	*2013*	
Euro yen zero coupon convertible bonds due 2013	¥ 14,137.50	¥ -	¥ 70,064 (70,064)	$ -	March 28, 2008 – March 14, 2013
Euro yen zero coupon convertible bonds due 2015	¥ 13,750.40	59,000	59,000	627,326	March 28, 2008 – March 17, 2015
Total		¥ 59,000	¥ 129,064 (70,064)	$ 627,326	

No subscription rights were exercised for the year ended March 31, 2013 or 2012.
The amounts in parentheses are due within one year.

16. INCOME TAXES

Taxes on income consist of corporate income taxes, inhabitant taxes and enterprise taxes. The aggregate statutory tax rates on income before income taxes and minority interests were approximately 37.8% and 40.4% for the years ended March 31, 2013 and 2012, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred tax assets:			
Loss on valuation of inventories	¥ 2,608	¥ 4,365	$ 27,725
Impairment loss	8,350	3,507	88,786
Loss on valuation of investment securities	797	1,440	8,479
Loss on valuation of stock of subsidiaries	4,121	1,716	43,819
Provision for bonuses	2,309	1,939	24,553
Provision for point card certificates	8,064	8,170	85,743
Provision for retirement benefits	6,169	3,929	65,596
Provision for directors' retirement benefits	1,214	1,195	12,906
Provision for product warranties	4,856	5,221	51,628
Asset retirement obligations	4,559	3,204	48,473
Consolidated subsidiaries' tax loss carry-forward	24,441	19,577	259,869
Others	7,716	4,221	82,044
Sub-total	75,204	58,484	799,621
Valuation allowance	(48,592)	(26,742)	(516,668)
Total deferred tax assets	26,612	31,742	282,953
Deferred tax liabilities:			
Unrealized gains on valuation of land	(2,259)	(1,117)	(24,019)
Loss recognized corresponding to asset retirement obligations	(2,274)	(2,015)	(24,176)
Foreign currency exchange gains	(1,319)	-	(14,020)
Others	(1,078)	(218)	(11,472)
Total deferred tax liabilities	(6,930)	(3,350)	(73,687)
Net deferred tax assets	¥ 19,682	¥ 28,392	$ 209,266

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current assets – Deferred tax assets	¥ 11,643	¥ 13,749	$ 123,793
Investments and other assets – Deferred tax assets	10,805	15,978	114,882
Long-term liabilities – Other long-term liabilities	(2,766)	(1,335)	(29,409)

Reconciliations between the statutory income tax rate and the actual effective income tax rate, as percentage of income before income taxes and minority interests, for the year ended March 31, 2013 was as follows. Such information has not been presented for the year ended March 31, 2012 because the difference between the statutory income tax rate and the effective income tax rate was less than 5% of the effective statutory income tax rate.

	2013
Statutory income tax rate	37.8%
Per capita inhabitant taxes	1.8
Change in valuation allowance	9.7
Amortization of negative goodwill	(3.2)
Tax rate differences for net loss subsidiaries	8.4
Others, net	0.2
Effective income tax rate	54.7%

17. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥13,863 million ($147,401 thousand) to credit card companies as of March 31, 2013.

The Group was contingently liable for guarantees of debt made by home buyers and the like in the amount of ¥779 million ($8,282 thousand) as of March 31, 2013.

18. RETIREMENT BENEFITS

Provisions for retirement benefits as of March 31, 2013 and 2012 consisted of the following.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Projected benefit obligation	¥ 38,658	¥ 14,806	$ 411,039
Fair value of pension assets	(17,264)	(2,402)	(183,566)
Unrecognized actuarial gains and losses	(3,813)	(1,625)	(40,548)
Unrecognized prior service costs	133	308	1,417
Net amount recognized in the consolidated balance sheets	17,714	11,087	188,342
Prepaid pension cost	1,697	-	18,043
Provision for retirement benefits	¥ 19,411	¥ 11,087	$ 206,385

Retirement benefit costs for the years ended March 31, 2013 and 2012 were as follows.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Service costs	¥ 2,466	¥ 1,900	$ 26,221
Interest cost	468	258	4,973
Expected return on plan assets	(144)	(39)	(1,527)
Amortization of actuarial differences	555	489	5,902
Amortization of prior service costs	(64)	(61)	(686)
Other (contributions to defined contribution pension plans)	265	70	2,816
Net periodic retirement benefit costs	¥ 3,546	¥ 2,617	$ 37,699

The discount rates used by the Group were mainly 1.46% and 2.00% for the years ended March 31, 2013 and 2012, respectively. The rate of expected return on plan assets used by the Group was mainly 2.00% for both the years ended March 31, 2013 and 2012. 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. Prior service costs are amortized over five years from the fiscal year in which such costs are incurred using the straight-line method.

SxL Corporation, a consolidated subsidiary newly acquired during the year ended March 31, 2012, participates in multi-employer plans for which the required contribution amounts are expensed as incurred. The latest available actual data on such plans after the deemed date of acquisition of SxL Corporation (October 1, 2011) is as follows.

(1) Matters concerning the funded status of the entire plans as of March 31, 2012

	Millions of yen	*Thousands of U.S. Dollars (Note 1)*
	March 31, 2012	
Amount of pension assets	¥ 39,662	$ 421,712
Amount of benefit obligation	(52,090)	(553,854)
Net	¥ (12,428)	$ (132,142)

(2) Share of the pension fund contribution made by the Group as a percentage of the total plan for the year ended March 31, 2013 was 16.1%.

(3) Supplemental explanation

The net balance presented in (1) above is mainly composed of the outstanding amount of prior service cost of ¥11,233 million ($119,436 thousand) and pension shortfall carried forward of ¥1,195 million ($12,706 thousand). Prior service cost of the multi-employer plans are amortized over 20 years through amortization of principal and interest using the straight-line method, and a special contribution of ¥113 million ($1,198 thousand) was recognized as expense in the accompanying consolidated financial statements for the year ended March 31, 2013.

The share in (2) above does not correspond to the actual share of the obligations owed by the Group.

19. 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 and the like.

The Company and its consolidated subsidiaries mainly estimate asset retirement obligations by using discount rates ranging from 0.40% to 2.29% with a term of 1 to 47 years.

Changes in asset retirement obligations for the years ended March 31, 2013 and 2012 were as follows.

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2013		2012		*2013*	
Beginning balance	¥	9,048	¥	7,656	$	96,204
Increase due to purchase of property and equipment		901		967		9,577
Adjustments due to passage of time		222		183		2,358
Decrease due to implementation of asset retirement obligations		(181)		(6)		(1,928)
Increase due to exchange translation of asset retirement obligations denominated in foreign currencies		15		-		154
Other increases		2,728		248		29,019
Ending balance	¥	12,733	¥	9,048	$	135,384

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 regarding the disbursement schedule and/or the incurrence of expense, have not been included in the consolidated balance sheets.

20. NET ASSETS

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

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 the additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. The legal earnings reserve has been included in retained earnings in the accompanying consolidated balance sheets.

Under the Companies Act, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or capitalized by a resolution at the shareholders' meeting. Under the Companies Act, all paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which may become available for distribution as 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 27, 2013, the shareholders approved cash dividends amounting to ¥5,653 million ($60,102 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2013 as they are to be recognized in the period in which they are approved by the shareholders.

21. STOCK OPTIONS

No stock option expense was recognized for the years ended March 31, 2013 and 2012.

The stock options issued by SxL Corporation and outstanding as of March 31, 2013 were as follows.

	2009 stock option
Persons granted	4 directors and 71 employees
Number of options granted expressed in number of common stock	597,000 shares
Date of grant	December 14, 2009
Vesting condition	Continued employment from the date of grant to the end of vesting period (September 30, 2011)
Service period covered	From December 14, 2009 to September 30, 2011
Exercise period	From December 15, 2011 to September 30, 2013

The stock option activity expressed in number of common stock for the year ended March 31, 2013 was as follows.

	2009 stock option
Number of stock options expressed in number of common stock	
March 31, 2012 – Outstanding (*)	279,000
Vested	-
Exercised	(137,000)
Forfeited	(3,000)
March 31, 2013 - Outstanding	139,000

Price information:	Yen	*U.S. dollars (Note 1)*
Exercise price	¥ 46	$ 0.49
Average price at exercise date	¥ 173	$ 1.84
Fair value at the grant date	¥ 15	$ 0.16

(*) As of September 30, 2011, all of the above stock options were vested.

22. COST OF SALES

The ending balance of inventories is measured at the lower of cost or market value. Losses on valuation of inventories included in cost of sales for the years ended March 31, 2013 and 2012 were ¥195 million ($2,072 thousand) and ¥5,443 million, respectively.

23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of “Selling, general and administrative expenses” for the years ended March 31, 2013 and 2012 were as follows.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Advertising	¥ 30,829	¥ 29,339	$ 327,792
Salaries	100,810	90,351	1,071,873
Rent expenses	62,624	56,189	665,862
Depreciation	20,557	19,755	218,575
Point card-related promotion	59,271	80,833	630,207
Others	110,498	98,405	1,174,885
Total	¥ 384,589	¥ 374,872	$ 4,089,194

24. OTHER INCOME (EXPENSES)

"Others, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2013 and 2012 included the following.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Surrender value of insurance	¥ 64	¥ 77	$ 678
Penalty income from breach of leasehold contracts	-	36	-
Gain on sales of investment securities	-	28	-
Rent expenses	(995)	(855)	(10,582)
Loss on disposal of non-current assets	(303)	(147)	(3,224)
Loss on valuation of investment securities	(969)	(4)	(10,305)
Provision for loss on liquidation of subsidiaries	(558)	-	(5,927)
Loss on disaster	-	(20)	-
Others, net	6,647	7,371	70,680
Total	¥ 3,886	¥ 6,486	$ 41,320

25. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 555	¥ 102	$ 5,895
Reclassification adjustments	969	(18)	10,305
Valuation difference on available-for-sale securities before related tax effect	1,524	84	16,200
Related tax effect	(1,075)	(115)	(11,431)
Valuation difference on available-for-sale securities, net of taxes	449	(31)	4,769
Deferred gains and losses on derivatives under hedge accounting:			
Amount arising during the year	(34)	34	(360)
Reclassification adjustments	-	-	-
Deferred gains and losses on derivatives under hedge accounting before related tax effect	(34)	34	(360)
Related tax effect	-	-	-
Deferred gains and losses on derivatives under hedge accounting, net of taxes	(34)	34	(360)
Foreign currency translation adjustments:			
Amount arising during the year	(107)	-	(1,131)
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	(107)	-	(1,131)
Related tax effect	-	-	-
Foreign currency translation adjustments, net of taxes	(107)	-	(1,131)
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	5	-	52
Reclassification adjustments	-	-	-
Share of other comprehensive income of associates accounted for using equity method	5	-	52
Total other comprehensive income	¥ 313	¥ 3	$ 3,330

26. SEGMENT INFORMATION

Segment Information for the Year Ended March 31, 2013

- **Segment Information**

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

- **Supplemental Information on Reportable Segment**

Information about products and services for the years ended March 31, 2013 and 2012 were as follows.

	Millions of yen			
	2013			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	¥ 976,731	¥ 511,423	¥ 213,335	¥ 1,701,489

	Thousands of U.S. dollars (Note 1)			
	2013			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	$ 10,385,231	$ 5,437,778	$ 2,268,315	$ 18,091,324

	Millions of yen			
	2012			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	¥ 1,162,164	¥ 524,979	¥ 148,311	¥ 1,835,454

Information about geographic area for the year ended March 31, 2013 has not been disclosed because sales to domestic customers and total property and equipment located in Japan accounted for more than 90% of consolidated sales and total property and equipment, respectively. Information about geographic area for the year ended March 31, 2012 has not been disclosed because neither were there any sales to external customers in overseas markets nor property and equipment located overseas.

Information about major customers has not been disclosed since no single customer accounted 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 the sales of home electrical appliances and home information appliances, which constitute a single segment. Therefore, information on impairment loss on long-lived assets has been omitted.

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

For the years ended and as of March 31, 2013 and 2012, amortization and unamortized balance of goodwill resulting from business combinations were as follows.

	Sales of home electrical appliances and home information appliances retail business		
	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Amortization of goodwill	¥ 1,106	¥ 231	$ 11,755
Ending balance	¥ 8,573	¥ 1,397	$ 91,159

For the years ended and as of March 31, 2013 and 2012, amortization and unamortized balance of negative goodwill resulting from business combinations occurring 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)*
	2013	2012	*2013*
Amortization of negative goodwill	¥ 142	¥ 225	$ 1,505
Ending balance	¥ -	¥ 142	$ -

27. RELATED PARTIES

Significant balances with related parties as of March 31, 2013 and 2012 and related transactions for the years ended March 31, 2013 and 2012 were as follows.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2013	2012	*2013*
Balances of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director, chairman, and his relatives:			
Prepaid expense (prepaid rent)	¥ 79	¥ 77	$ 841
Guarantee deposits (due within one year)	146	146	1,557
Guarantee deposits	2,928	3,060	31,136
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Accounts payable	9	2	100
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	914	887	9,719
Sales of inventories	13	16	137
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Sales of inventories	-	15	-
Purchases of inventories	48	11	512

28. SUBSEQUENT EVENTS

(1) Closure of the stores

1) Yamada Denki (Nanjing) Co., Ltd. store

The Company resolved to close the “Yamada Denki Nanjing store (China)”, a store of Yamada Denki (Nanjing) Co., Ltd., a non-consolidated subsidiary, at the meeting of the Board of Directors held on April 22, 2013.

(a) Reason for the closure

Principally due to sluggish sales

(b) Store summary

(i)	Name	Yamada Denki Nanjing store (China)
(ii)	Location	38 Hongwu Road, Baixia District, Nanjing, People’s Republic of China
(iii)	Floor space	16,000m^2

(c) Closure date

June 15, 2013

2) Yamada Denki (Tianjin) Co., Ltd. store

The Company resolved to close the “Yamada Denki Tianjin store (China)”, a store of Yamada Denki (Tianjin) Co., Ltd., a non-consolidated subsidiary, at the meeting of the Board of Directors held on June 10, 2013.

(a) Reason for the closure

Principally due to sluggish sales

(b) Store summary

(i)	Name	Yamada Denki Tianjin store (China)
(ii)	Location	219 Nanjing Road, Heping District, Tianjin, People’s Republic of China
(iii)	Floor space	15,000m^2

(c) Closure date

June 30, 2013

3) Impact on consolidated business performance

As a result of the stores’ closure, “Income before income taxes and minority interests” for the year ended March 31 ,2014 is expected to decrease by 11,023 million ($117,200 thousand).

(2) Issuance of subscription rights to shares (stock options)

At the meeting of the Board of Directors held on June 27, 2013, the Company resolved to issue subscription rights to shares as stock-based compensation stock options for directors of the Company in accordance with the provisions of Articles 236, 238 and 240 of the Companies Act. Subscription rights to shares were allocated on July 12, 2013 as described below.

(a) Number of subscription rights to shares

4,831 units (The number of shares per one subscription right to shares shall be 10 shares.)

(b) Type of shares to be issued upon exercise of subscription rights to shares

Common stock of the Company

(c) Number of shares to be issued upon exercise of subscription rights to shares

48,310 shares

(d) Subscription amount payable when exercising the granted subscription rights to shares

¥1 per share

(e) Exercise period of subscription rights to shares

From July 13, 2013 to July 12, 2043

(f) Conditions for exercise of subscription rights to shares

(i) If the situation arises within the period stated in the above (e) where the holder of subscription rights to shares loses his/her position with the Company or a subsidiary of the Company as director, audit & supervisory board member, executive officer or employee, the subscription rights to shares can be exercised in lump-sum only during a period of 10 days beginning on the date immediately following the date of above-mentioned loss of position (if the 10th day is on a holiday, the immediately following business day will be deemed the final valid day).

(ii) If a holder of subscription rights to shares dies, the heir of such person can exercise such subscription rights to shares in lump-sum only.

(g) Matters regarding transfer of subscription rights to shares

An acquisition of the subscription rights to shares by transfer shall require approval by a resolution of the Board of Directors of the Company.

(3) Stock Split and Change of the number of Share Trading Unit

At the meeting of the Board of Directors held on August 12, 2013, the Company resolved to implement a stock split and change the number of its share trading unit as described below.

(a) Stock split and change of the number of share trading unit

In accordance with the "Action Plan for Consolidating Trading Units" announced on November 27, 2007 by all of the stock exchanges in Japan, the Company will conduct a 1:10 stock split of its common stock and change of the number of its share trading unit from 10 shares to 100 shares.

There will be no actual change in investment units by a result of this stock split and change of the number of share trading unit.

(b) Stock split

(i) Method of stock split

Shares of common stock held by shareholders listed or recorded in the final shareholder registry as of September 30, 2013 will be split at a ratio of 10 to one.

(ii) Increase in shares resulting from the stock split

The number of shares shall be increased by multiplying by 9 the final total number of issued shares as of September 30, 2013. The total number of issued shares after the stock split shall be as follows if calculated on the basis of the total number of issued shares as of August 12, 2013.

Shares issued prior to the stock split	96,648,974 shares (as of August 12, 2013)
Increase resulting from the stock split	869,840,766 shares
Shares issued after the stock split	966,489,740 shares
Total of shares authorized for issue after the stock split	2,000,000,000 shares

Note: The above total number of issued shares may increase due to the exercise of subscription rights to shares.

(iii) Schedule of stock split

Public notice date of the record date	To be decided
Record date	Monday, September 30, 2013
Effective date	Tuesday, October 1, 2013

(iv) Adjustment of conversion price and exercise price per share upon exercise of subscription rights to shares

In line with the above-mentioned stock split, the following adjustments will be made from October 1, 2013.

	Conversion price after adjustment	Conversion price before adjustment
Euro yen zero coupon convertible bonds due 2015	¥1,375.00	¥13,750.40

Euro yen zero coupon convertible bonds due 2015 were issued based on a resolution made by the Board of Directors of the Company on February 26, 2008.

	Exercise price after adjustment	Exercise price before adjustment
1st stock-based compensation stock options	¥1	¥1

The 1st stock-based compensation stock options were issued based on a resolution approved at the General Meeting of Shareholders held on June 27, 2013.

(v) Effect on per share information

If the above-described stock split had occurred at the beginning of the previous fiscal year, per share information (basic net income per share and diluted net income per share) for the fiscal years ended March 31, 2012 and 2013 would have been as described below.

	Yen		*U.S. dollars (Note 1)*
	2013	2012	*2013*
Amounts per share of common stock:			
Basic net income	¥ 23.56	¥ 61.84	$ 0.25
Diluted net income	–	–	–

Note: Diluted net income per share for the fiscal years ended March 31, 2012 and 2013 is not presented because the Company had no share with dilutive effects.

(c) Change of the number of share trading unit

(i) The number of share trading unit to change

At the same time of the implementation of the stock split, the number of share trading unit will be changed from 10 shares to 100 shares.

(ii) Timing of change

Effective date: October 1, 2013

(4) Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 27, 2013.

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Year-end cash dividends, ¥60 ($0.64) per share	¥ 5,653	$ 60,102

* * * * * *

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:
As discussed in Note 28 to the consolidated financial statements, the Company closed the "Yamada Denki Nanjing store (China)", a store of Yamada Denki (Nanjing) Co., Ltd., on June 15, 2013 and the "Yamada Denki Tianjin store (China)", a store of Yamada Denki (Tianjin) Co., Ltd., on June 30, 2013.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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

September 13, 2013
Tokyo, Japan