Financial Report 2015

Fiscal year ended March 31, 2015

YAMADA DENKI CO., LTD.

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OVERVIEW OF OPERATIONS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

March 31, 2015

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 4)*
	As of and year ended March 31					
	2011	2012	2013	2014	2015	2015
Net sales (Note 1)	2,153,259	1,835,454	1,701,489	1,893,972	1,664,371	13,838,621
Ordinary income	137,848	102,226	47,906	50,187	35,538	295,483
Net income	70,755	58,265	22,204	18,667	9,341	77,664
Comprehensive income	71,192	58,305	21,240	19,737	10,409	86,553
Net assets	470,850	526,743	555,391	553,354	509,398	4,235,453
Total assets	929,010	937,841	1,138,389	1,196,288	1,122,408	9,332,399
Net assets per share (yen) (Note 3)	4,978.38	5,516.15	565.34	592.17	643.04	5.35 *(dollars)*
Net income per share (yen) (Note 3)	751.03	618.46	23.57	20.22	11.74	0.10 *(dollars)*
Diluted net income per share (yen) (Note 2) (Note 3)	-	-	-	20.21	11.72	0.10 *(dollars)*
Equity ratio (%)	50.5	55.4	46.8	44.2	43.2	
Return on equity (%)	16.2	11.8	4.2	3.5	1.8	
Price earnings ratio (times)	7.47	8.36	18.22	17.01	42.18	
Cash flows from operating activities	93,072	34,259	(12,789)	45,148	22,983	191,092
Cash flows from investing activities	(25,238)	(38,063)	(39,232)	(38,607)	(20,233)	(168,229)
Cash flows from financing activities	(45,941)	(24,361)	47,174	(7,646)	(41,488)	(344,954)
Cash and cash equivalents at end of year	104,815	76,344	77,906	77,754	39,692	330,023
Employees (persons)	12,439	14,006	21,261	21,138	20,405	
[Average number of temporary employees not included in the above number (persons)]	[10,775]	[10,762]	[11,410]	[11,384]	[10,704]	

Notes:
1. Net sales do 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. The Company conducted a 10-for-1 stock split on common stock, with an effective date of October 1, 2013. Net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the fiscal year ended March 31, 2013.
4. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 31, 2015, which was ¥120.27 to U.S. $1.

2. OVERVIEW OF PERFORMANCE

During the fiscal year under review, the Japanese economy followed a gradual recovery trend as monetary easing and the government's fiscal stimulus measures set the stage for a weaker yen and higher share prices, which in turn helped drive improved earnings performance particularly in the financial markets and export industry.

On the other hand, the business environment was harsh in terms of consumer spending, particularly for durable consumer goods, amid a series of factors that included a pullback in demand following a surge ahead of the consumption tax increase that ate into future demand, coupled with increased belt-tightening in reaction to price increases brought on by higher raw material prices accompanying the yen's depreciation.

The consumer electrical appliance retail market to which the Company and its major consolidated subsidiaries (the "Group") belong has undergone contraction for three consecutive years amid a pullback in spending following a phase of booming demand fueled during a period from May 2009 to March 2011 where the "eco-points" program for electrical appliances of the Japanese government provided incentives to consumers to upgrade televisions, refrigerators and air conditioners, and also fueled by the July 2011 switch-over in Japan to terrestrial digital broadcasting which encouraged consumers to upgrade visual-related products such as televisions and recorders. Amid that environment, there was a greater than expected pullback in demand from April 1, 2014 onward following the rise ahead of the consumption tax increase. Moreover, near-term recovery with respect to electrical appliances as durable consumer goods seems unlikely given the impact of a series of effects from changes in the social environment that include a falling birthrate and aging demographic, population decline, and increasing penetration of the Internet in society. Meanwhile, in addition to the persisting slump, various factors have converged to cause the sluggish market, including a recoil in demand for replacement of computers in the wake of a surge when support for Windows XP was terminated on April 9, 2014, declining customer traffic due to a late end to the rainy season, torrential rains, as well as typhoons and other natural disasters, languishing results from products associated with seasonality due to an unusually cool summer and warm winter, and a dwindling market for general and industrial use solar power systems due to a shift in government policy in that regard, which resulted in a decline in sales.

Against this market environment, the Group faces a situation as the market contracts whereby store network strengths derived from nationwide chain store expansion are not being leveraged, as we act as a mass retailer of electrical appliances that has taken the matter of competition, both among our own stores and against those of competitors, into account. To address this issue, we are moving forward with structural reforms involving our stores, encompassing the areas of sales and development. As a leading company in the electrical appliance mass-retail sector we are carrying out compliance initiatives and actively cooperating. Although these structural reforms and initiatives have been a factor in dampening net sales, we have been working to shift from quantity to quality, placing priority on reforms geared toward profitability in a strategic bid to achieve growth.

In addition, we have been actively taking on structural reforms in the six areas listed below, thereby approaching these initiatives from a mid- to long-term view of societal needs that are shifting due to trends such as the falling birthrate, aging demographic, and population decline. With the aim of improving profitability, we will continue implementing structural reforms that involve:

a. Development of Lifestyle Support Services
b. Implementation of Smart House and Renovation Solutions
c. Implementation of Environmental Solutions (from purchase of used items to reuse and recycling)
d. Development Based on New Store Concept
e. Development of "HERB Relax" SPA Product Series
f. Implementation of Personnel System Reform

Particularly with respect to the initiatives above, the Group aims to increase its social value and develop together with society. To this end, we engage in ongoing CSR-oriented operations that are genuine, and continue to carry out CSR activities proactively. Details of the Group's CSR activities are continuously published in its CSR REPORT as well as Monthly CSR Activities, which are posted on the Company website (http://www.yamada-denki.jp/csr/index.html). Please note that some of these documents are published in Japanese only.

As of the end of the fiscal year under review, we have a total of 11,471 stores. This includes 1,016 consolidated retail stores, including those overseas (comprising 688 stores directly managed by the Company, 182 stores managed by Best Denki Co., Ltd. and 146 stores operated by other consolidated subsidiaries), along with 7 stores managed by non-consolidated subsidiaries and 10,448 Group franchise stores.

As a result, consolidated net sales decreased by 12.1% year on year to ¥1,664,371 million, operating income decreased by 41.9% year on year to ¥19,919 million, and net income decreased by 50.0% year on year to ¥9,341 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, 2015 Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances			
Color televisions	112,078	6.7	(6.7)
Video/DVD players	53,326	3.2	(15.8)
Audio equipment	33,196	2.0	(13.1)
Refrigerators	125,823	7.6	(20.8)
Washing machines	95,730	5.8	(12.2)
Cooking appliances	78,561	4.7	(3.7)
Air conditioners	107,098	6.4	(25.5)
Other home cooling and heating equipment	35,061	2.1	(2.9)
Others	326,255	19.6	(8.9)
	967,128	58.1	(12.8)
Home information appliances			
Personal computers	202,453	12.2	(15.7)
PC peripheral equipment	96,922	5.8	(18.9)
PC software	10,505	0.6	(7.4)
Telephones/fax machines	6,325	0.4	(16.3)
Mobile phones	104,395	6.3	(15.2)
Others	51,415	3.1	1.9
	472,015	28.4	(14.5)
Other products			
Audio and visual software and books	82,150	4.9	(9.9)
Housing-related products	107,870	6.5	1.0
Others	35,208	2.1	1.6
	225,228	13.5	(3.2)
	1,664,371	100.0	(12.1)

Notes: 1. “Others” in “home electrical appliances” include luminaries, hairdressing and beauty supplies and tapes. “Others” in “home information appliances” include ink cartridges. “Others” in “other products” include jewelry, clothing and sundries.
2. The figures shown above do not include consumption tax.

(2) Sales per Unit

	Year ended March 31, 2015	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,664,371	(12.1)
Sales floor space (average) - m²	2,687,913	3.6
Sales per square meter - thousands of yen	619	(15.2)
Employees (average) - persons	31,811	(2.4)
Sales per employee - millions of yen	52	(10.0)

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" include temporary employees.

4. ISSUES TO BE ADDRESSED BY THE GROUP

Looking ahead to the fiscal year ending March 31, 2016, the consumer environment is expected to continue to have strong underpinnings, and continue to improve gradually against a backdrop of continued expectations for economic recovery through Abenomics. These underpinnings include stronger corporate earnings and the improvement in the employment environment because of this, rises in disposable incomes and per-household incomes, and booms in inbound (foreign tourists visiting Japan) demand and outbound (Japanese travelling overseas for leisure or business) demand.

We expect the consumer electrical appliance retail market, in which the Group belongs, to perform steadily owing to strong replacement demand that will be bolstered by this economic recovery, as well as the end of the pullback that has followed the consumption tax hike.

Furthermore, we must respond to distribution market changes, taking place as a result of the future challenges facing Japan, such as the declining birthrate and aging of the population, population decline, and the transition to the Internet-based society.

Operating inside this market environment, since the fiscal year ended March 31, 2015, we have been continuing to undertake: 1. efficiency improvements in store networks for nationwide chain store expansion as mass retailer of electrical appliances focusing attention on competition, both among our own stores and against those of our competitors amid a contracting market; 2. initiatives and cooperation relating to compliance as a leading company in the electrical mass-retail sector; and 3. various structural reform visions that take a medium- to long-term view of the future changes in society's needs relating to a declining birthrate and aging of the population and population decline comprising: a. Development of Lifestyle Support Services; b. Implementation of Smart House and Renovation Solutions; c. Implementation of Environmental Solutions (from purchase of used items to reuse and recycling); d. Development Based on New Store Concept; e. Development of "HERB Relax" SPA Product Series; and f. Implementation of Personnel System Reform. Through these initiatives, we are striving to shift from quantity to quality and boost our corporate value.

As a leading company in the consumer electrical appliance retail industry, we will aim to develop relationships of trust with a variety of stakeholders. We will also continue to promote CSR-oriented operations in which we leverage Group synergies, increase our social value, and develop together with society.

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 47 prefectures of Japan as well as overseas. The Group continues to plan retail store openings both in Japan and overseas. In Japan, the Group aims to streamline its store network and maintain and improve its market share by implementing a scrap-and-build policy appropriate to the size of the Japanese market in urban centers, suburbs, small-scale trading areas and community-based retail areas through the development of a nationwide chain of stores, as well as by selective store openings in areas with potential. However, 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 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. The Group also expects competition from competitors in areas where its stores have been already established to be fierce. 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 sales, 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. In addition, while the Group carries out store openings in accordance with the needs of a wide range of customers in urban centers, suburbs, small-scale trading areas and community-based retail areas, the consumer electrical appliance retail industry cannot be said to be stable, and it is likely that the Group will continue to face competition from rival companies in all regional areas. Furthermore, as the Group is the only mass retailer of electrical appliances with a nationwide store network, if competition among its own stores occurs and profitability per store falls due to developments such as changes in the economy and consumption environment and in the market environment, the Group's performance and investment efficiency, and its financial position may be affected. 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 among stores and 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 and may affect performance and financial position of the Group.

(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, unforeseeable issues including contingency liabilities may arise after such actions take place. The Company also believes 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

Similar 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, as an operator engaged in the business of recycling and reuse with the aim of reducing the environmental load and creating a recycling-oriented society, 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 the Group's operating results may be affected if such regulations are tightened in the future.

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 and financial position 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 demographics, changes in exchange rates or stock prices, a slowdown in the global economy or slowdown in some 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. Furthermore, we must respond to distribution market changes, taking place as a result of the future challenges facing Japan, such as the declining birthrate and aging of the population, population decline, and the transition to the Internet-based society. If disposable income and consumer spending in Japan weaken, this may have a negative impact on sales of products handled by the Group resulting in a decline in net sales.

There are also many causes for concern in the global economy such as the slowing of growth in newly emerging economies and political instability in Europe. As a result, the situation remains unpredictable. Under current conditions, with overseas political and economic instability 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 affected by the decrease in domestic consumer spending.

Furthermore, the Group's housing business is strongly affected by trends in personal consumption driven by employment conditions, trends in land prices and interest rates, policies relating to housing and the housing tax system, and the increase in consumption tax. Depending on such conditions or trends, the performance of the Group may be 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, refrigerators, electric fans, 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, recorders, 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 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 bear fruit, the Group's performance and financial position may be affected. Such failure can be caused by a lack of certain products due to competition from other retailers, change in the Group's relationship with manufacturers or 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 equivalent 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 product supplies become unstable due to such factors as a change in the relationship with business partners and global shortages of resources and materials, or maintaining regular product supplies becomes difficult due to, among other matters, 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 affect the Group's performance and financial position.

(9) Risks Regarding Quality Assurance for Housing

The Group thoroughly manages the quality of housing 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 point card certificates, registrations for the Group's service for 24-hour shopping through mobile phones, the processing of credit card applications, paid service subscription of several long-term product warranties, customer information related to various support services, customer information related to distribution, construction or repairs, and a significant amount of customers' personal information. 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 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, earthquakes or localized torrential rain, products cannot be procured due to an obstruction, the Group is required to close its stores in accordance with evacuation advice due to the effects of radioactive materials from an accident at a nuclear power station, operations at the Group's stores are partially impeded due to the occurrence of a disaster from the spread of an infectious disease such as a new strain of influenza or the like, or if it becomes difficult to enter the affected area due to delays in recovery and restoration, there may be a significant decrease in the Group's sales, which may in turn have a significant impact on the Group's performance.

(14) Risks Pertaining to the Housing Equipment Business

The Group works to check the status of its quality control for housing equipment and strives to maintain the quality of such equipment, but in the unlikely event of a problem with product quality occurring, this may negatively affect the Group's performance and financial position.

(15) Overseas Operations

The Group operates an overseas store network centered in Asia, mainly in China, Singapore, Malaysia and Indonesia. Although the Group carries out careful advance studies prior to starting operations overseas, there may be differences in business customs, revisions to laws, tightening of environmental regulations, dramatic economic changes or unanticipated changes in foreign exchange rates in any of the relevant countries after the start of operations, and it may become difficult to secure local human resources in any such countries. Such circumstances may make it difficult for the Group to conduct business operations or secure business revenue as initially expected. Furthermore, the Group pursues development through full ownership of capital and overseas business development through joint ventures with local partners, and it may become difficult to continue such operations for reasons such as a change in the joint venture partner's operating environment, a difference of opinion or a difference in understanding between the Japanese language and the relevant local language. Other than the above, it is conceivable that damage caused by deterioration in orders or deliberate damage to store facilities resulting from changes in the internal political situations of the relevant countries, the occurrence of national disputes, or the occurrence of terrorism or demonstrations in the areas surrounding the stores caused by political or economic problems between Japan and the relevant countries may necessitate suspensions of store operations or make it difficult to continue operations in the relevant areas depending on the circumstances. These factors may negatively affect the Group's performance and financial position.

(16) The Company's Original Brand Products

The Group designs original products under an original brand called "HERB Relax," outsources their manufacturing thereof and sells the finished products. The Group works to check the status of its quality control for these original products and strives to maintain the quality of such products, but in the unlikely event of a problem with product quality occurring, this may result in a shortage of supplies or excess of inventories due to a gap between supply and demand, which may negatively affect the Group's performance and financial position.

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 become 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 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 ¥1,122,408 million, down ¥73,880 million (6.2%) from the end of the previous fiscal year. This was mainly due to decreases in cash and time deposits and notes and accounts receivable.

Total liabilities amounted to ¥613,010 million, down ¥29,924 million (4.7%) from the end of the previous fiscal year. This was mainly due to decreases in current portion of bonds, notes and accounts payable and long-term loans payable, despite an increase in bonds.

Net assets amounted to ¥509,398 million, down ¥43,956 million (7.9%) from the end of the previous fiscal year, mainly reflecting an increase in treasury stock, despite an increase in retained earnings. As a result, the equity ratio was 43.2 % (down 1.0 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 amounted to ¥1,664,371 million, down 12.1% year on year. Various factors converged to cause the sluggish net sales. One factor in this was the occurrence of a greater than expected pullback in demand from April 1, 2014 onward following the rise ahead of the consumption tax increase. Other factors included recoil in demand for replacement of computers in the wake of a surge when support for Windows XP was terminated on April 9, 2014, declining customer traffic due to a late end to the rainy season, torrential rains, as well as typhoons and other natural disasters, languishing results from products associated with seasonality due to an unusually cool summer and warm winter, and a dwindling market for general and industrial use solar power systems due to a shift in government policy in that regard, which resulted in a decline in sales.

With respect to gross profit, market needs continue to change significantly reflecting developments such as the declining birthrate and aging of the population, population decline, and increasing penetration of the Internet in society. In order to flexibly address this situation, we worked to optimize and maximize sales, gross profit and sales strategies such as points, and these efforts contributed to a considerable improvement in the gross profit margin. Nevertheless, the impact of a pullback in net sales following a rise ahead of the consumption tax increase was significant, and as a result gross profit amounted to ¥438,043 million, down 3.3% year on year.

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

Although selling, general and administrative expenses for the fiscal year under review were affected by rises in electricity rates and some other social infrastructure costs, we implemented measures to reduce other costs and made scrupulous efforts to control point-related costs and the like. As a result, selling, general and administrative expenses amounted to ¥418,124 million, down 0.2% year on year, and operating income amounted to ¥19,919 million, down 41.9% year on year.

Other income for the fiscal year under review was ¥4,292 million. This was mainly due to the recording of foreign exchange gains reflecting further yen depreciation, despite a decrease in purchase discounts reflecting a decrease in purchases in line with a decline in net sales resulting from the pullback in demand following the rise ahead of the consumption tax increase. In addition, there was insurance income related to snow damage at consolidated subsidiary Housetec Inc., while on the other hand there was also impairment loss at stores as well as impairment loss and others at consolidated subsidiary YAMADA SXL HOME CO., LTD.

As a result of the above, income before income taxes and minority interests decreased by ¥10,717 million to ¥24,211 million (down 30.7%) 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 ¥15,729 million, income before minority interests was ¥8,482 million and minority interests in loss amounted to ¥859 million.

As a result of the above, net income decreased by ¥9,326 million to ¥9,341 million (down 50.0%) 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 ¥39,692 million, down ¥38,062 million (49.0%) 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 provided by operating activities amounted to ¥22,983 million.

This was mainly due to recording of income before income taxes and minority interests and depreciation, despite income taxes paid and a decrease in notes and accounts payable.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥20,233 million.

This was mainly due to purchase of property and equipment associated with store openings, etc.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥41,488 million.

This was mainly due to repayments of long-term loans payable and purchase of treasury stock, despite proceeds from issuance 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 system under which the execution of operations is carried out by several executive officers, which establishes a clear separation between the execution of operations and the business decision-making and management oversight functions. The senior executives who serve for business departments and on management committees and sectional meetings 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 a CSR Committee, in addition to the existing Compliance Committee, Internal Audit Office and Risk Management Committee, 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 system 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 month. 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.

Two external directors and two external Audit & Supervisory Board members participate in meetings of the Board of Directors.

(iii) Management Meetings

Management meetings are as a rule convened weekly except on weeks when meetings of the Board of Directors are held. At the meetings, participants report on management issues and progress of execution of operations by executive officers, and take prompt action as required.

(iv) Management Strategy Meetings

Relevant directors and managers in the position of executive officer or above attend weekly management strategy meetings, at which senior management checks on the progress made on management strategy themes. Management strategy themes are revised or discontinued as needed and provide a framework to enable flexible planning, drafting and execution of strategies amid a drastically changing operating environment.

(v) Audit & Supervisory Board

The Company's Audit & Supervisory Board system relies on two standing Audit & Supervisory Board members and two non-standing (external) Audit & Supervisory Board members. These auditors participate in the Board of Directors meetings and other important business meetings to monitor the directors' performance of their 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 standing Audit & 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.

(vi) Internal auditing

The Company has established the Internal Audit Office to strengthen its internal auditing functions. Reporting directly to the President and employing five 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.

(vii) Auditing firm

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

(viii) 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.

(ix) Others

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

2) Basic policy on internal control system

The Company has developed a system of internal control for ensuring the proper operation of its business, in accordance with the basic policy below, pursuant to the Companies Act of Japan and the Ordinance for Enforcement of the Companies Act.

(i) System for ensuring that directors and employees perform their duties in compliance with the applicable laws and regulations and the Articles of Incorporation

(a) Compliance Committee

Directors in charge of compliance shall organize the Compliance Committee, which is involved in formulating corporate ethics policies and basic policy and standards on compliance with laws and regulations (compliance provisions), and establish codes of conduct on that basis requiring that directors and employees act in accordance with laws and regulations, the Articles of Incorporation and the Company's employment rules and other internal rules.

Education to directors and employees shall be provided to ensure thorough implementation in this regard led by the Compliance Committee. These initiatives are reported on a regular basis to the Board of Directors and the Audit & Supervisory Board.

(b) Establishment of the CSR Committee and consultation meetings with outside experts on CSR-focused management

The Company shall establish the CSR Committee, in full recognition of the significance of corporate social responsibility, as a means of putting CSR-focused management into practice as part of the management policy. The CSR Committee shall pursue initiatives based on the Code of CSR Ethics in areas that include compliance, labor, customer satisfaction, local communities, and environmental issues. In order to draw on opinions from outside sources, the Company shall also establish consultation meetings with outside experts on CSR-focused management. The meeting shall act as a forum for regular reporting on the progress of initiatives and opinion exchange.

(c) Whistle-blowing system

Upon becoming aware of incidents involving the performance of duties by the Company's directors and employees that are questionable in terms of laws and regulations, individuals regardless of their position shall report such matters directly to the organizational contact set up to receive internal reports, pursuant to the Regulations on Operation of Whistle-Blowing System. The Compliance Committee shall endeavor to make the existence of the whistle-blowing system known.

(d) Internal Audit Office

The Internal Audit Office shall operate independently of the Company's operating divisions. It shall perform internal audits on legal compliance of individual sectors and audits encompassing areas such as, information security management systems (ISMS), information systems, information security and personal information protection. It shall also audit work processes and other operations of individual sectors, and take steps to uncover and prevent improprieties and to improve processes.

(ii) System for storage and management of information concerning the directors' performance of duties

(a) Manager in charge of information storage and management

With respect to the storage and management of information pertaining to the directors' performance of duties, the Company shall store the documents set forth below (including electro and magnetic records thereof) along with related materials under the responsibility of the director in charge of general affairs and in accordance with the Company's Regulations on Document Management and Handling.

a. Minutes of General Meetings of Shareholders
b. Minutes of meetings of the Board of Directors
c. Financial statements
d. Internal circulars for managerial decision (*ringi-sho*)
e. Minutes of meetings of respective committees
f. Documents otherwise designated in the Company's Regulations on Document Management and Handling

(b) Amendments to document handling regulations

Approval of the Board of Directors shall be obtained when amending the Regulations on

Document Management and Handling.

(c) The Company shall develop regulations related to protection of personal information and management of trade secrets, and store and manage personal information and important trade secrets in an appropriate and safe manner.

(iii) Regulations on management of risk of loss and other systems

(a) Risk Management Regulations

The director in charge of risk management shall organize the Risk Management Committee and formulate the Risk Management Regulations. Accordingly, the committee shall categorize risks in the regulations and establish specific risk management systems.

(b) Crisis management system in the event of disaster

The director in charge of risk management shall prepare a disaster response manual and develop crisis management system in accordance with the manual. The director in charge of risk management shall endeavor to make details of the manual known and provide education regarding disaster response.

(iv) System for ensuring that directors perform their duties efficiently

When making decisions on allocating duties of directors and conferring segregations of duties and authority of individual sectors, the Board of Directors (or the representative directors) shall be careful not to make decisions that would result in bloated back-office operations, overlapping administrative sectors, intertwined areas of authority or would otherwise significantly impede efficiency.

(v) System for ensuring the properness of business operations of the Group consisting of the Company, its parent company and its subsidiaries

(a) The Company shall establish an office of affiliate management, and accordingly create a system for overseeing the management and performance of subsidiaries and ensuring the properness of such business operations.

(b) The Company's subsidiaries shall execute their business operations in accordance with basic affiliation agreements and internal regulations of the respective companies, and such agreements and regulations shall be reviewed as needed.

(c) To achieve optimal performance and budget management of its subsidiaries, the Company shall hold monthly Group company review committee meetings for managing subsidiaries' overall performance and budgets on the basis of medium-term business plans and annual budgets, and furthermore hold weekly Group company meetings with its principal subsidiaries.

(d) When deemed necessary, the Internal Audit Office may conduct internal audits related to business operations of subsidiaries.

(vi) System for reporting to the Company on matters pertaining to performance of duties by subsidiaries' directors, etc.

(a) The Company shall stipulate the procedures and content of reporting to the Company from subsidiaries in basic affiliation agreements and provide appropriate guidance and advice on matters reported, while respecting the autonomy of subsidiary management.

(b) The Company shall hold monthly Group company briefing sessions where it receives reports on the status of subsidiary management and financial position to ensure the properness of subsidiary business operations.

(vii) Regulations on management of risk of loss of subsidiaries and other systems

(a) The Company shall make its basic risk management guidelines thoroughly known to its subsidiaries in accordance with the basic affiliation agreements.

(b) The Company shall receive weekly risk management status reports from all of its subsidiaries, by receiving checklists for monitoring compliance.

(c) The Company's principal subsidiaries shall establish basic policies on risk management.

(d) In the event that the office of affiliate management receives a report on risk of loss from a subsidiary, it shall investigate the relevant facts in the case and report the matter to the Board of Directors and the Audit & Supervisory Board.

(viii) System for ensuring that subsidiaries' directors, etc. perform their duties efficiently

(a) The Company's Board of Directors shall formulate medium-term business plans, medium- to long-term management strategies and other such documents in which subsidiaries are involved, and coordinate with subsidiaries in establishing key management goals based on such plans and strategies, and making progress in that regard.

(b) The Company shall stipulate procedures in its basic affiliation agreements with respect to individual matters for approval involving its subsidiaries, and take steps to streamline decision-making in that regard.

(ix) System for ensuring that subsidiaries' directors, etc. and employees perform their duties in compliance with the applicable laws and regulations and the Articles of Incorporation

(a) The Company shall verify the status of subsidiaries' operations using weekly checklists for monitoring compliance, and report such outcomes to the Compliance Committee as necessary.

(b) The Company's whistle-blowing system shall also be used by its subsidiaries to prevent violations of laws and regulations and the Articles of Incorporation. The Company shall receive reports regarding the status of any disciplinary action taken on the basis of violations of laws and regulations or the Articles of Incorporation.

(c) The Company may assign its directors, Audit & Supervisory Board members and employees to concurrently serve as audit & supervisory board members of a subsidiary, thereby coordinating with audit & supervisory board members of the subsidiary in performing legal compliance audits of duties performed by the subsidiary's directors and employees.

(x) System regarding employees to assist duties of Audit & Supervisory Board members when the Audit & Supervisory Board members request to assign such employees, and matters regarding the independence of such employees from the directors

(a) Assigning an employee to act as an audit assistant

When an Audit & Supervisory Board member requests directors that an employee be assigned as an audit assistant to assist in his or her duties, the directors shall make the necessary organizational changes and personnel rotations upon consulting with the Audit & Supervisory Board member.

(b) Duties of an audit assistant

Audit assistants shall be formally posted as assistant to Audit & Supervisory Board member and assist with duties of Audit & Supervisory Board members and Audit & Supervisory Board operations as instructed and ordered.

(c) Independence of an audit assistant

a. An audit assistant shall work under the instructions and orders of an Audit & Supervisory Board member, and as such is not subject to the instructions or orders of directors or any person positioned as his or her superior or the like in the organization unit to which the audit assistant belongs.

b. In performing their tasks, audit assistants may gather all information necessary for the audit.

c. Consent of the relevant Audit & Supervisory Board member must be obtained for matters involving personnel changes (this includes consent for the transfer destination in case of personnel transfer), personnel evaluation and disciplinary action of an audit assistant.

(xi) Matters regarding ensuring effectiveness of Audit & Supervisory Board members' instructions to employees to assist them in their duties

(a) Supervisory authority

Audit & Supervisory Board members may instruct employees as necessary for conducting audit work so that the employees will assist their duties.

(b) Cooperative framework

When such an employee concurrently serves as an employee of another department, priority must be given to the employee's duties pertaining to the Audit & Supervisory Board member. Moreover, superiors of the other department with which the employee concurrently serves, and directors, must provide support as necessary upon request with respect to performance of such duties.

(xii) System for directors and employees to report to Audit & Supervisory Board members and the system concerning other reports to Audit & Supervisory Board members

(a) Directors' obligation to report

A director must promptly report to an Audit & Supervisory Board member with respect to any discovery of an incident where work performed by another director or an employee is in violation of laws and regulations, or threatens to cause significant damage to the Company.

(b) Employees' right to report

An employee may report to an Audit & Supervisory Board member with respect to any discovery of an incident where work performed by a director or another employee is in violation of laws and regulations, or threatens to cause significant damage to the Company.

(c) Methods of reporting

Methods of reporting shall be determined through mutual consultation between directors and the Audit & Supervisory Board.

(d) Internal reporting

The organizational contact set up to receive internal reports shall report matters involving the status of internal reporting to an Audit & Supervisory Board member, pursuant to the Regulations on Operation of Whistle-Blowing System.

(xiii) System for reporting to Audit & Supervisory Board members by the following in subsidiaries: directors, accounting advisors, audit & supervisory board members, executive officers, executive members, persons executing duties set forth in Article 598, Paragraph 1 of the Companies Act, persons equivalent to such persons, and employees, or persons who receive reports from the foregoing persons

(a) Directors and employees of a subsidiary shall immediately report the Company's office of affiliate management if they discover an incident that significantly damages the subsidiary or threatens to do so, or otherwise if they discover a material incident involving violation of laws and regulations, the articles of incorporation or internal regulations within the subsidiary.

(b) With respect to matters involving reports received from directors of subsidiaries, any matters that the Company's office of affiliate management is to report to Audit & Supervisory Board members of the Company shall be those determined through mutual consultation between the Company's officers in charge of subsidiaries and Audit & Supervisory Board members.

(xiv) System for ensuring that persons who have reported matters are not treated disadvantageously on the grounds of their reporting (whistleblower protection)

Persons who have reported matters to an Audit & Supervisory Board member shall not be treated disadvantageously in any way on the grounds of their reporting as set forth in the preceding paragraphs.

(xv) Matters regarding policies pertaining to procedures for prepayment or reimbursement of expenses arising with respect to performance of an Audit & Supervisory Board member's duties, or otherwise processing of expenses or debt obligations arising with respect to performance of such duties

(a) Presentation of budget

The Audit & Supervisory Board shall present a preliminary budget to the Company with respect to expenses deemed necessary in performing duties.

(b) Claims for expenses, etc.

Directors may not reject the hereinafter listed claims made by an Audit & Supervisory Board member, etc. with respect to performance of his or her duties, unless it has been demonstrated that an expense or debt obligation pertaining to the claim is unnecessary with respect to performance of the Audit & Supervisory Board member's duties.

a. Claim for prepayment of expenses

b. Claim for reimbursement of expenses already paid and interest on such amounts accrued after the date of payment

c. Claim for making repayment to a person to whom a debt obligation is owed (or provision of reasonable guarantee of such amount in cases where the repayment due date of the obligation has not yet arrived).

(xvi) System for ensuring that Audit & Supervisory Board members perform audits effectively

Audit & Supervisory Board members are provided preliminary explanations with respect to annual plans to be implemented by the Internal Audit Office, and may ask for revisions to such plans and make other such requests. Moreover, Audit & Supervisory Board members may be appropriately provided reports regarding the status of internal audit implementation, and may call for performance of additional audits, improvement of business operations and other such requests, when deemed necessary.

(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 (v) (Audit & Supervisory Board) and item (vi) (Internal auditing) under (1) Corporate Governance Structures.

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

The Company has two external directors. External Director Mr. Tsukasa Tokuhira provides valuable opinions and suggestions to management of the Company as an external director based on his abundant experience as a long-standing leader in the distribution industry. Mr. Tsukasa Tokuhira concurrently serves as Representative Director of Cross Co., Ltd. and Representative Director of Fic Limited, and the Company has a trading relationship with Cross Co., Ltd. that includes the provision of outsourced operations. However, because the scale of this relationship is insubstantial and accounts for less than 0.001% of the Company's consolidated net sales, the Company believes that it is not significant enough to cause a conflict of interests. The Company does not have a personal relationship, capital relationship, trading relationship or share any other interests with Fic Limited. External Director Mr. Hiroyuki Fukuyama has a wealth of experience and wide knowledge as a company executive, and the Company judges that he will provide valuable opinions and suggestions to management of the Company as an external director, including from the perspective of CSR, such as environmental responses centered on manufacturing and regional contribution measures. Mr. Hiroyuki Fukuyama concurrently serves as Representative of Hiroyuki Fukuyama Professional Engineer Office. The Company does not have a personal relationship, capital relationship, trading relationship or share any other interests with Hiroyuki Fukuyama Professional Engineer Office.

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. However, because the scale of this relationship is insubstantial and accounts for less than 0.03% of the Company's consolidated net sales, the Company believes that it is not significant enough to cause a conflict of interests. 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 and Representative Director of Takahashi Tax & Management Co., Ltd. The Company does not have a personal relationship, capital relationship, trading relationship or share any other interests with Hikari Certified Public Tax Accountants Corporation or Takahashi Tax & Management Co., Ltd. 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 soundness and appropriateness 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.

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, 2015 and 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
ASSETS			
Current assets:			
Cash and time deposits (Notes 4 and 6)	¥ 40,944	¥ 79,009	$ 340,431
Notes and accounts receivable (Notes 6 and 15):			
- Trade	48,885	57,325	406,464
- Non-consolidated subsidiaries and affiliated companies	3,830	952	31,843
Sub-total	52,715	58,277	438,307
Inventories	318,028	325,950	2,644,289
Deferred tax assets (Note 14)	14,342	14,848	119,251
Other current assets (Notes 6 and 25)	51,657	56,887	429,506
Allowance for doubtful accounts	(9,703)	(8,695)	(80,681)
Total current assets	467,983	526,276	3,891,103
Property and equipment:			
Buildings and structures, net (Notes 9, 10 and 17)	229,686	232,713	1,909,756
Land (Notes 10 and 12)	184,709	185,856	1,535,785
Lease assets, net (Notes 9, 10 and 11)	12,099	11,060	100,595
Others, net (Notes 9 and 10)	20,214	19,606	168,066
Total property and equipment, net	446,708	449,235	3,714,202
Intangible assets (Note 10)	37,280	41,722	309,971
Investments and other assets:			
Investment securities (Notes 6 and 7)	5,991	10,329	49,817
Long-term loans receivable	9,229	8,418	76,735
Guarantee deposits (Notes 6 and 25)	117,146	120,495	974,021
Net defined benefit asset (Note 16)	2,038	2,009	16,946
Deferred tax assets (Note 14)	12,850	14,446	106,841
Other assets (Note 10)	29,404	28,982	244,489
Allowance for doubtful accounts	(6,221)	(5,624)	(51,727)
Total investments and other assets	170,437	179,055	1,417,122
Total assets	¥ 1,122,408	¥ 1,196,288	$ 9,332,398

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2015 and 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 6 and 25)	¥ 90,014	¥ 117,161	$ 748,430
Short-term loans payable (Notes 6 and 12)	78,480	77,605	652,532
Current portion of bonds (Notes 6 and 13)	-	59,000	-
Current portion of long-term loans payable (Notes 6 and 12)	52,899	59,603	439,831
Lease obligations (Notes 11 and 12)	2,511	2,442	20,881
Income taxes payable	2,315	16,069	19,246
Provision for bonuses	8,087	7,582	67,243
Provision for directors' bonuses	123	123	1,020
Provision for point card certificates	20,748	17,612	172,512
Provision for warranties for completed construction	234	244	1,945
Provision for losses on liquidation of subsidiaries	687	1,154	5,708
Other current liabilities (Notes 12 and 25)	63,541	68,845	528,324
Total current liabilities	319,639	427,440	2,657,672
Long-term liabilities:			
Bonds (Notes 6 and 13)	100,417	-	834,927
Long-term loans payable (Notes 6 and 12)	110,582	132,860	919,443
Lease obligations (Notes 11 and 12)	12,473	9,955	103,711
Asset retirement obligations (Note 17)	15,648	14,733	130,108
Provision for directors' retirement benefits	463	419	3,849
Provision for product warranties	14,059	15,763	116,897
Provision for losses on interest repayments	433	641	3,604
Net defined benefit liability (Note 16)	23,849	24,191	198,298
Other long-term liabilities (Notes 12 and 14)	15,447	16,932	128,434
Total long-term liabilities	293,371	215,494	2,439,271
Total liabilities	613,010	642,934	5,096,943
Contingent liabilities (Note 15)			
Net assets (Note 18):			
Common stock: authorized – 2,000,000,000 shares issued – 966,489,740 shares in 2015 and 2014	71,059	71,059	590,828
Capital surplus	70,977	70,977	590,150
Retained earnings	432,236	427,498	3,593,882
Treasury stock, at cost – 212,458,048 shares in 2015 and 73,115,448 shares in 2014	(88,320)	(38,320)	(734,353)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes (Note 7)	1,599	195	13,294
Foreign currency translation adjustments	(2,771)	(1,357)	(23,037)
Remeasurements of defined benefit plans (Note 16)	89	(1,020)	741
Subscription rights to shares (Note 19)	297	148	2,470
Minority interests	24,232	24,174	201,480
Total net assets	509,398	553,354	4,235,455
Total liabilities and net assets	¥ 1,122,408	¥ 1,196,288	$ 9,332,398

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net sales (Notes 24 and 25):			
- Trade	¥ 1,654,021	¥ 1,883,745	$ 13,752,562
- Non-consolidated subsidiaries and affiliated companies	10,350	10,227	86,059
Sub-total	1,664,371	1,893,972	13,838,621
Cost of sales (Notes 20 and 25)	1,226,328	1,440,845	10,196,459
Gross profit	438,043	453,127	3,642,162
Selling, general and administrative expenses (Notes 16, 21 and 25)	418,124	418,861	3,476,545
Operating income	19,919	34,266	165,617
Other income (expenses):			
Interest income	1,315	1,181	10,934
Interest expenses	(1,594)	(2,057)	(13,257)
Insurance income	2,792	-	23,217
Purchase discounts	6,187	6,925	51,445
Impairment loss (Note 10)	(13,492)	(3,458)	(112,177)
Foreign exchange gains	5,466	3,172	45,445
Loss on valuation of stocks of subsidiaries	-	(630)	-
Provision of allowance for doubtful accounts	-	(9,272)	-
Others, net (Notes 22 and 25)	3,618	4,801	30,079
Total other income	4,292	662	35,686
Income before income taxes and minority interests	24,211	34,928	201,303
Income taxes (Note 14):			
Current	13,929	22,269	115,808
Deferred	1,800	(7,303)	14,966
Total income taxes	15,729	14,966	130,774
Income before minority interests	8,482	19,962	70,529
Minority interests in income (loss)	(859)	1,295	(7,137)
Net income	¥ 9,341	¥ 18,667	$ 77,666

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Basic net income	¥ 11.74	¥ 20.22	$ 0.10
Diluted net income	11.72	20.21	0.10
Cash dividends applicable to the year	6.00	6.00	0.05

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, 2015 and 2014

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2015		2014		*2015*	
Income before minority interests	¥	8,482	¥	19,962	$	70,529
Other comprehensive income, net of taxes (Note 23):						
Valuation difference on available-for-sale securities		1,591		919		13,231
Foreign currency translation adjustments		(1,377)		(1,149)		(11,452)
Remeasurements of defined benefit plans, net of tax		1,713		-		14,246
Share of other comprehensive income of associates accounted for using equity method		(0)		5		(1)
Total other comprehensive income		1,927		(225)		16,024
Comprehensive income	¥	10,409	¥	19,737	$	86,553
Comprehensive income attributable to:						
Owners of the Company	¥	10,439	¥	18,376	$	86,799
Minority interests		(30)		1,361		(246)

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, 2015 and 2014

	Millions of yen										
		Shareholders' equity				Accumulated other comprehensive income (loss)					
	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 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 16)	Subscription rights to shares (Note 19)	Minority interests	Total net assets
Balance at March 31, 2013	96,649	¥ 71,059	¥ 70,977	¥ 414,484	¥ (23,046)	¥ (721)	¥ (149)	¥ -	¥ 2	¥ 22,785	¥ 555,391
Issuance of new stock	869,841										
Cash dividends				(5,653)							(5,653)
Net income				18,667							18,667
Purchase of treasury stock					(15,274)						(15,274)
Other changes in the year, net						916	(1,208)	(1,020)	146	1,389	223
Balance at April 1, 2014	966,490	71,059	70,977	427,498	(38,320)	195	(1,357)	(1,020)	148	24,174	553,354
Cumulative effect of changes in accounting policies				757						118	875
Restated balance at April 1, 2014	966,490	71,059	70,977	428,255	(38,320)	195	(1,357)	(1,020)	148	24,292	554,229
Cash dividends				(5,360)							(5,360)
Net income				9,341							9,341
Purchase of treasury stock					(50,000)						(50,000)
Other changes in the year, net						1,404	(1,414)	1,109	149	(60)	1,188
Balance at March 31, 2015	966,490	¥71,059	¥70,977	¥432,236	¥ (88,320)	¥ 1,599	¥ (2,771)	¥ 89	¥ 297	¥24,232	¥509,398

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity				*Accumulated other comprehensive income (loss)*					
	Common stock	*Capital surplus*	*Retained earnings*	*Treasury stock, at cost*	*Valuation difference on available-for-sale securities, net of taxes (Note 7)*	*Foreign currency translation adjustments*	*Remeasurements of defined benefit plans (Note 16)*	*Subscription rights to shares (Note 19)*	*Minority interests*	*Total net assets*
Balance at April 1, 2014	$ 590,828	$ 590,150	$ 3,554,488	$ (318,622)	$ 1,624	$ (11,280)	$ (8,481)	$ 1,232	$ 200,994	$ 4,600,933
Cumulative effect of changes in accounting policies			6,298						982	7,280
Restated balance at April 1, 2014	590,828	590,150	3,560,786	(318,622)	1,624	(11,280)	(8,481)	1,232	201,976	4,608,213
Cash dividends			(44,570)							(44,570)
Net income			77,666							77,666
Purchase of treasury stock				(415,731)						(415,731)
Other changes in the year, net					11,670	(11,757)	9,222	1,238	(496)	9,877
Balance at March 31, 2015	$ 590,828	$ 590,150	$ 3,593,882	$ (734,353)	$ 13,294	$ (23,037)	$ 741	$ 2,470	$ 201,480	$ 4,235,455

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	*2015*
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 24,211	¥ 34,928	$ 201,303
Depreciation	23,064	23,413	191,772
Amortization of goodwill	892	1,169	7,417
Increase (decrease) in provision for point card certificates	3,136	(3,720)	26,077
(Decrease) increase in provision for product warranties	(1,704)	2,245	(14,165)
Increase in allowance for doubtful accounts	1,071	10,713	8,904
Increase in net defined benefit liability	2,459	1,261	20,443
Interest and dividend income	(1,448)	(1,292)	(12,037)
Interest expenses	1,594	2,057	13,257
Foreign exchange gains	(5,246)	(3,167)	(43,617)
Loss on valuation of investment securities	-	24	-
Loss on valuation of stocks of subsidiaries	-	630	-
Loss on sale and disposal of property and equipment, net	463	577	3,848
Impairment loss	13,492	3,458	112,177
Insurance income	(2,792)	-	(23,217)
Decrease in notes and accounts receivable	6,158	9,897	51,199
(Decrease) increase in advances received	(10,508)	10,313	(87,371)
Decrease (increase) in inventories	8,720	(54,276)	72,503
(Decrease) increase in notes and accounts payable	(28,008)	6,076	(232,872)
Increase in consumption taxes payable	8,889	1,271	73,908
Decrease (increase) in other current assets	1,197	(603)	9,951
(Decrease) increase in other current liabilities	(4,126)	4,907	(34,302)
Others, net	7,143	781	59,389
Sub-total	48,657	50,662	404,567
Interest and dividend income received	424	373	3,524
Interest expenses paid	(1,629)	(2,140)	(13,548)
Proceeds from insurance income	2,792	-	23,217
Income taxes paid	(27,261)	(3,747)	(226,668)
Net cash provided by operating activities	¥ 22,983	¥ 45,148	$ 191,092

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	*2015*
Cash flows from investing activities:			
Payments into time deposits	¥ (233)	¥ (1,011)	$ (1,937)
Proceeds from withdrawal of time deposits	186	1,372	1,547
Proceeds from sales and redemption of investment securities	6,514	1,542	54,161
Payments of loans receivable	(1,254)	(3,377)	(10,425)
Collection of loans receivable	807	1,170	6,709
Purchases of property and equipment	(28,455)	(39,547)	(236,589)
Purchases of intangible assets	(913)	(729)	(7,592)
Payments for guarantee deposits	(3,904)	(6,338)	(32,459)
Proceeds from collection of guarantee deposits	8,009	9,365	66,588
Others, net	(990)	(1,054)	(8,232)
Net cash used in investing activities	(20,233)	(38,607)	(168,229)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	875	(36,230)	7,275
Proceeds from long-term loans payable	41,250	100,300	342,978
Repayments of long-term loans payable	(70,233)	(54,499)	(583,959)
Proceeds from issuance of bonds	100,421	-	834,961
Redemption of bonds	(59,000)	-	(490,563)
Purchase of treasury stock	(50,215)	(15,446)	(417,516)
Repayments of lease obligations	(2,778)	(2,948)	(23,094)
Proceeds from sales and leasebacks	3,639	6,827	30,256
Cash dividends paid	(5,361)	(5,652)	(44,578)
Others, net	(86)	2	(714)
Net cash used in financing activities	(41,488)	(7,646)	(344,954)
Effect of exchange rate change on cash and cash equivalents	676	953	5,617
Net decrease in cash and cash equivalents	(38,062)	(152)	(316,474)
Cash and cash equivalents at beginning of year	77,754	77,906	646,497
Cash and cash equivalents at end of year (Note 4)	¥ 39,692	¥ 77,754	$ 330,023

Supplemental cash flow information (Note 5)

(Concluded)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2015 and 2014

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 2014 financial statements to conform to the classifications used in the 2015 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, 2015, which was ¥120.27 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 32 (33 in 2014) significant subsidiaries (together, the "Group"). For the current fiscal year ended March 31, 2015, Kinki Nikka Service Co., Ltd. was excluded from the scope of consolidation as a result of an absorption type merger with Nikka Maintenance Co., Ltd. as the surviving company, which has been the consolidated subsidiary of the Company.

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 has 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, 2014 and 2013 or February 28, 2015 and 2014, 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.

(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 value 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 partnerships (“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.

Also, if an interest rate swap contract is used as a 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.

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 hedges 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 payments 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

Some of the consolidated subsidiaries provide 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 Directors' Retirement Benefits

Some of the consolidated subsidiaries each set 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.

(q) Provision for Product Warranties

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

(r) Provision for Losses on Liquidation of Subsidiaries

Some of the consolidated subsidiaries provide for losses on liquidation of its subsidiaries at the estimated amount of such losses.

(s) Leases

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

In March 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in a note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing leased assets and lease obligations in the consolidated balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective September 1, 2008. In addition, some of the consolidated subsidiaries accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

(t) Calculation Method of Retirement Benefits

In determining the retirement benefit liability, the benefit formula basis is adopted as the attribution method of the projected retirement benefit.

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 (mainly 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 (mainly five years) not exceeding the average remaining service period of the eligible employees.

(u) 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.

(v) 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.

(w) Per Share Information

The Company conducted a 10-for-1 stock split of its common stock on October 1, 2013. The net income per share has been calculated on the assumption that the stock split was conducted at the beginning of the previous consolidated fiscal year ended March 31, 2014.

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 2019 was not reflected because they were anti-dilutive.

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.

(x) New Accounting Pronouncements

(1) "Revised Accounting Standards for Business Combination" (ASBJ Statement No. 21, September 13, 2013)
(2) "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013)
(3) "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013)
(4) "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, September 13, 2013)
(5) "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013)
(6) "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, September 13, 2013)

(a) Summary

The above standards and guidance have been revised primarily to account for:

i) How the changes of the shares in subsidiaries, over which the Company continues to control, should be treated by the Company when additional stock of a subsidiary is acquired.

ii) Treatment of acquisition related costs

iii) Presentation of current net income and the change of shareholder's equity from minority interests to non-controlling interests

iv) Provisional application of accounting treatments

(b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2016.

Provisional application of the accounting standards is scheduled to begin for business combinations effective after the beginning of the fiscal year ending March 31, 2016.

(c) Effects of the application of the standards

Capital surplus is currently expected to decrease by ¥648 million ($5,391 thousand) due to the revision of the "Accounting Standard for Business Combinations" and the like.

3. CHANGE IN ACCOUNTING POLICIES

The Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, "Guidance No. 25")) from the current fiscal year, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from the straight-line basis to a benefit formula basis and determining the discount rates from the method in which the discount rate is determined based on long-term bond yields for a number of years approximate to average remaining service periods to the method in which the discount rate is determined based on a single weighted average discount rate reflecting expected benefit payment periods and amounts for each payment period.

In accordance with article 37 of Statement No. 26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result of the application, net defined benefit asset and net defined benefit liability decreased by ¥31 million ($254 thousand) and ¥1,111 million ($9,234 thousand), respectively, and retained earnings increased by ¥757 million ($6,298 thousand) at the beginning of the current fiscal year. The application of the new accounting standard does not have a material effect on operating income, ordinary income and income before income taxes and minority interests in the current fiscal year.

Net assets per share increased by ¥1.00 ($0.01).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2015 and 2014 in the consolidated statements of cash flows consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Cash and time deposits	¥ 40,944	¥ 79,009	$ 340,431
Time deposits with maturities exceeding three months	(1,252)	(1,255)	(10,408)
Cash and cash equivalents	¥ 39,692	¥ 77,754	$ 330,023

5. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2015 were ¥5,226 million ($43,453 thousand) and ¥5,635 million ($46,852 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2014 were ¥10,566 million and ¥11,022 million, respectively.

Asset retirement obligations for the years ended March 31, 2015 and 2014 were ¥1,032 million ($8,583 thousand) and ¥2,062 million, respectively.

6. FINANCIAL INSTRUMENTS

I. Qualitative Information on Financial Instruments

(a) Policies for Using Financial Instruments

The Group raises 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 Group utilizes 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 four years and one year after the balance sheet date for the years ended March 31, 2015 and 2014, respectively.

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 “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 the 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 the 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 "DERIVATIVE FINANCIAL INSTRUMENTS," do not indicate market risk of derivative transactions.

II. Fair Value of Financial Instruments

The following is a summary of book values and estimated fair values of financial instruments as of March 31, 2015 and 2014:

	Millions of yen		
	2015		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 40,944	¥ 40,944	¥ -
(2) Notes and accounts receivable	52,715		
Allowance for doubtful accounts (*1)	(3,751)		
	48,964	48,964	-
(3) Investment securities (*2)	5,145	6,319	1,174
(4) Guarantee deposits (*3)			
(including current portion)	112,846		
Allowance for doubtful accounts (*1)	(21)		
	112,825	112,850	25
	¥ 207,878	¥ 209,077	¥ 1,199
Financial liabilities:			
(1) Notes and accounts payable	¥ 90,014	¥ 90,014	¥ -
(2) Short-term loans payable	78,480	78,480	-
(3) Bonds	100,417	97,380	(3,037)
(4) Long-term loans payable			
(including current portion)	163,481	163,214	(267)
	¥ 432,392	¥ 429,088	¥ (3,304)
Derivative transactions (*4)	¥ 29	¥ 29	¥ -

	Thousands of U.S. dollars (Note 1)					
	2015					
	Book value		*Fair value*		*Valuation gains/(losses)*	
Financial assets:						
(1) Cash and time deposits	$	340,431	$	340,431	$	-
(2) Notes and accounts receivable		438,307				
Allowance for doubtful accounts (*1)		(31,191)				
		407,116		407,116		-
(3) Investment securities (*2)		42,778		52,537		9,759
(4) Guarantee deposits (*3)						
(including current portion)		938,273				
Allowance for doubtful accounts (*1)		(174)				
		938,099		938,306		207
	$	1,728,424	$	1,738,390	$	9,966
Financial liabilities:						
(1) Notes and accounts payable	$	748,430	$	748,430	$	-
(2) Short-term loans payable		652,532		652,532		-
(3) Bonds		834,927		809,676		(25,251)
(4) Long-term loans payable						
(including current portion)		1,359,275		1,357,053		(2,222)
	$	3,595,164	$	3,567,691	$	(27,473)
Derivative transactions (*4)	$	240	$	240	$	-

	Millions of yen					
	2014					
	Book value		Fair value		Valuation gains/(losses)	
Financial assets:						
(1) Cash and time deposits	¥	79,009	¥	79,009	¥	-
(2) Notes and accounts receivable		58,277				
Allowance for doubtful accounts (*1)		(3,407)				
		54,870		54,870		-
(3) Investment securities (*2)		9,314		9,829		515
(4) Guarantee deposits (*3)						
(including current portion)		115,567				
Allowance for doubtful accounts (*1)		(25)				
		115,542		113,617		(1,925)
	¥	258,735	¥	257,325	¥	(1,410)
Financial liabilities:						
(1) Notes and accounts payable	¥	117,161	¥	117,161	¥	-
(2) Short-term loans payable		77,605		77,605		-
(3) Bonds		59,000		58,655		(345)
(4) Long-term loans payable						
(including current portion)		192,463		186,370		(6,093)
	¥	446,229	¥	439,791	¥	(6,438)
Derivative transactions (*4)	¥	7	¥	7	¥	-

Notes:

(*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) represent 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 in parenthesis.

Explanatory Notes on Fair Value of Financial Instruments

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

(a) Financial Assets

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

Because these assets are settled in the short term, 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 7, entitled "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 7, entitled "SECURITIES INFORMATION."

(b) Financial Liabilities

- **(1) Notes and Accounts Payable and (2) Short-term Loans 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 values.

- **(3) 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.

- **(4) 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 "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 8, entitled "DERIVATIVE FINANCIAL INSTRUMENTS."

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

The following securities were excluded from the above table because management of the Group concludes that their fair values are virtually impossible to estimate:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	*2015*
	Book value		
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 407	¥ 357	$ 3,386
Affiliated companies	33	42	277
(2) Available-for-sale securities			
Unlisted equity securities	290	299	2,407
Investment in LPS (*2)	117	317	971
Guarantee deposits (*3)	10,664	11,338	88,671

Notes:

(*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 value 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			
	2015			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 40,944	¥ -	¥ -	¥ -
Notes and accounts receivable	52,715	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	200	-	-
(2) Others	158	86	-	-
Guarantee deposits (*)	6,365	24,365	22,526	59,590
Total	¥ 100,182	¥ 24,651	¥ 22,526	¥ 59,590

	Thousands of U.S. dollars (Note 1)			
	2015			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 340,431	$ -	$ -	$ -
Notes and accounts receivable	438,307	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	1,663	-	-
(2) Others	1,310	717	-	-
Guarantee deposits (*)	52,923	202,589	187,293	495,468
Total	$ 832,971	$ 204,969	$ 187,293	$ 495,468

	Millions of yen			
	2014			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 79,009	¥ -	¥ -	¥ -
Notes and accounts receivable	58,277	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	200	-	6,000
(2) Others	160	158	-	-
Guarantee deposits (*)	6,410	24,583	24,536	60,038
Total	¥ 143,856	¥ 24,941	¥ 24,536	¥ 66,038

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

Contractual maturities of short-term and long-term loans payable and bonds are described in Note 12, entitled "SHORT-TERM AND LONG-TERM DEBT," and Note 13, entitled "CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES," respectively.

7. SECURITIES INFORMATION

The acquisition costs and book values of Available-for-sale Securities with available fair values as of March 31, 2015 and 2014 were as follows:

	Millions of yen					
	2015					
	Book value		Acquisition cost		Difference	
Securities with book values (fair values) exceeding acquisition costs:						
Equity securities	¥	4,602	¥	2,197	¥	2,405
Debt securities:						
Government bonds and others (*)		477		454		23
Corporate bonds		203		200		3
Others		11		8		3
Sub-total		5,293		2,859		2,434
Securities with book values (fair values) not exceeding acquisition costs:						
Equity securities		48		53		(5)
Sub-total		48		53		(5)
Total	¥	5,341	¥	2,912	¥	2,429

	Thousands of U.S. dollars (Note 1)					
	2015					
	Book value		*Acquisition cost*		*Difference*	
Securities with book values (fair values) exceeding acquisition costs:						
Equity securities	$	38,263	$	18,269	$	19,994
Debt securities:						
Government bonds and others (*)		3,966		3,776		190
Corporate bonds		1,690		1,663		27
Others		88		65		23
Sub-total		44,007		23,773		20,234
Securities with book values (fair values) not exceeding acquisition costs:						
Equity securities		401		441		(40)
Sub-total		401		441		(40)
Total	$	44,408	$	24,214	$	20,194

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

Unlisted equity securities of ¥290 million ($2,407 thousand) and investments in LPS of ¥117 million ($971 thousand) were excluded from the above table because they do not have readily determinable market values and their fair values are virtually impossible to estimate.

	Millions of yen		
	2014		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥ 3,837	¥ 2,116	¥ 1,721
Debt securities:			
Government bonds and others (*)	410	389	21
Corporate bonds	202	200	2
Others	9	8	1
Sub-total	4,458	2,713	1,745
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	178	207	(29)
Debt securities:			
Government bonds and others (*)	20	20	(0)
Corporate bonds	4,865	6,000	(1,135)
Sub-total	5,063	6,227	(1,164)
Total	¥ 9,521	¥ 8,940	¥ 581

Note:

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

Unlisted equity securities of ¥299 million and investments in LPS of ¥317 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, 2015 and 2014 were as follow:

	Millions of yen		
	2015		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 148	¥ 60	¥ -

	Thousands of U.S. dollars (Note 1)		
	2015		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 1,234	$ 503	$ -

	Millions of yen		
	2014		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 6	¥ 1	¥ -

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 and investments in non-consolidated subsidiaries and affiliated companies were ¥4 million ($34 thousand) and ¥0, respectively, for the year ended March 31, 2015 and ¥24 million and ¥630 million, respectively, for the year ended March 31, 2014.

8. 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, 2015 and 2014 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	*Fair value*	*Unrealized gains*
At March 31, 2015:						
Foreign currency forward contracts:						
Buy, call	¥ 893	¥ -	¥ 29	¥ 29	$ 240	$ 240
Total			¥ 29	¥ 29	$ 240	$ 240

	Millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized losses
At March 31, 2014:				
Foreign currency forward contracts:				
Buy, call	¥ 1,666	¥ -	¥ 7	¥ 7
Total			¥ 7	¥ 7

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, 2015 and 2014 were as follows:

	Millions of yen					
	Notional amount					
	Total		Over one year		Fair value	
At March 31, 2015:						
Interest rate swap contracts:						
Pay fixed, receive floating	¥	117,020	¥	84,000	¥	(*)

	Thousands of U.S. dollars (Note 1)					
	Notional amount					
	Total		*Over one year*		*Fair value*	
At March 31, 2015:						
Interest rate swap contracts:						
Pay fixed, receive floating	$	972,977	$	698,429	$	(*)

	Millions of yen					
	Notional amount					
	Total		Over one year		Fair value	
At March 31, 2014:						
Interest rate swap contracts:						
Pay fixed, receive floating	¥	110,850	¥	77,020	¥	(*)

Note:

(*) 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 6, entitled the "FINANCIAL INSTRUMENTS," since such derivative contract is accounted for as component of the corresponding hedged long-term loans payable.

9. ACCUMULATED DEPRECIATION ON PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Accumulated depreciation	¥ 264,307	¥ 248,912	$ 2,197,611

10. IMPAIRMENT LOSS

As a minimum unit for generating cash flows, each retail store or branch office is grouped and assessed. For certain consolidated subsidiaries, each company is grouped and assessed as a minimum unit, and the headquarters and some factories are grouped and assessed as common assets which do not generate cash flows. The book values of cash-generating units which may incur operating losses continuously, and the book values of goodwill which may not generate income as expected in the business plan at the time of acquisition are 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 is recorded at the amount by which the carrying amount of each group of assets exceeds its recoverable value. The recoverable amounts from such asset groups are mainly based on the net selling price, which in turn is based on the value assessed for property tax purposes. The net selling prices of intangible assets, lease assets and long-term prepaid expenses are set at zero. The recoverable amounts of goodwill are based on the use value, which is calculated mainly based on future cash flow with discount rate of 5.6%.

The summary of impairment losses recorded for the fiscal years ended March 31, 2015 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	*2015*
Buildings and structures	¥ 5,474	¥ 1,846	$ 45,517
Land	399	385	3,317
Lease assets	1,700	335	14,134
Other tangible assets	1,497	578	12,451
Construction in progress	4	-	36
Goodwill	3,300	-	27,438
Intangible assets	738	222	6,133
Long-term prepaid expenses	212	92	1,764
Investment and other assets	168	-	1,387
Total	¥ 13,492	¥ 3,458	$ 112,177

Impairment losses for the year ended March 31, 2015 mainly relate to retail stores and a property for the Group's own business use located in Saitama Prefecture, stores and a property for rent located in Hokkaido Prefecture, and common assets located in Ibaraki Prefecture. Impairment losses for the year ended March 31, 2014 mainly relate to retail stores and a property for the Group's own business use located in Gunma Prefecture and stores and a property for rent located in Nagano Prefecture.

11. LEASE INFORMATION

As Lessee

(i) Finance lease transactions without title transfer

The Group leases 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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	*2015*
Due within one year	¥ 12,561	¥ 10,040	$ 104,444
Due after one year	93,727	79,714	779,306
Total	¥ 106,288	¥ 89,754	$ 883,750

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within one year	¥ 243	¥ 246	$ 2,020
Due after one year	1,000	1,243	8,315
Total	¥ 1,243	¥ 1,489	$ 10,335

12. SHORT-TERM AND LONG-TERM DEBT

The weighted-average rates of interest for short-term loans payable were approximately 0.49% and 0.55% as of March 31, 2015 and 2014, respectively.

The weighted-average rates of interest for current portion of long-term loans payable were approximately 0.67% and 0.80% as of March 31, 2015 and 2014, respectively.

The weighted-average rates of interest for long-term loans payable (excluding current portion thereof) were approximately 0.67% and 0.72% as of March 31, 2015 and 2014, respectively, and long-term loans payable were due in 2016 through 2020 and 2015 through 2019 as of March 31, 2015 and 2014, 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 rates of interest for current portion of other interest bearing liabilities (current portion of long-term other payable) were approximately 0.94% and 0.98% as of March 31, 2015 and 2014, respectively.

The weighted-average rates of interest for other interest bearing liabilities (long-term other payable) excluding current portion thereof were approximately 1.68% and 1.75% as of March 31, 2015 and 2014, respectively, and long-term accounts payable were due in 2016 through 2019 and 2015 through 2019 as of March 31, 2015 and 2014, respectively.

Short-term and long-term debt as of March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Short-term loans payable	¥ 78,480	¥ 77,605	$ 652,532
Long-term loans payable (due within one year)	52,899	59,603	439,831
Lease obligations (due within one year)	2,511	2,442	20,881
Other interest bearing liabilities			
—Long-term other payable (due within one year)	768	476	6,389
Sub-total	134,658	140,126	1,119,633
Long-term loans payable (excluding amounts due within one year)	110,582	132,860	919,443
Lease obligations (excluding amounts due within one year)	12,473	9,955	103,712
Other interest bearing liabilities			
—Long-term other payable (excluding amounts due within one year)	1,468	2,207	12,203
Sub-total	124,523	145,022	1,035,358
Total	¥ 259,181	¥ 285,148	$ 2,154,991

The following assets were pledged as collateral for bank overdraft contracts and other transactions as of March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	*2015*
Land (*)	¥ 111	¥ 120	$ 923

Note:
(*) Pledged as collateral for customers' housing loans of ¥70 million ($585 thousand) and ¥78 million as of March 31, 2015 and 2014, respectively.

The aggregate annual maturities of long-term loans payable as of March 31, 2015 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2016	¥ 52,899	$ 439,831
2017	48,102	399,949
2018	38,913	323,549
2019	15,552	129,310
Thereafter	8,015	66,636
Total	¥ 163,481	$ 1,359,275

The aggregate annual maturities of finance lease obligations as of March 31, 2015 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2016	¥ 2,511	$ 20,881
2017	2,222	18,477
2018	1,991	16,551
2019	1,514	12,586
Thereafter	6,747	56,097
Total	¥ 14,985	$ 124,592

The aggregate annual maturities of long-term other payable as of March 31, 2015 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2016	¥ 768	$ 6,389
2017	467	3,886
2018	860	7,149
2019	134	1,112
Thereafter	7	56
Total	¥ 2,236	$ 18,592

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($415,731 thousand) with seven financial institutions. Under these credit facilities, ¥0 and ¥50,000 million have been executed as of March 31, 2015 and 2014, respectively.

13. 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, 2015 and 2014 were as follows:

	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2015	2014	*2015*	
	Conversion price per share	Outstanding balance			Conversion period
Euro yen zero coupon convertible bonds due 2015 …………	¥ 1,375.00	¥ -	¥ 59,000 (59,000)	$ -	March 28, 2008 – March 17, 2015
Euro yen zero coupon convertible bonds due 2019 …………	¥ 540.00	¥ 100,417	¥ -	$ 834,927	June 26, 2014 – June 14, 2019

Notes:

(1) No subscription rights were exercised for the years ended March 31, 2015 and 2014.

(2) The amounts in parenthesis are due within one year.

(3) As a third-party allotment, executed on May 25, 2015 according to the resolution of the Board of Directors' meeting held on May 7, 2015, was deemed to the events of adjustments to the conversion price provided in the terms and conditions, it was adjusted from ¥540.00 ($4.49) to ¥538.40 ($4.48) as of May 26, 2015.

14. 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 35.4% and 37.8% for the years ended March 31, 2015 and 2014, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Deferred tax assets:			
Loss on valuation of inventories	¥ 1,735	¥ 2,029	$ 14,425
Impairment loss	11,269	8,915	93,700
Loss on valuation of investment securities	700	801	5,817
Loss on valuation of stock of subsidiaries	4,960	4,373	41,237
Provision for bonuses	2,717	2,720	22,589
Provision for point card certificates	6,871	6,268	57,131
Net defined benefit liability	7,351	7,769	61,123
Provision for directors' retirement benefits	167	151	1,391
Provision for product warranties	4,771	5,724	39,673
Asset retirement obligations	5,100	5,174	42,401
Undetermined accrued liabilities	1,416	2,922	11,771
Consolidated subsidiaries' tax loss carry-forward	18,155	20,110	150,956
Others	9,409	11,147	78,228
Sub-total	74,621	78,103	620,442
Valuation allowance	(39,870)	(42,183)	(331,501)
Total deferred tax assets	34,751	35,920	288,941
Deferred tax liabilities:			
Unrealized gains on valuation of land	(1,673)	(1,642)	(13,907)
Loss recognized corresponding to asset retirement obligations	(2,919)	(3,028)	(24,267)
Foreign exchange gains	(3,641)	(2,233)	(30,277)
Others	(1,490)	(1,438)	(12,391)
Total deferred tax liabilities	(9,723)	(8,341)	(80,842)
Net deferred tax assets	¥ 25,028	¥ 27,579	$ 208,099

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2015 and 2014:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Current assets – Deferred tax assets	¥ 14,342	¥ 14,848	$ 119,251
Investments and other assets – Deferred tax assets	12,850	14,446	106,841
Long-term liabilities – Other long-term liabilities	(2,164)	(1,716)	(17,992)

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 years ended March 31, 2015 and 2014 were as follows:

	2015	2014
Statutory income tax rate	35.4%	37.8%
Per capita inhabitants taxes	3.7	2.3
Change in valuation allowance	(1.9)	(17.8)
Impairment loss on goodwill	4.8	-
Income taxes of the previous year	3.2	-
Tax rate differences for net loss subsidiaries	11.2	17.6
Adjustments of deferred tax assets at the year end for enacted changes in tax laws and rates	9.3	4.0
Others, net	(0.7)	(1.0)
Effective income tax rate	65.0%	42.9%

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.4% for the fiscal year ended March 31, 2015 to 32.8% and 32.1%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥2,214 million ($18,408 thousand) as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥2,175 million ($18,086 thousand), valuation differences on available-for sale securities increased by ¥24 million ($196 thousand) and accumulated remeasurements of defined benefit plans decreased by ¥62 million ($517 thousand).

15. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥11,046 million ($91,839 thousand) and ¥21,693 million to credit card companies as of March 31, 2015 and 2014, respectively.

The Group was contingently liable for guarantees of debt made by home buyers and the like in the amounts of ¥745 million ($6,193 thousand) and ¥676 million, debt made to employees in the amounts of ¥41 million ($342 thousand) and ¥53 million, and debt made to the lease contract of Azuma Metal Co., Ltd. in the amounts of ¥26 million ($215 thousand) and ¥36 million, as of March 31, 2015 and 2014, respectively.

16. RETIREMENT BENEFITS

<For the year ended March 31, 2015>

The Company and its certain consolidated subsidiaries maintain funded contributory and unfunded defined benefit plans, as well as defined contribution plans, for their employees' retirement benefits. Under the defined benefit corporate pension plans, retirement benefits are paid out in the form of a lump-sum payment or annuity payments based on salary and years of service. Under a lump-sum retirement payment plan, retirement benefits are paid out in the form of a lump-sum payment based on salary and years of service.

The simplified method is applied by certain consolidated subsidiaries in calculating the defined benefit liability and retirement benefit costs under lump-sum retirement payment plans.

Defined benefit plans

(1) The changes in retirement benefit obligations for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Beginning balance	¥ 41,823	¥ 38,658	$ 347,745
Cumulative effect of accounting changes	(1,080)	-	(8,981)
Restated balance	40,743	38,658	338,764
Service costs	3,598	3,577	29,914
Interest cost	590	556	4,908
Actuarial gains and losses	121	134	1,007
Payment of benefit obligations	(1,107)	(1,101)	(9,201)
Decrease by partial termination of defined benefit plans	(1,502)	-	(12,490)
Others	(0)	(1)	(2)
Ending balance	¥ 42,443	¥ 41,823	$ 352,900

Note: The simplified method has been applied by certain consolidated subsidiaries.

(2) Changes in pension assets for the year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Beginning balance	¥ 19,641	¥ 17,264	$ 163,308
Expected return on pension assets	243	223	2,017
Actuarial gains and losses	1,382	1,339	11,492
Contributions paid by the employer	1,544	1,596	12,840
Retirement benefits paid	(636)	(781)	(5,286)
Decrease by partial termination of defined benefit plans	(1,542)	-	(12,823)
Ending balance	¥ 20,632	¥ 19,641	$ 171,548

(3) Reconciliation of retirement benefit obligations and pension assets and net defined benefit liability (asset) for the year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Funded retirement benefit obligations	¥ 23,709	¥ 24,578	$ 197,131
Amount of pension assets	(20,632)	(19,641)	(171,549)
	3,077	4,937	25,582
Unfunded retirement benefit obligations	18,734	17,245	155,770
Total net defined benefit liability	¥ 21,811	¥ 22,182	$ 181,352
Net defined benefit liability	23,849	24,191	198,298
Net defined benefit asset	(2,038)	(2,009)	(16,946)
Total net defined benefit liability	¥ 21,811	¥ 22,182	$ 181,352

Note: The above table includes plans for which the simplified method has been applied.

(4) Components of retirement benefit costs for the years ended March 31, 2015 and 2014

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2015		2014		2015	
Service costs (*1)	¥	3,598	¥	3,577	$	29,914
Interest cost		590		556		4,908
Expected return on pension assets		(242)		(223)		(2,017)
Amortization of actuarial differences		799		1,032		6,646
Amortization of prior service costs		(60)		(61)		(497)
Net periodic retirement benefit costs		4,685		4,881		38,954
Loss on partial termination of defined benefit plans (*2)		40		-		333
Total	¥	4,725	¥	4,881	$	39,287

Notes: (*1) Retirement benefit costs of certain consolidated subsidiaries calculated under the simplified method are recorded in service costs.
(*2) Loss on partial termination of defined benefit plans is included in other expenses.

(5) Remeasurements of defined benefit plans for the year ended March 31, 2015 and 2014

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2015		2014		2015	
Prior service costs	¥	(60)	¥	-	$	(498)
Actuarial gains and losses		2,060		-		17,132
Total	¥	2,000	¥	-	$	16,634

(6) Accumulated remeasurements of defined benefit plans for the years ended March 31, 2015 and 2014

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2015		2014		2015	
Unrealized prior service costs	¥	(12)	¥	(72)	$	(100)
Unrealized actuarial gains and losses		(482)		1,579		(4,004)
Total	¥	(494)	¥	1,507	$	(4,104)

(7) Pension assets as of March 31, 2015 and 2014

(i) The percentages for each classification of total pension assets as of March 31, 2015 and 2014 were as follows:

	2015	2014
Bonds	22.6 %	32.8 %
Stocks	35.6	30.3
Cash and time deposits	4.6	6.1
General accounts	34.7	27.1
Others	2.5	3.7
Total	100.0	100.0

(ii) Method of determining the long-term expected rate of return on plan assets

The long-term expected rate of return is determined based on the present and projected future allocation of plan assets and the present and expected future rate of return on various components of plan assets.

(8) Basis of actuarial calculation for the years ended March 31, 2015 and 2014

	2015	2014
Principal discount rate	1.73 %	1.46 %
Long-term expected rate of return on plan assets	1.46	2.00
Estimated rate of salary increase	2.28	2.28

Defined contribution plans

The required contribution amounts to the defined contribution plans of certain consolidated subsidiaries were ¥440 million ($3,662 thousand) and ¥435 million for the years ended March 31, 2015 and 2014, respectively.

Multi-employer plans

The required contribution amount to such multi-employer plans, which is expensed when incurred, was ¥338 million ($2,811 thousand) and ¥320 million for the years ended March 31, 2015 and 2014, respectively.

(1) Matters concerning the funded status of the entire plans as of March 31, 2014 and 2013

	Millions of yen		*Thousands of U.S. Dollars (Note 1)*
	March 31, 2014	March 31, 2013	
Amount of pension assets	¥ 46,497	¥ 43,334	$ 386,606
Amount of retirement benefit obligations	(56,038)	(54,475)	(465,938)
Net	¥ (9,541)	¥ (11,141)	$ (79,332)

(2) Share of the pension fund contribution made by the Group as percentages of the total plan for the years ended March 31, 2015 and 2014 were 16.2% and 16.0%, respectively.

(3) Supplementary explanation

The net balance presented in (1) the above represents the outstanding balances of prior service costs of ¥10,965 million ($91,174 thousand) and ¥11,141 million for the years ended March 31, 2015 and 2014, respectively. Prior service costs of the multi-employer plans are amortized over 20 years through amortization of principal and interest using the straight-line method, and special contributions of ¥126 million ($1,048 thousand) and ¥118 million were recognized as expense in the accompanying consolidated financial statements for the years ended March 31, 2015 and 2014, respectively.

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

17. 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 Group mainly estimates asset retirement obligations by using discount rates ranging from 0.20% to 2.15% with a term of 1 to 47 years.

Changes in asset retirement obligations for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Beginning balance	¥ 14,747	¥ 12,733	$ 122,620
Increase due to purchase of property and equipment	722	1,774	5,998
Adjustments due to passage of time	311	288	2,585
Decrease due to implementation of asset retirement obligations	(114)	(66)	(946)
Increase due to exchange translation of asset retirement obligations denominated in foreign currencies	16	18	136
Ending balance	¥ 15,682	¥ 14,747	$ 130,393

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.

18. 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.

On October 1, 2013, the Company conducted a 10-for-1 stock split by way of a free share distribution.

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 26, 2015, the shareholders approved cash dividends amounting to ¥4,524 million ($37,617 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2015 as they are to be recognized in the period in which they are approved by the shareholders.

19. STOCK OPTIONS

Stock option expenses recognized for the years ended March 31, 2015 and, 2014 were ¥149 million ($1,238 thousand) and ¥148 million, respectively.

The stock options existing during the years ended March 31, 2015 and 2014 were as follows:

	1st compensation-type stock option	2nd compensation-type stock option
Company name	YAMADA DENKI CO., LTD.	YAMADA DENKI CO., LTD.
Persons granted	16 directors	15 directors
Number of options granted expressed in number of common stock (*1)	483,100 shares (*2)	460,700 shares (*2)
Date of grant	July 12, 2013	July 14, 2014
Vesting condition	Not set (*3)	Not set (*3)
Service period covered	Not prescribed	Not prescribed
Exercise period	From July 13, 2013 to July 12, 2043	From July 15, 2014 to July 14, 2044

Notes:

(*1) Number of options granted is expressed in number of shares of common stock granted.

(*2) Number of shares of common stock granted reflects 10-for-1 stock split executed by the Company on October 1, 2013.

(*3) The stock options can be exercised only in a single lump-sum transaction during the 10-day period from the day after leaving one's position as director, corporate auditor, executive officer or employee of the Company or its subsidiaries within the exercise period stated above.

The stock option activity expressed in number of common stock for the year ended March 31, 2015 was as follows:

	1st compensation-type stock option (Shares)	2nd compensation-type stock option (Shares)
Number of stock options expressed in number of common stock:		
Non-vested		
March 31, 2014 – Outstanding	117,300	-
Granted	-	460,700
Forfeited	-	-
Vested	117,300	346,100
March 31, 2015 - Outstanding	-	114,600
Vested		
March 31, 2014 – Outstanding	361,100	-
Vested	117,300	346,100
Exercised	-	-
Forfeited	-	-
March 31, 2015 - Outstanding	478,400	346,100

	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*
Price information:				
Exercise price	¥ 1	$ 0.01	¥ 1	$ 0.01
Average price at exercise date	¥ -	$ -	¥ -	$ -
Fair value at grant date	¥ 410.9	$ 3.42	¥ 291.0	$ 2.42

Note: Figures in the above table reflect 10-for-1 stock split executed by the Company on October 1, 2013.

The fair value of the 2nd compensation-type stock option is estimated using the Black-Scholes option pricing model with the assumptions noted in the following table:

	2nd compensation-type stock option
Volatility of stock price (*1)	38.7%
Estimated remaining outstanding period (*2)	12.7 years
Estimated dividend (*3)	¥6 per share
Risk free interest rate (*4)	0.766%

Notes:

(*1) The volatility of stock price is based on the historical weekly volatility of the Company's stock for the period equal to the option's estimated remaining outstanding period from the grant date.

(*2) The estimated remaining outstanding period is calculated by weighted averaging the estimated term period of each director with the number of options granted.

(*3) The estimated dividend is based on the actual per share dividend distributed in the preceding year for the year ended March 31, 2014.

(*4) The risk free interest rate is based on the yield of government bonds having a remaining life equal to the option's estimated remaining outstanding period.

20. 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, 2015 and 2014 were ¥2,047 million ($17,020 thousand) and ¥624 million, respectively.

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of "selling, general and administrative expenses" for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Advertising	¥ 30,182	¥ 33,469	$ 250,949
Salaries	111,518	115,499	927,227
Rent expenses	74,062	71,997	615,798
Depreciation	20,844	21,309	173,314
Point card-related promotion	45,803	43,853	380,833
Others	135,715	132,734	1,128,424
Total	¥ 418,124	¥ 418,861	$ 3,476,545

22. OTHER INCOME (EXPENSES)

"Others, net" in "other income (expenses)" in the consolidated statements of income for the years ended March 31, 2015 and 2014 included the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Rent income	¥ 2,705	¥ 2,224	$ 22,488
Rent expenses	(2,097)	(1,695)	(17,433)
Expense of sales of electric power	(875)	(614)	(7,279)
Provision for allowance for doubtful accounts	(916)	(145)	(7,619)
Gain on sale of property and equipment	234	36	1,942
Loss on disposal of non-current assets	(463)	(578)	(3,848)
Loss on valuation of investment securities	-	(630)	-
Provision for loss on liquidation of subsidiaries	-	(700)	-
Others, net	5,030	6,903	41,828
Total	¥ 3,618	¥ 4,801	$ 30,079

23. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income 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)*
	2015	2014	*2015*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 718	¥ 845	$ 5,974
Reclassification adjustments	1,016	(0)	8,445
Valuation difference on available-for-sale securities before related tax effect	1,734	845	14,419
Related tax effect	(143)	74	(1,188)
Valuation difference on available-for-sale securities, net of taxes	1,591	919	13,231
Foreign currency translation adjustments:			
Amount arising during the year	(1,377)	(1,149)	(11,452)
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	(1,377)	(1,149)	(11,452)
Related tax effect	-	-	
Foreign currency translation adjustments, net of taxes	(1,377)	(1,149)	(11,452)
Remeasurements of defined benefit plans:			
Amount arising during the year	1,261	-	10,485
Reclassification adjustments	740	-	6,149
Remeasurements of defined benefit plans before related tax effect	2,001	-	16,634
Related tax effect	(288)	-	(2,388)
Remeasurements of defined benefit plans, net of taxes	1,713	-	14,246
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	(0)	5	(1)
Reclassification adjustments	-	-	-
Share of other comprehensive income of associates accounted for using equity method	(0)	5	(1)
Total other comprehensive income	¥ 1,927	¥ (225)	$ 16,024

24. SEGMENT INFORMATION

- Segment Information

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.

- **Supplemental Information on Reportable Segment**

Information about products and services for the years ended March 31, 2015 and 2014 is as follows:

	Millions of yen			
	2015			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers ····	¥ 967,128	¥ 472,015	¥ 225,228	¥ 1,664,371

	Thousands of U.S. dollars (Note 1)			
	2015			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers ····	$ 8,041,306	$ 3,924,628	$ 1,872,686	$ 13,838,620

	Millions of yen			
	2014			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers ····	¥ 1,109,397	¥ 551,916	¥ 232,659	¥ 1,893,972

Information about geographic area for the years ended March 31, 2015 and 2014 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 major customers for the years ended March 31, 2015 and 2014 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 Group has 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**

The Group has been primarily engaged in the sales of home electrical appliances and home information appliances, which constitute a single segment. Therefore, information on amortization and unamortized balance of goodwill has been omitted.

- **Information about Gain on Negative Goodwill**

Information about gain on negative goodwill has not been disclosed since there was no gain on negative goodwill.

25. RELATED PARTIES

Significant balances with related parties as of March 31, 2015 and 2014 and related transactions for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	2014	*2015*
Balances of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director and chairman, and his relatives:			
Prepaid expense (prepaid rent)	¥ 84	¥ 84	$ 696
Guarantee deposits (due within one year)	146	146	1,218
Guarantee deposits	2,780	2,863	23,117
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Accounts payable	18	12	148
Shouichi Denki Co., Ltd., a subsidiary of the company owned by Shoji Orita, director, and his relatives			
Accounts payable	33	-	271
Other payable	22	-	184
Guarantee deposits	992	-	8,251
Principal transactions of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director and chairman, and his relatives:			
Payment of company house rent and lease and guarantee deposit	942	942	7,831
Sales of land	37	-	305
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Purchases of inventories	97	78	803
Shouichi Denki Co., Ltd., a subsidiary of the company owned by Shoji Orita, director, and his relatives			
Subcontracting construction	681	-	5,662
Freight costs	183	-	1,525
Payment of company house rent and lease and guarantee deposit	623	-	5,183

26. SUBSEQUENT EVENTS

I. Capital and Business Alliance and Disposition of Treasury Shares by Third-Party Allotment

At a meeting of the Board of Directors held on May 7, 2015, the Company resolved to enter into a capital and business alliance agreement with SoftBank Corp. ("SoftBank") and to execute third-party allotment of treasury shares to SoftBank.

(1) Capital and Business Alliance

(a) Name of Company

SoftBank Corp.

(b) Date of Contract

May 7, 2015

(c) Contents of Contract

i. Purpose and Content of the Business Alliance

The Company, as the leading company in the home electrical appliance industry with nationwide sales channels, has decided to enter into a capital and business alliance agreement with SoftBank. In response to changes of the circumstances that domestic economic structure evoked by demographic changes such as population aging and decline, the Company aims to leverage SoftBank's nationwide sales channels, and to create a new market by combining the Company's smart house business with SoftBank's telecommunications, renewable energy, and robotics businesses, using information and communication technology ("ICT") throughout a house.

In addition to the new smart house business and the various kinds of services using ICT, the Company and SoftBank intend to improve the corporate value of both parties by enhancing the sales force for mobile devices and accessories, high-speed internet connection services, and PC software.

Both companies will discuss the detail plan to collaborate hereafter.

ii. Content of the Capital Alliance

The Company allotted treasury shares of its common stock by means of a third-party allotment to SoftBank.

(2) Disposition of Treasury Shares by Third-Party Allotment

Overview of Disposition

1.	Number of shares:	Common stock 48,324,400 shares
2.	Price of disposition:	471 yen per share
3.	Total amount of disposition:	22,760,792,400 yen
4.	Method of subscription or disposition:	Third-party allotment
5.	Acquirer of shares and number of shares:	SoftBank Corp., 48,324,400 shares
6.	Date of disposition:	May 7, 2015
7.	Number of treasury shares after disposition:	Common stock 164,133,648 shares
8.	Other:	The above items are conditional upon the taking effect of the statement based on the Financial Instruments and Exchange Act.

II. Closure of Stores

The Company resolved a strategic closure of 43 stores and 11 stores at the meetings of the Board of Directors held on May 18, 2015 and June 15, 2015, respectively.

(1) Reason for the Closures

Principally due to sluggish sales, the Group has been carrying out fundamental structural reforms of management in order to improve the efficiency by means of opening new stores and closing unprofitable stores, and changing some store operations to outlet and duty-free sales. The reforms will be continuously made in the future.

(2) Closure Date

From May 2015, the Company has proceeded gradually with the store closures.

(3) Impact on Consolidated Performance

The impact of the store closures on the consolidated performance remains uncertain at present because the post-closure business policy is still under consideration. As of September 11, 2015, the impact is assumed to amount to ¥6,000 million ($49,888 thousand).

The strategic closures will improve the efficiency at stores and is expected to have a positive impact in business performance.

III. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 26, 2015:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Year-end cash dividends, ¥6 ($0.05) per share	¥ 4,524	$ 37,617

* * * * * *

KPMG

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, 2015 and 2014, 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, 2015 and 2014, 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 Note 26 to the consolidated financial statements, the Company resolved a strategic closure of 43 stores and 11 stores at the meetings of the Board of Directors held on May 18, 2015 and June 15, 2015, respectively.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 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 11, 2015
Tokyo, Japan