Financial Report 2016

Fiscal year ended March 31, 2016

YAMADA DENKI CO., LTD.

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Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2016

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 5)*
	As of and year ended March 31					
	2012	2013	2014	2015	2016	2016
Net sales (Note 1)	1,835,454	1,701,489	1,893,972	1,664,371	1,612,736	14,311,259
Ordinary income	102,226	47,906	50,187	35,538	62,734	556,703
Profit attributable to owners of parent	58,265	22,204	18,667	9,341	30,396	269,727
Comprehensive income	58,305	21,240	19,737	10,409	32,556	288,907
Net assets	526,743	555,391	553,354	509,398	557,722	4,949,172
Total assets	937,841	1,138,389	1,196,288	1,122,408	1,146,723	10,175,903
Net assets per share (yen) (Note 3)	5,516.15	565.34	592.17	643.04	666.03	5.91 *(dollars)*
Basic earnings per share (yen) (Note 3)	618.46	23.57	20.22	11.74	38.22	0.34 *(dollars)*
Diluted earnings per share (yen) (Note 2) (Note 3)	-	-	20.21	11.72	38.16	0.34 *(dollars)*
Equity ratio (%)	55.4	46.8	44.2	43.2	46.6	
Return on equity (%)	11.8	4.2	3.5	1.8	6.0	
Price earnings ratio (times)	8.36	18.22	17.01	42.18	13.92	
Cash flows from operating activities	34,259	(12,789)	45,148	22,983	(23)	(209)
Cash flows from investing activities	(38,063)	(39,232)	(38,607)	(20,233)	(13,437)	(119,240)
Cash flows from financing activities	(24,361)	47,174	(7,646)	(41,488)	4,733	41,997
Cash and cash equivalents at end of year	76,344	77,906	77,754	39,692	30,665	272,115
Employees (persons)	14,006	21,261	21,138	20,405	19,183	
[Average number of temporary employees not included in the above number (persons)]	[10,762]	[11,410]	[11,384]	[10,704]	[10,219]	

Notes:
1. Net sales do not include consumption tax.
2. Diluted earnings per share for the fiscal years ended March 31, 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, basic earnings per share and diluted earnings per share have been calculated as if the stock split was conducted at the beginning of the fiscal year ended March 31, 2013.
4. The "Revised Accounting Standards for Business Combination" (ASBJ Statement No. 21, September 13, 2013) and other standards have been applied, and "net income" has been changed to "profit attributable to owners of parent," effective from the fiscal year under review.
5. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 31, 2016, which was ¥112.69 to U.S. $1.

2. OVERVIEW OF PERFORMANCE

During the fiscal year under review, the Japanese economy held to a path of gradual recovery amid a scenario in the first half of the fiscal year where stronger corporate earnings, a more upbeat jobs environment and other such positive developments emerged against a backdrop of firming equities markets, a weakening yen and lower oil prices, and underpinned by various measures being taken by the government and the Bank of Japan. However, the situation remains unpredictable given prevailing uncertainties with respect to the economic outlook which became evident in the latter half amid materializing risk of an economic slowdown in China and emerging nations in conjunction with a drastically appreciating yen and stock price volatility since the beginning of 2016.

In the consumer electrical appliance retail industry to which the Company belongs, demand to replace household necessities generated a strong and favorable market for certain products, yet durable consumer goods continued to suffer from a prolonged pullback in spending amid a situation of demand having been eroded by an earlier surge in sales fueled at the time by the Japanese government's "ecopoints" program for electrical appliances and a rush to buy products ahead of Japan's consumption tax hike.

From a product perspective, even though results of television sales were favorable due to a trend of rising single unit prices amid moves toward larger screen sizes and growing demand for 4K televisions, performance for the full year was lackluster given sense that the trend of increasing unit prices ongoing since the beginning of the year has subsided and adverse effects of the consumption tax increase. Meanwhile, refrigerators, washing machines, microwave ovens and other cooking appliances, vacuum cleaners, hair and beauty appliances, and other white goods generated firm results. The sales environment for air conditioning units continued in an unstable manner with substantial fluctuations from season to season, such as a hot spell over the summer months, a warm winter after the third quarter, then heavy snowfalls and drops in temperature in the beginning of the year. Also, market conditions were weak for computers, digital cameras, mobile phones and other home information appliances in general.

Against this backdrop in the electrical appliance market, the Group has been implementing various structural reforms over the last several years such as those involving "Implementation of Personnel System Reform" and "Improvement and Reform of Store Efficiency." In addition, with the aim of providing better customer-oriented service leveraging strengths derived from operating one of Japan's largest network of stores, we have also been taking active steps to develop into a leading company in the Internet of Things (IoT) era. To that end, we have been promoting services that include: 1. lifestyle support services that provide peace of mind (services that involve keeping a watchful eye on elderly people, New The Anshin comprehensive warranties for home appliances and electronics, long term guarantees, etc.); 2. smart house services (YAMADA SXL HOME CO., LTD. and Yamada Wood House Co., Ltd.); 3. home renovation services (Housetec Inc.); 4. Yamada online shopping mall services (Yamada Mall and YAMADA WEB COM); 5. environmental solutions business ("outlet & reuse" stores, CIC Co., Ltd., Inversenet Co., Ltd., Azuma Metal Co., Ltd.); 6. financing and credit card services (Yamada Financial Co., Ltd., loyalty point program membership services, services for corporate customers, etc.), and; proprietary merchandise development services (the HERB Relax series, Every Pad series, designer home appliances series, etc.).

In the area of sales, we eliminated competition among our own stores by forging ahead with store closing on a large scale and made substantial gains in terms of store efficiency results. The latter was achieved by readjusting product mixes through renovations of stores and conversions of store formats, pursuing efforts to optimize inventories, and striving for optimal and maximum sales efficiencies by taking a systematic approach with respect to staffing. We have also been engaging in efforts that involve developing proprietary IoT business, promoting various structural reforms, shifting from quantity to quality, and enhancing what we offer by going from physical products to intangible services. As a result, despite operating in a market for electrical appliances that has been lackluster partially due to the prolonged pullback in spending resulting from government policies and the consumption tax hike, we have achieved considerable year-on-year improvement in gross profit margin, and we have also attained positive results from our efforts to substantially reduce various selling, general and administrative expenses.

Going forward, under a management framework consisting of three representative directors (as of April 1, 2016), the Yamada Denki Group will act as one of Japan's largest network and services IoT companies as it continues to take on challenges that involve working to achieve further positive outcomes by developing and promoting new businesses, enhancing and forging ahead with various structural reforms, and fortifying our existing businesses.

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 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 947 consolidated retail stores, including those overseas (comprising 637 stores directly managed by the Company, 161 stores managed by BEST DENKI CO., LTD. and 149 stores operated by other consolidated subsidiaries), and a total of 12,087 retail stores overall with the inclusion of those managed by our subsidiaries and franchise stores.

As a result, consolidated net sales decreased by 3.1% year on year to ¥1,612,736 million, operating income increased by 192.0% year on year to ¥58,158 million, and profit attributable to owners of parent increased by 225.4% year on year to ¥30,396 million.

Investors should be aware that our net sales have decreased in comparison with the previous fiscal year due to extraordinary factors. For one, the sales figure for the prior fiscal year includes sales recorded for deliveries made on or after April 1, 2014 for certain orders received before the consumption tax increase surge in demand prevailing up to March 31, 2014. Also, the accounting period of the Company differs from that of its consolidated subsidiaries (on a nonconsolidated basis it is April 1 to the end of March in the following year, while on a consolidated subsidiary basis it is March 1 to the end of February in the following year), which also had a negative impact on year-on-year sales.

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.

Effective from the fiscal year under review, the "Revised Accounting Standards for Business Combination" (ASBJ Statement No. 21, September 13, 2013) and other standards have been applied, and "net income" has been changed to "profit attributable to owners of parent."

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, 2016		
	Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances/ home information appliances	1,392,337	86.3	(3.3)
Other products	220,399	13.7	(2.1)
	1,612,736	100.0	(3.1)

Notes: 1. The figures shown above do not include consumption tax.
2. We reclassified Items for the fiscal year under review. Results from the previous fiscal year have been recalculated in line with the revised classification structure to allow for year-on-year comparisons.

(2) Sales per Unit

	Year ended March 31, 2016	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,612,736	(3.1)
Sales floor space (average) - m^2	2,585,519	(3.8)
Sales per square meter - thousands of yen	624	0.7
Employees (average) - persons	30,253	(4.9)
Sales per employee - millions of yen	53	1.9

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, 2017, we expect a negative effect from financial market fluctuation, which has been observed in stock prices and exchange rates since January 2016, and also increased risk of economic slowdown in the emerging countries, notably China. We also expect a pause to financial market adjustments. Accordingly, the future outlook continues to be unclear.

Nevertheless, in Japan, factors such as increased consumer spending, which is a result of personal incomes improving under a more positive employment environment, lower resource prices, and a firm increase in capital expenditure indicate that corporate earnings will continue to improve. In addition, we also expect a lift in markets that benefit from events such as the Rio de Janeiro Olympics that will be held over the summer is also expected. Therefore, overall, we expect economic activity in Japan to continue on a track of gentle recovery.

The consumer electrical appliance retail market, in which the Group belongs, will enjoy underlying support from the aforementioned firm economic activity, and it is expected to perform steadily owing to the increased demand for visual-related products accompanying the Olympics, and a firm demand for upgrading white goods.

Operating as a consumer electrical appliance retailer under this market environment, we will continue to implement structural reforms and initiatives with medium- to long-term focuses. While working to broaden and deepen our business range, we will work to “shift from quantity to quality” by developing new businesses designed for improved customer satisfaction via the transition “from products to services” through original adoption of IoT utilizing the strengths of Japan’s largest-scale store network and service network; by continuing to promote various structural reforms; and by reinforcing existing businesses. In this way, we will raise profitability by improving the gross profit margin and reducing selling, general and administrative expenses, and, at the same time, boost 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) Store Openings and Development

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, community-based retail areas and others 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 opening new stores, implementing a scrap-and-build policy, or changing operations of some existing stores. 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 consumer electrical appliance retail stores are opened. With regard to stores that are closed due to our revised nationwide store network strategy we decided for the purpose of improving store efficiency in light of the market environment including competitions among our own stores and with other companies, loss on disposal of or contract cancellation of the closed stores may be incurred or the closed stores 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 and management 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 store development including new store openings, scrap-and-build and operational changes of existing 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 where the societal needs continue to change reflecting development such as the anticipated declining birthrate and aging of the population, population decline, and the transition to the Internet-based society. 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 sales in the industry, it is constantly 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 through store developments in urban centers, suburbs, small-scale trading areas and community-based retail areas, as evidenced by an unexpected fluctuation of demand for higher unit-priced durable consumer goods due to various factors, 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 fluctuations to 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, changes in consumption tax, a slowdown in the global economy or materializing risk of an economic 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. The Group's business performance may also be affected when, due to an impact from the economic trends on its recruiting activities, the Group is not able to acquire human resources it needs. There are also many causes for concern in the global economy such as materializing risk of an economic slowdown 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. In addition, with regard to franchise claims, despite the claims preservation contract concluded for each contract and our monthly claims status management, there may be uncollectable claims including payments receivable for goods in the event of business failure of any franchisee due to a decline in business results. 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, customer information associated with online shopping 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 or a failure of equipment in the production facility 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 and Malaysia. 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.

(17) Guarantee Deposits

Guarantee deposits under leasing agreements of land and buildings, etc. lodged at the time of opening directly-managed stores of the Group are protected with collaterals pledged and other means. They may cause, however, a negative impact to business results and financial position of the Group as such guarantee deposits may become uncollectable in whole or in part in the event of a business failure of a lessee or due to an early termination of the agreement.

(18) Risk relating to Money Lending Business Act

Due to impacts from Money Lending Business Act, which came into effect in 2007, we anticipate a loss on returning overpaid interest payments in the credit business of the Group. Though the estimated loss to be incurred in the future is accounted for, this may cause a negative impact to business results and financial position of the Group in the event that the economic environment worsens against the backdrop of concerns over financial stability and employment conditions.

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

Capital and Business Alliance Agreement

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.

I. Capital and Business Alliance

(1) Name of Company

SoftBank Corp.

(2) Date of Contract

May 7, 2015

(3) Contents of Contract

1) 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.

2) Content of the Capital Alliance

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

II. 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 25, 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.

In addition, SoftBank Corp. changed its company name to SoftBank Group Corp. on July 1, 2015.

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.

Effective from the fiscal year under review, the “Revised Accounting Standards for Business Combination” (ASBJ Statement No. 21, September 13, 2013) and other standards have been applied, and “net income” has been changed to “profit attributable to owners of parent.”

(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 ¥1,146,723 million, up ¥24,315 million (2.2%) from the end of the previous fiscal year. This was mainly due to an increase in merchandise and finished goods, despite a decrease in cash and time deposits.

Total liabilities amounted to ¥589,001 million, down ¥24,009 million (3.9%) from the end of the previous fiscal year. This was mainly due to decreases in notes and accounts payable and short-term loans payable, despite an increase in income taxes payable.

Net assets amounted to ¥557,722 million, up ¥48,324 million (9.5%) from the end of the previous fiscal year, mainly reflecting an increase in retained earnings and a decrease of treasury stock. As a result, the equity ratio was 46.6 % (up 3.4 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 ¥1,612,736 million, down 3.1% year on year. Demand to replace household necessities generated a strong and favorable market for certain products, yet durable consumer goods continued to suffer from a prolonged pullback in spending amid a situation of demand having been eroded by an earlier surge in sales fueled at the time by the Japanese government's "ecopoints" program for electrical appliances and a rush to buy products ahead of Japan's consumption tax hike. From a product perspective, even though results of television sales were favorable due to a trend of rising single unit prices amid moves toward larger screen sizes and growing demand for 4K televisions, performance for the full year was lackluster given sense that the trend of increasing unit prices ongoing since the beginning of the year has subsided and adverse effects of the consumption tax increase. Meanwhile, refrigerators, washing machines, microwave ovens and other cooking appliances, vacuum cleaners, hair and beauty appliances, and other white goods generated firm results. The sales environment for air conditioning units continued in an unstable manner with substantial fluctuations from season to season, such as a hot spell over the summer months, a warm winter after the third quarter, then heavy snowfalls and drops in temperature in the beginning of the year. Also, market conditions were weak for computers, digital cameras, mobile phones and other home information appliances in general. In addition, our net sales have decreased in comparison with the previous fiscal year due to extraordinary factors. For one, the sales figure for the prior fiscal year includes sales recorded for deliveries made on or after April 1, 2014 for certain orders received before the consumption tax increase surge in demand prevailing up to March 31, 2014. Also, the accounting period of the Company differs from that of its consolidated subsidiaries (on a nonconsolidated basis it is April 1 to the end of March in the following year, while on a consolidated subsidiary basis it is March 1 to the end of February in the following year), which also had a negative impact on year-on-year sales.

With respect to gross profit, we eliminated competition among our own stores by forging ahead with store closing on a large scale and made substantial gains in terms of store efficiency results. The latter was achieved by readjusting product mixes through renovations of stores and conversions of store formats, pursuing efforts to optimize inventories, and striving for optimal and maximum sales efficiencies by taking a systematic approach with respect to staffing. We have also been engaging in efforts that involve developing proprietary IoT business, promoting various structural reforms, shifting from quantity to quality, and enhancing what we offer by going from physical products to intangible services. As a result, despite operating in a market for electrical appliances that has been lackluster partially due to the prolonged pullback in spending resulting from government policies and the consumption tax hike, we have achieved considerable improvement in gross profit margin compared with the previous fiscal year, and as a result gross profit amounted to ¥459,501 million, up 4.9% year on year.

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

Various structural reforms that the Group continued pushing forward over the last several years such as the Implementation of Personnel System Reform and the Improvement and Reform of Store Efficiency began showing results, and the Group also implemented meticulous expense control. As a result, the Group achieved substantial reduction of selling, general and administrative expenses for the fiscal year under review. As a result, selling, general and administrative expenses amounted to ¥401,343 million, down 4.0% year on year, and operating income amounted to ¥58,158 million, up 192.0% year on year.

Other expenses for the fiscal year under review was ¥7,088 million. In the previous fiscal year, we recorded foreign exchange gains reflecting yen depreciation, while in the fiscal year under review, we recorded foreign exchange losses due to the sharp appreciation of yen since the beginning of 2016. In addition, there was recognition of losses mainly due to impairment loss of some stores and store closing on a large scale implemented as part of the "Improvement and Reform of Store Efficiency," one of the management structural reforms.

As a result of the above, income before income taxes increased by ¥26,859 million to ¥51,070 million (up 110.9%) compared with the previous fiscal year.

(iii) Total income taxes, profit, profit attributable to non-controlling interests and profit attributable to owners of parent

The amount of income taxes during the fiscal year under review was ¥19,138 million, profit was ¥31,932 million and profit attributable to non-controlling interests amounted to ¥1,536 million.

As a result of the above, profit attributable to owners of parent increased by ¥21,055 million to ¥30,396 million (up 225.4%) 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 ¥30,665 million, down ¥9,027 million (22.7%) compared with the end of the previous fiscal year.

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

Cash flows from operating activities

Net cash used in operating activities amounted to ¥23 million.

This was mainly due to increases in inventories and notes and accounts receivable, despite recording of income before income taxes and depreciation.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥13,437 million.

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

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥4,733 million.

This was mainly due to proceeds from disposal of treasury stock, despite repayments of short-term loans payable and cash dividends paid.

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 Chairman of the Board, the Vice Chairman & CEO, and the President & COO (all of them 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 17 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 three 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 one standing Audit & Supervisory Board member and three 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 four full-time staff, such office engages in the auditing of daily business activities, observation of inventory count or the like, internal checks and internal auditing. Functioning in cooperation with the Audit & Supervisory Board members and the auditing firm, such as by exchanging information as necessary and the like, such office provides an audit perspective to ensure that the Company's business activities are conducted properly and efficiently.

(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

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 and the progress status shall be confirmed at each sectional meeting.

(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 Regulations on Document Management and Handling

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 provides 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 three 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 0.04% 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. In addition, Mr. Masamitsu Takahashi has been elected as external Audit & Supervisory Board member as the Company believes that he will provide the Company with advice and suggestions primarily from a perspective as a tax accountant to serve ensuring adequacy and appropriateness in decision-making by the Board of Directors, and that he will also provide opinions and suggestions with regard to the accounting system and internal audit of the Company. External Audit & Supervisory Board Member Somuku Iimura concurrently serves as Partner at the law firm Nishimura & Asahi LPC and the Company is receiving legal and other advice from him when necessary. However, because the scale of annual transactions between the Company and the aforementioned law firm is insubstantial and accounts for 0.001% of the Company's consolidated net sales, the Company believes that it is not significant enough to cause a conflict of interests. In addition, Mr. Somuku Iimura has been elected as external Audit & Supervisory Board Member as the Company believes that he will contribute to the corporate governance and management of the Company by providing his opinion relating to management from a different viewpoint based on his abundant experience and outstanding knowledge from a fair and neutral position as an Attorney. 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, 2016 and 2015

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	2016
ASSETS			
Current assets:			
Cash and time deposits (Notes 5 and 7)	¥ 31,605	¥ 40,944	$ 280,455
Notes and accounts receivable (Notes 7 and 16):			
- Trade	59,172	48,885	525,081
- Non-consolidated subsidiaries and affiliated companies	78	3,830	694
Sub-total	59,250	52,715	525,775
Inventories	361,481	318,028	3,207,752
Deferred tax assets (Note 15)	12,274	14,342	108,920
Other current assets (Notes 7 and 26)	43,050	51,657	382,019
Allowance for doubtful accounts	(7,393)	(9,703)	(65,605)
Total current assets	500,267	467,983	4,439,316
Property and equipment:			
Buildings and structures, net (Notes 10, 11 and 18)	224,664	229,686	1,993,646
Land (Notes 11 and 13)	184,484	184,709	1,637,097
Lease assets, net (Notes 10, 11 and 12)	10,661	12,099	94,603
Others, net (Notes 10 and 11)	18,797	20,214	166,802
Total property and equipment, net	438,606	446,708	3,892,148
Intangible assets (Note 11)	35,477	37,280	314,817
Investments and other assets (Note 11):			
Investment securities (Notes 7 and 8)	4,043	5,991	35,875
Long-term loans receivable	9,499	9,229	84,297
Guarantee deposits (Notes 7 and 26)	113,333	117,146	1,005,707
Net defined benefit asset (Note 17)	1,755	2,038	15,574
Deferred tax assets (Note 15)	13,643	12,850	121,071
Other assets	35,968	29,404	319,171
Allowance for doubtful accounts	(5,868)	(6,221)	(52,073)
Total investments and other assets	172,373	170,437	1,529,622
Total assets	¥ 1,146,723	¥ 1,122,408	$ 10,175,903

CONSOLIDATED BALANCE SHEETS
Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 7 and 26)	¥ 79,950	¥ 90,014	$ 709,472
Short-term loans payable (Notes 7 and 13)	67,695	78,480	600,719
Current portion of long-term loans payable (Note 13)	59,213	52,899	525,449
Lease obligations (Notes 12 and 13)	2,513	2,511	22,295
Income taxes payable (Note 15)	14,629	2,315	129,817
Provision for bonuses	8,065	8,087	71,566
Provision for directors' bonuses	114	123	1,013
Provision for point card certificates	17,073	20,748	151,505
Provision for warranties for completed construction	192	234	1,707
Provision for losses on liquidation of subsidiaries	321	687	2,848
Other current liabilities (Notes 13 and 26)	46,797	63,541	415,270
Total current liabilities	296,562	319,639	2,631,661
Long-term liabilities:			
Bonds (Notes 7 and 14)	100,317	100,417	890,200
Long-term loans payable (Notes 7 and 13)	105,156	110,582	933,143
Lease obligations (Notes 12 and 13)	11,429	12,473	101,417
Asset retirement obligations (Note 18)	24,306	15,648	215,693
Provision for directors' retirement benefits	536	463	4,758
Provision for product warranties	12,523	14,059	111,128
Provision for losses on interest repayments	245	433	2,177
Provision for gift certificates, etc.	287	78	2,551
Net defined benefit liability (Note 17)	23,701	23,849	210,316
Other long-term liabilities (Notes 13 and 15)	13,939	15,369	123,687
Total long-term liabilities	292,439	293,371	2,595,070
Total liabilities	589,001	613,010	5,226,731
Contingent liabilities (Note 16)			
Net assets (Note 19):			
Common stock:			
authorized – 2,000,000,000 shares			
issued – 966,489,740 shares in 2016 and 2015	71,059	71,059	630,569
Capital surplus	73,001	70,977	647,807
Retained earnings	458,108	432,236	4,065,205
Treasury stock, at cost – 164,133,648 shares in 2016 and 212,458,048 shares in 2015	(68,232)	(88,320)	(605,482)
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities, net of taxes (Note 8)	935	1,599	8,294
Foreign currency translation adjustments	(1,967)	(2,771)	(17,450)
Remeasurements of defined benefit plans (Note 17)	1,489	89	13,211
Subscription rights to shares (Note 20)	521	297	4,625
Non-controlling interests	22,808	24,232	202,393
Total net assets	557,722	509,398	4,949,172
Total liabilities and net assets	¥ 1,146,723	¥ 1,122,408	$ 10,175,903

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, 2016 and 2015

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	2016
Net sales (Note 25):			
- Trade	¥ 1,612,419	¥ 1,654,021	$ 14,308,447
- Non-consolidated subsidiaries and affiliated companies	317	10,350	2,812
Sub-total	1,612,736	1,664,371	14,311,259
Cost of sales (Notes 21 and 26)	1,153,235	1,226,328	10,233,691
Gross profit	459,501	438,043	4,077,568
Selling, general and administrative expenses (Notes 17, 22 and 26)	401,343	418,124	3,561,479
Operating income	58,158	19,919	516,089
Other income (expenses):			
Interest income	1,168	1,315	10,369
Interest expenses	(1,743)	(1,594)	(15,464)
Insurance income	353	2,792	3,132
Purchase discounts	6,962	6,187	61,779
Impairment loss (Note 11)	(7,781)	(13,492)	(69,049)
Foreign exchange (losses) gains	(4,055)	5,466	(35,980)
Loss on closing of stores (Note 23)	(4,389)	-	(38,950)
Others, net (Note 23)	2,397	3,618	21,268
Total other (expenses) income	(7,088)	4,292	(62,895)
Income before income taxes	51,070	24,211	453,194
Income taxes (Note 15):			
Current	18,810	13,929	166,923
Deferred	328	1,800	2,907
Total income taxes	19,138	15,729	169,830
Profit	31,932	8,482	283,364
Profit (loss) attributable to non-controlling interests	1,536	(859)	13,637
Profit attributable to owners of parent	¥ 30,396	¥ 9,341	$ 269,727

	Yen		*U.S. dollars (Note 1)*
Amounts per share of common stock:			
Basic earnings per share	¥ 38.22	¥ 11.74	$ 0.34
Diluted earnings per share	38.16	11.72	0.34
Cash dividends applicable to the year	12.00	6.00	0.11

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, 2016 and 2015

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	2016
Profit	¥ 31,932	¥ 8,482	$ 283,364
Other comprehensive income (loss), net of taxes (Note 24):			
Valuation difference on available-for-sale securities	(1,041)	1,591	(9,238)
Foreign currency translation adjustments	767	(1,377)	6,808
Remeasurements of defined benefit plans, net of tax	899	1,713	7,978
Share of other comprehensive income of associates accounted for using equity method	(1)	(0)	(5)
Total other comprehensive income	624	1,927	5,543
Comprehensive income	¥ 32,556	¥ 10,409	$ 288,907
Comprehensive income attributable to:			
Owners of parent	¥ 31,935	¥ 10,439	$ 283,389
Non-controlling interests	621	(30)	5,518

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, 2016 and 2015

		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 8)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 17)	Subscription rights to shares (Note 20)	Non-controlling interests	Total net assets
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 as of 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)
Profit attributable to owners of parent				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
Cash dividends				(4,524)							(4,524)
Profit attributable to owners of parent				30,396							30,396
Purchase of treasury stock					(0)						(0)
Disposal of treasury stock			2,672		20,088						22,760
Increase by merger				0							0
Purchase of shares of consolidated subsidiaries			(648)								(648)
Other changes in the year, net						(664)	804	1,400	224	(1,424)	340
Balance at March 31, 2016	966,490	¥71,059	¥73,001	¥458,108	¥ (68,232)	¥ 935	¥ (1,967)	¥ 1,489	¥ 521	¥22,808	¥557,722

	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 8)*	*Foreign currency translation adjustments*	*Remeasurements of defined benefit plans (Note 17)*	*Subscription rights to shares (Note 20)*	*Non-controlling interests*	*Total net assets*
Balance at March 31, 2015	$ 630,569	$ 629,846	$ 3,835,621	$ (783,749)	$ 14,188	$ (24,587)	$ 792	$ 2,637	$ 215,032	$ 4,520,349
Cash dividends			(40,147)							(40,147)
Profit attributable to owners of parent			269,727							269,727
Purchase of treasury stock				(0)						(0)
Disposal of treasury stock		23,710		178,267						201,977
Increase by merger			4							4
Purchase of shares of consolidated subsidiaries		(5,749)								(5,749)
Other changes in the year, net					(5,894)	7,137	12,419	1,988	(12,639)	3,011
Balance at March 31, 2016	$ 630,569	$ 647,807	$ 4,065,205	$ (605,482)	$ 8,294	$ (17,450)	$ 13,211	$ 4,625	$ 202,393	$ 4,949,172

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, 2016 and 2015

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 51,070	¥ 24,211	$ 453,194
Depreciation	21,783	23,064	193,301
Amortization of goodwill	452	892	4,014
(Decrease) increase in provision for point card certificates	(3,854)	3,136	(34,202)
Decrease in provision for product warranties	(1,583)	(1,704)	(14,046)
(Decrease) increase in allowance for doubtful accounts	(1,306)	1,071	(11,590)
Increase in net defined benefit liability	899	2,459	7,979
Interest and dividend income	(1,299)	(1,448)	(11,528)
Interest expenses	1,743	1,594	15,464
Foreign exchange losses (gains)	3,842	(5,246)	34,095
Gain on sale of stocks of subsidiaries	(742)	(127)	(6,580)
Gain on sale of investment securities	(563)	(60)	(4,992)
Loss on sale and disposal of property and equipment, net	359	463	3,184
Loss on closing of stores	4,389	-	38,950
Impairment loss	7,781	13,492	69,049
Insurance income	(353)	(2,792)	(3,132)
(Increase) decrease in notes and accounts receivable	(10,566)	6,158	(93,769)
Decrease in advances received	(1,942)	(10,508)	(17,233)
(Increase) decrease in inventories	(41,203)	8,720	(365,636)
Decrease in notes and accounts payable	(8,274)	(28,008)	(73,422)
Decrease in accounts receivable	3,194	6,065	28,340
(Decrease) increase in consumption taxes payable	(9,484)	8,889	(84,163)
(Increase) decrease in other current assets	(289)	1,197	(2,564)
Decrease in other current liabilities	(4,436)	(4,126)	(39,364)
Other, net	(1,467)	1,265	(13,020)
Sub-total	8,151	48,657	72,329
Interest and dividend income received	350	424	3,110
Interest expenses paid	(1,710)	(1,629)	(15,173)
Proceeds from insurance income	353	2,792	3,132
Income taxes paid	(7,167)	(27,261)	(63,607)
Net cash (used in) provided by operating activities	¥ (23)	¥ 22,983	$ (209)

(Continued)

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
Cash flows from investing activities:			
Payments into time deposits	¥ (901)	¥ (233)	$ (8,001)
Proceeds from withdrawal of time deposits	1,208	186	10,720
Proceeds from sale of property and equipment	1,538	786	13,650
Proceeds from sales and redemption of investment securities	1,311	6,514	11,634
Proceeds from sale of shares in subsidiary resulting in change in scope of consolidation	968	-	8,590
Payment of loans receivable	(2,191)	(1,254)	(19,438)
Collection of loans receivable	1,030	807	9,144
Purchases of property and equipment	(21,288)	(28,455)	(188,909)
Purchases of intangible assets	(612)	(913)	(5,430)
Payments for guarantee deposits	(2,923)	(3,904)	(25,940)
Proceeds from collection of guarantee deposits	8,799	8,009	78,078
Other , net	(376)	(1,776)	(3,338)
Net cash used in investing activities	(13,437)	(20,233)	(119,240)
Cash flows from financing activities:			
Net (decrease) increase in short-term loans payable	(10,785)	875	(95,705)
Proceeds from long-term loans payable	56,480	41,250	501,198
Repayments of long-term loans payable	(55,591)	(70,233)	(493,311)
Proceeds from issuance of bonds	-	100,421	-
Redemption of bonds	-	(59,000)	-
Purchase of treasury stock	(0)	(50,215)	(0)
Proceeds from disposal of treasury stock	22,744	-	201,829
Repayments of lease obligations	(2,740)	(2,778)	(24,316)
Proceeds from sales and leasebacks	1,187	3,639	10,538
Cash dividends paid	(4,525)	(5,361)	(40,154)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,952)	-	(17,323)
Other, net	(85)	(86)	(759)
Net cash provided by (used in) financing activities	4,733	(41,488)	41,997
Effect of exchange rate change on cash and cash equivalents	(397)	676	(3,519)
Net decrease in cash and cash equivalents	(9,124)	(38,062)	(80,971)
Cash and cash equivalents at beginning of year	39,692	77,754	352,222
Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiary	97	-	864
Cash and cash equivalents at end of year (Note 5)	¥ 30,665	¥ 39,692	$ 272,115

Supplemental cash flow information (Note 6)

(Concluded)

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

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 2015 financial statements to conform to the classifications used in the 2016 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, 2016, which was ¥112.69 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 significant subsidiaries (together, the "Group"). PT. BESTDENKI INDONESIA has been excluded from the scope of consolidation as the Company sold all the shares under the share transfer agreement as of April 23, 2015, but its results of operations until March 31, 2015 are consolidated. Y's select Co., Ltd., a newly established company as of July 1, 2015 through an incorporation-type split from Kimuraya Select Co., Ltd., has been included in the scope of consolidation from the year ended March 31, 2016.

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, profit and retained earnings and, thus, their impact on the consolidated financial statements has been immaterial.

Investments in two affiliated companies have been accounted for using the equity method. PT. BESTDENKI DIGICOM INDONESIA has been excluded from the scope of applying the equity method since the Company sold all the shares in PT. BESTDENKI INDONESIA.

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 four 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, 2015 and 2014 or February 29, 2016 and February 28, 2015, 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 ··	2 - 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

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

(o) Provision for Losses on Interest Repayments

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

(p) Provision for 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

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

(s) Provision for Gift Certificates, etc.

A certain consolidated subsidiary provides for losses on late collection of gift certificates, etc. already having accounted for as a gain after passing a defined period of time, at the estimated amount for future collection calculated based on historical experience.

(t) 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.

(u) 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.

(v) Recognition of Revenues and Costs

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

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

(w) Income Taxes

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

(x) Per Share Information

Basic earnings per share of common stock is computed based upon the weighted-average number of shares outstanding during each year. For diluted earnings per share, both profit 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.

(y) Unapplied New Accounting Pronouncements

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Summary

This ASBJ Guidance was issued in the context of transferring the accounting and auditing (accounting related part) practical guidance on tax effect accounting provided by the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ. For the sake of the said transfer, the ASBJ based, in principle, on the framework used in the "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets" (Report No. 66, the audit committee of the JICPA), where entities are grouped into five categories, depending on which the amount of deferred tax assets is assessed. The ASBJ then made certain necessary revisions in the categorization criteria and treatment of the amount of deferred tax assets. This ASBJ Guidance is to serve as guidelines on recoverability of deferred tax assets in applying the "Accounting Standards for Tax Effect Accounting," issued by the Business Accounting Council.

(Revisions made in the categorization criteria and treatment of the amount of deferred tax assets)

- Treatment for an entity that does not meet any of the criteria in types 1 to 5;
- Criteria for types 2 and 3;
- Treatment of deductible temporary differences which an entity classified as type 2 is unable to schedule;
- Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
- Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Scheduled date of adoption

This ASBJ Guidance will be applied from the start of the fiscal year beginning on or after April 1, 2016.

(3) Impact of adoption of this guidance

The Group is currently evaluating the impact of adopting this ASBJ Guidance on its consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

The Group adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the previous fiscal year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

As a result, operating income and ordinary income for the current fiscal year increased by ¥249 million ($2,206 thousand) and income before income taxes increased by ¥247 million ($2,192 thousand). Capital surplus as of the end of the current fiscal year decreased by ¥648 million ($5,749 thousand).

In the consolidated statements of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

Capital surplus as of the end of the current fiscal year in the consolidated statements of changes in net assets decreased by ¥648 million ($5,749 thousand).

The effects on net assets per share, basic earnings per share and diluted earnings per share for the current fiscal year were immaterial.

4. BUSINESS COMBINATIONS

Transactions under common control

1) Merger with Kimuraya Select, Co., Ltd.

I. Summary of transaction

a) Name and description of business of the target company: Kimuraya Select, Co., Ltd., home electrics retailers
b) Date of business combination: September 1, 2015
c) Legal form of business combination: Absorption-type merger, with the Company as the surviving company and Kimuraya Select, Co., Ltd., as the dissolving company.
d) Name of the company after business combination: No change to the company name
e) Other: To improve the group management efficiency and strengthen the business foundation, the Company, as the surviving company, executed the absorption-type merger with Kimuraya Select, Co., Ltd.

II. Summary of accounting applied

The transaction was accounted for as a transaction under common control in accordance with "Accounting Standard for Business Combinations" and "Guidance for Accounting Standard for Business Combination and Business Divestitures."

2) Acquisition of additional shares in BEST DENKI (SINGAPORE) PTE. LTD.

I. Summary of transaction

a) Name and description of business of the target company: BEST DENKI (SINGAPORE) PTE. LTD., selling home electrics and communication equipment to general consumers in Singapore.
b) Date of business combination: April 23, 2015.
c) Legal form of business combination: Acquisition of shares from non-controlling shareholders.
d) Name of the company after business combination: No change to the company name
e) Other: The percentage of voting rights of the additionally acquired shares was 49%, and the transaction made BEST DENKI (SINGAPORE) PTE. LTD. a wholly-owned subsidiary of the Company. The Group regards Singapore as an overseas operation base and, through this transaction, intends to rapidly expand the group business operations in the Association of Southeast Asian Nation (the "ASEAN") area.

II. Summary of accounting applied

The transaction was accounted for as a transaction with non-controlling shareholders in the category of transactions under common control in accordance with "Accounting Standard for Business Combinations" and "Guidance for Accounting Standard for Business Combination and Business Divestitures."

III. Matters concerning the acquisition of additional shares in subsidiary

The acquisition price was ¥1,952 million ($17,323 thousand) and paid in cash.

IV. Matters concerning the change in the Group's equity interest associated with the transaction with non-controlling shareholders

a) Main reason for change in capital surplus: Acquisition of additional shares in subsidiary
b) The amount of decrease in capital surplus due to the transaction with non-controlling shareholders:
¥648 million ($5,749 thousand).

Business Divestiture

1) Sales of shares in subsidiary

I. Summary of transaction

a) Name of the buyer: PT.SINER GLOBAL MAKMUR SEJAHTERA

b) Name and description of business of the divested subsidiary: PT. BESTDENKI INDONESIA, home electric retailers in Indonesia
c) Main reason for business divestiture: Since 2006, BEST DENKI (SINGAPORE) PTE. LTD. and the buyer, PT. SINER GLOBAL MAKMUR SEJAHTERA, had made efforts in the form of a joint venture to develop megastores mainly in Jakarta, capital of Indonesia, and to establish the Group's brand and business operation. However, more expansion in the future of the joint venture, PT. BEST DENKI INDONESIA, is considered to be made through small multi-store development throughout Indonesia, which is expected to encounter restrictions on foreign investments. Accordingly, the Group transferred the joint venture to the local company and decided to run a franchise business through BEST DENKI (SINGAPORE) PTE. LTD.
d) Date of business divestiture: April 23, 2015.
e) Other matters including legal form of business divestiture: Share transfer with the consideration in cash only

II. Summary of accounting applied
a) Amount of gain on the share transfer: Gain on sale of shares in subsidiaries and affiliated companies of ¥742 million ($6,580 thousand).
b) Book values and breakdown of the assets and liabilities of the business transferred:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 2,372	$ 21,051
Non-current assets	551	4,889
Total assets	¥ 2,923	$ 25,940
Current liabilities	¥ 1,803	$ 16,000
Non-current liabilities	93	827
Total liabilities	¥ 1,896	$ 16,827

c) Accounting: The difference between the selling price and the net book value of the transferred shares on consolidation basis was accounted for as "Gain on sale of shares in subsidiaries and affiliated companies" in other income.

III. Approximate amounts of profit or loss of the transferred business included in the consolidated statement of income for the year ended March 31, 2016:
a) Net sales: ¥2,142 million ($ 19,005 thousand).
b) Operating income: ¥46 million ($ 405 thousand).

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2016 and 2015 in the consolidated statements of cash flows consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
Cash and time deposits	¥ 31,605	¥ 40,944	$ 280,455
Time deposits with maturities exceeding three months	(940)	(1,252)	(8,340)
Cash and cash equivalents	¥ 30,665	¥ 39,692	$ 272,115

6. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2016 were ¥1,583 million ($14,044 thousand) and ¥1,698 million ($15,068 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2015 were ¥5,226 million and ¥5,635 million, respectively.

Asset retirement obligations for the years ended March 31, 2016 and 2015 were ¥9,384 million ($83,272 thousand) and ¥1,032 million, respectively.

Other significant non-cash transaction

The breakdown of assets acquired and liabilities assumed as a result of merger with Kimuraya Select Co., Ltd. during the year ended March 31, 2016 (see Note 4 for the details) is as follows:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 1,901	$ 16,867
Non-current assets	2,884	25,594
Total assets	¥ 4,785	$ 42,461
Current liabilities	¥ 5,635	$ 50,002
Non-current liabilities	239	2,126
Total liabilities	¥ 5,874	$ 52,128

Note: Cash and cash equivalents of ¥ 97 million ($864 thousands) are included here and presented in the consolidated statements of cash flows for the year ended March 31, 2016 as "Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiary".

Sale of shares in subsidiary with change in scope of consolidation

As a result of the sale of shares in subsidiary, PT. BESTDENKI INDONESIA, during the year ended March 31, 2016, PT. BESTDENKI INDONESIA was excluded from the scope of consolidation (see Note 4 for the details). The breakdown of the assets and liabilities at the time of sale and the selling price and proceeds from the sale are as follows:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 2,372	$ 21,051
Non-current assets	551	4,889
Current liabilities	(1,803)	(16,000)
Non-current liabilities	(93)	(827)
Non-controlling interests	(760)	(6,743)
Foreign currency translation adjustments	20	181
Gain on sale of the shares	742	6,580
Selling price of the shares	1,029	9,131
Cash and cash equivalents	(61)	(541)
Difference: Proceeds from sale of the shares	¥ 968	$ 8,590

7. 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 does 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 three years and four years after the balance sheet date for the years ended March 31, 2016 and 2015, respectively.

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

For certain loans payable, the Company utilizes interest rate (floating for fixed rate) swaps in order to manage interest rate risk. Some of its consolidated subsidiaries utilize currency swaps and currency options in order to reduce the foreign currency risk of foreign-currency-denominated monetary assets and liabilities. The Company also uses derivatives as hedging instruments, which is described in “Derivative Transactions and Hedge Accounting” under Note 2, entitled “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 counterparties 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 9, 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, 2016 and 2015:

	Millions of yen		
	2016		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 31,605	¥ 31,605	¥ -
(2) Notes and accounts receivable	59,250		
Allowance for doubtful accounts (*1)	(3,578)		
	55,672	55,672	-
(3) Investment securities (*2)	3,381	3,889	508
(4) Guarantee deposits (*3)			
(including current portion)	102,254		
Allowance for doubtful accounts (*1)	(61)		
	102,193	107,186	4,993
	¥ 192,851	¥ 198,352	¥ 5,501
Financial liabilities:			
(1) Notes and accounts payable	¥ 79,950	¥ 79,950	¥ -
(2) Short-term loans payable	67,695	67,695	-
(3) Bonds	100,317	98,808	(1,509)
(4) Long-term loans payable			
(including current portion)	164,369	173,944	9,575
	¥ 412,331	¥ 420,397	¥ 8,066
Derivative transactions (*4)	¥ (86)	¥ (86)	¥ -

	Thousands of U.S. dollars (Note 1)		
	2016		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	$ 280,455	$ 280,455	$ -
(2) Notes and accounts receivable	525,775		
Allowance for doubtful accounts (*1)	(31,744)		
	494,031	494,031	-
(3) Investment securities (*2)	30,008	34,514	4,506
(4) Guarantee deposits (*3)			
(including current portion)	907,394		
Allowance for doubtful accounts (*1)	(544)		
	906,850	951,156	44,306
	$ 1,711,344	$ 1,760,156	$ 48,812
Financial liabilities:			
(1) Notes and accounts payable	$ 709,472	$ 709,472	$ -
(2) Short-term loans payable	600,719	600,719	-
(3) Bonds	890,200	876,811	(13,389)
(4) Long-term loans payable			
(including current portion)	1,458,592	1,543,564	84,972
	$ 3,658,983	$ 3,730,566	$ 71,583
Derivative transactions (*4)	$ (763)	$ (763)	$ -

	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	¥ -

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 8, 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 8, entitled "SECURITIES INFORMATION."

(b) Financial Liabilities

- **(1) Notes and Accounts Payable, (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 9, 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)
	2016	2015	*2016*
	Book value		
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 338	¥ 407	$ 2,996
Affiliated companies	11	33	99
(2) Available-for-sale securities			
Unlisted equity securities	288	290	2,552
Investment in LPS (*2)	25	117	220
Guarantee deposits (*3)	17,363	10,644	154,080

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			
	2016			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 31,605	¥ -	¥ -	¥ -
Notes and accounts receivable	59,250	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	200	-	-	-
(2) Others	26	90	-	-
Guarantee deposits (*)	6,284	26,550	20,932	48,488
Total	¥ 97,365	¥ 26,640	¥ 20,932	¥ 48,488

	Thousands of U.S. dollars (Note 1)			
	2016			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 280,455	$ -	$ -	$ -
Notes and accounts receivable	525,775	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	1,775	-	-	-
(2) Others	234	802	-	-
Guarantee deposits (*)	55,767	235,602	185,751	430,274
Total	$ 864,006	$ 236,404	$ 185,751	$ 430,274

	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

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 13, entitled “SHORT-TERM AND LONG-TERM DEBT,” and Note 14, entitled “CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES,” respectively.

8. SECURITIES INFORMATION

The acquisition costs and book values of Available-for-sale Securities with available fair values as of March 31, 2016 and 2015 were as follows:

	Millions of yen		
	2016		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 2,645	¥ 1,379	¥ 1,266
Debt securities:			
Government bonds and others (*)	500	472	28
Corporate bonds	202	200	2
Others	9	8	1
Sub-total	3,356	2,059	1,297
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	212	254	(42)
Sub-total	212	254	(42)
Total	¥ 3,568	¥ 2,313	¥ 1,255

	Thousands of U.S. dollars (Note 1)		
	2016		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 23,477	$ 12,234	$ 11,243
Debt securities:			
Government bonds and others (*)	4,434	4,191	243
Corporate bonds	1,792	1,775	17
Others	82	69	13
Sub-total	29,785	18,269	11,516
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	1,880	2,257	(377)
Sub-total	1,880	2,257	(377)
Total	$ 31,665	$ 20,526	$ 11,139

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 ¥288 million ($2,552 thousand) and investments in LPS of ¥25 million ($220 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		
	2015		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) 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 value) not exceeding acquisition costs:			
Equity securities	48	53	(5)
Sub-total	48	53	(5)
Total	¥ 5,341	¥ 2,912	¥ 2,429

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 and investments in LPS of ¥117 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, 2016 and 2015 were as follow:

	Millions of yen		
	2016		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 1,141	¥ 549	¥ 0

	Thousands of U.S. dollars (Note 1)		
	2016		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 10,123	$ 4,872	$ 0

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

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.

For investments in non-consolidated subsidiaries and affiliated companies, recoverability is considered in conjunction with the financial condition of the issuer and the portion regarded as unrecoverable is recognized as loss on valuation.

Loss on valuation of marketable Available-for-sale Securities and investments in non-consolidated subsidiaries and affiliated companies were nil and ¥80 million ($708 thousand) respectively, for the year ended March 31, 2016 and ¥4 million and nil, respectively, for the year ended March 31, 2015.

9. 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, 2016 and 2015 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 losses	*Fair value*	*Unrealized losses*
At March 31, 2016:						
Foreign currency forward contracts:						
Buy, call …………………	¥ 1,588	¥ -	¥ (86)	¥ (86)	$ (763)	$ (763)
Total………………………			¥ (86)	¥ (86)	$ (763)	$ (763)

	Millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains
At March 31, 2015:				
Foreign currency forward contracts:				
Buy, call …………………	¥ 893	¥ -	¥ 29	¥ 29
Total………………………			¥ 29	¥ 29

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, 2016 and 2015 were as follows:

	Millions of yen		
	Notional amount		
	Total	Over one year	Fair value
At March 31, 2016:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 102,000	¥ 66,000	¥ (*)

	Thousands of U.S. dollars (Note 1)		
	Notional amount		
	Total	*Over one year*	*Fair value*
At March 31, 2016:			
Interest rate swap contracts:			
Pay fixed, receive floating	$ 905,138	$ 585,678	$ (*)

	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	¥ (*)

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

10. ACCUMULATED DEPRECIATION ON PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
Accumulated depreciation	¥ 275,628	¥ 264,307	$ 2,445,892

11. 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 a discount rate of 5.6%. Impairment of goodwill is an amortization in accordance with the Paragraph 32 of “Practical Guidelines on Capital Consolidation Procedures in Consolidated Financial Statements” (the Accounting System Committee Report No. 7, issued by the JICPA).

The summary of impairment losses recorded for the fiscal years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Buildings and structures	¥ 3,233	¥ 5,474	$ 28,687
Land	23	399	202
Lease assets	885	1,700	7,852
Other tangible assets	1,071	1,497	9,504
Construction in progress	-	4	-
Intangible assets	1,607	4,038	14,263
Investment and other assets	962	380	8,541
Total	¥ 7,781	¥ 13,492	$ 69,049

Impairment losses for the year ended March 31, 2016 mainly relate to retail stores and a property for the Group’s own business use located in Hiroshima Prefecture and stores and a property for rent located in Ibaraki Prefecture. 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

12. 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Due within one year	¥ 11,873	¥ 12,561	$ 105,355
Due after one year	98,959	93,727	878,156
Total	¥ 110,832	¥ 106,288	$ 983,511

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within one year	¥ 303	¥ 243	$ 2,687
Due after one year	1,561	1,000	13,857
Total	¥ 1,864	¥ 1,243	$ 16,544

13. SHORT-TERM AND LONG-TERM DEBT

The weighted-average rates of interest for short-term loans payable were approximately 0.44% and 0.49% as of March 31, 2016 and 2015, respectively.

The weighted-average rates of interest for current portion of long-term loans payable were approximately 0.67% as of March 31, 2016 and 2015.

The weighted-average rates of interest for long-term loans payable (excluding current portion thereof) were approximately 0.66% and 0.67% as of March 31, 2016 and 2015, respectively, and long-term loans payable were due in 2017 through 2020 and 2016 through 2020 as of March 31, 2016 and 2015, 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 0.86% and 0.94% as of March 31, 2016 and 2015, respectively.

The weighted-average rates of interest for other interest bearing liabilities (long-term other payable) excluding current portion thereof were approximately 2.06% and 1.68% as of March 31, 2016 and 2015, respectively, and long-term accounts payable were due in 2017 through 2019 and 2016 through 2019 as of March 31, 2016 and 2015, respectively.

Short-term and long-term debt as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Short-term loans payable	¥ 67,695	¥ 78,480	$ 600,719
Long-term loans payable (due within one year)	59,213	52,899	525,449
Lease obligations (due within one year)	2,513	2,511	22,295
Other interest bearing liabilities —Long-term other payable (due within one year)	469	768	4,163
Sub-total	129,890	134,658	1,152,626
Long-term loans payable (excluding amounts due within one year)	105,156	110,582	933,143
Lease obligations (excluding amounts due within one year)	11,429	12,473	101,417
Other interest bearing liabilities —Long-term other payable (excluding amounts due within one year)	1,000	1,468	8,877
Sub-total	117,585	124,523	1,043,437
Total	¥ 247,475	¥ 259,181	$ 2,196,063

The following assets were pledged as collateral for bank overdraft contracts and other transactions as of March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Land (*)	¥ 118	¥ 111	$ 1,048

(*) Pledged as collateral for customers' housing loans of ¥62 million ($547 thousand) and ¥70 million as of March 31, 2016 and 2015, respectively.

The aggregate annual maturities of long-term loans payable as of March 31, 2016 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2017	¥ 59,213	$ 525,449
2018	50,029	443,954
2019	26,668	236,649
2020	19,129	169,750
Thereafter	9,330	82,790
Total	¥ 164,369	$ 1,458,592

The aggregate annual maturities of finance lease obligations as of March 31, 2016 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2017	¥ 2,513	$ 22,295
2018	2,214	19,646
2019	1,701	15,099
2020	1,325	11,758
Thereafter	6,189	54,914
Total	¥ 13,942	$ 123,712

The aggregate annual maturities of long-term other payable as of March 31, 2016 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2017	¥ 469	$ 4,163
2018	838	7,433
2019	156	1,388
2020	6	56
Thereafter	-	-
Total	¥ 1,469	$ 13,040

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($443,695 thousand) with seven financial institutions. Under these credit facilities, no amount has been executed as of March 31, 2016 and 2015.

14. 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, 2016 and 2015 were as follows:

	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2016	2015	*2016*	
	Conversion price per share (*1)	Outstanding balance			Conversion period
Euro yen zero coupon convertible bonds due 2019 ··········	¥ 538.00	¥ 100,317	¥ 100,417	$ 890,200	June 26, 2015 – June 14, 2019

Note:

(*1) Appropriations of retained earnings, including the year-end dividends of ¥12.00 ($0.11) per share, were approved at the General Meeting of Shareholders held on June 29, 2016. As this fell into an Adjustment Event for the conversion price stipulated in the bond requirements, the conversion price was adjusted retrospectively as of April 1, 2016 from ¥538.00 ($4.77) to ¥532.20 ($4.72).

No subscription rights were exercised for the years ended March 31, 2016 and 2015.

15. 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 were approximately 32.8% and 35.4% for the years ended March 31, 2016 and 2015, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
Deferred tax assets:			
Loss on valuation of inventories	¥ 1,552	¥ 1,735	$ 13,772
Impairment loss	10,973	11,269	97,377
Loss on valuation of investment securities	468	700	4,154
Loss on valuation of stock of subsidiaries	2,825	4,960	25,072
Provision for bonuses	2,509	2,717	22,265
Provision for point card certificates	5,286	6,871	46,910
Net defined benefit liability	6,909	7,351	61,306
Provision for directors' retirement benefits	182	167	1,619
Provision for product warranties	3,815	4,771	33,855
Asset retirement obligations	7,540	5,100	66,908
Undetermined accrued liabilities	561	1,416	4,977
Consolidated subsidiaries' tax loss carry-forward	16,637	18,155	147,636
Others	9,571	9,409	84,925
Sub-total	68,828	74,621	610,776
Valuation allowance	(34,178)	(39,870)	(303,294)
Total deferred tax assets	34,650	34,751	307,482
Deferred tax liabilities:			
Unrealized gains on valuation of land	(1,771)	(1,673)	(15,713)
Loss recognized corresponding to asset retirement obligations	(5,269)	(2,919)	(46,753)
Foreign exchange gains	(2,631)	(3,641)	(23,344)
Others	(1,175)	(1,490)	(10,433)
Total deferred tax liabilities	(10,846)	(9,723)	(96,243)
Net deferred tax assets	¥ 23,804	¥ 25,028	$ 211,239

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2016 and 2015:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
Current assets – Deferred tax assets	¥ 12,274	¥ 14,342	$ 108,920
Investments and other assets – Deferred tax assets	13,643	12,850	121,071
Long-term liabilities – Other long-term liabilities	(2,113)	(2,164)	(18,751)

Reconciliations between the statutory income tax rate and the actual effective income tax rate, as percentage of income before income taxes, for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015
Statutory income tax rate	32.8%	35.4%
Per capita inhabitants taxes	1.7	3.7
Change in valuation allowance	(4.2)	(1.9)
Impairment loss on goodwill	0.7	4.8
Loss on waiver of receivables due from affiliated companies	0.4	-
Effect of merger of subsidiary	0.9	-
Income taxes of the previous year	-	3.2
Tax rate differences for net loss subsidiaries	2.8	11.2
Adjustments of deferred tax assets at the year end for enacted changes in tax laws and rates	2.3	9.3
Others, net	0.1	(0.7)
Effective income tax rate	37.5%	65.0%

On March 31, 2016, 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, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.1% for the fiscal year ended March 31, 2015 to 30.7% and 30.5%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥1,119 million ($9,929 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥1,161 million ($10,300 thousand), valuation differences on Available-for-sale Securities increased by ¥3 million ($23 thousand) and accumulated remeasurements of defined benefit plans increased by ¥39 million ($346 thousand).

16. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥14,951 million ($132,672 thousand) and ¥11,046 million to credit card companies as of March 31, 2016 and 2015, respectively.

The Group was contingently liable for guarantees of debt made by home buyers and the like in the amount of ¥824 million ($7,310 thousand) and ¥745 million, debt made to employees in the amount of ¥28 million ($248 thousand) and ¥41 million, and debt made to the lease contract of Azuma Metal Co., Ltd. in the amount of ¥16 million ($139 thousand) and ¥26 million, as of March 31, 2016 and 2015, respectively.

17. RETIREMENT BENEFITS

<For the year ended March 31, 2016>

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 the accumulated number of points that are granted according to eligibility and position, etc. of employees. Under a lump-sum retirement payment plan, retirement benefits are paid out in the form of a lump-sum payment based on the accumulated number of points that are granted according to eligibility and position, etc. of employees.

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.

As of January 29, 2016, the Company revised its retirement benefit plans from the previous final-salary proportional system to a point system. As a result of this change, prior service costs (decrease in retirement benefit obligations) of ¥4,759 million ($42,237 thousand) were incurred.

Defined benefit plans

(1) The changes in retirement benefit obligations for the years ended March 31, 2016 and 2015

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2016		2015		*2016*	
Beginning balance	¥	42,443	¥	41,823	$	376,638
Cumulative effect of accounting changes		-		(1,080)		-
Restated balance		42,443		40,743		376,638
Service costs		3,749		3,598		33,268
Interest cost		533		590		4,731
Actuarial gains and losses		1,995		121		17,703
Payment of benefit obligations		(1,350)		(1,107)		(11,978)
Prior service costs incurred during year		(4,759)		-		(42,237)
Increase by new consolidation		174		-		1,539
Decrease by de-consolidation		(26)		-		(229)
Decrease by partial termination of defined benefit plans		-		(1,502)		-
Others		-		(0)		-
Ending balance	¥	42,759	¥	42,443	$	379,435

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

(2) Changes in pension assets for the years ended March 31, 2016 and 2015

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2016		2015		*2016*	
Beginning balance	¥	20,632	¥	19,641	$	183,088
Expected return on pension assets		421		243		3,737
Actuarial gains and losses		(939)		1,382		(8,335)
Contributions paid by the employer		1,506		1,544		13,360
Retirement benefits paid		(807)		(636)		(7,158)
Decrease by partial termination of defined benefit plans		-		(1,542)		-
Ending balance	¥	20,813	¥	20,632	$	184,692

(3) Reconciliation of retirement benefit obligations and pension assets and net defined benefit liability (asset) for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Funded retirement benefit obligations	¥ 27,167	¥ 23,709	$ 241,080
Amount of pension assets	(20,813)	(20,632)	(184,692)
	6,354	3,077	56,388
Unfunded retirement benefit obligations	15,592	18,734	138,354
Total net defined benefit liability	¥ 21,946	¥ 21,811	$ 194,742
Net defined benefit liability	23,701	23,849	210,316
Net defined benefit asset	(1,755)	(2,038)	(15,574)
Total net defined benefit liability	¥ 21,946	¥ 21,811	$ 194,742

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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Service costs (*1)	¥ 3,749	¥ 3,598	$ 33,268
Interest cost	533	590	4,731
Expected return on pension assets	(421)	(242)	(3,737)
Amortization of actuarial differences	498	799	4,418
Amortization of prior service costs	(278)	(60)	(2,463)
Net periodic retirement benefit costs	4,081	4,685	36,217
Loss on partial termination of defined benefit plans (*2)	-	40	-
Total	¥ 4,081	¥ 4,725	$ 36,217

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 years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Prior service costs	¥ 4,482	¥ (60)	$ 39,775
Actuarial gains and losses	(2,436)	2,060	(21,620)
Total	¥ 2,046	¥ 2,000	$ 18,155

(6) Accumulated remeasurements of defined benefit plans for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Unrealized prior service costs	¥ (4,737)	¥ (12)	$ (42,034)
Unrealized actuarial gains and losses	2,320	(482)	20,584
Total	¥ (2,417)	¥ (494)	$ (21,450)

(7) Pension assets as of March 31, 2016 and 2015

(i) The percentages for each classification of total pension assets as of March 31, 2016 and 2015 were as follows:

	2016	2015
Bonds	23.6 %	22.6 %
Stocks	22.6	35.6
Cash and time deposits	7.7	4.6
General accounts	41.6	34.7
Others	4.5	2.5
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, 2016 and 2015

	2016	2015
Principal discount rate	0.56 %	1.73 %
Long-term expected rate of return on plan assets	1.46	1.46
Estimated rate of salary increase	- (Note)	2.28

Note: Estimated rate of salary increase is not presented for the year ended March 31, 2016 because the Company and its consolidated subsidiaries have adopted a point system.

Defined contribution plans

The required contribution amount to the defined contribution plans of certain consolidated subsidiaries was ¥430 million ($3,815 thousand) and ¥440 million for the years ended March 31, 2016 and 2015, respectively.

Multi-employer plans

The required contribution amount to such multi-employer plans, which is expensed when incurred, was ¥277 million ($2,459 thousand) and ¥338 million for the years ended March 31, 2016 and 2015, respectively.

(1) Matters concerning the funded status of the entire plans as of March 31, 2015 and 2014

	Millions of yen		*Thousands of U.S. Dollars (Note 1)*
	March 31, 2015	March 31, 2014	
Amount of pension assets	¥ 50,885	¥ 46,497	$ 451,545
Amount of retirement benefit obligations	(58,699)	(56,038)	(520,889)
Net	¥ (7,814)	¥ (9,541)	$ (69,344)

(2) Shares of the pension fund contribution made by the Group as a percentage of the total plan for the years ended March 31, 2016 and 2015 were 14.5% and 16.2%, respectively.

(3) Supplementary explanation

The net balance presented in (1) above represents the outstanding balance of prior service costs of ¥10,603 million ($94,093 thousand) and ¥10,965 million for the years ended March 31, 2016 and 2015, 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 contribution of ¥123 million ($1,095 thousand) and ¥126 million is recognized as expense in the accompanying consolidated financial statements for the years ended March 31, 2016 and 2015, respectively.

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

18. 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 0.00% to 2.15% with a term of 6 to 47 years.

Changes in asset retirement obligations for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
Beginning balance	¥ 15,682	¥ 14,747	$ 139,164
Increase due to purchase of property and equipment	585	722	5,188
Increase due to change in estimates	8,481	-	75,257
Adjustments due to passage of time	319	311	2,827
Decrease due to implementation of asset retirement obligations	(177)	(114)	(1,569)
(Decrease) increase due to exchange translation of asset retirement obligations denominated in foreign currencies	(23)	16	(200)
Decrease due to de-consolidation	(30)	-	(264)
Ending balance	¥ 24,837	¥ 15,682	$ 220,403

Change in Estimates for Asset Retirement Obligations

For the year ended March 31, 2016, accounting estimates have been changed for asset retirement obligations related to restoration obligations under real estate leasehold contracts of the Company and certain consolidated subsidiaries, with respect to restoration costs to be required at leaving, according to information newly obtained at store closures, etc.

Increase due to the change in estimates of ¥8,481 million ($75,257 thousand) was added to the ending balance just before the change and, as the change was made as of the end of the current fiscal year, this change had no effect on the results of operations for the year.

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.

19. NET ASSETS

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income and non-controlling 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 29, 2016, the shareholders approved cash dividends amounting to ¥9,628 million ($85,440 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016 as they are to be recognized in the period in which they are approved by the shareholders.

20. STOCK OPTIONS

Stock option expenses recognized for the years ended March 31, 2016 and 2015 were ¥224 million ($1,988 thousand) and ¥149 million, respectively.

The stock options existing during the years ended March 31, 2016 and 2015 were as follows:

Date of resolution	June 27, 2013	June 27, 2014	June 26, 2015
Persons granted	16 directors	15 directors	14 directors
Number of options granted expressed in number of common stock (*1)(*2)	483,100 shares	460,700 shares	628,900 shares
Date of grant	July 12, 2013	July 14, 2014	July 13, 2015
Vesting condition (*3)	Not set	Not set	Not set
Service period covered	Not prescribed	Not prescribed	Not prescribed
Exercise period	From July 13, 2013 to July 12, 2043	From July 15, 2014 to July 14, 2044	From July 14, 2015 to July 13, 2045

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, 2016 was as follows:

Date of resolution	June 27, 2013 (Shares)	June 27, 2014 (Shares)	June 26, 2015 (Shares)
Number of stock options expressed in number of common stock:			
Non-vested			
March 31, 2015 –			
Outstanding	-	114,600	-
Granted	-	-	628,900
Forfeited	-	-	-
Vested	-	114,600	472,200
March 31, 2016 -			
Outstanding	-	-	156,700
Vested			
March 31, 2015 –			
Outstanding	478,400	346,100	-
Vested	-	114,600	472,200
Exercised	-	-	-
Forfeited	-	-	-
March 31, 2016 -			
Outstanding	478,400	460,700	472,200

	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*
Price information:						
Exercise price	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01
Average price at exercise date	¥ -	$ -	¥ -	$ -	¥ -	$ -
Fair value at grant date	¥ 410.9	$ 3.65	¥ 291.0	$ 2.58	¥ 404.0	$ 3.59

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

The fair value of stock option granted during the year ended March 31, 2016 is estimated using the Black-Scholes option pricing model with the assumptions noted in the following table:

	3rd compensation-type stock option
Volatility of stock price (*1)	37.9%
Estimated remaining outstanding period (*2)	11.3 years
Estimated dividend (*3)	¥6 per share
Risk free interest rate (*4)	0.528%

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, 2015.

(*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.

21. COST OF SALES

The ending balance of inventories is measured at the lower of cost or market value. Loss on valuation of inventories included in cost of sales for the years ended March 31, 2016 and 2015 were ¥1,881 million ($16,692 thousand) and ¥2,047 million, respectively.

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of "selling, general and administrative expenses" for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Advertising	¥ 28,702	¥ 30,182	$ 254,699
Salaries	106,990	111,518	949,418
Rent expenses	73,813	74,062	655,012
Depreciation	20,131	20,844	178,645
Point card-related promotion	45,506	45,803	403,814
Others	126,201	135,715	1,119,891
Total	¥ 401,343	¥ 418,124	$ 3,561,479

23. OTHER INCOME (EXPENSES)

(1) Loss on closing of stores

Loss on closing of stores of ¥4,389 million ($38,950 thousand) was recognized in other expenses in the consolidated statement of income for the year ended March 31, 2016, at the amount incurred in the fiscal year due to store closing implemented as part of the "Improvement and Reform of Store Efficiency," one of the management structural reforms.

(2) Others, net

"Others, net" in "other income (expenses)" in the consolidated statements of income for the years ended March 31, 2016 and 2015 included the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	*2016*
Rent income	¥ 2,963	¥ 2,705	$ 26,294
Rent expenses	(2,317)	(2,097)	(20,564)
Rental expenses	(2,330)	-	(20,677)
Sales of electric power	1,807	1,715	16,036
Cost of sales of electric power	(829)	(875)	(7,356)
Provision for allowance for doubtful accounts	-	(916)	-
Gain on sale of non-current assets	104	234	922
Loss on disposal of non-current assets	(359)	(463)	(3,184)
Gain on sale of shares in subsidiaries and affiliated companies	742	127	6,580
Gain on sale of investment securities	549	60	4,872
Others, net	2,067	3,128	18,345
Total	¥ 2,397	¥ 3,618	$ 21,268

24. OTHER COMPREHENSIVE INCOME

Amounts reclassified to profit 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)
	2016	2015	*2016*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ (787)	¥ 718	$ (6,985)
Reclassification adjustments	(520)	1,016	(4,618)
Valuation difference on available-for-sale securities before related tax effect	(1,307)	1,734	(11,603)
Related tax effect	266	(143)	2,365
Valuation difference on available-for-sale securities, net of taxes	(1,041)	1,591	(9,238)
Foreign currency translation adjustments:			
Amount arising during the year	767	(1,377)	6,808
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	767	(1,377)	6,808
Related tax effect	-	-	-
Foreign currency translation adjustments, net of taxes	767	(1,377)	6,808
Remeasurements of defined benefit plans:			
Amount arising during the year	1,826	1,261	16,201
Reclassification adjustments	220	740	1,954
Remeasurements of defined benefit plans before related tax effect	2,046	2,001	18,155
Related tax effect	(1,147)	(288)	(10,177)
Remeasurements of defined benefit plans, net of tax	899	1,713	7,978
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	(1)	(0)	(5)
Reclassification adjustments	-	-	-
Share of other comprehensive income of associates accounted for using equity method	(1)	(0)	(5)
Total other comprehensive income	¥ 624	¥ 1,927	$ 5,543

25. 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, 2016 and 2015 is as follows:

	Millions of yen		
	2016		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers …………	¥ 1,392,337	¥ 220,399	¥ 1,612,736

	Thousands of U.S. dollars (Note 1)		
	2016		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers …………	$ 12,355,458	$ 1,955,801	$ 14,311,259

	Millions of yen		
	2015		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers …………	¥ 1,439,143	¥ 225,228	¥ 1,664,371

From the year ended March 31, 2016, in line with a revised management classification, previous "Home electrical appliances" and "Home information appliances" are presented as "Home electrical appliances & Home information appliances" and previous "Other products" is presented as "Non-home electrical appliances." Figures for the year ended March 31, 2015 have been reclassified accordingly.

Information about geographic area for the years ended March 31, 2016 and 2015 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, 2016 and 2015 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.

26. RELATED PARTIES

Significant balances with related parties as of March 31, 2016 and 2015 and related transactions for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	*2016*
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)	¥ 86	¥ 84	$ 764
Guarantee deposits (due within one year)	146	146	1,299
Guarantee deposits	2,572	2,780	22,825
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Accounts payable	16	18	143
Shouichi Denki Co., Ltd., a subsidiary of the company owned by Shoji Orita, director, and his relatives			
Accounts payable	35	33	315
Other payable	27	22	240
Guarantee deposits	918	992	8,145
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	957	942	8,496
Sales of land	-	37	-
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Purchases of inventories	123	97	1,088
Shouichi Denki Co., Ltd., a subsidiary of the company owned by Shoji Orita, director, and his relatives			
Subcontracting construction	679	681	6,029
Freight costs	198	183	1,755
Payment of company house rent and lease and guarantee deposit	734	623	6,510

27. SUBSEQUENT EVENTS

I. Damages Suffered as a Result of the 2016 Kumamoto Earthquake

As a result of the 2016 Kumamoto Earthquake, which occurred in April 2016, damages, including damage and destruction of merchandise and buildings, were suffered at stores belonging to the Company and the Group inside the affected region.

Furthermore, loss on disaster caused by the 2016 Kumamoto Earthquake of approximately ¥1,116 million might be recorded under extraordinary loss in the following fiscal year. This loss on disaster includes the amount of loss related to damages to store equipment and inventories, removal costs and repair costs for assets damaged by the earthquake, and restoration expenses for stores damaged by the earthquake.

II. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 29, 2016:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Year-end cash dividends, ¥12 ($0.11) per share	¥ 9,628	$ 85,440

* * * * * *

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, 2016 and 2015, and the consolidated statemants 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 misstatement, 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, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 12, 2016
Tokyo, Japan