Financial Report 2018

Fiscal year ended March 31, 2018

YAMADA DENKI CO., LTD.

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OVERVIEW OF OPERATIONS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2018

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					Thousands of U.S. dollars, unless otherwise noted (Note 3)
	As of and year ended March 31					
	2014	2015	2016	2017	2018	2018
Net sales (Note 1)	1,893,972	1,664,371	1,612,736	1,563,056	1,573,873	14,810,135
Ordinary profit	50,187	35,538	62,734	66,040	47,336	445,431
Profit attributable to owners of parent	18,667	9,341	30,396	34,528	29,780	280,229
Comprehensive income	19,737	10,409	32,556	39,373	29,263	275,367
Net assets	553,354	509,398	557,722	585,548	588,740	5,540,045
Total assets	1,196,288	1,122,408	1,146,723	1,159,457	1,175,568	11,062,090
Net assets per share (yen) (Note 2)	592.17	643.04	666.03	697.47	731.57	6.88 *(dollars)*
Basic earnings per share (yen) (Note 2)	20.22	11.74	38.22	43.00	36.78	0.35 *(dollars)*
Diluted earnings per share (yen) (Note 2)	20.21	11.72	38.16	42.89	36.66	0.34 *(dollars)*
Equity ratio (%)	44.2	43.2	46.6	48.4	49.8	
Return on equity (%)	3.5	1.8	6.0	6.3	5.2	
Price earnings ratio (times)	17.01	42.18	13.92	12.91	17.35	
Cash flows from operating activities	45,148	22,983	(23)	43,856	61,689	580,498
Cash flows from investing activities	(38,607)	(20,233)	(13,437)	(15,279)	(12,668)	(119,208)
Cash flows from financing activities	(7,646)	(41,488)	4,733	(24,382)	(32,920)	(309,778)
Cash and cash equivalents at end of year	77,754	39,692	30,665	34,982	51,327	482,984
Employees (persons)	21,138	20,405	19,183	19,238	19,752	
[Average number of temporary employees not included in the above number (persons)]	[11,384]	[10,704]	[10,219]	[9,670]	[9,577]	

Notes: 1. Net sales do not include consumption tax.
2. 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, 2014.
3. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 31, 2018, which was ¥106.27 to U.S. $1.

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

Items in the text below that concern the future were determined by Yamada Denki Group (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. Furthermore, from the viewpoint of attaching the greatest importance to shareholders, we strive to increase the return on shareholders' equity (ROE).

(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.

Centering on the retail sale of electrical appliances, the Group will also focus on proposing solutions entailing residences, renovations, housing equipment, and furniture and accessories with respect to living spaces designed to be coordinated with electrical appliances. The Group will also develop and launch the new retail store format, Kaden Sumairu-kan, which combines financing and real-estate consultation with a cafe section and more. The Group will carry out renovations to change the retail store format for 100 retail stores during the year. 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, 2019, the outlook for the global economy continues to be uncertain. Although there are signs of reduced geopolitical risks stemming from North Korea, concerns are materializing regarding signs of long-term increases in interest rates backed by steady job growth in the US, and regarding trade friction between several countries. We are also watchful of economic trends in China and emerging countries.

In the Japanese economy, while there are signs of the impact of developments such as labor shortages and increased raw materials prices, the improvement in corporate earnings and economic recovery are expected to continue, backed by firm demand. Because improved employment conditions lead to a gradual recovery of real disposable income, a trend of recovery is also expected to continue for consumer spending.

The consumer electrical appliance retail market, in which the Group operates, is expected to be flat or slightly improved year on year, supported by solid demand for replacement. (By product type, demand for video equipment is expected to be firm due to the start of 4K and 8K broadcasts and the expansion of the OLED TV market. Refrigerators, washing machines and other white goods are expected to be strongly supported by replacement demand. Although more regions across Japan are forecast to be hotter than usual this summer (June to August), a pullback is expected for seasonal products including air conditioning units because the number of air conditioning units shipped in the summer of 2017 hit an all-time high and because of an excessively cold winter the previous year. There are signs that information and communication products such as personal computers and mobile phones will bottom out and are, therefore, expected to recover.)

Under this market environment, and with "Take on the Challenge of the New Stage!" as its management slogan for fiscal 2018, the Group will, continuing from the previous fiscal year, proactively work on initiatives related to the Housing Equipment Business, Financial Services Business, Support Service Business, Environmental Solutions Business, Online Shopping Mall Services Business, Mobile Business, Electrical Appliance Retail Business, Affiliate and Subsidiary Electrical Appliance Business, and Corporate Business. Furthermore, the Company will continue to promote lifestyle infrastructures (encompassing homes in their entirety) with home electrical appliances (an existing business) at the core. The Company will also focus on proposing solutions entailing residences, renovations, housing equipment, and furniture and accessories with respect to living spaces designed to be coordinated with electrical appliances. It will also develop and launch the new retail store format, Kaden Sumairu-kan, which combines financing and real-estate consultation with a cafe section and more. To change the retail store format, the Company will also renovate 100 retail stores during this year.

In addition, the Company treats "people" as the most important aspect of the Company's management. We therefore strive to train our human resources to develop their capabilities and improve the workplace environment. One initiative to achieve this is the "Next Generation Leader Development Program." Developed based on the training program to encourage management roles for our female employees the Company had been promoting, this program was launched from the standpoint that, for the purpose of achieving sustainable growth, it is important for human resource development to be without gender bias. Rather than limiting human resource development to head office operations, the Company dispatches two or more leaders — both men and women — to each store. By having these leaders join with store and department managers to formulate self-devised development plans and accumulate experience, the Company strives to develop human resources through measures that teach problem-solving techniques and enable employees to polish their skills. Under the leadership of the Human Resources Development Office, the Company will utilize the "front-line approach," a key strength of the Group, to work to achieve "improvement in productivity," "improvement in customer satisfaction and employee satisfaction," and "improvement in human resource retention rate" and promote "work-style reforms" in order to achieve an improved business performance.

The Company will aggressively conduct initiatives that leverage the Group's business resources to the maximum extent while endeavoring to enhance profitability and corporate value by continuing to implement previous initiatives such as merging with online shopping that utilizes the most of the Company's nation-wide store network and service network, and strengthening the development of semi-SPA (Specialty store retailer of Private label Apparel) merchandise.

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

3. 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 mostly in connection with opening new stores, implementing a scrap-and-build policy, or changing operations of some existing stores to "Kaden Sumairu-kan." 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 to "Kaden Sumairu-kan." 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 is intensely competitive where the societal needs continue to change reflecting development such as the anticipated declining birth rate and aging of the population, population decline, and the transition to the Internet-based society. The Group faces competition from not only large-scale consumer electronics retailers but also supermarkets, home centers, various mail-order business operators such as internet shopping companies as well as all businesses that offer products similar to those of the Group. Although the Group has a leading position in the industry, it constantly faces various forms of competition such as pricing, new store openings and customer and human resource acquisition. The Group carries out store openings to meet the needs of a wide range of customers in urban centers, suburbs, small-scale trading areas and community-based retail areas; however, owing to an unexpected fluctuation in demand for higher unit-priced durable consumer goods, the consumer electrical appliance retail industry cannot be said to be stable, and the Group is likely to 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 entry of new companies, 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. Inability to successfully adapt to such situations would adversely affect the Group's performance and financial position. In addition, the slashing of sale prices to remain competitive would lower profits.

(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.

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 its performance and financial position. The Group is engaged in the housing-related business, renovation services, etc., mostly centered on home electrical appliances classified as durable consumer goods. Hence, if there is a rise in consumption tax or local consumption tax rates due to amendment to the Consumption Tax Act, or if there is a revision to the taxation criteria and forms of taxation related to the Group's business, there would likely be temporary demand caused by a rush to beat the tax increase and then a countering lull in demand following the tax increase. If the countering lull in demand was larger than the rush in demand that preceded it, it could negatively affect the Group's performance and financial position.

(5) Economic Trends

The Group depends 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 in 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 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 as a result of the future challenges in Japan, such as the declining birth rate and aging of the population, population decline, and the transition to the Internet-based society. The weakening of disposable income and consumer spending in Japan may negatively impact sales of the Group's products, resulting in a decline in net sales. The Group's performance may also be affected when, due to an impact of the economic trends on its recruiting activities, it is not able to acquire human resources as required. 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 the 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. In addition, as most of the interior, furniture, accessories and other products are imported, factors such as the producing country's political situation, economy or currency exchange rate may also have a negative effect. 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 Group's performance 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 and Inventories

To ensure favorable performance, the Group should 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 traffic accident, product purchasing according to a preconceived plan may become unfeasible. Furthermore, if the content of inventories is changed or the absolute amount of purchasing is greatly reduced by adjusting the optimum balance of inventories among different departments as a consequence of structural reform, or if there is a strategic disposal of inventories, the Group would find it difficult to secure the level of net sales and profit initially forecasted. 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 the "HERB Relax" and "Every Phone" brand names, and 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; however, in case a problem with product quality occurs, it 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. In addition, as many of the Company's original brand products are produced overseas and imported, factors such as the producing country's political situation, economy or currency exchange rate 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.

4. MANAGEMENT ANALYSIS OF FINANCIAL POSITION, RESULTS OF OPERATIONS AND CASH FLOWS

(1) Overview of Operating Results

1) Performance

[On background of economies at home and abroad]

During the fiscal year under review, the Japanese economy remained on a path of recovery, despite signs of increased burden on consumers following price increases, as the disposable income per household did not drop below what it was in the previous year due to an increased employment rate as a result of factors including the recovery in corporate earnings, improvement in the jobs environment, and work-style reforms. However, the outlook for the Japanese economy remained unclear, underpinned by geopolitical risks in the US, Europe, and Asia and instability in financial markets.

[On the consumer electrical appliance retail industry]

The consumer electrical appliance retail market, in which the Group belongs, overall appears to be generally level despite weak performance, after the third quarter ended December 31, 2017, for core products such as televisions, refrigerators, washing machines and air conditioners, favorable performance for mobile phones due to sales of new models, and sluggish performance for computers.

[On the Company's efforts]

Under such circumstances, the Company has continued to take on various challenges geared to achieving sustainable growth and development by creating new services utilizing its Japan-wide store network and the analysis and application of big data encompassing its membership roster in excess of 60 million consumers. As a part of these efforts, the Company classified the various services provided by the Yamada Denki Group as the Housing Equipment Business, Financial Services Business, Support Service Business, Environmental Solutions Business, Online Shopping Mall Services Business, Mobile Business, Electrical Appliance Retail Business, Affiliate and Subsidiary Electrical Appliance Business, and Corporate Business. The Company strengthened and implemented separate administration for each of these businesses.

Amid these businesses, the Housing Equipment Business began newly proposing lifestyle infrastructures (encompassing homes in their entirety) with home electrical appliances (an existing business) at the core. The Company has been focusing its efforts on proposing solutions entailing residences, renovations, housing equipment, and furniture and accessories with respect to living spaces designed to be highly coordinated with electrical appliances, in addition to developing and launching the new retail store format, Kaden Sumairu-kan, which combines financing and real-estate consultation with a cafe section and more.

With respect to other initiatives, we actively engaged in efforts geared to fortifying our existing businesses and creating new businesses. For instance, we made NAKAYAMA CO., LTD. a subsidiary of the Company (through an absorption-type merger on April 1, 2018), arranged a business alliance with ASAHI EITO CO., LTD., and arranged a capital and business alliance with FOMM Corporation. These efforts also involved implementing "same-day and next-day delivery" services responding to needs of the online community by leveraging the strengths of Japan's largest network of stores, and embarking on arrangements, which were well received, with FUNAI ELECTRIC CO., LTD. involving exclusive domestic sales of FUNAI brand LCD televisions and Blu-ray Disc recorders for Japan beginning on June 2, 2017, in an effort to develop semi-SPA (Specialty store retailer of Private label Apparel) merchandise.

Meanwhile, the Company plans to carry out renovations to change the retail store format for approximately 100 retail stores to "Kaden Sumairu-kan" in the next fiscal year ending March 31, 2019. The Company switched to the future inventory lineup, the absolute amount of inventory purchases dropped significantly following attempts to find the optimum balance of inventories among different departments, and the Company carried out the strategic disposal of inventories. As a result, there was a negative effect on gross profit.

Selling, general and administrative expenses were as expected. In light of the aforementioned factors, the results of the consolidated earnings for the fiscal year ended February 28, 2018, for YAMADA SXL HOME CO., LTD., a consolidated subsidiary of the Company, and other factors, the amounts for operating profit, ordinary profit, and profit attributable to owners of parent all fell below the previous fiscal year.

[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. Details of the Group's CSR activities are available in the Yamada Denki Group Corporate Report as well as Monthly CSR Report, which are posted on the Company website (http://www.yamada-denki.jp/company_e/). 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 encompassing 26 new store openings and 11 store closures, was 970 directly-managed stores (comprising 661 stores directly managed by the Company, 161 stores managed by Best Denki Co., Ltd. and 148 stores operated by other consolidated subsidiaries). The total number of stores of the Group, including the stores managed by franchise stores, was 12,029.

[On performance summary]

As a result of the above, consolidated net sales amounted to ¥1,573,873 million, up 0.7% year on year despite variability among sectors of the consumer electrical appliance market as noted previously, particularly as a result of sales gaining support from healthy demand and the housing-related business starting to get off the ground. Gross profit amounted to ¥438,115 million, down 3.8% year on year, operating profit totaled ¥38,763 million, down 33.0% year on year, ordinary profit was ¥47,336 million, down 28.3% year on year, and profit attributable to owners of parent was ¥29,780 million, down 13.8% year on year.

2) Financial position

[Overview]

The total assets at the end of the fiscal year under review amounted to ¥1,175,568 million, up ¥16,111 million (1.4%) compared to the end of the previous fiscal year. This was mainly due to an increase in cash and time deposits.

The total liabilities amounted to ¥586,828 million, up ¥12,919 million (2.3%) compared to the end of the previous fiscal year. This was mainly due to an increase in notes and accounts payable.

Net assets amounted to ¥588,740 million, up ¥3,192 million (0.5%) compared to the end of the previous fiscal year, mainly reflecting an increase in retained earnings. As a result, the equity ratio was 49.8% (up 1.4 point from the end of the previous fiscal year).

[Summary]

During the fiscal year under review, the Company switched to the inventory lineup for the next fiscal year. The absolute amount of inventory purchases dropped significantly following attempts to find the optimum balance of inventories among different departments, and the Company carried out the strategic disposal of inventories. As a result, profit was affected. However, these initiatives led to improvement of the Company's financial composition and cash flows from operating activities, which included decreased inventories, increased cash and decreased interest-bearing debt. As such, there was an improvement in the Company's ability to generate cash flow and cash flow indicators such as the equity ratio. (For details, please refer to "(Reference) Trends in company cash flow indicators" below.)

The Company will strive to enhance its ability to generate cash flow and its financial composition by continuing to strengthen various initiatives in the next fiscal year and beyond.

3) Cash flows

As of the end of the fiscal year under review, cash and cash equivalents on a consolidated basis stood at ¥51,327 million, up ¥16,345 million (46.7%) compared with the end of the previous fiscal year.

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

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥61,689 million (¥43,856 million provided in the previous fiscal year).

This was mainly due to an increase in decrease in notes and accounts receivable, an increase in increase in notes and accounts payable, and a decrease in increase in inventories, despite profit before income taxes falling below the amount for the previous fiscal year.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥12,668 million (¥15,279 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 ¥32,920 million (¥24,382 million used in the previous fiscal year).

This was mainly due to the purchase of treasury stock.

(Reference) Trends in company cash flow indicators
As outlined above, in addition to the significant increase in net cash provided by operating activities, cash flow indicators improved following the decrease in interest-bearing debt and interest expenses paid.

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Equity ratio (%)	44.2	43.2	46.6	48.4	49.8
Market value-based equity ratio (%)	25.7	33.3	37.2	38.5	43.4
Interest-bearing debt to cash flows (year)	6.0	10.5	–	5.4	3.7
Interest coverage ratio (factor)	21.1	14.1	–	30.0	46.3

Equity ratio: equity / total assets
Market value-based equity ratio: market capitalization / total assets
Interest-bearing debt to cash flows: interest-bearing debt / operating cash flows
Interest coverage ratio: operating cash flows / paid interest

* All indicators are calculated using consolidated-based financial figures.
* Market capitalization is calculated based on the number of issued shares as of the end of the year (excluding treasury stock).
* The figure used for operating cash flows is “net cash provided by (used in) operating activities” on the consolidated statements of cash flows.
* Interest-bearing debt includes all liabilities recorded on the consolidated balance sheets on which we paid interest.
* The interest-bearing debt to cash flows and the interest coverage ratio are not presented for the fiscal year ended March 31, 2016 because cash flows from operating activities was a minus

value.

4) Sales results

a. Sales results

The Group's operating segments are "home electrical appliances and home information appliances sales business" and "other businesses." However, as "home electrical appliances and home information appliances sales business" accounts for a large portion of the Group's overall segments, the segment information for said business is immaterial as disclosure information. Therefore, the table below shows the sales amount by item.

Items	Year ended March 31, 2018		
	Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances/ home information appliances	1,322,611	84.0	(1.3)
Other products	251,262	16.0	12.6
	1,573,873	100.0	0.7

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

b. Sales per unit

	Year ended March 31, 2018	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,573,873	0.7
Sales floor space (average) - m²	2,611,754	1.1
Sales per square meter - thousands of yen	603	(0.4)
Employees (average) - persons	29,118	0.0
Sales per employee - millions of yen	54	0.7

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.

(2) Analysis and Discussion regarding Status of Operating Results, etc. from a Management Perspective

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) Recognition, analysis and discussion regarding status of operating results, etc. for the fiscal year under review

a. Operating results

Net sales and gross profit

Net sales during the fiscal year under review amounted to ¥1,573,873 million, up 0.7% year on year. Behind these results, the TV market appears to have bottomed out after prolonged stagnation due to the pullback in spending that followed the special demand from the Japanese government's "ecopoints" program for electrical appliances and the digitalization of terrestrial television, and net sales were firm from increased unit prices, despite a slump in sales volume. 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, against a backdrop of temperature variations by geographic region and other weather-related factors during the summer months and low temperatures across Japan and the coldest winter for 32 years on the western side of Japan, seasonal products performed strongly. Mobile phone sales, which had stalled partially owing to adverse effects of government requirements calling for rectification of sales practices, performed strongly due to sales of new models. Sales of computers and other products in the digital realm were sluggish, particularly with respect to tablet devices. Overall, the consumer electrical appliance market was generally at the same level as the previous year.

Furthermore, efforts to switch to the inventory lineup for the next fiscal year, significant decrease in the absolute amount of inventory purchases following attempts to find the optimum balance of inventories among different departments, and the strategic disposal of inventories affected the bottom line and the Group recorded gross profit of ¥438,115 million, down 3.8% year on year.

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 ¥399,352 million, up 0.5% year on year, and operating profit amounted to ¥38,763 million, down 33.0% year on year.

Other income for the fiscal year under review was ¥1,252 million. Impairment losses on YAMADA SXL HOME CO., LTD. and some stores were recorded.

As a result, profit before income taxes decreased by ¥16,867 million to ¥40,015 million (down 29.7%) compared with the previous fiscal year.

Total income taxes, profit, loss attributable to non-controlling interests and profit attributable to owners of parent

During the fiscal year under review, income taxes stood at ¥11,084 million, profit was ¥28,931 million and loss attributable to non-controlling interests amounted to ¥849 million.

As a result, profit attributable to owners of parent decreased by ¥4,748 million to ¥29,780 million (down 13.8%) compared with the previous fiscal year.

b. Capital resources and liquidity of funds

Cash flows

An overview of cash flows for the fiscal year under review is presented in "3) Cash flows" of "(1) Overview of Operating Results."

Funding requirements

The Group's main funding requirements are working capital and capital investments.

Working capital comprises funds used to purchase merchandise for selling as well as expenses such as selling, general and administrative expenses. Capital investments are investments carried out for new store openings, store renovations and so forth.

Financial policy

It is the Group's basic policy to allocate funds for working capital and capital investments through cash flows from operating activities, and when necessary, to take out loans from financial institutions or issue corporate bonds, and so forth.

To ensure that funds can be procured stably and efficiently, the Company has established suitably large lines of credit from financial institutions. It has entered into a ¥50 billion commitment line agreement and has established a reserve for funding requirements.

The Group generates cash flow from operating activities while further enhancing capital efficiency and improving its financial position.

c. Objective target indicators, etc. for assessing achievement of management goals

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. Inventory turnover for the fiscal year under review was 4.5 turns per year on a non-consolidated basis. The Company is continuing its efforts to improve its turnover to achieve its target.

The above-mentioned inventory turnover is a non-consolidated result, and not a consolidated result. (As the Company's consolidated subsidiaries operate businesses outside the sales of electrical appliances, the non-consolidated result is adopted as the management indicator.)

5. 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

Name of consumer credit company	Execution date	Contract period
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) Absorption-type Merger of Consolidated Subsidiary

At its meeting of the Board of Directors held on February 25, 2018, the Company resolved to carry out an absorption-type merger of its consolidated subsidiary NAKAYAMA CO., LTD. This absorption-type merger was carried out on April 1, 2018. Details are as stated in Note 29 to the consolidated financial statements, titled "SUBSEQUENT EVENTS."

(4) Conversion of Consolidated Subsidiary into a Wholly Owned Subsidiary through Simplified Share Exchange

At its Board of Directors meeting held on June 15, 2018, the Company resolved to conduct a share exchange with YAMADA SXL HOME CO., LTD., with an effective date of September 1, 2018 (scheduled), whereby the Company will become a wholly owning parent company and YAMADA SXL HOME 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 29 to the consolidated financial statements, titled "SUBSEQUENT EVENTS."

6. RESEARCH AND DEVELOPMENT

The total cost of the Group's research and development activities during the fiscal year under review was ¥448 million. Such activities were mainly research and development activities for the housing-related businesses of the subsidiaries Housetec Inc. and YAMADA SXL HOME CO., LTD.

7. 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 15 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 five full-time staff, such office engages in the auditing of daily business activities, observation of inventory count or the like, internal checks and internal auditing. Functioning in cooperation with the Audit & Supervisory Board members and the auditing firm, such as by exchanging information as necessary and the like, such office provides an audit perspective to ensure that the Company's business activities are conducted properly and efficiently.

(vii) Auditing firm

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

(viii) Number of directors and election rules

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

(ix) Others

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

2) Basic policy on internal control system

The Company has developed a system of internal control for ensuring the proper operation of its business, in accordance with the basic policy below, pursuant to the Companies Act of Japan and the Regulation 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) Each subsidiary of the Company 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 outsourcing and other transactions with Cross Co., Ltd. However, because the scale of this relationship is insubstantial and accounts for less than 0.0003% 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 Mr. 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. Mr. Somuku Iimura also serves as an outside Director at Maruha Nichiro Corporation and an outside Corporate Auditor at NACHI-FUJIKOSHI CORP. However, there is no special relationship between the Company and the entities at which he holds the significant concurrent positions. 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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
ASSETS			
Current assets:			
Cash and time deposits (Notes 7 and 9)	¥ 52,041	¥ 35,341	$ 489,705
Notes and accounts receivable (Notes 9, 18 and 28):			
- Trade	45,904	56,865	431,958
- Non-consolidated subsidiaries and affiliated companies	65	3	609
Sub-total	45,969	56,868	432,567
Inventories	383,463	379,051	3,608,381
Deferred tax assets (Note 17)	9,176	9,309	86,346
Other current assets (Notes 9 and 28)	49,868	44,630	469,260
Allowance for doubtful accounts	(1,841)	(6,714)	(17,317)
Total current assets	538,676	518,485	5,068,942
Property and equipment:			
Buildings and structures, net (Notes 12, 13 and 20)	216,556	220,476	2,037,796
Land (Notes 13 and 15)	187,827	187,895	1,767,453
Lease assets, net (Notes 12, 13 and 14)	9,559	10,355	89,949
Others, net (Notes 12 and 13)	14,126	13,540	132,921
Total property and equipment, net	428,068	432,266	4,028,119
Intangible assets (Note 13)	40,288	33,526	379,108
Investments and other assets (Note 13):			
Investment securities (Notes 9 and 10)	9,183	5,187	86,411
Long-term loans receivable	3,511	12,582	33,036
Guarantee deposits (Notes 9 and 28)	102,080	108,225	960,576
Net defined benefit asset (Note 19)	1,846	2,010	17,365
Deferred tax assets (Note 17)	17,990	16,794	169,290
Other assets	36,222	36,278	340,845
Allowance for doubtful accounts	(2,296)	(5,896)	(21,602)
Total investments and other assets	168,536	175,180	1,585,921
Total assets	¥ 1,175,568	¥ 1,159,457	$ 11,062,090

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 9 and 28)	¥ 98,551	¥ 82,372	$ 927,362
Short-term loans payable (Notes 9 and 15)	84,581	77,155	795,910
Current portion of long-term loans payable (Notes 9 and 15)	45,215	58,084	425,475
Lease obligations (Notes 14 and 15)	2,542	2,537	23,919
Income taxes payable (Note 17)	4,758	12,482	44,770
Provision for bonuses	8,456	7,601	79,568
Provision for directors' bonuses	118	124	1,114
Provision for point card certificates	7,835	10,791	73,732
Provision for warranties for completed construction	593	210	5,578
Provision for losses on liquidation of subsidiaries	303	293	2,849
Other current liabilities (Notes 15, 19 and 28)	54,269	49,599	510,674
Total current liabilities	307,221	301,248	2,890,951
Long-term liabilities:			
Bonds (Notes 9 and 16)	100,117	100,217	942,097
Long-term loans payable (Notes 9 and 15)	88,594	85,559	833,671
Lease obligations (Notes 14 and 15)	10,232	11,323	96,286
Asset retirement obligations (Note 20)	31,685	24,748	298,156
Provision for directors' retirement benefits	465	573	4,377
Provision for product warranties	9,638	11,684	90,689
Provision for losses on interest repayments	98	190	920
Provision for gift certificates, etc.	206	276	1,940
Net defined benefit liability (Note 19)	26,288	24,763	247,370
Other long-term liabilities (Notes 15 and 17)	12,284	13,328	115,588
Total long-term liabilities	279,607	272,661	2,631,094
Total liabilities	586,828	573,909	5,522,045
Contingent liabilities (Note 18)			
Net assets (Note 21):			
Common stock:			
authorized – 2,000,000,000 shares			
issued – 966,489,740 shares in 2018 and 2017	71,059	71,059	668,663
Capital surplus	84,608	73,734	796,167
Retained earnings	500,164	480,847	4,706,543
Treasury stock, at cost – 166,136,138 shares in 2018 and 161,685,281 shares in 2017	(73,704)	(67,214)	(693,559)
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities, net of taxes (Note 10)	1,854	1,222	17,450
Foreign currency translation adjustments	(815)	(486)	(7,667)
Remeasurements of defined benefit plans (Note 19)	2,352	2,162	22,128
Subscription rights to shares (Note 22)	1,153	843	10,853
Non-controlling interests	2,069	23,381	19,467
Total net assets	588,740	585,548	5,540,045
Total liabilities and net assets	¥ 1,175,568	¥ 1,159,457	$ 11,062,090

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Notes 27 and 28):			
- Trade	¥ 1,571,987	¥ 1,562,988	$ 14,792,383
- Non-consolidated subsidiaries and affiliated companies	1,886	68	17,752
Sub-total	1,573,873	1,563,056	14,810,135
Cost of sales (Notes 23 and 28)	1,135,758	1,107,856	10,687,480
Gross profit	438,115	455,200	4,122,655
Selling, general and administrative expenses (Notes 19, 24 and 28)	399,352	397,305	3,757,895
Operating profit	38,763	57,895	364,760
Other income (expenses):			
Interest income	970	1,081	9,131
Interest expenses	(1,319)	(1,452)	(12,412)
Purchase discounts	4,312	6,314	40,581
Impairment loss (Note 13)	(5,515)	(6,084)	(51,899)
Foreign exchange losses	-	(1,783)	-
Loss on disaster (Note 25)	-	(1,147)	-
Others, net (Note 25)	2,804	2,058	26,377
Total other expenses	1,252	(1,013)	11,778
Profit before income taxes	40,015	56,882	376,538
Income taxes (Note 17):			
Current	12,103	20,973	113,890
Deferred	(1,019)	(681)	(9,588)
Total income taxes	11,084	20,292	104,302
Profit	28,931	36,590	272,236
Profit attributable to non-controlling interests	(849)	2,062	(7,993)
Profit attributable to owners of parent	¥ 29,780	¥ 34,528	$ 280,229

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Basic earnings per share	¥ 36.78	¥ 43.00	$ 0.35
Diluted earnings per share	36.66	42.89	0.34
Cash dividends applicable to the year	13.00	13.00	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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	¥ 28,931	¥ 36,590	$ 272,236
Other comprehensive income (loss), net of taxes (Note 26):			
Valuation difference on available-for-sale securities	582	382	5,479
Foreign currency translation adjustments	(338)	1,420	(3,177)
Remeasurements of defined benefit plans, net of tax	88	981	829
Share of other comprehensive income of associates accounted for using equity method	0	0	0
Total other comprehensive income	332	2,783	3,131
Comprehensive income	¥ 29,263	¥ 39,373	$ 275,367
Comprehensive income attributable to:			
Owners of parent	¥ 30,273	¥ 36,970	$ 284,872
Non-controlling interests	(1,010)	2,403	(9,505)

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, 2018 and 2017

		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 10)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 19)	Subscription rights to shares (Note 22)	Non-controlling interests	Total net assets
Balance at April 1, 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
Cash dividends				(10,463)							(10,463)
Profit attributable to owners of parent				29,780							29,780
Purchase of treasury stock					(15,997)						(15,997)
Disposal of treasury stock			(2)		15						13
Purchase of shares of consolidated subsidiaries			10,876		9,492						20,368
Other changes in the year, net						632	(329)	190	310	(21,312)	(20,509)
Balance at March 31, 2018	966,490	¥ 71,059	¥ 84,608	¥ 500,164	¥ (73,704))	¥ 1,854	¥ (815)	¥ 2,352	¥ 1,153	¥ 2,069	¥ 588,740

	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 10)*	*Foreign currency translation adjustments*	*Remeasurements of defined benefit plans (Note 19)*	*Subscription rights to shares (Note 22)*	*Non-controlling interests*	*Total net Assets*
Balance at April 1, 2017	$ 668,663	$ 693,840	$ 4,524,766	$ (632,483)	$ 11,496	$ (4,570)	$ 20,342	$ 7,936	$ 220,011	$ 5,510,001
Cash dividends			(98,452)							(98,452)
Profit attributable to owners of parent			280,229							280,229
Purchase of treasury stock				(150,532)						(150,532)
Disposal of treasury stock		(19)		141						122
Purchase of shares of consolidated subsidiaries		102,346		89,315						191,661
Other changes in the year, net					5,954	(3,097)	1,786	2,917	(200,544)	(192,984)
Balance at March 31, 2018	$ 668,663	$ 796,167	$ 4,706,543	$ (693,559)	$ 17,450	$ (7,667)	$ 22,128	$ 10,853	$ 19,467	$ 5,540,045

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 40,015	¥ 56,882	$ 376,538
Depreciation	19,622	19,460	184,639
Amortization of goodwill	86	139	813
Decrease in provision for point card certificates	(2,956)	(6,281)	(27,812)
Decrease in provision for product warranties	(2,046)	(839)	(19,254)
Decrease in allowance for doubtful accounts	(2,982)	(242)	(28,061)
Increase in net defined benefit liability	1,715	1,788	16,141
Interest and dividend income	(1,088)	(1,190)	(10,236)
Interest expenses	1,319	1,452	12,412
Foreign exchange (gain) losses	(597)	1,927	(5,619)
Gain on sale of investment securities	(1)	(1)	(9)
Loss on sale and disposal of property and equipment, net	553	583	5,200
Impairment loss	5,515	6,084	51,899
Decrease in notes and accounts receivable	11,198	2,107	105,377
Increase (decrease) in advances received	687	(1,240)	6,466
Increase in inventories	(3,156)	(16,688)	(29,697)
Increase in notes and accounts payable	13,484	2,354	126,884
Increase in accounts receivable	(2,698)	(3,877)	(25,391)
Increase in consumption taxes payable	372	4,011	3,497
Decrease (increase) in other current assets	426	(59)	4,013
Increase in other current liabilities	19	560	180
Other, net	2,509	2,430	23,605
Sub-total	81,996	69,360	771,585
Interest and dividend income received	303	255	2,856
Interest expenses paid	(1,332)	(1,463)	(12,538)
Income taxes paid	(19,278)	(24,296)	(181,405)
Net cash provided by operating activities	¥ 61,689	¥ 43,856	$ 580,498

(Continued)

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2018	2017	2018
Cash flows from investing activities:			
Payments into time deposits	¥ (494)	¥ (480)	$ (4,649)
Proceeds from withdrawal of time deposits	336	1,997	3,162
Proceeds from sale of property and equipment	283	489	2,664
Proceeds from sales and redemption of investment securities	39	289	366
Payments for purchase of investment securities	(3,647)	(9)	(34,321)
Proceeds from acquisition of shares in subsidiary resulting in change in scope of consolidation	138	-	1,295
Proceeds from sale of shares in subsidiary resulting in change in scope of consolidation	540	-	5,086
Payment of loans receivable	(7,697)	(5,734)	(72,432)
Collection of loans receivable	1,390	980	13,077
Purchases of property and equipment	(10,049)	(17,456)	(94,564)
Purchases of intangible assets	(346)	(787)	(3,254)
Payments for guarantee deposits	(997)	(3,051)	(9,381)
Proceeds from collection of guarantee deposits	8,234	8,601	77,484
Purchase of investments in subsidiaries and affiliated companies	(10)	(589)	(94)
Other , net	(388)	471	(3,647)
Net cash used in investing activities	(12,668)	(15,279)	(119,208)
Cash flows from financing activities:			
Net increase in short-term loans payable	6,458	9,460	60,770
Proceeds from long-term loans payable	50,000	40,600	470,500
Repayments of long-term loans payable	(60,174)	(61,325)	(566,232)
Purchase of treasury stock	(15,997)	-	(150,529)
Proceeds from disposal of treasury stock	0	0	4
Repayments of lease obligations	(2,717)	(3,601)	(25,565)
Proceeds from sales and leasebacks	219	195	2,057
Cash dividends paid	(10,462)	(9,625)	(98,445)
Other, net	(247)	(86)	(2,338)
Net cash used in by financing activities	(32,920)	(24,382)	(309,778)
Effect of exchange rate change on cash and cash equivalents	244	(308)	2,296
Net increase in cash and cash equivalents	16,345	3,887	153,808
Cash and cash equivalents at beginning of year	34,982	30,665	329,176
Increase in cash and cash equivalents resulting from change in scope of consolidation	-	352	-
Increase in cash and cash equivalents resulting from merger of subsidiaries	-	78	-
Cash and cash equivalents at end of year (Note 7)	¥ 51,327	¥ 34,982	$ 482,984

Supplemental cash flow information (Note 8)

(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, 2018 and 2017

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, 2018, which was ¥106.27 to U.S. $1. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 33 significant subsidiaries (together, the "Group"). Best Financial Co., Ltd. has been excluded from the scope of consolidation as its liquidation was completed on June 1, 2017, but its financial results until May 31, 2017 were included in the consolidated statement of income for the year ended March 31, 2018. Yamada Eco Solution Co., Ltd. has also been excluded from the scope of consolidation because all of its shares were sold. In addition, the Company acquired 100% of the issued shares of NAKAYAMA CO., LTD., making the said company and its two subsidiaries into consolidated subsidiaries of the Company as of November 30, 2017.

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 3 to 15 years.

The fiscal year-ends of six foreign consolidated subsidiaries and one domestic consolidated subsidiary are at the end of December. That of all other consolidated subsidiaries are at the end of February. The financial statements of these subsidiaries as of and for the years ended December 31, 2017 and 2016 or February 28, 2018 and 2017, 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. ACCOUNTING STANDARDS AND GUIDANCE ISSUED BUT NOT YET APPLIED

・"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, revision on February 16, 2018)
・"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, final revision on February 16, 2018)

a) Outline:
The "Implementation Guidance on Tax Effect Accounting" and "Implementation Guidance on Recoverability of Deferred Tax Assets" adhere fundamentally to the previous contents and made the following revisions that were deemed necessary, on the occasion of transferring the practical guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants to the ASBJ.

(Major accounting treatments revised)

- Accounting treatment of taxable temporary difference pertaining to subsidiaries' shares, etc. in non-consolidated financial statements
- Accounting treatment of recoverability of deferred tax assets in companies that fall under "Category 1"

b) Planned date of application:
To be applied from the beginning of the fiscal year ending March 31, 2019.

c) Impact of application of the accounting guidance:
The impact of the application of the "Implementation guidance on Tax Effect Accounting" and "Implementation Guidance on Recoverability of Deferred Tax Assets" on the Company's consolidated financial statements is currently being evaluated.

・"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
・"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

a) Outline:
The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition and published the "Revenue from Contracts with Customers" (IFRS 15 for the IASB and Topic 606 for the FASB) in May 2014. IFRS 15 is effective for fiscal years beginning on or after January 1, 2018 and Topic 606 is effective for fiscal years beginning after December 15, 2017. Given these circumstances, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them with the implementation guidance thereon.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to set such accounting standards by adopting the basic principles of IFRS 15 as a starting point, from the viewpoint of comparability among financial statements, which is one of benefits of ensuring consistency with IFRS 15, and to additionally provide for alternative accounting treatment to the extent that it would not impair comparability, if there is an item to be taken into consideration in practices that have been conducted in Japan.

b) Planned date of application:
To be applied from the beginning of the fiscal year ending March 31, 2022.

c) Impact of application of the accounting standards:
The impact of the application of the "Accounting Standard for Revenue Recognition" and the "Implementation Guidance on Accounting Standard for Revenue Recognition" on the Company's consolidated financial statements is currently being evaluated.

4. CHANGE IN PRESENTATION

Consolidated Statements of Cash flows

"Payments for purchase of investment securities", which was previously included in "Other" in "Cash flows from investing activities," is now presented individually since its materiality in amount has increased. Comparative figures have been restated to reflect this change. As a result, for the year ended March 31, 2017, ¥462 million previously included in "Other" has been reclassified into ¥(9) million in "Payments for purchase of investment securities" and ¥471 million in "Other."

5. CHANGE IN ACCOUNTING ESTIMATE

Change in estimate for Asset Retirement Obligations

For the year ended March 31, 2018, 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 ¥6,537 million ($61,511 thousand) was added to the ending balance just before the change.

As the change was made as of the end of the current fiscal year, it had no effect on the results of operations for the year.

6. BUSINESS COMBINATIONS

Business Divestiture

Share Transfer of Yamada Eco Solution, Co., Ltd.

Effective on April 20, 2017, the Company transferred all the shares of Yamada Eco Solution, Co., Ltd. (hereinafter "Yamada Eco Solution"), which was a consolidated subsidiary in the previous fiscal year. As a result, Yamada Eco Solution has been excluded from the scope of consolidation from the fiscal year ended March 31, 2018.

I. Summary of business divestiture
   a) Name of the buyer: Mr. Masato OKADA
   b) Business lines of the divested subsidiary: Delivery and installation of products
   c) Main reason for business divestiture:
      The officers of Yamada Eco Solution made a request seeking independent management, and the Company transferred its entire shareholdings as part of the Group's reorganization.
   d) Date of business divestiture: April 20, 2017
   e) Other matters relating to the transaction, including the legal form of business divestiture:
      Business transfer with the consideration in cash or so forth assets only

II. Summary of accounting applied
   a) Amount of loss on the share transfer: ¥2 million ($ 17 thousand).
   b) Book values and breakdown of the assets and liabilities of the business transferred:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 1,472	$ 13,852
Non-current assets	1,727	16,253
Total assets	¥ 3,199	$ 30,105
Current liabilities	¥ 1,528	$ 14,382
Non-current liabilities	748	7,038
Total liabilities	¥ 2,276	$ 21,420

c) Accounting treatment:
The difference between the fair value of the assets received as consideration for the transferred shares and the net book value of the transferred shares on consolidation basis was recognized as loss on transfer.

III. Name of reportable segment in which the divested business was included:
Home electrical appliances and home information appliances sales business

IV. Approximate amounts of profit or loss of the divested business included in the consolidated statement of income for the year ended March 31, 2018:
Because the business divestiture was carried out with a date of sale at the beginning of the current fiscal year, operations of the divested business have not been included in the consolidated statement of income for the year ended March 31, 2018.

Transactions under common control

1) 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 became a wholly owning parent company and Best Denki became a wholly owned subsidiary (hereinafter the “Share Exchange”). The Share Exchange was conducted on July 1, 2017.

1. Summary of transaction

a) Name and business lines of the target company
Name of the company: Best Denki Co., Ltd.
Business lines: Consumer electrical appliance selling business
b) Date of the business combination
July 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 matters relating to the transaction
The aim of this transaction was optimization and maximization of the value chain through the consolidation of business resources and the realization of greater synergistic effects through unified operation of the Group.

2. 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).

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 ($119,887 thousand)
Acquisition cost	¥12,740 million ($119,887 thousand)

(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 calculate 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. 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.

(4) 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:
      ¥10,877 million ($102,348 thousand)

Business combination through acquisition

1) Conversion of NAKAYAMA CO., LTD. into a wholly owned subsidiary through share acquisition

Based on a resolution of the Board of Directors meeting held on November 8, 2017 to acquire all the shares of NAKAYAMA CO., LTD. (Headquarter: Ageo City, Saitama Prefecture; President and representative director: Yoshimi Nakayama; hereinafter "NAKAYAMA"), making it into a subsidiary, the Company executed the acquisition as of November 30, 2017.

1. Summary of the business combination
   a) Name and business lines of the acquired company
      Name of the company: NAKAYAMA
      Business lines: home renovation, architectural design management, housing materials manufacturing, equipment manufacturing and CG/CAD services

   b) Main reasons for the business combination
      The Group, as an IoT business with the largest service network in Japan, has continued to take on various challenges geared to achieving sustainable growth and development ahead, forging ahead with developing new business areas, primarily in consumer electrical appliance sales, and structural reforms to strengthen what we offer by going from physical product to intangible services, and physical products plus intangible services by developing services that meet customer needs "From Cradle to Grave." One of these initiatives is the "Smart House Renovation" business. In June 2017, the Group launched a new format of stores based on the concept of "stores that provide solutions for achieving total coordination of everything "from

Home Electrical Appliances to Comfortable Living Environment" (as of November 8, 2017: six stores), and is vigorously engaging in initiatives to maximize utilization of the Group's management resources. Such initiatives include smart house proposals through the Company's subsidiaries, YAMADA SXL HOME CO., LTD. (First section of Tokyo Stock Exchange: cord #1919) and Yamada Wood House Co, Ltd. and the expansion of new B-to-B and B-to-C demand through the roll-out of housing equipment manufacturer Housetec Inc. (hereinafter "Housetec") showrooms in the Company's stores.

NAKAYAMA achieves high quality as a renovation manufacturer through offering development and manufacture of products, sales, operation and after-sales services, comprehensively, and it has drawn attention from outside the industry for its operations that go above and beyond industry practices and conventions. Furthermore, NAKAYAMA ranks among the top independent specialized renovation companies nationwide, with its approximately 100 directly operated stores around Japan, five national logistics sites, one domestic factory and one overseas factory. It offers home improvement construction and architectural design and management, and makes effort to improve customer satisfaction so that its reputation spreads through word of mouth, based on its motto of "Easy living, easy price."

As stated in its press release, titled "Yamada Denki Announces Business Alliance with NAKAYAMA" published on February 2, 2017, the Company resolved on February 2, 2017 to enter into a business alliance agreement with NAKAYAMA with a view to forming a capital alliance in the future, thereby drawing on the strengths and know-how of both companies to promote initiatives in the "Smart House Renovation" business as follows:

1) Expansion taking advantage of the original product strengths possessed by Housetech and NAKAYAMA
2) Adoption of NAKAYAMA's building materials and equipment
3) Utilization of information on new home sales
4) Strengthening of proposal capabilities through the utilization of NAKAYAMA's "CG/CAD Panorama & CG Simulation System"
5) Use of the Yamada Denki Group's renovation finance loans
6) Joint development of original products
7) Streamlining of logistics operation
8) Optimization and maximization of marketing through joint sales promotions, etc.
9) Joint development of new business style
10) Collaboration on manufacturing between Housetech and NAKAYAMA

The Company has acquired all the shares of NAKAYAMA with the objective of further reinforcing the alliance relationship, including developing the operations and boosting profitability of both companies to flexibly respond to the rapidly changing social environment and consumer needs, such as the declining birth rate, the aging of society, decreasing population, and the transition to an Internet society.

c) Date of business combination
November 30, 2017

d) Legal form of business combination
Acquisition of shares

e) Name of the acquired company after business combination
No change to the company name

f) Acquired voting rights ratio
100%

g) Main reason for the determination of the acquired company
The Company acquired 100% of the voting rights of NAKAYAMA for a cash consideration, thereby making it a wholly owned subsidiary.

2. The period of financial results of the acquired company included in the Company's consolidated financial statements:

From December 1, 2017 to December 31, 2017

3. Acquisition cost and breakdown by type of consideration:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for the acquisition:		
Cash	¥ 0	$ 0
Acquisition cost	¥ 0	$ 0

4. Details and amount of major expenses for the acquisition:
Due diligence and advisory expenses: ¥34 million ($318 thousand)

5. Amount of goodwill, reason for generation of goodwill, and method and period of amortization:
(1) Amount of goodwill: ¥6,951 million ($65,408 thousand)
(2) Reason for generation of goodwill: Future excess earning power expected to derive from business development going forward
(3) Method and period of amortization: Straight-line method over 15 years

6. Amount and breakdown of assets acquired and liabilities assumed on the date of business combination:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 2,994	$ 28,172
Non-current assets	3,759	35,373
Total assets	¥ 6,753	$ 63,545
Current liabilities	¥ 9,020	$ 84,882
Non-current liabilities	4,239	39,885
Total liabilities	¥ 13,259	$ 124,767

7. The approximate amount of the impact of the business combination on the consolidated statement of income for the current fiscal year assuming the business combination was completed on the beginning date of the current fiscal year and the calculation method

Omitted as the approximate amount of the impact is not material.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2018 and 2017 in the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Cash and time deposits	¥ 52,041	¥ 35,341	$ 489,705
Time deposits with maturities exceeding three months	(714)	(359)	(6,721)
Cash and cash equivalents	¥ 51,327	¥ 34,982	$ 482,984

8. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2018 were ¥1,605 million ($15,102 thousand) and ¥1,756 million ($16,529 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2017 were ¥2,077 million and ¥2,408 million, respectively.

Assets retirement obligations for the year ended March 31, 2018 and 2017 were ¥7,083 million ($66,653 thousand) and ¥760 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	
Current assets	¥	251
Non-current assets		-
Total assets	¥	251
Current liabilities	¥	109
Non-current liabilities		142
Total liabilities	¥	251

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

Acquisition of shares in newly consolidated subsidiary with change in scope of consolidation

As a result of the acquisition of shares of NAKAYAMA, during the year ended March 31, 2018, NAKAYAMA was included in the scope of consolidation. The breakdown of the assets and liabilities at the initial consolidation and the acquisition price and proceeds from the acquisition are as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
Current assets	¥	2,994	$	28,172
Non-current assets		3,759		35,373
Goodwill		6,951		65,408
Current liabilities		(9,020)		(84,882)
Non-current liabilities		(4,239)		(39,885)
Non-controlling interests		(445)		(4,186)
Acquisition price of the shares		0		0
Cash and cash equivalents		(138)		(1,295)
Difference: Proceeds from acquisition of the shares	¥	138	$	1,295

Sale of shares in subsidiary with change in scope of consolidation

As a result of the sale of shares in the subsidiary, Yamada Eco Solution, during the year ended March 31, 2018, Yamada Eco Solution 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	*Thousands of U.S. dollars (Note 1)*
Current assets	¥ 1,472	$ 13,852
Non-current assets	1,727	16,253
Current liabilities	(1,528)	(14,382)
Non-current liabilities	(748)	(7,038)
Non-controlling interests	(276)	(2,599)
Valuation difference on available-for-sale securities	(1)	(5)
Loss on sale of the shares	(2)	(17)
Selling price of the shares	644	6,064
Cash and cash equivalents	(104)	(978)
Difference: Proceeds from sale of the shares	¥ 540	$ 5,086

9. 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 one year and two years after the balance sheet date for the years ended March 31, 2018 and 2017, 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 11, 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, 2018 and 2017:

	Millions of yen		
	2018		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 52,041	¥ 52,041	¥ -
(2) Notes and accounts receivable	45,969		
Allowance for doubtful accounts (*1)	(159)		
	45,810	45,810	-
(3) Investment securities (*2)	7,007	7,340	333
(4) Guarantee deposits (*3) (including current portion)	88,108		
Allowance for doubtful accounts (*1)	(38)		
	88,070	90,558	2,488
	¥ 192,928	¥ 195,749	¥ 2,821
Financial liabilities:			
(1) Notes and accounts payable	¥ 98,551	¥ 98,551	¥ -
(2) Short-term loans payable	84,581	84,581	-
(3) Bonds	100,117	99,287	(830)
(4) Long-term loans payable (including current portion)	133,809	133,356	(453)
	¥ 417,058	¥ 415,775	¥ (1,283)
Derivative transactions (*4)	¥ (98)	¥ (98)	¥ -

	Thousands of U.S. dollars (Note 1)		
	2018		
	Book value	*Fair value*	*Valuation gains/(losses)*
Financial assets:			
(1) Cash and time deposits	$ 489,705	$ 489,705	$ -
(2) Notes and accounts receivable	432,567		
Allowance for doubtful accounts (*1)	(1,494)		
	431,073	431,073	-
(3) Investment securities (*2)	65,934	69,072	3,138
(4) Guarantee deposits (*3) (including current portion)	829,096		
Allowance for doubtful accounts (*1)	(354)		
	828,742	852,151	23,409
	$ 1,815,454	$ 1,842,001	$ 26,547
Financial liabilities:			
(1) Notes and accounts payable	$ 927,362	$ 927,362	$ -
(2) Short-term loans payable	795,910	795,910	-
(3) Bonds	942,097	934,293	(7,804)
(4) Long-term loans payable (including current portion)	1,259,146	1,254,877	(4,269)
	$ 3,924,515	$ 3,912,442	$ (12,073)
Derivative transactions (*4)	$ (924)	$ (924)	$ -

	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)	¥ -

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 10, 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 10, 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 11, 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)*
	2018	2017	*2018*
	Book value		
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 805	¥ 1,277	$ 7,569
Affiliated companies	61	49	577
(2) Available-for-sale securities			
Unlisted equity securities	1,310	232	12,329
Investments in LPS (*2)	0	13	2
Guarantee deposits (*3)	19,638	19,982	184,792

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 redemption schedule of monetary claims and securities with fixed maturities were as follows:

	Millions of yen			
	2018			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 52,041	¥ -	¥ -	¥ -
Notes and accounts receivable	45,969	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	-	-	-
(2) Others	-	-	-	-
Guarantee deposits (*)	5,666	23,422	20,390	38,630
Total	¥ 103,676	¥ 23,422	¥ 20,390	¥ 38,630

	Thousands of U.S. dollars (Note 1)			
	2018			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 489,705	$ -	$ -	$ -
Notes and accounts receivable	432,567	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	-	-	-
(2) Others	2	-	-	-
Guarantee deposits (*)	53,312	220,400	191,873	363,511
Total	$ 975,586	$ 220,400	$ 191,873	$ 363,511

	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				
(3) Debt securities				
(Corporate bonds)	-	-	-	-
(4) Others	13	-	-	-
Guarantee deposits (*)	6,048	24,061	20,431	43,751
Total	¥ 98,270	¥ 24,061	¥ 20,431	¥ 43,751

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 15, entitled "SHORT-TERM AND LONG-TERM DEBT," and Note 16, entitled "CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES," respectively.

10. SECURITIES INFORMATION

The acquisition costs and book values of Available-for-sale Securities with available fair values as of March 31, 2018 and 2017 were as follows:

	Millions of yen		
	2018		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 5,763	¥ 3,230	¥ 2,533
Debt securities:			
Government bonds and others (*)	487	474	13
Sub-total	6,250	3,704	2,546
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	921	975	(54)
Sub-total	921	975	(54)
Total	¥ 7,171	¥ 4,679	¥ 2,492

	Thousands of U.S. dollars (Note 1)		
	2018		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 54,230	$ 30,395	$ 23,835
Debt securities:			
Government bonds and others (*)	4,589	4,460	129
Sub-total	58,819	34,855	23,964
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	8,664	9,174	(510)
Sub-total	8,664	9,174	(510)
Total	$ 67,483	$ 44,029	$ 23,454

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 ¥1,310 million ($12,329 thousand) and investments in LPS of ¥0 million ($2 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					
	2017					
	Book value		Acquisition cost		Difference	
Securities with book values (fair value) 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 value) not exceeding acquisition costs:						
Equity securities		48		55		(7)
Sub-total		48		55		(7)
Total	¥	3,802	¥	2,114	¥	1,688

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 and investments in LPS of ¥13 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, 2018 and 2017 were as follow:

	Millions of yen					
	2018					
	Sales amounts		Gain on sale		Loss on sale	
Equity securities	¥	648	¥	1	¥	(2)
Other		-		-		-
Total	¥	648	¥	1	¥	(2)

	Thousands of U.S. dollars (Note 1)					
	2018					
	Sales amounts		*Gain on sale*		*Loss on sale*	
Equity securities	$	6,101	$	9	$	(17)
Other		-		-		-
Total	$	6,101	$	9	$	(17)

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

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

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

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

Loss on valuation of marketable Available-for-sale Securities and investments in non-consolidated subsidiaries and affiliated companies were nil and ¥449 million ($4,225 thousand), respectively, for the year ended March 31, 2018, and ¥1 million and nil, respectively, for the year ended March 31, 2017.

11. 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, 2018 and 2017 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, 2018:						
Foreign currency forward contracts:						
Buy, call ………………	¥ 2,955	¥ -	¥ (98)	¥ (98)	$ (924)	$ (924)
Total……………………			¥ (98)	¥ (98)	$ (924)	$ (924)

	Millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized losses
At March 31, 2017:				
Foreign currency forward contracts:				
Buy, call ………………	¥ 2,264	¥ -	¥ (13)	¥ (13)
Total……………………			¥ (13)	¥ (13)

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, 2018 and 2017 were as follows:

	Millions of yen					
	Notional amount					
	Total		Over one year		Fair value	
At March 31, 2018:						
Interest rate swap contracts:						
Pay fixed, receive floating	¥	70,000	¥	44,000	¥	(*)

	Thousands of U.S. dollars (Note 1)					
	Notional amount					
	Total		*Over one year*		*Fair value*	
At March 31, 2018:						
Interest rate swap contracts:						
Pay fixed, receive floating	$	658,700	$	414,040	$	(*)

	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	¥	(*)

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

12. ACCUMULATED DEPRECIATION ON PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2018	2017	*2018*
Accumulated depreciation	¥ 287,660	¥ 269,025	$ 2,706,882

13. 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 were based on the use value, which was set at zero for the year ended March 31, 2017.

The summary of impairment losses recorded for the fiscal years ended March 31, 2018 and 2017 is as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Buildings and structures	¥	3,918	¥	2,199	$	36,873
Land		-		1		-
Lease assets		262		566		2,468
Other tangible assets		779		965		7,326
Intangible assets		230		2,202		2,163
Investments and other assets		326		151		3,069
Total	¥	5,515	¥	6,084	$	51,899

Impairment losses for the year ended March 31, 2018 mainly relate to retail stores and a property for the Group's own business use located in Tokyo, stores and a property for rent located in Oita Prefecture. 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, common assets located in Tochigi Prefecture, and goodwill.

14. 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, 2018 and 2017 were as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Due within one year	¥	12,762	¥	11,034	$	120,086
Due after one year		83,435		88,655		785,123
Total	¥	96,197	¥	99,689	$	905,209

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Due within one year	¥	230	¥	245	$	2,168
Due after one year		796		1,026		7,485
Total	¥	1,026	¥	1,271	$	9,653

15. SHORT-TERM AND LONG-TERM DEBT

The weighted-average rates of interest for short-term loans payable were approximately 0.43% and 0.38% as of March 31, 2018 and 2017, respectively.

The weighted-average rates of interest for the current portion of long-term loans payable were approximately 0.64% and 0.65% as of March 31, 2018 and 2017, respectively.

The weighted-average rates of interest for long-term loans payable (excluding the current portion thereof) were approximately 0.57% and 0.58% as of March 31, 2018 and 2017, respectively. The long-term loans payable were due in 2019 through 2023 and 2018 through 2022 as of March 31, 2018 and 2017, 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 the current portion of other interest-bearing liabilities (the current portion of long-term other payables) were approximately 0.84% and 2.28% as of March 31, 2018 and 2017, respectively.

The weighted-average rates of interest for other interest-bearing liabilities (long-term other payables) excluding the current portion thereof were approximately 2.73% and 0.91% as of March 31, 2018 and 2017, respectively. The long-term accounts payable were due in 2019 and 2018 through 2019 as of March 31, 2018 and 2017, respectively.

The short-term and long-term debt as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Short-term loans payable	¥	84,581	¥	77,155	$	795,910
Long-term loans payable (due within one year)		45,215		58,084		425,475
Lease obligations (due within one year)		2,542		2,537		23,919
Other interest-bearing liabilities						
—Long-term other payables (due within one year)		157		838		1,472
Sub-total		132,495		138,614		1,246,776
Long-term loans payable (excluding amounts due within one year)		88,594		85,559		833,671
Lease obligations (excluding amounts due within one year)		10,232		11,323		96,286
Other interest-bearing liabilities						
—Long-term other payables (excluding amounts due within one year)		6		162		59
Sub-total		98,832		97,044		930,016
Total	¥	231,327	¥	235,658	$	2,176,792

The following assets were pledged as collateral for the below listed liabilities as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Cash and bank deposits	¥ 220	¥ -	$ 2,074
Materials and supplies	625	-	5,877
Buildings and structures, net (*2)	1,414	-	13,303
Land (*1) (*2)	781	86	7,354
Investment securities	5	-	43
Guarantee deposits	11	-	108
Total	¥ 3,056	¥ 86	$ 28,759

(*1) Land of ¥86 million ($814 thousand) was pledged as collateral for customers' housing loans of ¥35 million ($333 thousand) and ¥42 million as of March 31, 2018 and 2017, respectively.
(*2) Land of ¥107 million ($1,006 thousand) and buildings and structures, net, of ¥23 million ($221 thousand) was pledged as a revolving mortgage with the maximum amount of ¥1,200 million ($11,292 thousand).

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Short-term loans payable	¥ 1,866	¥ -	$ 17,562
Current portion of long-term loans payable	235	-	2,206
Long-term loans payable	260	-	2,447
Total	¥ 2,361	¥ -	$ 22,215

The aggregate annual maturities of long-term loans payable as of March 31, 2018 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2019	¥ 45,215	$ 425,475
2020	37,286	350,859
2021	27,302	256,916
2022	15,944	150,033
Thereafter	8,062	75,863
Total	¥ 133,809	$ 1,259,146

The aggregate annual maturities of finance lease obligations as of March 31, 2018 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2019	¥ 2,542	$ 23,919
2020	2,318	21,818
2021	1,946	18,309
2022	1,580	14,868
Thereafter	4,388	41,291
Total	¥ 12,774	$ 120,205

The aggregate annual maturities of long-term other payable as of March 31, 2018 were as follows:

Fiscal year ending March 31,	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
2019	¥	157	$	1,472
2020		6		59
2021		-		-
2022		-		-
Thereafter		-		-
Total	¥	163	$	1,531

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($470,500 thousand) with seven financial institutions. Under these credit facilities, no amount has been executed as of March 31, 2018 and 2017.

16. 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, 2018 and 2017 were as follows:

	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2018	2017	*2018*	
	Conversion price per share (*1)	Outstanding balance			Conversion period
Euro yen zero coupon convertible bonds due 2019 ··········	¥ 525.70	¥ 100,117	¥ 100,217	$ 942,097	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 28, 2018. 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, 2018 from ¥525.70 ($4.95) to ¥520.00 ($4.89).

No subscription rights were exercised for the years ended March 31, 2018 and 2017.

17. 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% for the years ended March 31, 2018 and 2017.

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Deferred tax assets:			
Loss on valuation of inventories	¥ 1,075	¥ 921	$ 10,112
Impairment loss	11,407	10,511	107,342
Loss on valuation of investment securities	370	434	3,486
Loss on valuation of stock of subsidiaries	1,260	2,824	11,856
Provision for bonuses	2,605	2,412	24,517
Provision for point card certificates	2,404	3,336	22,624
Net defined benefit liability	7,509	7,221	70,662
Provision for directors' retirement benefits	154	192	1,448
Provision for product warranties	2,958	3,462	27,833
Asset retirement obligations	9,501	7,511	89,399
Undetermined accrued liabilities	304	311	2,861
Consolidated subsidiaries' tax loss carry-forward	21,339	18,231	200,799
Others	7,034	8,599	66,190
Sub-total	67,920	65,965	639,129
Valuation allowance	(33,092)	(32,446)	(311,396)
Total deferred tax assets	34,828	33,519	327,733
Deferred tax liabilities:			
Unrealized gains on valuation of land	(116)	(1,673)	(1,093)
Loss recognized corresponding to asset retirement obligations	(6,712)	(5,022)	(63,162)
Foreign exchange gains	-	(1,332)	-
Others	(2,710)	(1,222)	(25,503)
Total deferred tax liabilities	(9,538)	(9,249)	(89,758)
Net deferred tax assets	¥ 25,290	¥ 24,270	$ 237,975

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Current assets – Deferred tax assets	¥ 9,176	¥ 9,309	$ 86,346
Investments and other assets – Deferred tax assets	17,991	16,794	169,290
Long-term liabilities – Other long-term liabilities	(1,877)	(1,833)	(17,661)

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, 2018 and 2017 were as follows:

	2018	2017
Statutory income tax rate	30.7%	30.7%
Per capita inhabitants taxes	2.4	1.7
Change in valuation allowance	(5.8)	0.2
Impairment loss on goodwill	-	0.8
Tax rate differences for net loss subsidiaries	0.4	1.1
Adjustments of deferred tax assets at the year end for enacted changes in tax laws and rates	-	0.3
Others, net	0.0	0.9
Effective income tax rate	27.7%	35.7%

18. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥13,843 million ($130,264 thousand) and ¥16,212 million to credit card companies as of March 31, 2018 and 2017, respectively.

The Group was contingently liable for the following guarantees of debt as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Guarantees of debt made to home buyers and the like	¥ 3,007	¥ 2,005	$ 28,294
Joint and several guarantees of payables to suppliers	249	78	2,344
Guarantees of debt made to employees	14	19	135
Joint and several guarantees of debt made to the lease contract of Azuma Metal Co., Ltd.	1	5	13
Joint and several guarantees made in relation to borrowings by business partners	-	3,730	-

The discounted trade notes receivable were ¥862 million ($8,107 thousand) and ¥1,010 million, as of March 31, 2018 and 2017, respectively.

19. 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 (YAMADA SXL HOME CO., LTD.) participates in a multi-employer plan. For such plan, as the portion of pension assets belonging to the multi-employer pension plan could not be reasonably calculated, the required contribution amount is recognized as retirement benefit expenses.

The Osaka Kenchiku pension fund, in which a certain consolidated subsidiary participates, obtained approval for dissolution from the Minister of Health, Labor and Welfare and dissolved as of May 31, 2017.

Defined benefit plans

(1) The changes in retirement benefit obligations for the years ended March 31, 2018 and 2017

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Beginning balance	¥	45,089	¥	42,759	$	424,284
Service costs		4,623		4,306		43,500
Interest cost		249		225		2,341
Actuarial gains		(568)		(869)		(5,349)
Payment of benefit obligations		(1,593)		(1,364)		(14,987)
Increase by new consolidation		59		31		560
Ending balance	¥	47,859	¥	45,088	$	450,349

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

(2) Changes in pension assets for the years ended March 31, 2018 and 2017

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Beginning balance	¥	22,335	¥	20,813	$	210,175
Expected return on pension assets		446		420		4,198
Actuarial gains		295		548		2,771
Contributions paid by the employer		1,304		1,341		12,270
Retirement benefits paid		(964)		(787)		(9,070)
Ending balance	¥	23,416	¥	22,335	$	220,344

(3) Reconciliation of retirement benefit obligations and pension assets and net defined benefit liability (asset) for the years ended March 31, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2018		2017		*2018*	
Funded retirement benefit obligations	¥	25,999	¥	27,807	$	244,650
Amount of pension assets		(23,416)		(22,335)		(220,344)
		2,583		5,472		24,306
Unfunded retirement benefit obligations		21,860		17,281		205,699
Total net defined benefit liability	¥	24,443	¥	22,753	$	230,005
Net defined benefit liability		26,288		24,763		247,370
Net defined benefit asset		(1,845)		(2,010)		(17,365)
Total net defined benefit liability	¥	24,443	¥	22,753	$	230,005

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, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2018		2017		*2018*	
Service costs (*)	¥	4,623	¥	4,306	$	43,500
Interest cost		249		225		2,341
Expected return on pension assets		(446)		(420)		(4,198)
Amortization of actuarial differences		(61)		673		(571)
Amortization of prior service costs		(930)		(943)		(8,757)
Total net periodic retirement benefit costs	¥	3,435	¥	3,841	$	32,315

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, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2018		2017		*2018*	
Prior service costs	¥	(931)	¥	(943)	$	(8,757)
Actuarial gains and losses		803		2,090		7,549
Total	¥	(128)	¥	1,147	$	(1,208)

(6) Accumulated remeasurements of defined benefit plans for the years ended March 31, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2018		2017		*2018*	
Unrealized prior service costs	¥	(2,605)	¥	(3,535)	$	(24,509)
Unrealized actuarial gains and losses		(904)		(150)		(8,510)
Total	¥	(3,509)	¥	(3,685)	$	(33,019)

(7) Pension assets as of March 31, 2018 and 2017

(i) The percentages for each classification of total pension assets as of March 31, 2018 and 2017 were as follows:

	2018	2017
Bonds	27.6 %	30.7 %
Stocks	29.4	29.9
Cash and time deposits	8.6	7.7
General accounts	25.4	25.5
Others	9.0	6.2
Total	100.0	100.0

Note: Total pension assets include retirement benefit trusts established for the corporate pension plans in a percentage of 1.3% and 2.4%, as of March 31, 2018 and 2017, 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, 2018 and 2017

	2018	2017
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 ¥622 million ($5,849 thousand) and ¥416 million for the years ended March 31, 2018 and 2017, respectively.

Multi-employer plans

The required contribution amount to such multi-employer plans, which is expensed when incurred, was ¥29 million ($277 thousand) and ¥178 million for the years ended March 31, 2018 and 2017, respectively.

A certain consolidated subsidiary participates in the Osaka Kenchiku pension fund. As the fund obtained approval for dissolution from the Minister of Health, Labor and Welfare and dissolved as of May 31, 2017, the description of the pension fund, shares of contribution to the pension plan made by the subsidiary and supplemental explanation for the year ended March 31, 2018 are not disclosed. No additional contribution was incurred upon the dissolution of the fund.

(1) Matters concerning the funded status of the entire plans as of March 31, 2018 and 2017

	Millions of yen		*Thousands of U.S. Dollars (Note 1)*
	March 31, 2018	March 31, 2017	March 31, 2018
Amount of pension assets	¥ -	¥ 48,821	$ -
Amount of retirement benefit obligations	-	(55,220)	-
Net	¥ -	¥ (6,399)	$ -

(2) Shares of the pension fund contribution made by the Group as a percentage of the total plan for the years ended March 31, 2018 and 2017 were -% and 14.1%, respectively.

(3) Supplementary explanation

The net balance presented in (1) above represents the outstanding balance of prior service costs of ¥10,101 million for the year ended March 31, 2017. 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 ¥24 million ($221 thousand) and ¥140 million is recognized as expense in the accompanying consolidated financial statements for the years ended March 31, 2018 and 2017, respectively.

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

20. 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 3–47 years.

Changes in asset retirement obligations for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Beginning balance	¥ 24,786	¥ 24,837	$ 233,241
Increase due to purchase of property and equipment	183	420	1,720
Increase due to change in estimates	6,537	-	61,511
Adjustments due to passage of time	364	341	3,422
Decrease due to implementation of asset retirement obligations	(195)	(803)	(1,829)
Increase (decrease) due to exchange translation of asset retirement obligations denominated in foreign currencies	10	(13)	91
Increase due to new consolidation	16	5	151
Ending balance	¥ 31,701	¥ 24,787	$ 298,307

Change in Estimates for Asset Retirement Obligations

For the year ended March 31, 2018, 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 ¥6,537 million ($61,511 thousand) was added to the ending balance just before the change.

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.

21. 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 28, 2018, the shareholders approved cash dividends amounting to ¥ 10,405 million ($ 97,907 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2018 as they are to be recognized in the period in which they are approved by the shareholders.

22. STOCK OPTIONS

Stock option expenses recognized for the years ended March 31, 2018 and 2017 were ¥322 million ($3,034 thousand) and ¥328 million, respectively.

The stock options existing during the years ended March 31, 2018 and 2017 were as follows:

	2013 Stock Option	2014 Stock Option	2015 Stock Option
Date of resolution ··················	June 27, 2013	June 27, 2014	June 26, 2015
Persons granted ····················	16 directors	15 directors	14 directors
Number of options granted expressed in the number of shares by class of stock (*1)(*2) ··························	Common stock 483,100 shares	Common stock 460,700 shares	Common stock 628,900 shares
Date of grant·······················	July 12, 2013	July 14, 2014	July 13, 2015
Vesting condition (*3) ··········	Not set	Not set	Not set
Service period covered············	Not prescribed	Not prescribed	Not prescribed
Exercise period* ··················	From July 13, 2013 to July 12, 2043	From July 15, 2014 to July 14, 2044	From July 14, 2015 to July 13, 2045
Number of stock acquisition rights*	4,595 units	4,417 units	6,160 units
Class, description and number of shares of stock to be allotted upon exercise of the stock acquisition rights (*3)*	Common stock 459,500 shares	Common stock 441,700 shares	Common stock 616,000 shares
Subscription price to be paid upon exercise of each stock acquisition right*	¥1 yen	¥1 yen	¥1 yen
Issue price and amount of capital to be increased due to the issuance of shares upon exercise of the stock acquisition rights*	Issue price: ¥41,190 yen per 100 shares (*4)	Issue price: ¥292 yen (*4)	Issue price: ¥405 yen (*4)
Exercise conditions*	(*5)	(*5)	(*5)
Matters concerning the transfer of stock acquisition rights *	(*6)	(*6)	(*6)
Matters concerning the allotment of stock acquisition rights in the event of organizational restructuring*	(*7)	(*7)	(*7)

	2016 Stock Option	2017 Stock Option
Date of resolution ·················	June 29, 2016	June 29, 2017
Persons granted ····················	15 directors	12 directors
Number of options granted expressed in the number of shares by class of stock (*1)(*2) ··························	Common stock 784,200 shares	Common stock 707,700 shares
Date of grant·······················	July 14, 2016	July 14, 2017
Vesting condition (*3)·············	Not set	Not set
Service period covered ···········	Not prescribed	Not prescribed
Exercise period····················	From July 15, 2016 to July 14, 2046	From July 15, 2017 to July 14, 2047
Number of stock acquisition rights*	7,800 units	5,312 (6,492) units
Class, description and number of shares of stock to be allotted upon exercise of the stock acquisition rights (*3)*	Common stock 780,000 shares	Common stock 531,200 (649,200) shares
Subscription price to be paid upon exercise of each stock acquisition right*	¥1 yen	¥1 yen
Issue price and amount of capital to be increased due to the issuance of shares upon exercise of the stock acquisition rights *	Issue price: ¥453 (*4)	Issue price: ¥443 (*4)
Exercise conditions*	(*5)	(*5)
Matters concerning the transfer of stock acquisition rights*	(*6)	(*6)
Matters concerning the allotment of stock acquisition rights in the event of reorganization*	(*7)	(*7)

* Information as of March 31, 2018. Figures as of May 31, 2018 are also presented in parentheses in case of any changes to the date. Otherwise, no change has occurred between the two dates.

Notes:

(*1) Number of options granted is expressed in the 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) Number of shares to be allotted (the “Number of Shares to be Allotted”) upon exercise of the stock acquisition rights (the “Stock Acquisition Rights”) is 100 shares for 1 Stock Acquisition Right.

In case the Company conducts a share split or a consolidation of shares of its common stock, after the date of the allocation of stock acquisition rights (the "Day of Allotment"), the Number of Shares to be Allotted will be adjusted according to the formula below. Such adjustment shall be made only to the Stock Acquisition Rights which have not yet been exercised at the time of the adjustment.

Number of Shares to be Allotted after adjustment = Number of Shares to be Allotted before adjustment × Ratio of share split or consolidation of shares

Other than the above, in the event it becomes necessary to adjust the Number of Shares to be Allotted, it may be adjusted by the Company as deemed necessary by its Board of Directors. Any amount less than one share arising from the adjustment shall be rounded down.

(*4) Issue price is the sum of the subscription price to be paid upon exercise of each Stock Acquisition Right and the fair value of the Stock Acquisition Right at the grant date. The amount of capital to be increased due to the issuance of shares upon exercise of the Stock Acquisition Rights shall be one half (1/2) of the maximum amount of increases in the capital, etc. to be calculated according to Article 17, Paragraph 1 of the Corporate Accounting Regulations, with any amount less than one yen arising from such calculation to be rounded up. The amount of capital reserve to be increased due to the issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount obtained by deducting the amount of capital to be increased set forth in above, from the maximum amount of increases in the capital, etc. set forth in above.

(*5) (a) A holder of the Stock Acquisition Rights (the "Right Holder") can exercise the Stock Acquisition Rights only in a single lump-sum transaction during the 10-day period from the day after leaving its position as director, corporate auditor, executive officer or employee of the Company or its subsidiaries within the exercise period stated above.

(b) In case the Right Holder dies, heirs of the Right Holder may exercise the Stock Acquisition Rights only in a single lump-sum transaction.

(*6) Any acquisition of the Stock Acquisition Rights through transfer shall require the approval by resolution of the Company's Board of Directors.

(*7) In case the Company conducts a merger (limited to the case where the Company is to be extinguished as a result of the merger), an absorption-type company split, an incorporation-type company split, a share exchange or a share transfer (hereafter collectively referred to as the "reorganization"), Stock Acquisition Rights of the companies listed in (a) to (e) of Article 236, Paragraph 1, Item 8, of the Companies Act (the "Reorganized Company") shall be delivered, in each of the above cases, to the Right Holder holding the Stock Acquisition Rights remaining just before the effective date of the reorganization (the "Remaining Stock Acquisition Rights") according to the conditions (a) to (i) described below. Provided, however, that the foregoing shall be on the condition that the delivery of Stock Acquisition Rights of the Reorganized Company in accordance with the following conditions is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a stock change agreement, or a stock transfer plan.

(a) Number of Stock Acquisition Rights of the Reorganized Company to be delivered
The identical number of Stock Acquisition Rights to the number of the Remaining Stock Acquisition Rights held by a Right Holder shall be delivered to said Right Holder.

(b) Class of shares of the Reorganized Company to be allotted upon exercise of Stock Acquisition Rights
Common stock of the Reorganized Company.

(c) Number of shares of the Reorganized Company to be allotted upon exercise of Stock Acquisition Rights
It shall be determined in accordance with (*3) above, based on the consideration of conditions for the reorganization and other factors.

(d) Amount of assets to be contributed upon exercise of Stock Acquisition Rights
The amount of assets to be contributed upon exercise of each of the Stock Acquisition Rights to be delivered shall be an amount obtained by multiplying the exercise price after reorganization, as specified below, by the number of shares of the Reorganized Company to be allotted, as determined in accordance with (c) above. The exercise price after reorganization shall be ¥1 yen per share of the Reorganized Company to be delivered upon exercise of Stock Acquisition Rights.

(e) Period during which Stock Acquisition Rights are exercisable
From commencing date of the exercise period shown in the table above, or the effective date of the reorganization, whichever is later, to expiry date of the exercise period shown in the table above.

(f) The amount of capital to be increased due to the issuance of shares upon exercise of the Stock Acquisition Rights

i) The amount of capital to be increased due to the issuance of shares upon exercise of the Stock Acquisition Rights shall be one half (1/2) of the maximum amount of increases in the capital, etc. to be calculated according to Article 17, Paragraph 1 of the Corporate Accounting Regulations, with any amount less than one yen arising from such calculation to be rounded up.

ii) The amount of capital reserve to be increased due to the issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount obtained by deducting the amount of capital to be increased set forth in i) above, from the maximum amount of increases in the capital, etc. set forth in i) above.

(g) Restriction on the acquisition of Stock Acquisition Rights through transfer

Any acquisition of the Stock Acquisition Rights through transfer shall require the approval by resolution of the Board of Directors of the Reorganized Company.

(h) Conditions for exercise of Stock Acquisition Rights

It shall be determined in accordance with (*5) above.

(i) Conditions for acquisition of the Stock Acquisition Rights

i) The Company may acquire the Stock Acquisition Rights without compensation at the arrival of the day prescribed by its Board of Directors, in case the Right Holder comes to be unable to exercise all or part of the Stock Acquisition Rights in accordance with (*5) above or the allotment agreement for the Stock Acquisition Rights.

ii) The Company may acquire the Stock Acquisition Rights without compensation at the arrival of the day prescribed by its Board of Directors, in case an agenda for approval of one of the following 1, 2, 3, 4, or 5, is approved at the General Meeting of Shareholders of the Company (or, if approval of the General Meeting of Shareholders is not required, is resolved at the Board of Directors of the Company).

1. A Merger agreement, under which the Company shall be extinguished
2. An absorption-type company split agreement or an incorporation-type company split plan, under which the Company shall be split.
3. A share exchange agreement or a share transfer plan, under which the Company shall be a wholly owned subsidiary.
4. An amendment to the articles of incorporation to establish new provisions by which any proposed transfer of shares issued by the Company shall require the approval of the Company.
5. An amendment to the articles of incorporation to establish new provisions by which any proposed transfer of any class shares to be issued upon exercise of the Stock Acquisition Rights shall require the approval of the Company or by which the Company may acquire all of the class shares to be issued upon exercise of the Stock Acquisition Rights by the General Meeting of Shareholders.

The stock option activity expressed in the number of common stock for the year ended March 31, 2018 was as follows:

Date of resolution	June 27, 2013 (Shares)	June 27, 2014 (Shares)	June 26, 2015 (Shares)	June 29, 2016 (Shares)	June 29, 2017 (Shares)
Number of stock options expressed in the number of common stock:					
Non-vested					
March 31, 2017 – Outstanding				194,300	-
Granted				-	707,700
Forfeited				-	-
Vested				194,300	531,200
March 31, 2018 - Outstanding				-	176,500
Vested					
March 31, 2017 – Outstanding	472,200	454,500	624,600	585,700	-
Vested	.	.		194,300	531,200
Exercised	12,700	12,800	8,600	-	-
Forfeited	.	.		-	-
March 31, 2018 - Outstanding	459,500	441,700	616,000	780,000	531,200

	Yen	*U.S. dollars (Note 1)*	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	¥ 1	$ 0.01
Average price at the exercise date	¥ 609	$ 5.73	¥ 609	$ 5.73	¥ 609	$ 5.73	¥ -	$ -	¥ -	$ -
Fair value at the grant date	¥ 410.9	$ 3.87	¥ 291.0	$ 2.74	¥ 404.0	$ 3.80	¥ 452.0	$ 4.25	¥ 442.0	$ 4.16

Notes:
(1) Figures in the above table reflect 10-for-1 stock split executed by the Company on October 1, 2013.
(2) The average price at the 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, 2018 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)	37.276%
Estimated remaining outstanding period (*2)	10.0 years
Estimated dividend (*3)	¥13 per share
Risk-free interest rate (*4)	0.082%

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, 2017.
(*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.

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

23. 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 year ended March 31, 2017 was ¥1,671 million.

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of "selling, general and administrative expenses" for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2018	2017	*2018*
Advertising	¥ 27,884	¥ 28,716	$ 262,386
Salaries	106,152	106,149	998,889
Rent expenses	73,064	72,973	687,532
Depreciation	18,185	17,859	171,125
Point card-related promotion	36,790	41,927	346,200
Others	137,276	129,681	1,291,763
Total	¥ 399,351	¥ 397,305	$ 3,757,895

25. 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
	2017
Damages to inventories	¥ 536
Restoration expenses and the like	555
Others	56
Total	¥ 1,147

(2) Others, net

"Others, net" in "other income (expenses)" in the consolidated statements of income for the years ended March 31, 2018 and 2017 included the following:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2018		2017		*2018*	
Rent income	¥	4,217	¥	4,113	$	39,681
Rent expenses		(3,514)		(3,616)		(33,070)
Rental expenses		(476)		(694)		(4,480)
Sales of electric power		2,006		1,922		18,874
Cost of sales of electric power		(785)		(787)		(7,386)
Gain on sale of non-current assets		-		140		-
Loss on disposal of non-current assets		(553)		(583)		(5,200)
Gain on sale of investment securities		1		1		9
Others, net		1,907		1,562		17,949
Total	¥	2,803	¥	2,058	$	26,377

26. 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)
	2018	2017	*2018*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 806	¥ 433	$ 7,583
Reclassification adjustments	(2)	(2)	(18)
Valuation difference on available-for-sale securities before related tax effect	804	431	7,565
Related tax effect	(222)	(49)	(2,086)
Valuation difference on available-for-sale securities, net of taxes	582	382	5,479
Foreign currency translation adjustments:			
Amount arising during the year	(338)	1,420	(3,177)
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	(338)	1,420	(3,177)
Related tax effect	-	-	-
Foreign currency translation adjustments, net of taxes	(338)	1,420	(3,177)
Remeasurements of defined benefit plans:			
Amount arising during the year	863	1,417	8,120
Reclassification adjustments	(991)	(270)	(9,328)
Remeasurements of defined benefit plans before related tax effect	(128)	1,147	(1,208)
Related tax effect	216	(166)	2,037
Remeasurements of defined benefit plans, net of tax	88	981	829
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	0	0	0
Reclassification adjustments	-	-	-
Share of other comprehensive income of associates accounted for using equity method	0	0	0
Total other comprehensive income	¥ 332	¥ 2,783	$ 3,131

27. SEGMENT INFORMATION

- **Segment Information**

The Group previously had a single segment, “home electrical appliances and home information appliances sales business.” However, from the year ended March 31, 2018, following a review of its segmentation, the Group has categorized it into “home electrical appliances and home information appliances sales business” and “other business.”

As the percentage of the “home electrical appliances and home information appliances sales business” to the total is substantially high and accordingly it is considered to be immaterial as disclosure information, disclosures related to segment information have been omitted.

- **Supplemental Information on Reportable Segment**

Information about products and services for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen		
	2018		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers …………	¥ 1,322,611	¥ 251,262	¥ 1,573,873

	Thousands of U.S. dollars (Note 1)		
	2018		
	Home electrical appliances & Home information appliances	Non-home electrical appliances	Total
Sales to external customers …………	$ 12,445,757	$ 2,364,378	$ 14,810,135

	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

Information about geographic area for the years ended March 31, 2018 and 2017 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, 2018 and 2017 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 two business segments — “home electrical appliances and home information appliances sales business” and “other business.” As the percentage of “home electrical appliances and home information appliances sales business” to the total is substantially high and accordingly it is considered to be immaterial as disclosure information, disclosures related to segment information have been omitted.

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

The Group has two business segments — “home electrical appliances and home information appliances sales business” and “other business.” As the percentage of “home electrical appliances and home information appliances sales business” to the total is substantially high and accordingly it is considered to be immaterial as disclosure information, disclosures related to segment information have 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.

28. RELATED PARTIES

Significant balances with related parties as of March 31, 2018 and 2017 and related transactions for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2018	2017	*2018*
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)	¥ 88	¥ 87	$ 825
Guarantee deposits (due within one year)	139	146	1,307
Guarantee deposits	2,299	2,430	21,631
Shouichi Denki Co., Ltd., a subsidiary of the company owned by Shoji Orita, director, and his relatives			
Accounts payable	-	155	-
Other payables	-	31	-
Guarantee deposits	-	292	-
Accounts receivable	-	2	-
Cross Co., Ltd., 100% directly owned by Tsukasa Tokuhira, director, and his relatives:			
Other payables	1	0	6
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	967	968	9,095
Shouichi Denki Co., Ltd., a subsidiary of the Company owned by Shoji Orita, director, and his relatives			
Subcontracting construction	-	514	-
Freight costs	-	139	-
Payment of company house rent and lease and guarantee deposit	-	365	-
Revenue from construction contract	-	14	-
Cross Co., Ltd., 100% directly owned by Tsukasa Tokuhira, director, and his relatives:			
Human resource development costs	11	17	101

29. SUBSEQUENT EVENTS

I. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 28, 2018:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥13 ($0.12) per share ·····················	¥ 10,405	$ 97,907

II. Absorption-Type Merger with a Wholly Owned Consolidated Subsidiary

The Company conducted an absorption-type merger with NAKAYAMA, a wholly owned consolidated subsidiary, with effective date of April 1, 2018, based on a resolution at its Board of Directors meeting held on February 25, 2018.

1. Summary of transaction

(1) Name and business lines of the combined company
Name of the combined company: NAKAYAMA
Business lines: home renovation, architectural design management, housing materials manufacturing, equipment manufacturing, and CG/CAD services

(2) Date of business combination:
April 1, 2018

(3) Legal form of business combination:
Absorption-type merger, with the Company as the surviving company and NAKAYAMA, as the dissolving company

(4) Name of the company after business combination:
Yamada Denki Co., Ltd.

(5) Other:
The Group promotes the development of a network of stores incorporating new concepts, in consideration of the changes in social needs, including the declining birth rate, the aging of society, decreasing population and the transition to an internet society, to continue to grow and develop in the future, with home electrical appliances as the core of the life infrastructure offering, "Total package of housing," a pillar of new business. NAKAYAMA, as a renovation manufacturer, offers development and manufacture of products, sales, operation and after-sales services, comprehensively. This merger is aimed at, after the acquisition of shares of NAKAYAMA on November 30, 2017, further improving group management efficiency and strengthening our business foundation and sales strategies, by combining NAKAYAMA with new business style stores and integrating headquarters functions and various infrastructures.

2. Summary of accounting to be applied

The transaction will be 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. Conversion of a Consolidated Subsidiary into a Wholly Owned Subsidiary through Simplified Share Exchange

The Company resolved at its Board of Directors meeting held on June 15, 2018 to conduct a share exchange with YAMADA SXL HOME CO., LTD. (hereinafter "SxL"), with an effective date of September 1, 2018, whereby the Company becomes a wholly owning parent company and SxL 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.

SxL became the Company's wholly owned subsidiary, upon having conducted the Share Exchange on September 1, 2018, the effective date, and the common stock of SxL (hereinafter the "SxL Stock") was de-listed from Tokyo Stock Exchange, Inc. as of August 29, 2018 (with August 28, 2018 as the final trading date).

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: SxL
Business lines: Housing, Renovation, Real estate rental and other (leasing etc.) business

(2) Purpose of the Share Exchange
Through this Share Exchange, the Group intends to go ahead with its business strategy utilizing its business resources at the maximum, seek optimization and maximization of value chain through consolidation of business resources which are now dispersed across the Group, for example, into the both companies' functional subsidiaries, and further enhance the both companies' profitability and competitiveness strength through developing closer cooperation across the Group.

(3) Effective date of the Share Exchange
September 1, 2018

(4) Method of share exchange
The Share Exchange is a share exchange under which the Company becomes the wholly owning parent company and SxL 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. At SxL, approval of the Share Exchange Agreement was obtained at the extraordinary general meeting of shareholders of SxL, which was held on August 9, 2018. Going through these steps, the Share Exchange was carried out as of September 1, 2018, the effective date.

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

	The Company (wholly owning parent company)	SxL (wholly owned subsidiary)
Share exchange ratio	1	0.132
Number of shares delivered through the Share Exchange	Common stock of the Company: 12,973,022 shares	

(Note 1) Share exchange ratio
0.132 shares of the Company's common stock (hereinafter the "Company Stock") will be allocated and delivered for 1 share of the SxL Stock. The share allocation by the Share Exchange will not be performed on the SxL Stock that the Company owns (105,650,000 shares as of June 15, 2018). In accordance with the Share Exchange Agreement, the share exchange ratio for the Share Exchange as shown in the above table (hereinafter the "Share Exchange Ratio") is subject to a change, upon the both companies' agreement, in case that any significant changes occur in the underlying conditions on which the calculation is based.

(Note 2) Number of shares of the Company Stock delivered through the Share Exchange
Number of shares of the Company Stock: 12,973,022 shares
This number is calculated based on the total number of shares of the SxL Stock issued (204,018,184 shares) and in treasury (87,714 shares), both as of February 28, 2018, and the number of shares of the SxL Stock that the Company owns as of June 15, 2018 (105,650,000 shares).
The Company will allocate and deliver shares of the Company Stock in the number calculated based on the Share Exchange Ratio, to all shareholders of SxL (excluding the Company) who own shares of the SxL Stock at the time just before the Company will acquire all the issued shares of the SxL Stock (excluding those owned by the Company) through the Share Exchange, in exchange for the SxL Stock they own. The Company intends to fully appropriate the treasury stock it owns for the shares delivered through the Share Exchange and has no intention to issue any new shares for the Share Exchange.

(6) Basis and reason for the allocation in the Share Exchange
In order to ensure fairness and appropriateness of the Share Exchange such as the share exchange ratio stated above in (5) Stock type, exchange ratio, and number of shares delivered, the Company selected Nomura Securities Co., Ltd. and SxL selected Mizuho Securities Co., Ltd. as their respective

independent third-party valuation institutions, and the Company selected Nishimura & Asahi and SxL selected Kasumigaseki Partners Law Office as their respective legal advisors.

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 and advice submitted to them by the respective third-party valuation institution, as well as advice from the respective legal advisors, and by giving comprehensive consideration to other factors such as the financial conditions and movements of financial results and stock prices of both parties, the two parties have conducted negotiations and discussions multiple times carefully concerning the share exchange ratio. As a result, the Company and SxL reached a judgment that the Share Exchange Ratio is appropriate for the respective shareholders and accordingly, decided to conduct the Share Exchange by the Share Exchange Ratio. As of June 15, 2018, by the resolutions at the respective Board of Directors' meetings of both parties, decision was made to enter into the Share Exchange Agreement between the two parties.

In accordance with the Share Exchange Agreement, the Share Exchange Ratio is subject to change, subject to agreement by both companies, in case any significant changes occur in the underlying conditions on which the calculation is based.

2. 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).

IV. Merger between consolidated subsidiaries and change in registered company name

Four consolidated subsidiaries of the Company— YAMADA SXL HOME CO., LTD., Yamada Wood House Co., Ltd., Housing Works Co., Ltd. and SxL Juko Co., Ltd.—reached a resolution at each company's board meeting on the merger of the four companies, with YAMADA SXL HOME CO., LTD. as the surviving company and an effective date of October 1, 2018. After the merger, the company name of the surviving company will be changed to Yamada Homes Co., Ltd.

1. Outline of the Merger

(1) Name and business description of merging companies

Business description of surviving company	YAMADA SXL HOME CO., LTD. Housing (focus on panel construction), renovation, real estate leasing, etc.
Business description of dissolved companies	Yamada Wood House Co., Ltd. Housing (focus on conventional construction), etc.
	Housing Works Co., Ltd. Contract construction, design, construction and supervision
	SxL Juko Co., Ltd. Manufacturing, processing and selling of industrial housing parts

(2) Merger date

October 1, 2018 (scheduled)

(3) Merger method

The method of the merger is an absorption-type merger with YAMADA SXL HOME CO., LTD. as the surviving company and Yamada Wood House Co., Ltd., Housing Works Co., Ltd. and SxL Juko Co, Ltd. as the dissolved companies.

(4) Company name after the merger

Yamada Homes Co., Ltd. (Registered company name scheduled to change from YAMADA SXL HOME CO., LTD. effective October 1, 2018)

(5) Other factors related to the merger

YAMADA SXL HOME CO., LTD. continues to value the “philosophy of homes” spirit drafted by its founders and provides homes that bring together tradition, character and progressiveness. In addition, Yamada Wood House Co., Ltd. provides high quality homes that provide comfort and security at a reasonable price.

The Company decided to restructure the organization with the merger of the four companies and change the name of the company surviving the absorption-type merger with the aim to further expand the housing business and strengthen the management foundation of the Company Group through integrating the technology and know-how of the four consolidated subsidiaries and aggregating its management resources, based on the concept to “brighten your future with smart housing.”

2. Outline of transaction

The transaction will be processed as a common control transaction in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No. 21) and “Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10).

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KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 14, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.