Financial Report 2017

Fiscal year ended March 31, 2017

YAMADA DENKI CO., LTD.

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Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2017

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 4)*
	As of and year ended March 31					
	2013	2014	2015	2016	2017	2017
Net sales (Note 1)	1,701,489	1,893,972	1,664,371	1,612,736	1,563,056	13,930,982
Ordinary profit	47,906	50,187	35,538	62,734	66,040	588,596
Profit attributable to owners of parent	22,204	18,667	9,341	30,396	34,528	307,740
Comprehensive income	21,240	19,737	10,409	32,556	39,373	350,923
Net assets	555,391	553,354	509,398	557,722	585,548	5,218,786
Total assets	1,138,389	1,196,288	1,122,408	1,146,723	1,159,457	10,333,840
Net assets per share (yen) (Note 3)	565.34	592.17	643.04	666.03	697.47	6.22 *(dollars)*
Basic earnings per share (yen) (Note 3)	23.57	20.22	11.74	38.22	43.00	0.38 *(dollars)*
Diluted earnings per share (yen) (Note 2) (Note 3)	-	20.21	11.72	38.16	42.89	0.38 *(dollars)*
Equity ratio (%)	46.8	44.2	43.2	46.6	48.4	
Return on equity (%)	4.2	3.5	1.8	6.0	6.3	
Price earnings ratio (times)	18.22	17.01	42.18	13.92	12.91	
Cash flows from operating activities	(12,789)	45,148	22,983	(23)	43,856	390,873
Cash flows from investing activities	(39,232)	(38,607)	(20,233)	(13,437)	(15,279)	(136,179)
Cash flows from financing activities	47,174	(7,646)	(41,488)	4,733	(24,382)	(217,311)
Cash and cash equivalents at end of year	77,906	77,754	39,692	30,665	34,982	311,779
Employees (persons)	21,261	21,138	20,405	19,183	19,238	
[Average number of temporary employees not included in the above number (persons)]	[11,410]	[11,384]	[10,704]	[10,219]	[9,670]	

Notes:
1. Net sales do not include consumption tax.
2. Diluted earnings per share for the fiscal year ended March 31, 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. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 31, 2017, which was ¥112.20 to U.S. $1.

2. OVERVIEW OF PERFORMANCE

[On background of economies at home and abroad]

During the fiscal year under review, the Japanese economy remained on a path of gradual recovery underpinned by economic measures being taken by the government and financial measures by the Bank of Japan with corporate earnings improving somewhat and the jobs environment also improving, despite weakening consumer spending.

Meanwhile, the outlook for the global economy remained unclear, against a backdrop of various uncertainties with respect to factors such as economic slowdown and growth stagnation in China and emerging nations, issues arising with respect to the decision by the UK to exit the EU, the impact of the change of administration in the US, and instability in the securities exchanges and foreign exchange markets.

[On the consumer electrical appliance retail industry]

The consumer electrical appliance retail industry to which the Yamada Denki Group (the "Group") belongs marked firm performance due to an increase in per-unit prices and recovery in unit sales, amid signs of prolonged stagnation bottoming out in the market for televisions, which had been caused by a pullback in spending in the wake of special demand that had been attributable to the Japanese government's "ecopoints" program for electrical appliances and digitalization of terrestrial television. Meanwhile, aside from an apparent lull in the market for refrigerators which had long maintained firm demand, sales of washing machines, vacuum cleaners and other white goods held strong, underpinned by support from replacement demand. In addition, seasonal products performed strongly despite temperature variations by geographic region and other weather-related factors during the summer months and warmer than average temperatures during the winter months.

On the other hand, mobile phone sales stalled partially due to adverse effects of government requirements calling for rectification of sales practices, while computers and tablet devices also lost momentum.

In the consumer electrical appliance market overall, products appear to be maintaining generally strong sales results, with the exception of special circumstances regarding computers, mobile phones and other products in the digital realm, as well as some products affected by seasonal factors.

[On the Company's efforts]

Against this backdrop in the consumer electrical appliance market, the Group has continued to take on various challenges geared to achieving sustainable growth and development ahead, premised on our objectives of creating new businesses, forging ahead with structural reforms and medium-term business plans, and fortifying our existing businesses and developing human resources, under a management framework consisting of three representative directors as of April 1, 2016. Accordingly, acting as one of Japan's largest network and services Internet of Things (IoT) companies, we have been enhancing what we offer by going from physical products to intangible services, and physical products plus intangible services, and accordingly have been developing new services that meet customer needs "from the cradle to the grave," through initiatives that entail analysis and application of big data encompassing our membership roster in excess of 50 million consumers.

During the fiscal year under review, the government announced plans to delay further hikes to the consumption tax after the Company had announced the next plan for the fiscal year ended March 31, 2017 on May 9, 2016. As a result, differences arose between actual sales from the plan's sales targets as the plan had taken into consideration a rush in demand by consumers before the consumption tax hike. This had more than a ¥10.0 billion negative effect on gross profit.

The Company was also negatively impacted by yen appreciation with a drop of about ¥1.9 billion between December 31, 2016 and March 31, 2017. Furthermore, investments with medium- to long-term reward were implemented by a housing related subsidiary, which contributed a shortfall of about ¥4.0 billion to the plan. On the other hand, the promotion of structural reforms enabled us to make progress in improving each profit margin, while also reducing selling, general and administrative expenses through effective controls overall, despite some upfront expenses having been incurred from a medium- to long-term perspective.

In addition, by shifting from the granting of points for physical products to granting points for intangible services through the provision of a new service making use of big data, we have been working to optimize and maximize operations in terms of both sales and marketing which has involved increasing the number of customers visiting our stores, boosting the percentage of repeat business, heightening efficiency of sales promotions, shifting to sales centered on white goods, and aligning brick-and-mortar retail establishments with online shopping. Through these efforts, we have been able to increase our gross profit margin, and continue to achieve successful results with respect to structural reforms again in the fiscal year under review, more than 18 months since undertaking substantial reforms which included large-scale store closures carried out during the three months ended June 30, 2015.

[On CSR]

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, contributing to a sustainable society. The Group published its CSR REPORT to disclose information related to its social responsibility, and in June 2016, using the “International Integrated Reporting Framework” published by the International Integrated Reporting Council (IIRC), it published the Yamada Denki Group Corporate Report including the previous CSR REPORT, which is also posted on the Company website (http://www.yamada-denki.jp/). Please note that some of these documents are published in Japanese only.

[On number of stores]

The number of consolidated retail stores, including those overseas at the end of the fiscal year under review was 955 (comprising 648 stores directly managed by the Company, 162 stores managed by Best Denki Co., Ltd. and 145 stores operated by other consolidated subsidiaries). The total number of stores of the Group, including the stores managed by franchise stores, was 12,074.

[On performance summary]

As a result of the above, consolidated net sales for the fiscal year under review amounted to ¥1,563,056 million, down 3.1% year on year, operating profit totaled ¥57,895 million, down 0.5% year on year, ordinary profit was ¥66,040 million, up 5.3% year on year, and profit attributable to owners of parent was ¥34,528 million, up 13.6% year on year.

Please note that net sales are below those of the previous fiscal year, partially due to the impact of large-scale closure of stores to relieve competition inside the Group (in the previous fiscal year 98 directly-managed stores were closed through structural reforms, etc. and there was also pullback in spending by store-closure bargain sales).

For the sake of reference, the Company’s internal management finds that its sales of major home electronics products are approximately 1.4% higher than market averages (reference figures calculated as simple mean values comparing similar time periods, on the basis of market data on selected products compiled by market research firm GfK), and that market share has not decreased. These findings exclude special background factors with respect to effects of the aforementioned store closures, business involving mobile phones which was adversely affected by the government’s requirements calling for mobile phone carriers to rectify their sales practices, and business involving solar power systems which has been affected by a significant contraction of the market due to changes in the government’s renewable energy feed-in-tariff scheme, which particularly impact large solar power systems for corporations.

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

3. SALES PERFORMANCE

(1) Sales Results

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

	Year ended March 31, 2017		
Items	Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances/ home information appliances	1,339,979	85.7	(3.8)
Other products	223,077	14.3	1.2
	1,563,056	100.0	(3.1)

Note: The figures shown above do not include consumption tax.

(2) Sales per Unit

	Year ended March 31, 2017	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,563,056	(3.1)
Sales floor space (average) - m²	2,582,147	(0.1)
Sales per square meter - thousands of yen	605	(3.0)
Employees (average) - persons	29,154	(3.6)
Sales per employee - millions of yen	54	0.6

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

4. MANAGEMENT POLICY, MANAGEMENT ENVIRONMENT, ISSUES TO BE ADDRESSED BY THE GROUP, ETC.

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) Basic Policy of Corporate Management

With sustainable corporate growth as its basic policy, the Group believes in the basic principle of rapidly responding to increasingly sophisticated and diversified consumer needs, and it aims to increase corporate value through practicing its management philosophy of “Creation and Challenge” and “Appreciation and Trust,” by constantly sticking to the “Principle of Customer (Market) First.” In addition, the Group strives for low-cost management with importance placed on cash flow while it aims to be a “Strong Company” that can contribute to society by actively promoting CSR-oriented operations as a leading company in the consumer electrical appliance retail industry.

(2) Management Indicator Used as Target

The Company sets its targets using inventory turnover (average inventory during the period) as a management indicator because it best serves the cash flow centric financial challenges faced in the retail and distribution industry.

Target: Inventory turnover (average inventory during the period)   12 turns per year

(3) Medium- to Long-Term Management Strategy

The Group possesses a network unlike any other in the world, capable of meeting every need of our customers through various store formats nationwide from those in urban centers to those in suburbs and community-based retail areas. While utilizing this strength, the Group, as an industry-leading company, proactively engages in flexible approaches to address issues faced not just by the electrical appliance retail industry but by the entire retail and distribution industry, such as the future effects of declining birthrate and aging of the population, population decline, and the Internet-based society. The Group will continue to take on various challenges such as these with the aim of achieving sustainable growth and development in the future.

The Group has a business characteristic of developing unique business models on the retail sale of electrical appliances in which it pursues the breadth and depth of each business field. Through pursuing these possibilities, the Group aims to differentiate itself from its competitors.

The Group expects the future will bring more tremendous change to the retail and distribution industry. In order to respond flexibly to these changes with the appropriate sense of urgency, the Group is improving the efficiency of business resources by optimizing and maximizing the people (human resources), things (products), money, services, logistics, information systems, etc. existing among the companies of the Group to improve the profit margin, reduce various costs, enhance inventory efficiency, and generate cash flows, thereby reinforcing the Group’s financial standing and strengthening the foundation for business resources.

(4) Management Environment and Issues to Be Addressed

Looking ahead to the fiscal year ending March 31, 2018, the outlook for the global economy is uncertain. Specifically, matters we are watchful of include the economic impact from the issue of the UK deciding to leave the EU, the policy direction of the new US administration, and the economic trends of China and the emerging countries.

On the other hand, we expect economic activity in Japan to continue solidly, underpinned by factors such as firm consumer spending and improvement in corporate earnings.

The consumer electrical appliance retail market, in which the Group belongs, is expected to be flat year on year with a solid demand for replacement of white goods and a normal demand for replacement of televisions mainly providing the counterbalance to the continuing structural decline of demand for computers and digital-related products.

Operating as Japan's largest consumer electrical appliance retailer under this market environment, the Group will continue to implement initiatives such as developing new business domains built upon the foundation of electrical appliance retail, and promoting structural reforms, and aggressively conduct initiatives that leverage the Group's business resources to the maximum extent while endeavoring to enhance profitability and corporate value by such means as improving its gross profit margin and reducing selling, general and administrative expenses.

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 and other products that the Group handles, 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-related 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 seasonal products such as air conditioners, heaters, refrigerators, electric fans and drying machines 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 and other services, 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 original brands called "HERB Relax" and "Every Phone," 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

(1) 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

(2) Capital and Business Alliance Agreement

Name of contracting company	Name of counterparty	Execution date	Details
Yamada Denki Co., Ltd.	SoftBank Group Corp.	May 7, 2015	Business alliance Capital alliance Holdings of the Company's stock

(3) Conversion into a Wholly Owned Subsidiary through Simplified Share Exchange

The Company resolved at its Board of Directors meeting held on April 12, 2017 to conduct a share exchange with Best Denki Co., Ltd., with an effective date of July 1, 2017 (scheduled), whereby the Company will become a wholly owning parent company and Best Denki Co., Ltd. will become a wholly owned subsidiary, and a share exchange agreement was concluded between the two parties. Details are as stated in Note 27 to the consolidated financial statements, entitled "SUBSEQUENT EVENTS."

7. RESEARCH AND DEVELOPMENT

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

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

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

(1) Important Accounting Policies and Estimates

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

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

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

(2) Analysis of Financial Position

Total assets at the end of the fiscal year under review amounted to ¥1,159,457 million, up ¥12,734 million (1.1%) from the end of the previous fiscal year. This was mainly due to an increase in merchandise and finished goods as a result of the procurement of strategic seasonal products and changes to the compositional models of sales spaces.

Total liabilities amounted to ¥573,909 million, down ¥15,092 million (2.6%) from the end of the previous fiscal year. This was mainly due to a decrease in long-term loans payable.

Net assets amounted to ¥585,548 million, up ¥27,826 million (5.0%) from the end of the previous fiscal year, mainly reflecting an increase in retained earnings. As a result, the equity ratio was 48.4 % (up 1.8 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 ¥1,563,056 million, down 3.1% year on year. A negative impact arose from the large scale closure of stores conducted in the previous fiscal year to relieve competition inside the Group (in the previous fiscal year 98 directly-managed stores were closed through structural reforms, etc., and there was also pullback in spending following store-closure bargain sales). Looking at performance among products, televisions sold favorably, due to a trend of rising single unit prices amid growing demand for 4K televisions, and refrigerators, washing machines, microwave ovens and other cooking appliances, vacuum cleaners, hair and beauty appliances, and other white goods also generated firm results. Seasonal products such as air conditioners were also firm despite the impact of unseasonable weather in summer. Home information appliances were affected by a slump in the computer market centered on tablet devices as well as a slump in the mobile phone market due to the effect of government requirements calling for mobile phone carriers to rectify their sales practices.

Looking at gross profit, the government announced plans to delay further hikes to the consumption tax after the Company had announced the next plan for the fiscal year ended March 31, 2017 on May 9, 2016. As a result, differences arose between actual sales from the plan's sales targets as the plan had taken into consideration a rush in demand by consumers before the consumption tax hike. On the other hand, the Group worked to optimize and maximize operations in terms of both sales and marketing, which has involved, not only improving sales capabilities and store efficiency in existing businesses, but also initiatives concerning various structural reforms and new businesses, and a shift "from physical products to intangible services, and physical products plus intangible services" to increase the number of customers visiting our stores, boost the percentage of repeat business, heighten efficiency of sales promotions, shift to sales centered on white goods, and align brick-and-mortar retail establishments with online shopping, among other initiatives. As a result, the gross profit margin rose and gross profit was ¥455,200 million, down 0.9% year on year.

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

In selling, general and administrative expenses for the fiscal year under review, the Group achieved an overall reduction through effective controls realized through continued measures of structural reform, despite some upfront expenses having been incurred from a medium- to long-term perspective. As a result, selling, general and administrative expenses amounted to ¥397,305 million, down 1.0% year on year, and operating profit amounted to ¥57,895 million, down 0.5% year on year.

Other expenses for the fiscal year under review was ¥1,013 million. The effect from yen appreciation between December 31, 2016 and March 31, 2017 was approximately ¥1.9 billion. In addition, loss on disaster as a result of the 2016 Kumamoto Earthquake and impairment loss on some stores were recorded.

As a result of the above, profit before income taxes increased by ¥5,812 million to ¥56,882 million (up 11.4%) 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 ¥20,292 million, profit was ¥36,590 million and profit attributable to non-controlling interests amounted to ¥2,062 million.

As a result of the above, profit attributable to owners of parent increased by ¥4,132 million to ¥34,528 million (up 13.6%) 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 ¥34,982 million, up ¥4,317 million (14.1%) compared with the end of the previous fiscal year.

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

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥43,856 million (¥23 million used in the previous fiscal year).

This was mainly due to a recording of profit before income taxes, despite income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥15,279 million (¥13,437 million used in the previous fiscal year).

This was mainly due to purchase of property and equipment associated with renovations of stores, etc.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥24,382 million (¥4,733 million provided in the previous fiscal year).

This was mainly due to repayments of long-term loans payable.

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 16 directors, convenes meetings once a month. Extraordinary Board meetings are also convened when necessary. The Company's Board of Directors reviews any important issues related to the Company's business, discusses the status of the Company's performance and takes prompt action as required.

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

(iii) Management Meetings

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

(iv) Business Plan Progress Management Meetings

The Company provides a framework for addressing the drastically changing market environment through holding weekly business plan progress management meetings at which relevant directors and managers in the position of executive officer or above attend. These meetings are held to check the progress of business plans created by each business department, including performing weekly progress checks, looking at revenues and expenses and identifying problems, and reporting on problem countermeasures and the effectiveness of executed countermeasures.

(v) Audit & Supervisory Board

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

(vi) Internal auditing

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

The director in charge of risk management shall organize the Risk Management Committee and formulate the Risk Management Basic 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 measures 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 Risk Management Basic Regulations 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 director in charge of risk management.

(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 and medium- to long-term management strategies 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) 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

(a) 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.

(b) When making decisions regarding the whistleblower with respect to personnel rotation, performance evaluation and disciplinary action, the fact of whistleblowing must not be a consideration, and the whistleblower may request an Audit & Supervisory Board member to conduct an inquiry into the reason for personnel rotation, performance evaluation and disciplinary action.

(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 two external Audit & Supervisory Board members. 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 less than 0.003% of the Company's consolidated net sales, the Company believes that it is not significant enough to cause a conflict of interests. The Company also believes that Mr. Somuku Iimura 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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
ASSETS			
Current assets:			
Cash and time deposits (Notes 5 and 7)	¥ 35,341	¥ 31,605	$ 314,985
Notes and accounts receivable (Notes 7, 16 and 26):			
- Trade	56,865	59,172	506,821
- Non-consolidated subsidiaries and affiliated companies	3	78	24
Sub-total	56,868	59,250	506,845
Inventories	379,051	361,481	3,378,348
Deferred tax assets (Note 15)	9,309	12,274	82,972
Other current assets (Notes 7 and 26)	44,630	43,050	397,768
Allowance for doubtful accounts	(6,714)	(7,393)	(59,844)
Total current assets	518,485	500,267	4,621,074
Property and equipment:			
Buildings and structures, net (Notes 10, 11 and 18)	220,476	224,664	1,965,030
Land (Notes 11 and 13)	187,895	184,484	1,674,645
Lease assets, net (Notes 10, 11 and 12)	10,355	10,661	92,293
Others, net (Notes 10 and 11)	13,540	18,797	120,670
Total property and equipment, net	432,266	438,606	3,852,638
Intangible assets (Note 11)	33,526	35,477	298,807
Investments and other assets (Note 11):			
Investment securities (Notes 7 and 8)	5,187	4,043	46,228
Long-term loans receivable	12,582	9,499	112,144
Guarantee deposits (Notes 7 and 26)	108,225	113,333	964,572
Net defined benefit asset (Note 17)	2,010	1,755	17,914
Deferred tax assets (Note 15)	16,794	13,643	149,680
Other assets	36,278	35,968	323,333
Allowance for doubtful accounts	(5,896)	(5,868)	(52,550)
Total investments and other assets	175,180	172,373	1,561,321
Total assets	¥ 1,159,457	¥ 1,146,723	$ 10,333,840

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 7 and 26)	¥ 82,372	¥ 79,950	$ 734,154
Short-term loans payable (Notes 7 and 13)	77,155	67,695	687,656
Current portion of long-term loans payable (Notes 7 and 13)	58,084	59,213	517,679
Lease obligations (Notes 12 and 13)	2,537	2,513	22,614
Income taxes payable (Note 15)	12,482	14,629	111,245
Provision for bonuses	7,601	8,065	67,746
Provision for directors' bonuses	124	114	1,107
Provision for point card certificates	10,791	17,073	96,174
Provision for warranties for completed construction	210	192	1,876
Provision for losses on liquidation of subsidiaries	293	321	2,614
Other current liabilities (Notes 13, 17 and 26)	49,599	46,797	442,056
Total current liabilities	301,248	296,562	2,684,921
Long-term liabilities:			
Bonds (Notes 7 and 14)	100,217	100,317	893,197
Long-term loans payable (Notes 7 and 13)	85,559	105,156	762,563
Lease obligations (Notes 12 and 13)	11,323	11,429	100,914
Asset retirement obligations (Note 18)	24,748	24,306	220,575
Provision for directors' retirement benefits	573	536	5,104
Provision for product warranties	11,684	12,523	104,132
Provision for losses on interest repayments	190	245	1,696
Provision for gift certificates, etc.	276	287	2,460
Net defined benefit liability (Note 17)	24,763	23,701	220,707
Other long-term liabilities (Notes 13 and 15)	13,328	13,939	118,785
Total long-term liabilities	272,661	292,439	2,430,133
Total liabilities	573,909	589,001	5,115,054
Contingent liabilities (Note 16)			
Net assets (Note 19):			
Common stock:			
authorized – 2,000,000,000 shares			
issued – 966,489,740 shares in 2017 and 2016	71,059	71,059	633,323
Capital surplus	73,734	73,001	657,169
Retained earnings	480,847	458,108	4,285,623
Treasury stock, at cost – 161,685,281 shares in 2017 and 164,133,681 shares in 2016	(67,214)	(68,232)	(599,055)
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities, net of taxes (Note 8)	1,222	935	10,888
Foreign currency translation adjustments	(486)	(1,967)	(4,328)
Remeasurements of defined benefit plans (Note 17)	2,162	1,489	19,266
Subscription rights to shares (Note 20)	843	521	7,517
Non-controlling interests	23,381	22,808	208,383
Total net assets	585,548	557,722	5,218,786
Total liabilities and net assets	¥ 1,159,457	¥ 1,146,723	$ 10,333,840

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, 2017 and 2016

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	2017
Net sales (Notes 25 and 26):			
- Trade	¥ 1,562,988	¥ 1,612,419	$ 13,930,375
- Non-consolidated subsidiaries and affiliated companies	68	317	607
Sub-total	1,563,056	1,612,736	13,930,982
Cost of sales (Notes 21 and 26)	1,107,856	1,153,235	9,873,944
Gross profit	455,200	459,501	4,057,038
Selling, general and administrative expenses (Notes 17, 22 and 26)	397,305	401,343	3,541,037
Operating profit	57,895	58,158	516,001
Other income (expenses):			
Interest income	1,081	1,168	9,631
Interest expenses	(1,452)	(1,743)	(12,942)
Insurance income	-	353	-
Purchase discounts	6,314	6,962	56,277
Impairment loss (Note 11)	(6,084)	(7,781)	(54,222)
Foreign exchange losses	(1,783)	(4,055)	(15,890)
Loss on closing of stores (Note 23)	-	(4,389)	-
Loss on disaster (Note 23)	(1,147)	-	(10,226)
Others, net (Note 23)	2,058	2,397	18,343
Total other expenses	(1,013)	(7,088)	(9,029)
Profit before income taxes	56,882	51,070	506,972
Income taxes (Note 15):			
Current	20,973	18,810	186,922
Deferred	(681)	328	(6,068)
Total income taxes	20,292	19,138	180,854
Profit	36,590	31,932	326,118
Profit attributable to non-controlling interests	2,062	1,536	18,378
Profit attributable to owners of parent	¥ 34,528	¥ 30,396	$ 307,740
	Yen		*U.S. dollars (Note 1)*
Amounts per share of common stock:			
Basic earnings per share	¥ 43.00	¥ 38.22	$ 0.38
Diluted earnings per share	42.89	38.16	0.38
Cash dividends applicable to the year	13.00	12.00	0.12

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥ 36,590	¥ 31,932	$ 326,118
Other comprehensive income (loss), net of taxes (Note 24):			
Valuation difference on available-for-sale securities	382	(1,041)	3,407
Foreign currency translation adjustments	1,420	767	12,655
Remeasurements of defined benefit plans, net of tax	981	899	8,743
Share of other comprehensive income of associates accounted for using equity method	0	(1)	0
Total other comprehensive income	2,783	624	24,805
Comprehensive income	¥ 39,373	¥ 32,556	$ 350,923
Comprehensive income attributable to:			
Owners of parent	¥ 36,970	¥ 31,935	$ 329,511
Non-controlling interests	2,403	621	21,412

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2017 and 2016

	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, 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
Cash dividends				(9,628)							(9,628)
Profit attributable to owners of parent				34,528							34,528
Disposal of treasury stock			(1)		7						6
Change in scope of consolidation				(2,161)							(2,161)
Purchase of shares of consolidated subsidiaries			734		1,011						1,745
Other changes in the year, net						287	1,481	673	322	573	3,336
Balance at March 31, 2017	966,490	¥ 71,059	¥ 73,734	¥ 480,847	¥ (67,214)	¥ 1,222	¥ (486)	¥ 2,162	¥ 843	¥ 23,381	¥ 585,548

	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 April 1, 2016	$ 633,323	$ 650,636	$ 4,082,959	$ (608,126)	$ 8,330	$ (17,527)	$ 13,269	$ 4,645	$ 203,277	$ 4,970,786
Cash dividends			(85,813)							(85,813)
Profit attributable to owners of parent			307,740							307,740
Disposal of treasury stock		(7)		61						54
Change of scope of consolidation			(19,263)							(19,263)
Purchase of shares of consolidated subsidiaries		6,540		9,010						15,550
Other changes in the year, net					2,558	13,199	5,997	2,872	5,106	29,732
Balance at March 31, 2017	$ 633,323	$ 657,169	$ 4,285,623	$ (599,055)	$ 10,888	$ (4,328)	$ 19,266	$ 7,517	$ 208,383	$ 5,218,786

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, 2017 and 2016

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 56,882	¥ 51,070	$ 506,972
Depreciation	19,460	21,783	173,441
Amortization of goodwill	139	452	1,237
Decrease in provision for point card certificates	(6,281)	(3,854)	(55,982)
Decrease in provision for product warranties	(839)	(1,583)	(7,481)
Decrease in allowance for doubtful accounts	(242)	(1,306)	(2,159)
Increase in net defined benefit liability	1,788	899	15,935
Interest and dividend income	(1,190)	(1,299)	(10,603)
Interest expenses	1,452	1,743	12,942
Foreign exchange losses	1,927	3,842	17,178
Gain on sale of stocks of subsidiaries	-	(742)	-
Gain on sale of investment securities	(1)	(563)	(11)
Loss on sale and disposal of property and equipment, net	583	359	5,197
Loss on closing of stores	-	4,389	-
Impairment loss	6,084	7,781	54,222
Insurance income	-	(353)	-
Decrease (increase) in notes and accounts receivable	2,107	(10,566)	18,776
Decrease in advances received	(1,240)	(1,942)	(11,050)
Increase in inventories	(16,688)	(41,203)	(148,731)
Increase (decrease) in notes and accounts payable	2,354	(8,274)	20,984
(Increase) decrease in accounts receivable	(3,877)	3,194	(34,557)
Increase (decrease) in consumption taxes payable	4,011	(9,484)	35,745
Increase in other current assets	(59)	(289)	(526)
Increase (decrease) in other current liabilities	560	(4,436)	4,990
Other, net	2,430	(1,467)	21,662
Sub-total	69,360	8,151	618,181
Interest and dividend income received	255	350	2,272
Interest expenses paid	(1,463)	(1,710)	(13,040)
Proceeds from insurance income	-	353	-
Income taxes paid	(24,296)	(7,167)	(216,540)
Net cash provided by (used in) operating activities	¥ 43,856	¥ (23)	$ 390,873

(Continued)

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	2017
Cash flows from investing activities:			
Payments into time deposits	¥ (480)	¥ (901)	$ (4,279)
Proceeds from withdrawal of time deposits	1,997	1,208	17,797
Proceeds from sale of property and equipment	489	1,538	4,360
Proceeds from sales and redemption of investment securities	289	1,311	2,572
Proceeds from sale of shares in subsidiary resulting in change in scope of consolidation	-	968	-
Payment of loans receivable	(5,734)	(2,191)	(51,106)
Collection of loans receivable	980	1,030	8,731
Purchases of property and equipment	(17,456)	(21,288)	(155,578)
Purchases of intangible assets	(787)	(612)	(7,013)
Payments for guarantee deposits	(3,051)	(2,923)	(27,195)
Proceeds from collection of guarantee deposits	8,601	8,799	76,662
Purchase of investments in subsidiaries and affiliated companies	(589)	-	(5,250)
Other , net	462	(376)	4,120
Net cash used in investing activities	(15,279)	(13,437)	(136,179)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	9,460	(10,785)	84,314
Proceeds from long-term loans payable	40,600	56,480	361,854
Repayments of long-term loans payable	(61,325)	(55,591)	(546,574)
Purchase of treasury stock	-	(0)	-
Proceeds from disposal of treasury stock	0	22,744	0
Repayments of lease obligations	(3,601)	(2,740)	(32,092)
Proceeds from sales and leasebacks	195	1,187	1,738
Cash dividends paid	(9,625)	(4,525)	(85,786)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(1,952)	-
Other, net	(86)	(85)	(765)
Net cash (used in) provided by financing activities	(24,382)	4,733	(217,311)
Effect of exchange rate change on cash and cash equivalents	(308)	(397)	(2,739)
Net increase (decrease) in cash and cash equivalents	3,887	(9,124)	34,644
Cash and cash equivalents at beginning of year	30,665	39,692	273,304
Increase in cash and cash equivalents resulting from change in scope of consolidation	352	-	3,136
Increase in cash and cash equivalents resulting from merger of subsidiaries	78	-	695
Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiary	-	97	-
Cash and cash equivalents at end of year (Note 5)	¥ 34,982	¥ 30,665	$ 311,779

Supplemental cash flow information (Note 6)

(Concluded)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

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.

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, 2017, which was ¥112.20 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”). Effective on March 1, 2017, the Company executed an absorption-type merger with Minami-Kyushu Yamada Denki, Co., Ltd. (“Minami-Kyushu Yamada”) as the surviving company. As a result, Minami-Kyushu Yamada has been excluded from the scope of consolidation. Yamada Wood House Co., Ltd. has been included in the scope of consolidation from the year ended March 31, 2017 due to its increased materiality.

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.

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, 2016 and 2015 or February 28, 2017 and February 29, 2016, 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 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

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

(o) Provision for Losses on Interest Repayments

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

(p) Provision for Directors' Retirement Benefits

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

(q) Provision for Product Warranties

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

(r) Provision for Losses on Liquidation of Subsidiaries

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

(s) Provision for Gift Certificates, etc.

Certain consolidated subsidiaries provide 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.

Certain consolidated subsidiaries apply the simplified method in calculating the defined benefit liability and retirement benefit costs, which assumes the benefit obligation to be equal to the benefits payable assuming the voluntary retirement of all employees at fiscal year-end.

(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 profit 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.

3. CHANGES IN ACCOUNTING POLICIES

Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Following the revision to the Corporation Tax Act, some of the consolidated subsidiaries have applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the year ended March 31, 2017, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on the consolidated financial statements for the year ended March 31, 2017 was immaterial.

Change in accounting policy that is difficult to distinguish from change in accounting estimate

(Changes of depreciation method of property and equipment)

The Company and some of the consolidated subsidiaries changed the depreciation method of property and equipment from the declining-balance method to the straight-line method from the year ended March 31, 2017.

Since the status of use of property and equipment is examined through management structural reforms and formulation of medium-term business plans, and capital investment effect and profit contribution are predicted to trend stably over the long term, from the viewpoint of store operational costs and sales, the Company judged that to have the cost of capital investment shared on average for each term reflects reasonably the economic situation of the Company, and therefore the Company has changed to the straight-line method.

Accordingly, for the year ended March 31, 2017, operating profit and profit before income taxes increased by ¥1,211 million ($10,790 thousand) and ¥1,148 million ($10,234 thousand), respectively.

Additional information

Application of ASBJ Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the year ended March 31, 2017, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

4. BUSINESS COMBINATIONS

Transactions under common control

1) Conversion of Minami-Kyushu Yamada Denki, Co., Ltd. into a wholly owned subsidiary through share exchange

   I. Summary of transaction
      a) Name and description of business of the target company: Minami-Kyushu Yamada Denki, Co., Ltd. ("Minami-Kyushu Yamada"), home electrics retailers
      b) Date of business combination: January 1, 2017
      c) Legal form of business combination: Share exchange
      d) Name of the company after business combination: No change to the company name
      e) Other: The Company resolved at its Board of Directors' meeting held on November 14, 2016 to conduct a share exchange, whereby the Company becomes a wholly owning parent company and Minami-Kyushu Yamada becomes a wholly owned subsidiary, and thus, a share exchange agreement was concluded between the two parties.

         The share exchange was conducted with an effective date of January 1, 2017 for the Company through the simplified share exchange procedures that do not require the approval of the general meeting of shareholders pursuant to Article 796, Paragraph 2 of the Companies Act, while for Minami-Kyushu Yamada, approval was obtained at the extraordinary meeting of shareholders held on December 20, 2016.

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" (ASBJ Statement No.21) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10).

III. Matters concerning the acquisition of additional shares in subsidiary

a) Acquisition cost and breakdown by type of consideration:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Consideration for the acquisition:		
The Company's common stock	¥ 1,532	$ 13,654
Acquisition cost	¥ 1,532	$ 13,654

b) Stock type, exchange ratio, and number of shares delivered:

	The Company (wholly owning parent company)	Minami-Kyushu Yamada (wholly owned subsidiary)
Share exchange ratio	1	3,039.625
Number of shares delivered through share exchange	Common stock: 2,431,700 shares	

Note: No allocation for the share exchange was made for 1,200 shares of stock of Minami-Kyushu Yamada, which were owned by the Company. In addition, the Company fully appropriated the treasury stock it owned for the shares delivered through the share exchange.

c) Calculation method for the share exchange ratio

As a listed company, the Company's equity value was evaluated under the average market share price method (with the valuation basis date of September 30, 2016 and evaluating the simple average of closing prices in the one month, three months, and six months prior to the valuation basis date) and determined at ¥498.60 ($4.44) per share. As an unlisted company, the equity value of Minami-Kyushu Yamada was determined at ¥1,515,557 ($13,508) per share by comprehensively considering the evaluation using the comparable industry method (¥966,580 ($8,615) per share) and the net asset value per share as of the end of February 2016 (¥2,064,534 ($18,400) per share), as well as business conditions.

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 increase in capital surplus due to the transactions with non-controlling shareholders: ¥734 million ($6,540 thousand)

2) Acquisition of additional shares in Azuma Metal Co., Ltd.

I. Summary of transaction

a) Name and description of business of the target company: Azuma Metal Co., Ltd. ("Azuma Metal"), general recycling services
b) Date of business combination: August 15, 2016
c) Legal form of business combination: Acquisition of shares by investment in kind (debt equity swap)
d) Name of the company after business combination: No change to the company name
e) Other: In order to improve the financial condition of Azuma Metal, a capital increase was conducted through a debt equity swap, in which the Company's monetary receivables served as

investment in kind. Because Azuma Metal had already been a wholly owned subsidiary of the Company, the ownership ratio did not change by the acquisition of additional shares.

II. Summary of accounting applied

The transaction was accounted for as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10).

III. Matters concerning the acquisition of additional shares in subsidiary

Acquisition cost and breakdown:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Consideration for the acquisition:		
Gross book value of receivables served as investment in kind	¥ 449	$ 4,002
Allowance of doubtful accounts for the receivables served as investment in kind	-	-
Acquisition cost	¥ 449	$ 4,002

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2017 and 2016 in the consolidated statements of cash flows consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	*2017*
Cash and time deposits	¥ 35,341	¥ 31,605	$ 314,985
Time deposits with maturities exceeding three months	(359)	(940)	(3,206)
Cash and cash equivalents	¥ 34,982	¥ 30,665	$ 311,779

6. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2017 were ¥2,077 million ($18,513 thousand) and ¥2,408 million ($21,462 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2016 were ¥1,583 million and ¥1,698 million, respectively.

Other significant non-cash transactions

March 31, 2017:

The breakdown of assets acquired and liabilities assumed by Y's Select Co., Ltd., a consolidated subsidiary, as a result of the absorption-type merger with Puinpul Co., Ltd. during the year ended March 31, 2017 is as follows:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 251	$ 2,235
Non-current assets	-	-
Total assets	¥ 251	$ 2,235
Current liabilities	¥ 109	$ 973
Non-current liabilities	142	1,262
Total liabilities	¥ 251	$ 2,235

Note: Cash and cash equivalents of ¥ 78 million ($695 thousand) are included here and presented in the consolidated statements of cash flows for the year ended March 31, 2017 as "Increase in cash and cash equivalents resulting from merger of subsidiaries."

March 31, 2016:

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 is as follows:

	Millions of yen
Current assets	¥ 1,901
Non-current assets	2,884
Total assets	¥ 4,785
Current liabilities	¥ 5,635
Non-current liabilities	239
Total liabilities	¥ 5,874

Note: Cash and cash equivalents of ¥ 97 million 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. 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
Current assets	¥ 2,372
Non-current assets	551
Current liabilities	(1,803)
Non-current liabilities	(93)
Non-controlling interests	(760)
Foreign currency translation adjustments	20
Gain on sale of the shares	742
Selling price of the shares	1,029
Cash and cash equivalents	(61)
Difference: Proceeds from sale of the shares	¥ 968

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 two years and three years after the balance sheet date for the years ended March 31, 2017 and 2016, respectively.

For certain loans payable, the Company utilizes interest rate (floating for fixed rate) swaps in order to manage interest rate risk. Some of its consolidated subsidiaries utilize currency swaps and currency options in order to reduce the foreign currency risk of foreign-currency-denominated monetary assets and liabilities. The Company also uses derivatives as hedging instruments, which is described in "Derivative Transactions and Hedge Accounting" under Note 2, entitled "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES." Interest rate swap transactions entered into by the Company involve interest rate risk and currency swap and currency option transactions entered into by some of its consolidated subsidiaries involve foreign currency risk. Since the counterparties of derivative transactions are limited to highly credible domestic banks, credit risk that arises from contractual default by 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, 2017 and 2016:

	Millions of yen		
	2017		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 35,341	¥ 35,341	¥ -
(2) Notes and accounts receivable	56,868		
Allowance for doubtful accounts (*1)	(3,311)		
	53,557	53,557	-
(3) Investment securities (*2)	3,616	4,129	513
(4) Guarantee deposits (*3)			
(including current portion)	94,291		
Allowance for doubtful accounts (*1)	(41)		
	94,250	97,078	2,828
	¥ 186,764	¥ 190,105	¥ 3,341
Financial liabilities:			
(1) Notes and accounts payable	¥ 82,372	¥ 82,372	¥ -
(2) Short-term loans payable	77,155	77,155	-
(3) Bonds	100,217	98,828	(1,389)
(4) Long-term loans payable			
(including current portion)	143,643	143,318	(325)
	¥ 403,387	¥ 401,673	¥ (1,714)
Derivative transactions (*4)	¥ (13)	¥ (13)	¥ -

	Thousands of U.S. dollars (Note 1)		
	2017		
	Book value	*Fair value*	*Valuation gains/(losses)*
Financial assets:			
(1) Cash and time deposits	$ 314,985	$ 314,985	$ -
(2) Notes and accounts receivable	506,845		
Allowance for doubtful accounts (*1)	(29,507)		
	477,338	477,338	-
(3) Investment securities (*2)	32,231	36,807	4,576
(4) Guarantee deposits (*3)			
(including current portion)	840,381		
Allowance for doubtful accounts (*1)	(367)		
	840,014	865,219	25,205
	$ 1,664,568	$ 1,694,349	$ 29,781
Financial liabilities:			
(1) Notes and accounts payable	$ 734,154	$ 734,154	$ -
(2) Short-term loans payable	687,656	687,656	-
(3) Bonds	893,197	880,817	(12,380)
(4) Long-term loans payable			
(including current portion)	1,280,242	1,277,348	(2,894)
	$ 3,595,249	$ 3,579,975	$ (15,274)
Derivative transactions (*4)	$ (116)	$ (116)	$ -

	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)	¥	-

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, (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 deposits 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) Financial Instruments of which Fair Value is Virtually Impossible to Estimate

The following financial instruments 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)*
	2017	2016	*2017*
	Book value		
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 1,277	¥ 338	$ 11,378
Affiliated companies	49	11	437
(2) Available-for-sale securities			
Unlisted equity securities	232	288	2,063
Investments in LPS (*2)	13	25	119
Guarantee deposits (*3)	19,982	17,363	178,095

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			
	2017			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 35,341	¥ -	¥ -	¥ -
Notes and accounts receivable	56,868	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	-	-	-
(2) Others	13	-	-	-
Guarantee deposits (*)	6,048	24,061	20,431	43,751
Total	¥ 98,270	¥ 24,061	¥ 20,431	¥ 43,751

	Thousands of U.S. dollars (Note 1)			
	2017			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 314,985	$ -	$ -	$ -
Notes and accounts receivable	506,845	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	-	-	-
(2) Others	119	-	-	-
Guarantee deposits (*)	53,904	214,443	182,096	389,938
Total	$ 875,853	$ 214,443	$ 182,096	$ 389,938

	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

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, 2017 and 2016 were as follows:

	Millions of yen		
	2017		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 3,258	¥ 1,585	¥ 1,673
Debt securities:			
Government bonds and others (*)	493	472	21
Others	3	2	1
Sub-total	3,754	2,059	1,695
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	48	55	(7)
Sub-total	48	55	(7)
Total	¥ 3,802	¥ 2,114	¥ 1,688

	Thousands of U.S. dollars (Note 1)		
	2017		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 29,038	$ 14,128	$ 14,910
Debt securities:			
Government bonds and others (*)	4,392	4,209	183
Others	31	19	12
Sub-total	33,461	18,356	15,105
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	425	487	(62)
Sub-total	425	487	(62)
Total	$ 33,886	$ 18,843	$ 15,043

Note:

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

Unlisted equity securities of ¥232 million ($2,063 thousand) and investments in LPS of ¥13 million ($119 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		
	2016		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) 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 value) not exceeding acquisition costs:			
Equity securities	212	254	(42)
Sub-total	212	254	(42)
Total	¥ 3,568	¥ 2,313	¥ 1,255

Note:

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

Unlisted equity securities of ¥288 million and investments in LPS of ¥25 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, 2017 and 2016 were as follow:

	Millions of yen		
	2017		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 58	¥ 1	¥ -
Other	8	3	-
Total	¥ 66	¥ 4	¥ -

	Thousands of U.S. dollars (Note 1)		
	2017		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 519	$ 11	$ -
Other	74	23	-
Total	$ 593	$ 34	$ -

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

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 ¥1 million ($13 thousand) and nil, respectively, for the year ended March 31, 2017, and nil and ¥80 million, respectively, for the year ended March 31, 2016.

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, 2017 and 2016 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, 2017:						
Foreign currency forward contracts:						
Buy, call ···················	¥ 2,264	¥ -	¥ (13)	¥ (13)	$ (116)	$ (116)
Total··························			¥ (13)	¥ (13)	$ (116)	$ (116)

	Millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains
At March 31, 2016:				
Foreign currency forward contracts:				
Buy, call ···················	¥ 1,588	¥ -	¥ (86)	¥ (86)
Total··························			¥ (86)	¥ (86)

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, 2017 and 2016 were as follows:

	Millions of yen		
	Notional amount		
	Total	Over one year	Fair value
At March 31, 2017:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 66,000	¥ 32,000	¥ (*)

	Thousands of U.S. dollars (Note 1)		
	Notional amount		
	Total	*Over one year*	*Fair value*
At March 31, 2017:			
Interest rate swap contracts:			
Pay fixed, receive floating	$ 588,235	$ 285,205	$ (*)

	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	¥ (*)

(*) 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)*
	2017	2016	*2017*
Accumulated depreciation	¥ 269,025	¥ 275,628	$ 2,397,730

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 lease assets, intangible assets, and investments and other assets are set at zero. The recoverable amounts of goodwill are based on the use value, which is set at zero for the year ended March 31, 2017. Impairment of goodwill for the year ended March 31, 2016 was an amortization in accordance with 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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Buildings and structures	¥ 2,199	¥ 3,233	$ 19,598
Land	1	23	10
Lease assets	566	885	5,044
Other tangible assets	965	1,071	8,597
Intangible assets	2,202	1,607	19,623
Investments and other assets	151	962	1,350
Total	¥ 6,084	¥ 7,781	$ 54,222

Impairment losses for the year ended March 31, 2017 mainly relate to retail stores, a property for the Group's own business use, and idle assets located in Wakayama Prefecture, stores and a property for rent located in Iwate Prefecture, and common assets located in Tochigi Prefecture. 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.

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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Due within one year	¥ 11,034	¥ 11,873	$ 98,340
Due after one year	88,655	98,959	790,150
Total	¥ 99,689	¥ 110,832	$ 888,490

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within one year	¥ 245	¥ 303	$ 2,187
Due after one year	1,026	1,561	9,143
Total	¥ 1,271	¥ 1,864	$ 11,330

13. SHORT-TERM AND LONG-TERM DEBT

The weighted-average rates of interest for short-term loans payable were approximately 0.38% and 0.44% as of March 31, 2017 and 2016, respectively.

The weighted-average rates of interest for current portion of long-term loans payable were approximately 0.65% and 0.67% as of March 31, 2017 and 2016, respectively.

The weighted-average rates of interest for long-term loans payable (excluding current portion thereof) were approximately 0.58% and 0.66% as of March 31, 2017 and 2016, respectively, and long-term loans payable were due in 2018 through 2022 and 2017 through 2020 as of March 31, 2017 and 2016, 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 2.28% and 0.86% as of March 31, 2017 and 2016, respectively.

The weighted-average rates of interest for other interest bearing liabilities (long-term other payables) excluding current portion thereof were approximately 0.91% and 2.06% as of March 31, 2017 and 2016, respectively, and long-term accounts payable were due in 2018 through 2019 and 2017 through 2019 as of March 31, 2017 and 2016, respectively.

Short-term and long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Short-term loans payable	¥ 77,155	¥ 67,695	$ 687,656
Long-term loans payable (due within one year)	58,084	59,213	517,679
Lease obligations (due within one year)	2,537	2,513	22,614
Other interest bearing liabilities			
—Long-term other payable (due within one year)	838	469	7,465
Sub-total	138,614	129,890	1,235,414
Long-term loans payable (excluding amounts due within one year)	85,559	105,156	762,563
Lease obligations (excluding amounts due within one year)	11,323	11,429	100,914
Other interest bearing liabilities			
—Long-term other payable (excluding amounts due within one year)	162	1,000	1,451
Sub-total	97,044	117,585	864,928
Total	¥ 235,658	¥ 247,475	$ 2,100,342

The following assets were pledged as collateral for bank overdraft contracts and other transactions as of March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Land (*)	¥ 86	¥ 118	$ 771

(*) Pledged as collateral for customers' housing loans of ¥42 million ($374 thousand) and ¥62 million as of March 31, 2017 and 2016, respectively.

The aggregate annual maturities of long-term loans payable as of March 31, 2017 were as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥ 58,084	$ 517,679
2019	34,746	309,681
2020	27,213	242,542
2021	17,421	155,268
Thereafter	6,179	55,072
Total	¥ 143,643	$ 1,280,242

The aggregate annual maturities of finance lease obligations as of March 31, 2017 were as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥ 2,537	$ 22,614
2019	2,287	20,378
2020	2,014	17,954
2021	1,665	14,837
Thereafter	5,357	47,745
Total	¥ 13,860	$ 123,528

The aggregate annual maturities of long-term other payable as of March 31, 2017 were as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥ 838	$ 7,465
2019	156	1,394
2020	6	57
2021	-	-
Thereafter	-	-
Total	¥ 1,000	$ 8,916

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($445,633 thousand) with seven financial institutions. Under these credit facilities, no amount has been executed as of March 31, 2017 and 2016.

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, 2017 and 2016 were as follows:

	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2017	2016	*2017*	
	Conversion price per share (*1)	Outstanding balance			Conversion period
Euro yen zero coupon convertible bonds due 2019 ···········	¥ 532.20	¥ 100,217	¥ 100,317	$ 893,197	June 26, 2014 – June 14, 2019

Note:

(*1) Appropriations of retained earnings, including the year-end dividends of ¥13.00 ($0.12) per share, were approved at the General Meeting of Shareholders held on June 29, 2017. 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, 2017 from ¥532.20 ($4.74) to ¥525.70 ($4.69).

No subscription rights were exercised for the years ended March 31, 2017 and 2016.

15. INCOME TAXES

Taxes on profit consist of corporate income taxes, inhabitant taxes and enterprise taxes. The aggregate statutory tax rates on profit before income taxes were approximately 30.7% and 32.8% for the years ended March 31, 2017 and 2016, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Deferred tax assets:			
Loss on valuation of inventories	¥ 921	¥ 1,552	$ 8,209
Impairment loss	10,511	10,973	93,680
Loss on valuation of investment securities	434	468	3,871
Loss on valuation of stock of subsidiaries	2,824	2,825	25,167
Provision for bonuses	2,412	2,509	21,504
Provision for point card certificates	3,336	5,286	29,734
Net defined benefit liability	7,221	6,909	64,357
Provision for directors' retirement benefits	192	182	1,711
Provision for product warranties	3,462	3,815	30,854
Asset retirement obligations	7,511	7,540	66,942
Undetermined accrued liabilities	311	561	2,771
Consolidated subsidiaries' tax loss carry-forward	18,231	16,637	162,489
Others	8,599	9,571	76,637
Sub-total	65,965	68,828	587,926
Valuation allowance	(32,446)	(34,178)	(289,181)
Total deferred tax assets	33,519	34,650	298,745
Deferred tax liabilities:			
Unrealized gains on valuation of land	(1,673)	(1,771)	(14,910)
Loss recognized corresponding to asset retirement obligations	(5,022)	(5,269)	(44,765)
Foreign exchange gains	(1,332)	(2,631)	(11,868)
Others	(1,222)	(1,175)	(10,889)
Total deferred tax liabilities	(9,249)	(10,846)	(82,432)
Net deferred tax assets	¥ 24,270	¥ 23,804	$ 216,313

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Current assets – Deferred tax assets	¥ 9,309	¥ 12,274	$ 82,972
Investments and other assets – Deferred tax assets	16,794	13,643	149,680
Long-term liabilities – Other long-term liabilities	(1,833)	(2,113)	(16,339)

Reconciliations between the statutory income tax rate and the actual effective income tax rate, as percentage of profit before income taxes, for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Statutory income tax rate	30.7%	32.8%
Per capita inhabitants taxes	1.7	1.7
Change in valuation allowance	0.2	(4.2)
Impairment loss on goodwill	0.8	0.7
Loss on waiver of receivables due from affiliated companies	-	0.4
Effect of merger of subsidiary	-	0.9
Tax rate differences for net loss subsidiaries	1.1	2.8
Adjustments of deferred tax assets at the year end for enacted changes in tax laws and rates	0.3	2.3
Others, net	0.9	0.1
Effective income tax rate	35.7%	37.5%

16. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥16,212 million ($144,493 thousand) and ¥14,951 million to credit card companies as of March 31, 2017 and 2016, respectively.

The Group was contingently liable for the following guarantees of debt as of March 31, 2017 and 2016:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	*2017*
Guarantees of debt made to home buyers and the like ···	¥ 2,005	¥ 824	$ 17,874
Joint and several guarantees of payables to suppliers ····	78	-	695
Guarantees of debt made to employees····················	19	28	172
Joint and several guarantees of debt made to the lease contract of Azuma Metal Co., Ltd. ······················	5	16	49
Joint and several guarantees made in relation to borrowings by business partners·························	3,730	-	33,242

The discounted trade notes receivable were ¥1,010 million ($9,004 thousand) and ¥1,429 million, as of March 31, 2017 and 2016, respectively.

17. RETIREMENT BENEFITS

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.

A certain consolidated subsidiary participates in a multi-employer plan. As of March 30, 2017, the employees' pension fund for the plan applied for its dissolution upon a resolution at its board of representatives held on March 27, 2017, and obtained approval for the dissolution from the Minister of Health, Labour and Welfare as of May 30, 2017. No additional contribution for the dissolution is expected.

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 were incurred.

Defined benefit plans

(1) The changes in retirement benefit obligations for the years ended March 31, 2017 and 2016

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2017		2016		*2017*	
Beginning balance	¥	42,759	¥	42,443	$	381,095
Service costs		4,306		3,749		38,380
Interest cost		225		533		2,010
Actuarial gains and losses		(869)		1,995		(7,746)
Payment of benefit obligations		(1,364)		(1,350)		(12,155)
Prior service costs incurred during year		-		(4,759)		-
Increase by new consolidation		31		174		276
Decrease by de-consolidation		-		(26)		-
Ending balance	¥	45,088	¥	42,759	$	401,860

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

(2) Changes in pension assets for the years ended March 31, 2017 and 2016

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2017		2016		*2017*	
Beginning balance	¥	20,813	¥	20,632	$	185,499
Expected return on pension assets		420		421		3,745
Actuarial gains and losses		548		(939)		4,885
Contributions paid by the employer		1,341		1,506		11,956
Retirement benefits paid		(787)		(807)		(7,018)
Ending balance	¥	22,335	¥	20,813	$	199,067

(3) Reconciliation of retirement benefit obligations and pension assets and net defined benefit liability (asset) for the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Funded retirement benefit obligations	¥ 27,807	¥ 27,167	$ 247,835
Amount of pension assets	(22,335)	(20,813)	(199,067)
	5,472	6,354	48,768
Unfunded retirement benefit obligations	17,281	15,592	154,025
Total net defined benefit liability	¥ 22,753	¥ 21,946	$ 202,793
Net defined benefit liability	24,763	23,701	220,707
Net defined benefit asset	(2,010)	(1,755)	(17,914)
Total net defined benefit liability	¥ 22,753	¥ 21,946	$ 202,793

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Service costs (*)	¥ 4,306	¥ 3,749	$ 38,380
Interest cost	225	533	2,010
Expected return on pension assets	(420)	(421)	(3,745)
Amortization of actuarial differences	673	498	5,997
Amortization of prior service costs	(943)	(278)	(8,404)
Total net periodic retirement benefit costs	¥ 3,841	¥ 4,081	$ 34,238

Note: (*) Retirement benefit costs of certain consolidated subsidiaries calculated under the simplified method are recorded in service costs.

(5) Remeasurements of defined benefit plans for the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Prior service costs	¥ (943)	¥ 4,482	$ (8,404)
Actuarial gains and losses	2,090	(2,436)	18,628
Total	¥ 1,147	¥ 2,046	$ 10,224

(6) Accumulated remeasurements of defined benefit plans for the years ended March 31, 2017 and 2016

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2017		2016		*2017*	
Unrealized prior service costs	¥	(3,535)	¥	(4,737)	$	(31,509)
Unrealized actuarial gains and losses		(150)		2,320		(1,336)
Total	¥	(3,685)	¥	(2,417)	$	(32,845)

(7) Pension assets as of March 31, 2017 and 2016

(i) The percentages for each classification of total pension assets as of March 31, 2017 and 2016 were as follows:

	2017	2016
Bonds	30.7 %	23.6 %
Stocks	29.9	22.6
Cash and time deposits	7.7	7.7
General accounts	25.5	41.6
Others	6.2	4.5
Total	100.0	100.0

Note: Total pension assets include retirement benefit trusts established for the corporate pension plans in a percentage of 2.4% and 3.1%, as of March 31, 2017 and 2016, respectively.

(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, 2017 and 2016

	2017	2016
Principal discount rate	0.56 %	0.56 %
Long-term expected rate of return on plan assets	1.46	1.46

Note: Estimated rate of salary increase is not presented 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 ¥416 million ($3,704 thousand) and ¥430 million for the years ended March 31, 2017 and 2016, respectively.

Multi-employer plans

The required contribution amount to such multi-employer plans, which is expensed when incurred, was ¥178 million ($1,589 thousand) and ¥277 million for the years ended March 31, 2017 and 2016, respectively.

(1) Matters concerning the funded status of the entire plans as of March 31, 2016 and 2015

	Millions of yen				*Thousands of U.S. Dollars (Note 1)*	
	March 31, 2016		March 31, 2015			
Amount of pension assets	¥	48,821	¥	50,885	$	435,123
Amount of retirement benefit obligations		(55,220)		(58,699)		(492,156)
Net	¥	(6,399)	¥	(7,814)	$	(57,033)

(2) Shares of the pension fund contribution made by the Group as a percentage of the total plan for the years ended March 31, 2017 and 2016 were 14.1% and 14.5%, respectively.

(3) Supplementary explanation

The net balance presented in (1) above represents the outstanding balance of prior service costs of ¥10,101 million ($90,031 thousand) and ¥10,603 million for the years ended March 31, 2017 and 2016, 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 ¥140 million ($1,246 thousand) and ¥123 million is recognized as expense in the accompanying consolidated financial statements for the years ended March 31, 2017 and 2016, 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 2.29% with a term of 6 to 47 years.

Changes in asset retirement obligations for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Beginning balance	¥ 24,837	¥ 15,682	$ 221,365
Increase due to purchase of property and equipment	420	585	3,740
Increase due to change in estimates	-	8,481	-
Adjustments due to passage of time	341	319	3,037
Decrease due to implementation of asset retirement obligations	(803)	(177)	(7,156)
Decrease due to exchange translation of asset retirement obligations denominated in foreign currencies	(13)	(23)	(117)
Decrease due to de-consolidation	-	(30)	-
Increase due to new consolidation	5	-	45
Ending balance	¥ 24,787	¥ 24,837	$ 220,914

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 was added to the ending balance just before the change.

For the year ended March 31, 2017, there was no increase or decrease due to change in estimates.

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, 2017, the shareholders approved cash dividends amounting to ¥10,462 million ($93,248 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017 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, 2017 and 2016 were ¥328 million ($2,926 thousand) and ¥224 million, respectively.

The stock options existing during the years ended March 31, 2017 and 2016 were as follows:

Date of resolution············	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Persons granted ···············	16 directors	15 directors	14 directors	15 directors
Number of options granted expressed in number of common stock (*1)(*2) ····	483,100 shares	460,700 shares	628,900 shares	784,200 shares
Date of grant··················	July 12, 2013	July 14, 2014	July 13, 2015	July 14, 2016
Vesting condition (*3)········	Not set	Not set	Not set	Not set
Service period covered·······	Not prescribed	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	From July 15, 2016 to July 14, 2046

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, 2017 was as follows:

Date of resolution	June 27, 2013 (Shares)	June 27, 2014 (Shares)	June 26, 2015 (Shares)	June 29, 2016 (Shares)
Number of stock options expressed in number of common stock:				
Non-vested				
March 31, 2016 – Outstanding			156,700	-
Granted			-	784,200
Forfeited			-	4,200
Vested			156,700	585,700
March 31, 2017 - Outstanding			-	194,300
Vested				
March 31, 2016 – Outstanding	478,400	460,700	472,200	-
Vested	-	-	156,700	585,700
Exercised	6,200	6,200	4,300	-
Forfeited	-	-	-	-
March 31, 2017 - Outstanding	472,200	454,500	624,600	585,700

	Yen	*U.S. dollars (Note 1)*	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	¥ 1	$ 0.01
Average price at exercise date	¥ 551	$ 4.91	¥ 551	$ 4.91	¥ 551	$ 4.91	¥ -	$ -
Fair value at grant date	¥ 410.9	$ 3.66	¥ 291.0	$ 2.59	¥ 404.0	$ 3.60	¥ 452.0	$ 4.03

Notes:
(1) Figures in the above table reflect 10-for-1 stock split executed by the Company on October 1, 2013.
(2) Average price at exercise date is the average stock price of the Company at the exercise of stock options.

The fair value of stock option granted during the year ended March 31, 2017 is estimated using the Black-Scholes option pricing model with the assumptions noted in the following table:

	4th compensation-type stock option
Volatility of stock price (*1)	38.439%
Estimated remaining outstanding period (*2)	10.1 years
Estimated dividend (*3)	¥12 per share
Risk free interest rate (*4)	(0.283)%

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, 2016.
(*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.

Actual numbers of forfeited options are used to measure the number of vested options, considering the difficulty to reasonably estimate future forfeitures.

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, 2017 and 2016 were ¥1,671 million ($14,897 thousand) and ¥1,881 million, respectively.

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of "selling, general and administrative expenses" for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	*2017*
Advertising	¥ 28,716	¥ 28,702	$ 255,934
Salaries	106,149	106,990	946,064
Rent expenses	72,973	73,813	650,382
Depreciation	17,859	20,131	159,168
Point card-related promotion	41,927	45,506	373,683
Others	129,681	126,201	1,155,806
Total	¥ 397,305	¥ 401,343	$ 3,541,037

23. OTHER INCOME (EXPENSES)

(1) Loss on disaster

Loss on disaster was recognized for damages suffered as a result of the 2016 Kumamoto Earthquake, which occurred in April 2016, as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	*2017*
Damages to inventories	¥ 536	¥ -	$ 4,783
Restoration expenses and the like	555	-	4,943
Others	56	-	500
Total	¥ 1,147	¥ -	$ 10,226

(2) Loss on closing of stores

Loss on closing of stores of ¥4,389 million 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.

(3) Others, net

"Others, net" in "other income (expenses)" in the consolidated statements of income for the years ended March 31, 2017 and 2016 included the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	*2017*
Rent income	¥ 4,113	¥ 2,963	$ 36,662
Rent expenses	(3,616)	(2,317)	(32,233)
Rental expenses	(694)	(2,330)	(6,182)
Sales of electric power	1,922	1,807	17,132
Cost of sales of electric power	(787)	(829)	(7,011)
Gain on sale of non-current assets	140	104	1,246
Loss on disposal of non-current assets	(583)	(359)	(5,198)
Gain on sale of shares in subsidiaries and affiliated companies	-	742	-
Gain on sale of investment securities	1	549	11
Others, net	1,562	2,067	13,916
Total	¥ 2,058	¥ 2,397	$ 18,343

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)
	2017	2016	*2017*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 433	¥ (787)	$ 3,860
Reclassification adjustments	(2)	(520)	(19)
Valuation difference on available-for-sale securities before related tax effect	431	(1,307)	3,841
Related tax effect	(49)	266	(434)
Valuation difference on available-for-sale securities, net of taxes	382	(1,041)	3,407
Foreign currency translation adjustments:			
Amount arising during the year	1,420	767	12,655
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	1,420	767	12,655
Related tax effect	-	-	-
Foreign currency translation adjustments, net of taxes	1,420	767	12,655
Remeasurements of defined benefit plans:			
Amount arising during the year	1,417	1,826	12,631
Reclassification adjustments	(270)	220	(2,407)
Remeasurements of defined benefit plans before related tax effect	1,147	2,046	10,224
Related tax effect	(166)	(1,147)	(1,481)
Remeasurements of defined benefit plans, net of tax	981	899	8,743
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	0	(1)	0
Reclassification adjustments	-	-	-
Share of other comprehensive income of associates accounted for using equity method	0	(1)	0
Total other comprehensive income	¥ 2,783	¥ 624	$ 24,805

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, 2017 and 2016 is as follows:

	Millions of yen		
	2017		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers ···········	¥ 1,339,979	¥ 223,077	¥ 1,563,056

	Thousands of U.S. dollars (Note 1)		
	2017		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers ···········	$ 11,942,769	$ 1,988,213	$ 13,930,982

	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

Information about geographic area for the years ended March 31, 2017 and 2016 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, 2017 and 2016 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, 2017 and 2016 and related transactions for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2017	2016	*2017*
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)	¥ 87	¥ 86	$ 773
Guarantee deposits (due within one year)	146	146	1,305
Guarantee deposits	2,430	2,572	21,657
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Accounts payables	-	16	-
Shouichi Denki Co., Ltd., a subsidiary of the company owned by Shoji Orita, director, and his relatives			
Accounts payable	155	35	1,381
Other payables	31	27	276
Guarantee deposits	292	918	2,603
Accounts receivable	2	-	18
Cross Co., Ltd., 100% directly owned by Tsukasa Tokuhira, director, and his relatives:			
Other payables	0	-	4
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	968	957	8,630
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Purchases of inventories	-	123	-
Shouichi Denki Co., Ltd., a subsidiary of the Company owned by Shoji Orita, director, and his relatives			
Subcontracting construction	514	679	4,584
Freight costs	139	198	1,242
Payment of company house rent and lease and guarantee deposit	365	734	3,258
Revenue from construction contract	14	-	121
Cross Co., Ltd., 100% directly owned by Tsukasa Tokuhira, director, and his relatives:			
Human resource development costs	17	-	155

27. SUBSEQUENT EVENTS

I. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 29, 2017:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Year-end cash dividends, ¥13 ($0.12) per share ······················	¥ 10,462	$ 93,248

II. Conversion of Best Denki Co., Ltd. into a Wholly Owned Subsidiary through Share Exchange

The Company resolved at its Board of Directors meeting held on April 12, 2017 to conduct a share exchange with Best Denki Co., Ltd. (hereinafter “Best Denki”), whereby the Company becomes a wholly owning parent company and Best Denki becomes a wholly owned subsidiary (hereinafter the “Share Exchange”), and a share exchange agreement was concluded between the two parties (hereinafter the “Share Exchange Agreement”) on the same day. Best Denki has become the Company’s wholly owned subsidiary, upon having conducted the Share Exchange on July 1, 2017.

1. Summary of the Share Exchange

(1) Name and business lines of the wholly owned subsidiary resulting from a share exchange
Name of the wholly owned subsidiary: Best Denki Co., Ltd.
Business lines: Consumer electrical appliance selling business

(2) Purpose of the Share Exchange
- Optimization and maximization of value chain through consolidation of business resources
- Realization of even greater synergistic effect through unified operation of the Group

(3) Effective date of the Share Exchange
July 1, 2017

(4) Method of share exchange
The Share Exchange is a share exchange under which the Company becomes the wholly owning parent company and Best Denki becomes the wholly owned subsidiary. The procedures required for the Share Exchange at the Company were those for a simplified share exchange that does not require the approval of the general meeting of shareholders pursuant to Article 796, Paragraph 2 of the Companies Act. In addition, at Best Denki, approval of the Share Exchange Agreement was obtained at the ordinary general meeting of shareholders of Best Denki, which was held on May 25, 2017. The Share Exchange was carried out on July 1, 2017.

2. Summary of accounting to be applied

The transaction will be 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” (ASBJ Statement No. 21) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10).

3. Matters concerning the acquisition of additional shares in subsidiary

(1) Acquisition cost and breakdown by type of consideration

Consideration for the acquisition: The Company’s common stock	¥12,740 million
Acquisition cost	¥12,740 million

(2) Stock type, exchange ratio, and number of shares delivered

	The Company (wholly owning parent company)	Best Denki (wholly owned subsidiary)
Share exchange ratio	1	0.28
Number of shares delivered through the Share Exchange	Common stock: 22,832,211 shares	

The share allocation by the Share Exchange was not performed on 88,744,600 shares of Best Denki that the Company owns. In addition, the Company fully appropriated the treasury stock it owned for the shares delivered through the Share Exchange.

(3) Calculation method for the share exchange ratio

It was decided that the Company and Best Denki would request its own independent third-party valuation institution to perform the calculation of the share exchange ratio to ensure fairness and appropriateness of the Share Exchange such as the share exchange ratio stated above in (2) Stock type, exchange ratio, and number of shares delivered. The Company selected Nomura Securities Co., Ltd. and Best Denki selected Deloitte Tohmatsu Financial Advisory LLC as their respective third-party valuation institutions.

By giving careful examination based on the results of due diligence, etc. that each party respectively carried out with respect to the counterparty by reference to the calculation result of the share exchange ratio submitted to them by the respective third-party valuation institution, and by giving comprehensive consideration to other factors such as the financial and asset conditions, and future outlooks of both parties, the two parties have conducted negotiations and discussions concerning the share exchange ratio. As a result, the Company and Best Denki reached a judgment that the share exchange ratio is appropriate for the respective shareholders, and at the respective Board of Directors' meetings of both parties held on April 12, 2017, the decision was made to conduct the Share Exchange by the share exchange ratio, and both parties entered into the Share Exchange Agreement.

III. Purchase of Treasury Stock pursuant to the Provisions of the Articles of Incorporation, pursuant to the Provisions of Article 165, Paragraph 2 of the Companies Act

At a meeting of the Board of Directors held on August 3, 2017, the Company approved a resolution regarding matters involving purchases of treasury stock pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Article 165, Paragraph 3 of the same Act.

1. Reason for conducting purchase of treasury stock

In order to implement a flexible capital policy that can meet changes in the business environment and to enhance the return on profits to shareholders through improvements in capital efficiency

2. Details of matters relating to purchase

(1) Class of shares to be purchased: Common stock
(2) Total number of shares to be purchased: 40,000,000 shares (maximum)
(3) Total amount for purchase: ¥20,000 million (maximum)

There may be cases where part or all of the order cannot be executed due to market trends or other circumstances.

(4) Purchase period: August 4, 2017 to March 23, 2018
(5) Method of purchase: Open-market purchase on the Tokyo Stock Exchange

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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, 2017 and 2016, 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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, 2017 and 2016, 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, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

September 11, 2017
Tokyo, Japan