Financial Report 2020

Fiscal year ended March 31, 2020

YAMADA DENKI CO., LTD.

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TABLE OF CONTENTS

OVERVIEW OF OPERATIONS
Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2020

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 2)*
	As of and year ended March 31					
	2016	2017	2018	2019	2020	2020
Net sales (Note 1) ··········	1,612,736	1,563,056	1,573,873	1,600,583	1,611,538	14,807,847
Ordinary profit ···········	62,734	66,040	47,336	36,889	46,075	423,364
Profit attributable to owners of parent ·····	30,396	34,528	29,780	14,692	24,605	226,090
Comprehensive income ·	32,556	39,373	29,263	13,674	22,549	207,194
Net assets··················	557,722	585,548	588,740	591,593	645,166	5,928,200
Total assets················	1,146,723	1,159,457	1,175,568	1,184,042	1,163,494	10,690,937
Net assets per share (yen) ···················	666.03	697.47	731.57	723.56	721.37	6.63 *(dollars)*
Basic earnings per share (yen) ···················	38.22	43.00	36.78	18.19	28.38	0.26 *(dollars)*
Diluted earnings per share (yen) ············	38.16	42.89	36.66	18.08	27.01	0.25 *(dollars)*
Equity ratio (%) ··········	46.6	48.4	49.8	49.7	54.6	
Return on equity (%) ····	6.0	6.3	5.2	2.5	4.0	
Price earnings ratio (times) ·················	13.92	12.91	17.35	30.02	15.19	
Cash flows from operating activities···	(23)	43,856	61,689	36,023	62,434	573,684
Cash flows from investing activities ···	(13,437)	(15,279)	(12,668)	(8,469)	(8,235)	(75,665)
Cash flows from financing activities···	4,733	(24,382)	(32,920)	(27,461)	(58,091)	(533,781)
Cash and cash equivalents at end of year ····················	30,665	34,982	51,327	51,176	48,398	444,708
Employees (persons)·····	19,183	19,238	19,752	18,853	19,985	
[Average number of temporary employees not included in the above number (persons)] ················	[10,219]	[9,670]	[9,577]	[9,520]	[9,496]	

Notes: 1. Net sales do not include consumption tax.
2. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 31, 2020, which was ¥108.83 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 Group sets its targets using an ordinary profit to net sales ratio of 5% or higher as a target management indicator.

(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 electric appliances, the Group is working to amplify our proposals available under its “brighten your future with smart housing” concept, entailing residences, renovations, housing equipment, and furniture and accessories with respect to living spaces designed to be coordinated with electrical appliances. In addition, to differentiate from competitors, the Group is expanding its outlet and reuse stores which handle used electric appliances with a goal of creating a recycling-oriented society, strengthening and promoting online sales leveraging strengths of its online and retail store network, and its distribution network, combining stores and taking other actions.

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.

Furthermore, the Group plans to transition to a holding company structure as of the effective date of October 1, 2020. By separating the administration and supervision of management and the execution of business, and improving management efficiency and strengthening governance of the entire Group more than ever before, the Group aims for further sustained corporate growth and expansion.

(4) Business and Financial Priority Issues to Be Addressed

Looking ahead to the fiscal year ending March 31, 2021, the global pandemic of the novel coronavirus disease (COVID-19) is having serious ramifications both domestically and abroad, thereby raising concerns of adverse long-term effects on the international economy as well as that of Japan amid a scenario where respective nations around the world are scrambling to mount emergency responses.

The retail industry overall is likely to encounter more challenging circumstances than ever before amid factors that include declining inbound visitor demand due to the global pandemic of COVID-19, store closures and reduced business hours upon the government having declared a state of emergency, decreasing numbers of customers visiting stores due to voluntary restrictions against non-essential and non-urgent outings, as well as deteriorating consumer sentiment and changing consumer behavior stemming from increasingly defensive spending patterns.

The consumer electrical appliance retail market to which the Group belongs is poised to remain sluggish amid an uncertain outlook as to when disruption due to COVID-19 is likely to subside. By product type, video equipment is expected to be strong due to the 4K and 8K satellite broadcasts and the market expansion for OLED TVs. Refrigerators, washing machines and other white goods are expected to be firm supported by replacement demand. Sales of seasonal products including air conditioning units are likely to increase year on year given that weather forecasts indicate average temperatures this summer (June to August) typical for the season, in comparison with the summer of 2019 when temperatures were low in the month of July and warmer than average temperatures during the winter months. Meanwhile, sales of computers and other products in the digital realm are likely to hold firm given the prospect of demand particularly stemming from telework and online coursework. Whereas mobile phones are likely to encounter sluggish sales amid adverse effects associated with revisions to parts of the Telecommunications Business Act, the Group expects replacement demand as 5G commercial services take hold.

Under this market environment, the Group will continue from the previous fiscal year to enhance its “brighten your future with smart housing” concept underpinned by its “generating profits through continuous reform and innovation” management slogan for fiscal 2020 continuing on from 2019, and actively implement initiatives in the Electrical Appliance Segment, Affiliate and Subsidiary Electrical Appliance Segment, Housing Segment, Financial Services Segment, Environmental Resource Development Segment and Support Services Segment. In particular, the Electrical Appliance Segment will improve the profit ratio through continued reforms, propose lifestyle scenarios that combine home electrical appliances with furniture and home interiors at stores of both Yamada Denki and OTSUKA KAGU, LTD. (“Otsuka Kagu”), strengthen the development of SPA products in a manner distinctive to the Group, and propose options that enable people to enjoy themselves in comfort while hunkering down in their homes due to the voluntary restrictions against non-essential and non-urgent outings due to COVID-19. Furthermore, the Housing Segment will promote long-life quality housing and use the benefits of scale, including making LEO HOUSE CO., LTD. a subsidiary, to expand the scale of operations.

In order to further promote reforms such as those described above, while also enhancing corporate value and contributing to development of a sustainable society, the Group aims for further sustained corporate growth and expansion while improving management efficiency and strengthening governance of the entire Group more than ever before. Accordingly, the Group’s officer assignments associated with its transition to a holding company structure slated for October 1, 2020, as announced on April 1, 2020, will ensure that the roles of business management and supervision are carried out separately from business execution.

3. RISK FACTORS

Of the items relating to the status of the business and accounting as described in the Annual Securities Report, major risks recognized by the management that may materially affect the financial position, results of operations and cash flows of the consolidated companies 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 centered on Kaden Sumairu-kan, YAMADA web.com stores and outlet stores. The Group also expects competition from competitors in areas where its stores have been already established to be fierce. It is also possible that the profitability of existing stores will be affected by new store openings depending on the region, due to saturated markets and conditions of the area in which such consumer electrical appliance retail stores are opened. With regard to stores that are closed due to our revised nationwide store network strategy we decided for the purpose of improving store efficiency in light of the market environment including competitions among our own stores and with other companies, loss on disposal of or contract cancellation of the closed stores may be incurred or the closed stores may not be subleased or sold off. The Group will generally weigh conditions such as rent expenses and guarantee deposits for store openings, as well as competition, trading area population and various laws and regulations in order to make carefully thought-out decisions. However, there is always the possibility that changes or delays could occur in the planning due to issues relating to real property. Conditions such as those described above may obstruct effective store development and management efforts and ultimately have a negative impact on the Group's performance and financial position. Another consideration is the large amounts of capital necessary for store development including new store openings, scrap-and-build and operational changes of existing stores centered on Kaden Sumairu-kan, YAMADA web.com stores and outlet stores. At present, it is covered by retained earnings and loans. However, any circumstance that thwarts capital procurement efforts could block the execution of business plans in the future.

(2) Competition

The consumer electrical appliance retail industry 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. Companies that have business formats, ranging from large-scale consumer electronics retailers, supermarkets, and home centers, to interior stores, furniture stores, miscellaneous goods stores and online shopping sites and other various mail-order sites, and offer electrical appliances or products similar to those of the Group are our competitors. 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 the Insurance Business Act applying to the insurance business, as well as other related laws and regulations applicable to the Group's housing-related business may negatively affect its performance and financial position. Furthermore, centering on the retail sale of electric appliances, the Group has been working to amplify our proposals available under its "brighten your future with smart housing" concept. In operating our various services and businesses, we have conducted the required procedures, such as acquisition of the proper approvals and licenses from regulatory agencies, lawfully and appropriately, and at present, no serious issues have occurred. However, in the future, if these approvals and licenses are cancelled, or if their renewal is not recognized, or, if we do not receive the approvals and licenses to further expand services or launch new businesses, or, if there are delays in the acquisition of these approvals and licenses, it may 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 from Asian countries, factors such as the Asian countries' political situation or economy 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, global shortages of resources and materials, and disruption of supply chains 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. If these events occur, the Group's performance and financial position may be negatively affected.

(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 the Company's 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 infections by computer viruses, manipulation through malicious access, and information leaks. Any such unpredictable natural disasters, infections by computer viruses, manipulation through malicious access, or information 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. 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 brand names such as "YAMADA SELECT," 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.

(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.

(19) Exchange Rate Volatility

The Group has established subsidiaries in China, engaged mainly in the retail sale of electric appliances, which are covered by consolidation. As such, fluctuations in the forex market can affect the conversions to Japanese yen of prices for assets and liabilities occurring in foreign-currency-based transactions. Moreover, the Group also makes foreign-currency-based loans, and fluctuations in the forex market can affect the amount of provisions held for these loans, which may negatively affect the Group's performance and financial position.

(20) Lawsuits

At present, the Group has no instances of having received demands for compensation for damages nor lawsuits filed against it which could seriously affect its future performance. However, the Group conducts various business activities mainly in the retail sale of electric appliances, and we cannot rule out the possibility of lawsuits or disputes occurring in these business activities. Where they do occur, they may negatively affect the Group's performance and financial position.

(21) Risk Information Related to COVID-19

Giving priority to the safety and health of all of its stakeholders such as customers, shareholders, business connection, partners and employees, the Group has implemented a variety of measures such as working from home or staggered working hours at the Company's headquarters, prohibiting non-essential and non-urgent visitors, business trips, etc., thoroughly checking the temperature of all employees prior to the coming to the office and wearing masks, thoroughly washing hands and gargling, understanding health management for employees and stopping employees, etc. who are suspected of being infected from coming to work, shortening the operating hours of all stores (a portion of stores suspended business), placing alcohol disinfectant at all facilities and diligent disinfecting, placing clear partitions at registers, and ensuring space between people waiting in line at the register. However, the performance and financial position of the Group may be significantly affected if there is an impediment to the operation of stores, etc. due to someone becoming infected with COVID-19 at a store, etc., or if the stable supply of products or purchase price are affected, or the release of new products is postponed due to the impact of COVID-19 on business partners' management resources (people, things, money, information).

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

(1) Overview of Operating Results

Summary of financial position, results of operations and cash flows of the Group (the Company and its consolidated subsidiaries and affiliates accounted for by the equity method) for the fiscal year under review is as follows.

1) Financial position and results of operations

[On background of economies at home and abroad]

In the fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020), the Japanese economy remained on a path of gradual recovery amid improvements in corporate earnings as well as the jobs and income environment, underpinned by economic and fiscal measures being taken by the government, despite the economy having been temporarily affected by developments such as a spate of natural disasters and a pullback in demand associated with hikes in national and local consumption taxes ("consumption tax hikes"). Nevertheless, the Japanese economy encountered a mounting recessionary mood brought about by a sense of future uncertainty due to the global pandemic of COVID-19. As for the global economy, the business outlook has remained extremely unclear amid factors that include adverse effects on the worldwide economy associated with prolonged trade friction brought about by protectionist trade policy in the U.S., the issue of the UK's withdrawal from the EU, slowdown of the Chinese economy, continuing turmoil in the Middle East, effects of volatility in financial and capital markets, and effects of COVID-19.

In the retail industry overall, despite a brief phase of upward momentum brought on by a last-minute surge in demand ahead of the consumption tax hikes, the tough business environment persisted amid intensifying competition extending beyond sectors and industries underpinned by a deep-seated frugal mindset among consumers caused by a pullback in demand associated with the consumption tax hikes and increasingly defensive spending patterns. Moreover, the industry has been encountering severe business conditions amid factors that include declining inbound visitor demand due to COVID-19, substantially decreasing numbers of customers visiting stores due to cancellations of events and voluntary restrictions against non-essential and non-urgent outings, and changing consumption trends. Moreover, operating costs have been following an upward trend largely due to rising personnel expenses and logistics costs caused by the labor shortage, while medium- to long-term challenges have begun to emerge with respect to Japan's declining birthrate, aging demographic and population decline. In addition, the situation increasingly calls for innovative management looking toward the future in a manner not bound by preconceptions amid a scenario of mounting uncertainties marked by a rapidly changing environment. For instance, whereas some business categories have been experiencing growth with respect to high-priced merchandise, in other business categories short-term demand for replacement has been slowing due to there being a remarkable range of choices and options amid circumstances where trends of consumption are being affected by changing lifestyles among consumers and diversifying purchasing behavior.

[On the consumer electrical appliance retail industry]

In the consumer electrical appliance retail industry to which the Group belongs, sales in the third quarter and fourth quarter of the fiscal year ended March 31, 2020 (October 1, 2019 to March 31, 2020) fell year on year due to factors such as the pullback in demand associated with the consumption tax hikes, revisions to parts of the Telecommunications Business Act (enforced on October 1, 2019), the occurrence of natural disasters (Typhoon No. 19 and heavy rain caused by low-pressure systems and Typhoon No. 21), a warm winter, and COVID-19. However, sales for the fiscal year under review (April 1, 2019 to March 31, 2020) were strong due to the surge in demand associated with the consumption tax hikes.

From a product perspective, results were favorable particularly for high per-unit price products such as 4K and OLED televisions driven by demand for replacement and the commencement of new 4K/8K satellite broadcasting, amid signs that downward momentum seems to have bottomed out with respect to sales of televisions which had continually endured prolonged stagnation of the market due to a pullback in special demand which had been associated with the Japanese government's "ecopoints" program for consumer electrical appliances and digitization of terrestrial television. Refrigerators and washing machines also generated favorable results particularly for high per-unit price products underpinned by demand for replacement. Sales of air conditioners and other seasonal products weakened due to frequent cool rainy spells during the prolonged rainy season in July and a warm winter despite higher unit prices associated with higher priced models with improved functionality. Sales of mobile phones weakened, despite the occurrence of a surge in demand associated with revisions to parts of the Telecommunications Business Act, on account of a significant shrinkage in the market after said revisions took effect and a situation where consumers are holding off purchasing in relation to start of 5G (fifth-generation mobile communications system) commercial services. Sales of computers and other products in the digital realm had continued to be sluggish for a long time, but sales were strong due mainly to the demand for computer renewals due to the end of support for Windows 7, which ended on January 14, 2020, and for telework, etc. On the other hand, the broadband market had been shrinking due to the introduction of high-capacity data telecommunications plans offered by respective telecommunications carriers in line with the spread of smartphones, but then took a positive turn largely due to an onset of telework-related demand in March 2020.

[On the Company's efforts]

Against this backdrop in the consumer electrical appliance market, the Company has been carrying out reforms with respect to its new earnings model which involves strengthening the electrical appliance business with a sense of immediacy given the consumption tax hikes and forecasts anticipating sharp deceleration of personal consumption likely to set in subsequent to the Tokyo Olympic Games (postponed to the summer of 2021). These efforts have been showing results since the previous fiscal year. The Company has been taking steps to heighten business value across its respective businesses, particularly premised on the concept of "brighten your future with smart housing" which involves lifestyle infrastructure with home electrical appliances at the core. The Company has been taking steps to heighten earning potential by strengthening the development of SPA products; improving revenue through reinforcing the foundation for the renovation business (enhancement of both the construction and the sales frameworks); improving its marketing capabilities entailing a product development and sales approach that involves proposing lifestyle scenarios drawing on its unique ability to combine home electrical appliances with furniture and home interiors; and boosting sales by speeding up the construction of the online business. In furniture and home interiors, upon having made Otsuka Kagu a subsidiary in December 2019, the Company collaborated with Otsuka Kagu in rolling out Otsuka Kagu merchandise at four of the Company's LABI urban-format stores on February 7, 2020. This furthermore involved embarking on showroom display sales of home electrical appliances at the Ariake Head Office showroom of Otsuka Kagu on March 6, 2020, where Otsuka Kagu, like the Company, set up various rooms displaying lifestyle scenarios that combine home electrical appliances with furniture and home interiors. The Ariake Head Office showroom served as the first site, and Otsuka Kagu will expand the display of home electrical appliances successively to its other stores.

In addition, on March 24, 2020, the Company concluded a basic agreement for acquiring shares of housing business operator LEO HOUSE CO., LTD. (now a subsidiary) in order to enhance proposals available under its "brighten your future with smart housing" concept, and subsequently entered into a transfer agreement on April 9, 2020.

Furthermore, as part of its branding strategy, the Company has been changing the image of Yamada Denki to that of a store that "brightens your future with smart housing," which has involved airing a television commercial featuring the theme of "bringing happiness to every part of life," publishing advertising flyers, and posting details to the corporate website.

In a separate initiative, the Company separated the 13 branches of Yamada Denki (non-consolidated) in October 2019, and introduced a branch manager system that places emphasis on profit margin improvement.

Through such efforts, the Company managed to achieve progress in line with the business plan until January 2020, despite the consumer electrical appliance retail industry having encountered the harsh environment mentioned above. Since February 2020, however, COVID-19 has substantially weighed on the Company's sales, purchasing, gross profit and other benchmarks of performance.

With respect to the notion of optimizing the capital structure while also flexibly returning profits to shareholders, which has been under consideration for some time, although the Company had resolved to purchase treasury stock on April 1, 2020 (total number of purchasable shares: 100,000,000 shares (maximum); total purchase price of shares: ¥50,000 million (maximum); purchase period: from April 2, 2020 until March 24, 2021), the Company passed a resolution to cancel that treasury stock purchase on May 14, 2020 after giving comprehensive consideration to factors including the changes in the business environment due to the impact of COVID-19.

The Group released notification of "Resolution for Establishment of Preparatory Company for Company Split Involving Transition to Holding Company Structure by Means of Company Split; Resolution for Approval of Absorption-Type Company Split Agreement, and; Resolution for Partial Amendments to the Articles of Incorporation (Change of Trade Name)" on March 16, 2020. In that regard, the Group plans to transition to a holding company structure as of the effective date of October 1, 2020, subject to having gained approval at the 43rd Ordinary General Meeting of Shareholders, and also subject to approval of the relevant public offices as deemed necessary.

[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. Moreover, we actively engage in environmental, social and corporate governance (ESG) initiatives, which we regard as crucial in terms of helping to resolve social challenges and ensuring that we sustain a presence as an enterprise that enhances its corporate value, and have accordingly shifted control of such initiatives to the SDGs Promotion Department of the Sustainability Office, from the CSR Department of the CSR Promotion Office previously. On December 16, 2019, the Company announced the establishment of "Priority Initiatives for Achieving SDGs" for Yamada Denki alone. In terms of initiatives for the entire Yamada Denki Group, the Group is focusing on three themes for contributing to achieving SDGs, and the Group plans to aim for a sustainable society by pursuing those initiatives.

Three themes for the Yamada Denki Group

1. Offer comfortable living spaces and establish social systems
2. Foster employee growth and improve their working environments
3. Promote a recycling-oriented society and conserve the global environment

(https://www.yamada-denki.jp/csr/)

[On number of stores]

The number of consolidated retail stores, including those overseas at the end of the fiscal year under review encompassing 35 new store openings and 20 store closures, was 990 directly-managed stores (comprising 675 stores directly managed by the Company, 169 stores managed by Best Denki Co., Ltd. and 146 stores operated by other consolidated subsidiaries). The total number of stores of the Group, including the stores managed by franchise stores, was 12,858.

[On performance summary]

As a result of the above, consolidated net sales amounted to ¥1,611,538 million, up 0.7% year on year, operating profit totaled ¥38,327 million, up 37.5% year on year, ordinary profit was ¥46,075 million, up 24.9% year on year, and profit attributable to owners of parent was ¥24,605 million, up 67.5% year on year.

[Financial position]

Total assets at the end of the fiscal year under review amounted to ¥1,163,494 million, down ¥20,548 million (1.7%) compared to the end of the previous fiscal year. This was mainly due to a decrease in other current assets.

Total liabilities amounted to ¥518,328 million, down ¥74,121 million (12.5%) compared to the end of the previous fiscal year. This was mainly due to the exercise of rights on current portion of bonds.

Net assets amounted to ¥645,166 million, up ¥53,573 million (9.1%) compared to the end of the previous fiscal year mainly reflecting the disposal of treasury stock in line with the exercise of rights on convertible bond-type bonds with subscription rights to shares. As a result, the equity ratio was 54.6% (up 4.9 points from the end of the previous fiscal year).

2) Cash flows

As of the end of the fiscal year under review, cash and cash equivalents on a consolidated basis stood at ¥48,398 million, down ¥2,778 million (5.4%) 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 ¥62,434 million (¥36,023 million provided in the previous fiscal year).

This was mainly due to profit before income taxes exceeding the amount for the previous fiscal year and a decrease in notes and accounts receivable.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥8,235 million (¥8,469 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 ¥58,091 million (¥27,461 million used in the previous fiscal year).

This was mainly due to redemption of bonds.

(Reference) Trends in company cash flow indicators

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Equity ratio (%)	46.6	48.4	49.8	49.7	54.6
Market value-based equity ratio (%)	37.2	38.5	43.4	37.5	32.6
Interest-bearing debt to cash flows (year)	–	5.4	3.7	6.0	4.0
Interest coverage ratio (factor)	–	30.0	46.3	28.8	44.2

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.

3) Sales results

a. Sales results

The Group's operating segments are "home electrical appliances and home information appliances sales business" and "other business." 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, 2020 Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances/ home information appliances	1,349,473	83.7	0.6
Other	262,065	16.3	1.2
	1,611,538	100.0	0.7

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

b. Sales per unit

	Year ended March 31, 2020 Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,611,538	0.7
Sales floor space (average) - m^2	2,653,649	0.4
Sales per square meter - thousands of yen	607	0.3
Employees (average) - persons	28,929	0.3
Sales per employee - millions of yen	55	0.4

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

Recognition, analysis and discussion regarding status of the Group's operating results from a management perspective are as follows. Items in the text below that concern the future were determined as of the end of the fiscal year under review.

1) Recognition, analysis and discussion regarding status of financial position and operating results

a. Operating results

Net sales and gross profit

Net sales in the first six months of the fiscal year ended March 31, 2020 (April 1, 2019 to September 30, 2019) were favorable due to the surge in demand associated with the consumption tax hikes. However, in third quarter and fourth quarter of the fiscal year ended March 31, 2020 (October 1, 2019 to March 31, 2020), net sales fell year on year due to factors such as the pullback in demand associated with the consumption tax hikes, natural disasters including typhoons, revisions to parts of the Telecommunications Business Act (enforced on October 1, 2019), a warm winter, and COVID-19. As a result, net sales for the fiscal year under review (April 1, 2019 to March 31, 2020) were strong. From a product perspective, results were favorable, as the new 4K/8K satellite broadcasting commenced last year and awareness and interest increased in products such as 4K and OLED televisions, leading to an increase in the ratio of high per-unit price products to total sales and an increase in the overall number of televisions sold. Refrigerator and washing machines also generated favorable results due to strong interest in high-performance and high per-unit price products and replacement demand. Sales of air conditioners and other seasonal products weakened due to the prolonged rainy season in July and a warm winter. Sales of mobile phones weakened, on account of a significant shrinkage in the market following the enactment of the partially revised Telecommunications Business Act and a situation where consumers are holding off purchasing in relation to 5G services which will be launched in 2020 spring. Sales of computers and other products in the digital realm, mainly to individuals, which had long remained lackluster due to changing lifestyles and the shift from computers to smartphones, were strong due mainly to the demand for computer renewals following the end of support for Windows 7, and for telework, etc. The broadband market had been shrinking due to the spread of high-capacity data telecommunications plans offered by respective telecommunications carriers, but then took a positive turn largely due to an onset of telework-related demand associated with COVID-19. As a result, net sales during the fiscal year under review were ¥1,611,538 million, up 0.7% year on year. In terms of gross profit, positive results of reforms, carried out in the previous fiscal year and geared toward achieving a new earnings model that will strengthen the electrical appliance business, are continuously appearing. In addition, a branch manager system introduced in October 2019 resulted in the improvement of profit margin for the fiscal year under review. As a result, gross profit was ¥460,653 million (up 4.5% year on year).

The Group managed to achieve progress in line with the business plan until January 2020, despite the consumer electrical appliance retail industry, to which the Group belongs, having encountered the harsh environment mentioned above (4. MANAGEMENT ANALYSIS OF FINANCIAL POSITION, RESULTS OF OPERATIONS AND CASH FLOWS (1) Overview of Operating Results 1) Financial position and results of operations [On the consumer electrical appliance retail industry]). Since February 2020, however, COVID-19 has substantially weighed on the Company's sales, purchasing, gross profit and other benchmarks of performance.

The Group will strive for enhancing and promoting proposals available under its "brighten your future with smart housing" concept, centering on the retail sale of electric appliances, to build a stable earnings foundation.

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 carried out continuous cost reductions and controls, but the rising personnel expenses and logistics costs caused by the nationwide labor shortage, an increase in credit card commissions along with the increase in cashless payments, and the increase in commissions due to the opening of stores on various e-commerce malls to increase online sales led expenses to rise. As a result, selling, general and administrative expenses amounted to ¥422,326 million, up 2.2% year on year, and operating profit amounted to ¥38,327 million, up 37.5% year on year.

Other income for the fiscal year under review was ¥79 million. Major factors were gain on negative goodwill associated with the acquisition of shares of Otsuka Kagu and sales of investment securities. As a result, profit before income taxes increased by ¥13,309 million to ¥38,406 million (up 53.0%) 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 ¥13,829 million, profit was ¥24,577 million and loss attributable to non-controlling interests amounted to ¥28 million.

As a result, profit attributable to owners of parent increased by ¥9,913 million to ¥24,605 million (up 67.5%) compared with the previous fiscal year.

b. Financial position

Analysis of the Group's financial position for the fiscal year under review is as described in (1) Overview of Operating Results 1) Financial position and results of operations [Financial position].

2) Analysis and discussion regarding status of cash flows and capital resources and liquidity of funds

Cash flows

An overview of cash flows for the fiscal year under review is presented in "(1) Overview of Operating Results" "2) Cash flows."

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 flows from operating activities while further enhancing capital efficiency and improving its financial position.

3) Significant accounting estimates and assumptions used

The Group's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan

Significant accounting policies used in preparing the consolidated financial statements are as described in "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" Note 2, entitled "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

In light of historical performance and status of related transactions, the Group has made estimates and judgements on evaluation of provisions, assets and other items based on various factors deemed reasonable, and the results have been reflected in the consolidated financial statements.

Information about assumptions and estimates, including how COVID-19 will spread and when it will end, is described in "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" Note 5, entitled "ADDITIONAL INFORMATION."

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

Achievement of management goals

The Company had established an ordinary profit to net sales ratio of 3% or higher as a target management indicator for the fiscal year ended March 31, 2020, but due to the above-mentioned factors, this number was 2.9% in the fiscal year under review. In terms of the fiscal year ending March 31, 2021, COVID-19 is expected to affect industries, recruitment activities and consumer behavior. At this time, however, because it is extremely difficult to estimate the amount of impact, the Company is unable to determine its target management indicators.

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
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 Company Split Agreement for Transition to Holding Company Structure by Means of Company Split

At the meeting of the Board of Directors held on March 16, 2020, the Company resolved to establish Yamada Denki Split Preparatory Company as a preparatory company to transition to a holding company structure by means of company split on October 1, 2020, and conclude an Absorption-Type Company Split Agreement with the preparatory company on the condition that it would be approved and adopted at the Ordinary General Meeting of Shareholders of the Company held on June 26, 2020, and approvals, etc. are received from the competent agencies when necessary. This agreement was concluded on April 13, 2020. Subsequently, this agreement was approved at the Ordinary General Meeting of Shareholders held on June 26, 2020.

Details are as described in the "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" Note 28, entitled "SUBSEQUENT EVENTS."

6. RESEARCH AND DEVELOPMENT

The total cost of the Group's research and development activities during the fiscal year under review was ¥315 million. Such activities were mainly research and development activities for the housing-related businesses of the subsidiaries Housetec Inc. and YAMADA HOMES Co., LTD.

7. CORPORATE GOVERNANCE

1) Overview of Corporate Governance

(1) Basic Ideals on Corporate Governance

The Company's basic ideals of corporate governance are to improve management transparency, conduct fair corporate activities and continue to maintain and increase corporate and shareholder value.

(2) Overview of Corporate Governance Structures and Reasons for Adopting Such Structures

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 President, and Representative Director & Senior Executive Officer (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, 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 corporate governance structures of the Company are as follows.

(i) General Meeting of Shareholders

The General Meeting of Shareholders, the Company's top decision-making body chaired by the Representative Director, 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, chaired by the Representative Director, 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.

(iii) Audit & Supervisory Board

The Company's Audit & Supervisory Board system relies on four Audit & Supervisory Board members (including two external Audit & Supervisory Board members). The status of audits by the Audit & Supervisory Board members is described in "3) Status of Audit (1) Audits by Audit & Supervisory Board Members."

(iv) 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.

(v) 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.

(vi) Audit Office

The Company has established the Audit Office to strengthen its internal auditing functions. Reporting directly to the President and employing nine full-time staff, such office engages in internal auditing. The status of internal auditing is described in "3) Status of Audit (2) Internal Auditing."

(vii) Others

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

(3) Other Items Related to Corporate Governance

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 and Code of Conduct 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 Protecting Whistleblower. The Compliance Committee shall endeavor to make the existence of the whistle-blowing system known.

(d) Audit Office

The 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 a system within its Corporate Planning Office of the Business Company Administration Department for overseeing the management and performance of subsidiaries and for 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 subsidiaries, 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 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 Business Company Administration Department 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 Protecting Whistleblower.

(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 Business Company Administration Department 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 Business Company Administration Department 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 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.

(4) 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.

(5) Requirements for Special Resolutions by the General Meeting of Shareholders

For requirements for special resolutions by the General Meeting of Shareholders as set forth in Article 309, Paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulate that shareholders holding one third or more of the voting rights of the shareholders who are entitled to exercise their voting rights must attend, and that special resolutions will be passed with two third or more of those voting rights cast in favor. The goal of this policy is to ensure the smooth operations of the General Meeting of Shareholders by lowering the quorum required for special resolutions at the General Meeting of Shareholders.

(6) Basic Policy on Control of Stock Company

The Company has not established a basic policy on matters listed in Article 118, Item 3 of the Regulation for Enforcement of the Companies Act.

(7) Acquisition of Treasury Stock

As set forth in Article 165, Paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company can acquire treasury stock through a resolution by its Board of Directors. The goal of this policy is to allow the flexible execution of capital policy in response to changes in the management environment by acquiring treasury stock through market trading, etc.

(8) Interim Dividends

As set forth in Article 454, Paragraph 5 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company can pay interim dividends to shareholders and registered stock pledgees listed or registered in the final shareholder registry as of September 30 of each year. The goal of this policy is to allow the flexible execution of capital policy in response to changes in the management environment.

2) Status of Officers

(1) Status of 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. There is no special relationship between the Company and the entities at which he holds the significant concurrent positions. External Director Ms. Miki Mitsunari has expertise in corporate ESG management, environmental issues involving real estate, and environmental regulations in Japan and overseas. She also conducts surveys and engages in consulting activities for companies regarding their environmental business and risk management. She was elected as an external director upon having judged her qualified to promote diversity of the Company's Board of Directors and the Group's ESG initiatives. Ms. Miki Mitsunari serves as the president of FINEV inc. From September 2011 to June 2016, the Company had a business relationship with FINEV inc. for consulting services regarding the Company's CSR. However, because the scale of this relationship accounted for less than 0.001% of the Company's consolidated net sales, the amount of the business transactions was small at less than ¥10 million over that period of four years and ten months and there have been no transactions since that time, the Company believes that it is not significant enough to cause a conflict of interest.

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 senior partner of Natori Law Office. Although the Company has concluded a legal counsel agreement with that law office, because the scale of this relationship accounted for less than 0.0002% of the Company's consolidated net sales and was small at less than 1% of the law office's net sales, the Company believes that it is not significant enough to cause a conflict of interest. Mr. Somuku Iimura also serves as an outside Director at Maruha Nichiro Corporation and an outside audit & supervisory board member at SANYO SHOKAI LTD. However, there is no special relationship between the Company and the entities at which he holds the significant concurrent positions. He was elected as an external Audit & Supervisory Board Member upon having judged him qualified to 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. 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.

(2) Coordination between supervision by External Directors or auditing by External Audit & Supervisory Board Members and Internal Auditing, Audits by Audit & Supervisory Board Members and by Accounting Auditor, and Relationship with Internal Control Divisions

Based on their expert knowledge and abundant experience, external directors supervise the business execution of directors, provide valuable opinions and suggestion on the Company's management policy and management plan, etc., and supervise transactions that conflict with the interests of the directors and major shareholders, etc.

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 Audit Office and the accounting auditor in carrying out audits, during which such members may state their opinions or demand explanations.

3) Status of Audit

(1) Audits by Audit & Supervisory Board Members

The Company's Audit & Supervisory Board system relies on four Audit & Supervisory Board members (including two 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 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 meetings where the execution of operations is discussed, at which such person may state his/her opinions or demand explanations.

The Company's Audit & Supervisory Board is held, in principle, once a month and as needed. The Audit & Supervisory Boards held and status of attendance of Audit & Supervisory Board Members during the fiscal year under review are as follows:

Position	Name	Audit & Supervisory Board (held 12 times)	
		Attendance (times)	Attendance (rate)
Audit & Supervisory Board Member	Makoto Igarashi	12	100%
External Audit & Supervisory Board Member	Masamitsu Takahashi	11	92%
External Audit & Supervisory Board Member	Somuku Iimura	11	92%

Note: Mr. Jun Okamoto was newly elected as an Audit & Supervisory Board Member at the Ordinary General Meeting of Shareholders held on June 26, 2020. Accordingly, there is no information about his attendance.

Major items reviewed at the meetings of the Audit & Supervisory Board during the fiscal year under review are as follows.

- Election of Chairperson of the Audit & Supervisory Board
- Auditing policies and plans for Audit & Supervisory Board Members
- Items to be resolved at the Board of Directors
- Monthly regular financial reports
- Status of implementation of audits by the accounting auditor and execution of duties
- Regular reports from the internal audit division

Activities conducted by the standing Audit & Supervisory Board Member during the fiscal year under review are as follows.

- Attendance to the Board of Directors and other meetings and committees
- Hearing of various reports from Directors and related departments
- Inspection of important approval documents, contracts and other documents
- Investigation of status of operations and properties of the headquarters and major sales offices
- Regular meetings with the accounting auditor

(2) Internal Auditing

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

(3) Status of Accounting Audits

(i) Auditing Firm

KPMG AZSA LLC

(ii) Consecutive Auditing Period

31 years

The above period represents the period beginning from the fiscal year covered by an audit in the securities registration statements filed at the time of the Company's initial listing since it is extremely difficult to investigate auditing information prior to this period. The actual consecutive auditing period may exceed the period stated above.

(iii) Certified Public Accountants Who Performed the Audit

Designated limited liability partners Engagement partners: Naoya Miyaki, Kentaro Mikuriya, Tsutomu Fukushima

(iv) Composition of Assistants in Auditing Operations

14 certified public accountants, 13 other members

(v) Policy and Reasons for Selection of Auditing Firm

Where the accounting auditor is unable to execute their duties and the Audit & Supervisory Board deems necessary, it will decide on the contents of an agenda item for the dismissal or non-reappointment of the accounting auditor to be submitted to the General Meeting of Shareholders.

Furthermore, where the accounting auditor is recognized to fall under the items stipulated in Article 340, Paragraph 1 of the Companies Act, the accounting auditor will be dismissed base on the unanimous agreement of the Audit & Supervisory Board. In this case, at the first General Meeting of Shareholders convened after the dismissal, an Audit & Supervisory Board member selected by the Audit & Supervisory Board will report that the accounting auditor has been dismissed and provide the reasons for such.

As there were no incidents corresponding to the dismissal or non-reappointment of KPMG AZSA LLC, the Audit & Supervisory Board has reappointed it as the Company's auditing firm.

(vi) Evaluation of the Auditing Firm by the Audit & Supervisory Board Members and Audit & Supervisory Board

The Audit & Supervisory Board performs evaluations of the auditing firm. In these evaluations, the Audit & Supervisory Board monitors and evaluates whether the accounting auditor maintains an independent position and whether he/she is properly implementing audits, receives reports on the status of the execution of duties from the accounting auditor, and requests explanations where necessary. Furthermore, the Audit & Supervisory Board receives notifications from the accounting auditor stating that "systems for ensuring that the performance of the duties of Financial Auditor(s) is being carried out correctly" (items listed in Article 131 of the Regulation on Corporate Accounting) are in place according to "Quality Control Standards concerning Audit" (October 28, 2005, Business Accounting Council), and requests explanations where necessary. As a result of this process, the evaluation of the Audit & Supervisory discovered no problems in the execution of duties by the accounting auditor.

(vii) Auditing Firm Transfers

No items to report

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	2020
ASSETS			
Current assets:			
Cash and time deposits (Notes 7 and 9)	¥ 48,940	¥ 51,681	$ 449,688
Notes and accounts receivable (Notes 9, 18):			
- Trade	59,819	62,794	549,656
- Non-consolidated subsidiaries and affiliated companies	41	54	380
Sub-total	59,860	62,848	550,036
Operating loans	2,222	-	20,420
Inventories	392,830	387,459	3,609,574
Other current assets (Notes 9 and 18)	43,527	58,016	399,958
Allowance for doubtful accounts	(1,904)	(1,541)	(17,498)
Total current assets	545,475	558,463	5,012,178
Property and equipment:			
Buildings and structures, net (Notes 12, 13 and 20)	202,639	210,307	1,861,977
Land (Notes 13 and 15)	192,742	189,002	1,771,038
Lease assets, net (Notes 12, 13 and 14)	13,732	8,818	126,183
Others, net (Notes 12 and 13)	12,090	12,496	111,085
Total property and equipment, net	421,203	420,623	3,870,283
Intangible assets (Note 13)	33,697	34,902	309,632
Investments and other assets (Note 13):			
Investment securities (Notes 9 and 10)	5,253	9,398	48,269
Long-term loans receivable	2,817	3,113	25,883
Guarantee deposits (Notes 9, 18 and 27)	95,360	95,220	876,233
Net defined benefit asset (Note 19)	1,579	1,558	14,510
Deferred tax assets (Note 17)	29,723	30,534	273,113
Other assets	30,501	32,212	280,259
Allowance for doubtful accounts	(2,114)	(1,981)	(19,423)
Total investments and other assets	163,119	170,054	1,498,844
Total assets	¥ 1,163,494	¥ 1,184,042	$ 10,690,937

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2020 and 2019

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	2020
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Note 9)	¥ 103,329	¥ 114,006	$ 949,449
Short-term loans payable (Notes 9, 15 and 18)	53,730	95,930	493,706
Current portion of bonds (Notes 9 and 16)	-	100,017	-
Current portion of long-term loans payable (Notes 9, 15 and 18)	53,225	41,151	489,064
Lease obligations (Notes 14 and 15)	4,405	2,695	40,480
Income taxes payable (Note 17)	9,343	10,701	85,853
Provision for bonuses	8,355	8,275	76,768
Provision for directors' bonuses	129	117	1,189
Provision for point card certificates	13,164	12,172	120,960
Provision for warranties for completed construction	641	667	5,894
Provision for losses on liquidation of subsidiaries	607	282	5,577
Other current liabilities (Notes 15, 19 and 27)	51,619	50,502	474,307
Total current liabilities	298,547	436,515	2,743,247
Long-term liabilities:			
Long-term loans payable (Notes 9, 15 and 18)	123,939	66,429	1,138,835
Lease obligations (Notes 14 and 15)	11,820	9,024	108,608
Asset retirement obligations (Note 20)	34,307	32,803	315,232
Provision for directors' retirement benefits	1,049	477	9,639
Provision for product warranties	7,658	7,974	70,370
Provision for losses on interest repayments	32	50	294
Provision for gift certificates, etc.	124	155	1,136
Net defined benefit liability (Note 19)	30,343	28,114	278,810
Other long-term liabilities (Notes 15 and 17)	10,509	10,908	96,566
Total long-term liabilities	219,781	155,934	2,019,490
Total liabilities	518,328	592,449	4,762,737
Contingent liabilities (Note 18)			
Net assets (Note 21):			
Common stock: authorized – 2,000,000,000 shares issued – 966,489,740 shares in 2020 and 2019	71,059	71,059	652,934
Capital surplus	84,060	79,404	772,395
Retained earnings	517,944	503,701	4,759,198
Treasury stock, at cost – 86,038,722 shares in 2020 and 153,169,159 shares in 2019	(38,171)	(67,953)	(350,739)
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities, net of taxes (Note 10)	(733)	540	(6,735)
Foreign currency translation adjustments	438	313	4,022
Remeasurements of defined benefit plans (Note 19)	540	1,420	4,967
Subscription rights to shares (Note 22)	1,872	1,493	17,203
Non-controlling interests	8,157	1,616	74,955
Total net assets	645,166	591,593	5,928,200
Total liabilities and net assets	¥ 1,163,494	¥ 1,184,042	$ 10,690,937

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, 2020 and 2019

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	2020
Net sales (Note 26):			
- Trade	¥ 1,611,074	¥ 1,600,484	$ 14,803,584
- Non-consolidated subsidiaries and affiliated companies	464	99	4,263
Sub-total	1,611,538	1,600,583	14,807,847
Cost of sales (Note 27)	1,150,885	1,159,592	10,575,073
Gross profit	460,653	440,991	4,232,774
Selling, general and administrative expenses (Notes 23 and 27)	422,326	413,126	3,880,605
Operating profit	38,327	27,865	352,169
Other income (expenses):			
Interest income	726	899	6,670
Interest expenses	(1,400)	(1,243)	(12,859)
Purchase discounts	4,267	4,501	39,214
Impairment loss (Note 13)	(8,742)	(9,966)	(80,331)
Others, net (Note 24)	5,228	3,041	48,037
Total other income (expenses)	79	(2,768)	731
Profit before income taxes	38,406	25,097	352,900
Income taxes (Note 17):			
Current	13,009	14,342	119,538
Deferred	820	(4,039)	7,535
Total income taxes	13,829	10,303	127,073
Profit	24,577	14,794	225,827
(Loss) profit attributable to non-controlling interests	(28)	102	(263)
Profit attributable to owners of parent	¥ 24,605	¥ 14,692	$ 226,090

	Yen		*U.S. dollars (Note 1)*
Amounts per share of common stock:			
Basic earnings per share	¥ 28.38	¥ 18.19	$ 0.26
Diluted earnings per share	27.01	18.08	0.25
Cash dividends applicable to the year	10.00	13.00	0.09

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, 2020 and 2019

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	2020
Profit	¥ 24,577	¥ 14,794	$ 225,827
Other comprehensive loss, net of taxes (Note 25):			
Valuation difference on available-for-sale securities	(1,273)	(1,316)	(11,694)
Foreign currency translation adjustments	125	1,128	1,145
Remeasurements of defined benefit plans, net of tax	(880)	(932)	(8,084)
Share of other comprehensive loss of associates accounted for using equity method	(0)	(0)	(0)
Total other comprehensive loss	(2,028)	(1,120)	(18,633)
Comprehensive income	¥ 22,549	¥ 13,674	$ 207,194
Comprehensive income attributable to:			
Owners of parent	¥ 22,577	¥ 13,574	$ 207,457
Non-controlling interests	(28)	100	(263)

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, 2020 and 2019

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, 2018	966,490	¥ 71,059	¥ 84,608	¥ 500,164	¥ (73,704)	¥ 1,854	¥ (815)	¥ 2,352	¥ 1,153	¥ 2,069	¥ 588,740
Cash dividends				(10,404)							(10,404)
Profit attributable to owners of parent				14,692							14,692
Purchase of treasury stock					(4)						(4)
Disposal of treasury stock			0		0						0
Decrease by merger				(751)							(751)
Purchase of shares of consolidated subsidiaries			(5,204)		5,755						551
Other changes in the year, net						(1,314)	1,128	(932)	340	(453)	(1,231)
Balance at March 31, 2019	966,490	71,059	79,404	503,701	(67,953)	540	313	1,420	1,493	1,616	591,593
Cash dividends				(10,573)							(10,573)
Profit attributable to owners of parent				24,605							24,605
Purchase of treasury stock					(2)						(2)
Disposal of treasury stock			4,656		29,784						34,440
Change in scope of consolidation				211							211
Other changes in the year, net						(1,273)	125	(880)	379	6,541	4,892
Balance at March 31, 2020	966,490	¥ 71,059	¥ 84,060	¥ 517,944	¥ (38,171)	¥ (733)	¥ 438	¥ 540	¥ 1,872	¥ 8,157	¥ 645,166

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, 2019	$ 652,934	$ 729,611	$ 4,628,325	$ (624,391)	$ 4,959	$ 2,876	$ 13,051	$ 13,723	$ 14,850	$ 5,435,938
Cash dividends			(97,153)							(97,153)
Profit attributable to owners of parent			226,090							226,090
Purchase of treasury stock				(21)						(21)
Disposal of treasury stock		42,784		273,673						316,457
Change in scope of consolidation			1,936							1,936
Other changes in the year, net					(11,694)	1,146	(8,084)	3,480	60,105	44,953
Balance at March 31, 2020	$ 652,934	$ 772,395	$ 4,759,198	$ (350,739)	$ (6,735)	$ 4,022	$ 4,967	$ 17,203	$ 74,955	$ 5,928,200

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Profit before income taxes	¥ 38,406	¥ 25,097	$ 352,900
Depreciation	20,719	18,926	190,383
Amortization of goodwill	58	516	534
Increase in provision for point card certificates	635	4,337	5,836
Decrease in provision for product warranties	(315)	(1,664)	(2,899)
Increase (decrease) in allowance for doubtful accounts	440	(536)	4,044
Increase in net defined benefit liability	1,338	1,182	12,297
Interest and dividend income	(965)	(1,100)	(8,863)
Interest expenses	1,400	1,243	12,859
Foreign exchange losses	431	324	3,959
Gain on sale of investment securities	(1,708)	(556)	(15,696)
Loss on sale and disposal of property and equipment, net	47	129	432
Impairment loss	8,742	9,966	80,331
Gain on negative goodwill	(2,721)	-	(25,006)
Decrease (increase) in notes and accounts receivable	12,456	(16,951)	114,455
Increase in operating loans receivable	(1,417)	-	(13,017)
Decrease in advances received	(1,135)	(2,731)	(10,431)
Decrease (increase) in inventories	3,393	(4,198)	31,175
(Decrease) increase in notes and accounts payable	(11,702)	15,730	(107,523)
Decrease (increase) in accounts receivable	6,401	(2,110)	58,815
Increase (decrease) in consumption taxes payable	4,787	(3,063)	43,987
Increase in other current assets	(382)	(432)	(3,510)
(Decrease) increase in other current liabilities	(3,833)	1,668	(35,218)
Other, net	2,651	(495)	24,354
Sub-total	77,726	45,282	714,198
Interest and dividend income received	261	400	2,398
Interest expenses paid	(1,413)	(1,250)	(12,981)
Income taxes paid	(14,140)	(8,409)	(129,931)
Net cash provided by operating activities	¥ 62,434	¥ 36,023	$ 573,684

(Continued)

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	2020
Cash flows from investing activities:			
Payments into time deposits	¥ (94)	¥ (228)	$ (864)
Proceeds from withdrawal of time deposits	58	338	533
Proceeds from sale of property and equipment	463	1,586	4,256
Proceeds from sales and redemption of investment securities	3,416	1,590	31,394
Payments for purchase of investment securities	(5)	(1,626)	(49)
Proceeds from acquisition of shares in subsidiary resulting in change in scope of consolidation	1,468	-	13,487
Proceeds from sale of shares in subsidiary resulting in change in scope of consolidation	217	-	1,993
Payment of loans receivable	(1,261)	(8,487)	(11,584)
Collection of loans receivable	1,059	4,123	9,729
Purchases of property and equipment	(19,105)	(13,172)	(175,548)
Purchases of intangible assets	(715)	(603)	(6,567)
Payments for guarantee deposits	(822)	(1,767)	(7,554)
Proceeds from collection of guarantee deposits	6,648	9,142	61,084
Purchase of investments in subsidiaries and affiliated companies	(97)	(768)	(895)
Other, net	535	1,403	4,920
Net cash used in investing activities	(8,235)	(8,469)	(75,665)
Cash flows from financing activities:			
Net (decrease) increase in short-term loans payable	(47,000)	11,349	(431,866)
Proceeds from long-term loans payable	115,310	21,270	1,059,540
Repayments of long-term loans payable	(45,651)	(47,500)	(419,468)
Redemption of bonds	(65,560)	-	(602,407)
Purchase of treasury stock	(1)	(3)	(15)
Proceeds from disposal of treasury stock	0	0	1
Repayments of lease obligations	(4,638)	(2,735)	(42,622)
Proceeds from sales and leasebacks	24	623	222
Cash dividends paid	(10,572)	(10,461)	(97,140)
Other, net	(3)	(4)	(26)
Net cash used in financing activities	(58,091)	(27,461)	(533,781)
Effect of exchange rate change on cash and cash equivalents	(10)	(244)	(90)
Net decrease in cash and cash equivalents	(3,902)	(151)	(35,852)
Cash and cash equivalents at beginning of year	51,176	51,327	470,232
Increase in cash and cash equivalents resulting from change in scope of consolidation	1,124	-	10,328
Cash and cash equivalents at end of year (Note 7)	¥ 48,398	¥ 51,176	$ 444,708

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, 2020 and 2019

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, 2020, which was ¥108.83 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 31 significant subsidiaries (together, the "Group"). YAMADA FINANCE SERVICE Co., Ltd. has been included in the scope of consolidation due to increased materiality. OTSUKA KAGU, LTD. has been included in the scope of consolidation due to acquisition of its shares with deemed acquisition date of December 31, 2019. YAMADA Environmental Resources Development Holdings Co., Ltd. has been included in the scope of consideration due to its establishment on March 2, 2020 with deemed acquisition date of March 31, 2020. Ace Home Co., Ltd. has been excluded from the scope of consolidation because all of its shares were sold under the share transfer agreement concluded on January 27, 2020. However, its financial results until February 29, 2020 were included in the consolidated statement of income for the year ended March 31, 2020.

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 non-controlling 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 5 to 15 years.

The fiscal year-end of six foreign consolidated subsidiaries is at the end of December. The fiscal year-end of BEST DENKI CO., LTD. and other 23 consolidated subsidiaries is at the end of February, and that of OTSUKA KAGU, LTD. is at the end of April. The financial statements of these subsidiaries, except OTSUKA KAGU, LTD., as of and for the years ended December 31, 2019 and 2018 or February 29, 2020 and February 28, 2019, as applicable, were used in preparing the consolidated financial statements. For OTSUKA KAGU, LTD., its financial statements based on a provisional settlement of accounts as of January 31, 2020 were used. 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 the first and second subscription rights to shares of consolidated subsidiary OTSUKA KAGU, LTD. was not reflected for the fiscal year ended March 31, 2020 because they were anti-dilutive.

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

3. CHANGES IN ACCOUNTING POLICIES

At subsidiaries adopting International Financial Reporting Standards (IFRS), IFRS 16 "Leases" has been applied from the fiscal year ended March 31, 2020. Due to this application, lessees, in principle, record all leases as assets and liabilities on the balance sheets. In applying the accounting standard, the Group adopted a method to recognize the cumulative effect of adoption of this new accounting standard, which is recognized as a transitional measure, on the initial date of adoption.

As a result, at the end of the fiscal year ended March 31, 2020, the balance of "lease assets" under "property and equipment" increased by ¥6,913 million ($63,525 thousand), "lease obligations" under "current liabilities" increased by ¥2,049 million ($18,827 thousand), and "lease obligations" under "long-term liabilities" increased by ¥4,960 million ($45,575 thousand).

The effect of this change on profit or loss and cash flows for the fiscal year ended March 31, 2020 is immaterial.

4. ACCOUNTING STANDARDS AND GUIDANCE ISSUED BUT NOT YET APPLIED

・ *"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 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.

・ *"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)*

a) Outline:

The purpose of this standard is to disclose information that contributes to the understanding of financial statement users regarding the content of accounting estimates in items where the amount recorded in the financial statements for the current fiscal year is based on accounting estimates and there is a risk of significant impact on the financial statements for the following fiscal year.

b) Planned date of application:

To be applied from the end of the fiscal year ending March 31, 2021.

・ *"Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)*

a) Outline:
The ASBJ made required revisions and issued the revised "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" considering the circumstance where the ASBJ received proposals for consideration of enhancement of notes disclosure information on "accounting principles and procedures adopted when requirements under the relating accounting standards are not clearly defined."
When enhancing notes disclosure on "accounting principles and procedures adopted when requirements under the relating accounting standards are not clearly defined," note 1-2 of the Business Accounting Principles should be followed to avoid affecting accounting practices when requirements under the relating accounting standards are clearly defined.

b) Planned date of application:
To be applied from the end of the fiscal year ending March 31, 2021.

5. ADDITIONAL INFORMATION

Accounting estimates

The impact of the novel coronavirus disease (COVID-19) is continuing even today as of June 26, 2020 and affecting the Group's business activities. The spread of COVID-19 is showing a downward trend in all areas of Japan where the Group operates stores for each business. However, there still exists the possibility that COVID-19 may spread once again. Accordingly, net sales and operating profit of related stores may possibly decrease according to the store operation status, a decline in demand and other factors until the COVID-19 pandemic ends and economic activities in Japan recover. The Group has made various accounting estimates in preparing the consolidated financial statements. Major assumptions used to reflect the impact of COVID-19 to the accounting estimates are as follows.

It is uncertain and difficult to predict when the COVID-19 pandemic ends. As of the date of preparation of the consolidated financial statements, the Group anticipates a scenario where the COVID-19 pandemic will end by the end of September 2020. The Group also anticipates a decline in inbound visitor demand due to the global pandemic of COVID-19, a decrease in numbers of customers visiting stores due to voluntary restrictions against non-essential and non-urgent outings, as well as changes in consumer behavior stemming from increasingly defensive spending patterns. On the other hand, all of the Group's stores (excluding some stores within commercial facilities) are open with reduced business working hours in order to fulfill the Group's social mission as a lifestyle infrastructure upon the government having declared a state of emergency. It is expected that a substantial amount of demand for home appliances will be created to be prepared for voluntary restrictions against non-essential and non-urgent outings. By taking into consideration the above factors, the Group has made an assumption for its performance in the next fiscal year and thereafter to make accounting estimates (examination of impairment accounting on non-current assets) for the fiscal year ended March 31, 2020.

For the above statements, the Group has made estimates and judgements deemed reasonable based on the current status and information available. However, actual results may differ from these assumptions due to uncertainty about the estimates of how COVID-19 will spread and when it will end.

6. BUSINESS COMBINATIONS

Business combination through acquisition

Conversion of OTSUKA KAGU, LTD. into a wholly owned subsidiary through share acquisition

The Company resolved at its Board of Directors meeting held on December 12, 2019 to enter into a capital alliance with OTSUKA KAGU, LTD. ("Otsuka Kagu") and acquire new shares and subscription rights to shares issued through the third-party allotment implemented by Otsuka Kagu. The Company made Otsuka Kagu into a consolidated subsidiary on December 30, 2019.

1. Summary of the business combination

a) Name and business lines of the acquired company
Name of the company: OTSUKA KAGU, LTD.
Business lines: Retail sales of furniture (Storage cabinets, beds, dining tables and chairs, reception suite, etc.)

b) Main reasons for the business combination
Under the concept of "brighten your future with smart housing" as a lifestyle infrastructure with consumer appliances at the core, the Group is engaged in developing Kaden Sumairu-kan, which combines services, not only for proposals of solutions entailing residences, renovations, housing equipment, and furniture and accessories with respect to living spaces designed to be highly coordinated with electrical appliances, but also for provision of various financial products and real estate information, with a cafe section and more. The Company made a basic agreement on a business alliance with Otsuka Kagu on February 15, 2019 (the press release "Notice of Basic Agreement on Business Alliance" was disclosed on February 15, 2019). Since then, Otsuka Kagu has provided products sold at Kaden Sumairu-kan operated by the Company, know-how of furniture sales, and human resources, and we have been collaborating on delivering home alliances and furniture to hotels, offices and others in the corporate sector. Since it was confirmed that, through these measures, a reform at Otsuka Kagu progressed and the Company's earnings improved, the Company made a decision to enter into the capital alliance in order to make collaboration with Otsuka Kagu firmly established.
Going forward, the Company will work on jointly developing products with Otsuka Kagu, increasing sales of the Company's online business, and strengthening collaborations in the corporate sector to improve competitiveness and the management efficiency of the entire Group. Through these efforts, the Company aims to increase customer satisfaction and corporate value.

c) Date of the business combination: December 30, 2019

d) Legal form of business combination
Acquisition of shares

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

f) Acquired voting rights ratio
51.74%

g) Main reason for the determination of the acquired company
The Company acquired 51.74% of the voting rights of Otsuka Kagu for a cash consideration, thereby making it a consolidated subsidiary.

2. The period of financial results of the acquired company included in the Company's consolidated financial statements:
From January 1, 2020 to January 31, 2020

3. Acquisition cost and breakdown by type of consideration:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for the acquisition:		
Cash	¥ 4,374	$ 40,191
Acquisition cost	¥ 4,374	$ 40,191

4. Details and amount of major expenses for the acquisition:
   Due diligence and advisory expenses: ¥28 million ($258 thousand)

5. Amount of gain on negative goodwill and reason for generation:
   a) Amount of gain on negative goodwill: ¥2,721 million ($25,006 thousand)
   b) Reason for generation of gain on negative goodwill: Since net amount allocated to assets acquired and liabilities assumed exceeded the acquisition cost, the difference was recognized as gain on negative goodwill.

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	¥	15,400	$	141,511
Non-current assets		4,699		43,175
Total assets	¥	20,099	$	184,686
Current liabilities	¥	5,325	$	48,933
Non-current liabilities		918		8,435
Total liabilities	¥	6,243	$	57,368

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

	Millions of yen		Thousands of U.S. dollars (Note 1)	
Net sales	¥	25,545	$	234,724
Operating profit		(3,246)		(29,828)

Method for calculating the approximate amount

Difference between net sales and profit and loss information calculated assuming the business combination was completed on the beginning date of the current fiscal year and those in the statement of income of the acquired company was used as the approximate amount of the impact.

This note has not received audit certification.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2020 and 2019 in the consolidated statements of cash flows consisted of the following:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2020		2019		*2020*	
Cash and time deposits	¥	48,940	¥	51,681	$	449,688
Time deposits with maturities exceeding three months		(542)		(505)		(4,980)
Cash and cash equivalents	¥	48,398	¥	51,176	$	444,708

8. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2020 were ¥9,217 million ($84,696 thousand) and ¥9,195 million ($84,493 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2019 were ¥1,560 million and ¥1,709 million, respectively.

Assets retirement obligations for the years ended March 31, 2020 and 2019 were ¥1,346 million ($12,367 thousand) and ¥1,356 million, respectively.

Disposal of treasury stock due to redemption of convertible bonds for the year ended March 31, 2020 was ¥34,440 million ($316,457 thousand).

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

As a result of the acquisition of shares of Otsuka Kagu, during the year ended March 31, 2020, Otsuka Kagu 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	¥ 15,400	141,510
Non-current assets	4,698	43,175
Gain on negative goodwill	(2,721)	(25,006)
Current liabilities	(5,325)	(48,933)
Non-current liabilities	(918)	(8,435)
Other	(142)	(1,308)
Non-controlling interests	(6,618)	(60,812)
Acquisition price of the shares	4,374	40,191
Cash and cash equivalents	(5,842)	(53,678)
Difference: Proceeds from acquisition of the shares	¥ 1,468	13,487

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.

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, 2020 and 2019:

	Millions of yen		
	2020		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 48,940	¥ 48,940	¥ -
(2) Notes and accounts receivable	59,860		
Allowance for doubtful accounts (*1)	(259)		
	59,601	59,601	-
(3) Investment securities (*2)	3,195	3,256	61
(4) Guarantee deposits (*3)			
(including current portion)	82,146		
Allowance for doubtful accounts (*1)	(30)		
	82,116	84,193	2,077
	¥ 193,852	¥ 195,990	¥ 2,138
Financial liabilities:			
(1) Notes and accounts payable	¥ 103,329	¥ 103,329	¥ -
(2) Short-term loans payable	53,730	53,730	-
(3) Long-term loans payable			
(including current portion)	177,164	176,478	(686)
	¥ 334,223	¥ 333,537	¥ (686)
Derivative transactions (*4)	¥ 85	¥ 85	¥ -

	Thousands of U.S. dollars (Note 1)		
	2020		
	Book value	*Fair value*	*Valuation gains/(losses)*
Financial assets:			
(1) Cash and time deposits	$ 449,688	$ 449,688	$ -
(2) Notes and accounts receivable	550,036		
Allowance for doubtful accounts (*1)	(2,378)		
	547,658	547,658	-
(3) Investment securities (*2)	29,357	29,919	562
(4) Guarantee deposits (*3)			
(including current portion)	754,811		
Allowance for doubtful accounts (*1)	(279)		
	754,532	773,622	19,090
	$ 1,781,235	$ 1,800,887	$ 19,652
Financial liabilities:			
(1) Notes and accounts payable	$ 949,449	$ 949,449	$ -
(2) Short-term loans payable	493,706	493,706	-
(3) Long-term loans payable			
(including current portion)	1,627,899	1,621,598	(6,301)
	$ 3,071,054	$ 3,064,753	$ (6,301)
Derivative transactions (*4)	$ 785	$ 785	$ -

	Millions of yen		
	2019		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 51,681	¥ 51,681	¥ -
(2) Notes and accounts receivable	62,848		
Allowance for doubtful accounts (*1)	(139)		
	62,709	62,709	-
(3) Investment securities (*2)	6,379	6,601	222
(4) Guarantee deposits (*3) (including current portion)	83,014		
Allowance for doubtful accounts (*1)	(34)		
	82,980	85,934	2,954
	¥ 203,749	¥ 206,925	¥ 3,176
Financial liabilities:			
(1) Notes and accounts payable	¥ 114,006	¥ 114,006	¥ -
(2) Short-term loans payable	95,930	95,930	-
(3) Current portion of bonds	100,017	99,858	(159)
(4) Long-term loans payable (including current portion)	107,579	107,425	(154)
	¥ 417,532	¥ 417,219	¥ (313)
Derivative transactions (*4)	¥ 10	¥ 10	¥ -

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) 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)*
	2020	2019	*2020*
	Book value		
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 1,196	¥ 1,562	$ 10,992
Affiliated companies	70	132	639
(2) Available-for-sale securities			
Unlisted equity securities	792	1,325	7,280
Investments in LPS (*2)	0	0	1
Guarantee deposits (*3)	17,838	17,938	163,905

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			
	2020			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 48,940	¥ -	¥ -	¥ -
Notes and accounts receivable	59,860	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	-	-	-
(2) Others	0	-	-	-
Guarantee deposits (*)	4,623	18,699	32,834	25,990
Total	¥ 113,423	¥ 18,699	¥ 32,834	¥ 25,990

	Thousands of U.S. dollars (Note 1)			
	2020			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 449,688	$ -	$ -	$ -
Notes and accounts receivable	550,036	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	-	-	-
(2) Others	1	-	-	-
Guarantee deposits (*)	42,482	171,816	301,702	238,811
Total	$ 1,042,207	$ 171,816	$ 301,702	$ 238,811

	Millions of yen			
	2019			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 51,681	¥ -	¥ -	¥ -
Notes and accounts receivable	62,848	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	-	-	-
(2) Others	0	-	-	-
Guarantee deposits (*)	5,732	21,700	24,114	31,467
Total	¥ 120,261	¥ 21,700	¥ 24,114	¥ 31,467

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, 2020 and 2019 were as follows:

	Millions of yen		
	2020		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 368	¥ 156	¥ 212
Debt securities:			
Government bonds and others (*)	471	466	5
Sub-total	839	622	217
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	2,542	3,329	(787)
Sub-total	2,542	3,329	(787)
Total	¥ 3,381	¥ 3,951	¥ (570)

	Thousands of U.S. dollars (Note 1)		
	2020		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 3,386	$ 1,442	$ 1,944
Debt securities:			
Government bonds and others (*)	4,324	4,278	46
Sub-total	7,710	5,720	1,990
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	23,361	30,592	(7,231)
Sub-total	23,361	30,592	(7,231)
Total	$ 31,071	$ 36,312	$ (5,241)

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 ¥792 million ($7,280 thousand) and investments in LPS of ¥0 million ($1 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		
	2019		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 1,789	¥ 762	¥ 1,027
Debt securities:			
Government bonds and others (*)	488	474	14
Sub-total	2,277	1,236	1,041
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	4,307	4,503	(196)
Sub-total	4,307	4,503	(196)
Total	¥ 6,584	¥ 5,739	¥ 845

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 ¥1,325 million and investments in LPS of ¥0 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, 2020 and 2019 were as follow:

	Millions of yen		
	2020		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 3,416	¥ 1,710	¥ (1)
Debt securities:			
Government bonds and others	11	-	(1)
Total	¥ 3,427	¥ 1,710	¥ (2)

	Thousands of U.S. dollars (Note 1)		
	2020		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 31,393	$ 15,710	$ (13)
Debt securities:			
Government bonds and others	97	-	(4)
Total	$ 31,490	$ 15,710	$ (17)

	Millions of yen		
	2019		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 1,039	¥ 557	¥ (0)
Total	¥ 1,039	¥ 557	¥ (0)

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

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

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

Loss on valuation of marketable Available-for-sale Securities and investments in non-consolidated subsidiaries and affiliated companies were ¥614 million ($5,641 thousand) and ¥61 million ($557 thousand), respectively, for the year ended March 31, 2020, and ¥70 million and ¥10 million, respectively, for the year ended March 31, 2019.

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, 2020 and 2019 were as follows:

	Millions of yen		Millions of yen		*Thousands of U.S. dollars (Note 1)*	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains	*Fair value*	*Unrealized gains*
At March 31, 2020:						
Foreign currency forward contracts:						
Buy, call ················	¥2,835	¥ -	¥ 85	¥ 85	$ 785	$ 785
Total ······················			¥ 85	¥ 85	$ 785	$ 785

	Millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains
At March 31, 2019:				
Foreign currency forward contracts:				
Buy, call ················	¥ 821	¥ -	¥ 10	¥ 10
Total ······················			¥ 10	¥ 10

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, 2020 and 2019 were as follows:

	Millions of yen					
	Notional amount					
	Total		Over one year		Fair value	
At March 31, 2020:						
Interest rate swap contracts:						
Pay fixed, receive floating	¥	38,000	¥	24,000	¥	(*)

	Thousands of U.S. dollars (Note 1)					
	Notional amount					
	Total		*Over one year*		*Fair value*	
At March 31, 2020:						
Interest rate swap contracts:						
Pay fixed, receive floating	$	349,168	$	220,527	$	(*)

	Millions of yen					
	Notional amount					
	Total		Over one year		Fair value	
At March 31, 2019:						
Interest rate swap contracts:						
Pay fixed, receive floating	¥	62,000	¥	38,000	¥	(*)

(*) 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 "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)*	
	2020		2019		*2020*	
Accumulated depreciation	¥	321,352	¥	299,801	$	2,952,790

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 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. Goodwill included in intangible assets are grouped and assessed based on businesses according to classification used for managerial accounting.

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 excluding goodwill, and investments and other assets are set at zero. The recoverable amounts of goodwill are based on the use value, which was measured at zero for the year ended March 31, 2020 and calculated by discounting future cash flows mainly by 8.1% for the year ended March 31, 2019.

The summary of impairment losses recorded for the fiscal years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Buildings and structures	¥ 3,918	¥ 3,124	$ 35,999
Land	25	63	227
Lease assets	371	650	3,412
Other tangible assets	2,485	600	22,839
Intangible assets	1,569	5,209	14,417
Investments and other assets	374	320	3,437
Total	¥ 8,742	¥ 9,966	$ 80,331

Impairment losses for the year ended March 31, 2020 mainly relate to retail stores and a property for the Group's own business use located in Kanagawa Prefecture, stores located in Okayama Prefecture and others. Impairment losses for the year ended March 31, 2019 mainly relate to retail stores and a property for the Group's own business use located in Aichi Prefecture, stores and a property for rent located in Nara Prefecture and others.

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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Due within one year	¥ 13,743	¥ 14,209	$ 126,281
Due after one year	74,893	85,431	688,163
Total	¥ 88,636	¥ 99,640	$ 814,444

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Due within one year	¥ 230	¥ 230	$ 2,117
Due after one year	335	565	3,075
Total	¥ 565	¥ 795	$ 5,192

15. SHORT-TERM AND LONG-TERM DEBT

The weighted-average rates of interest for short-term loans payable were approximately 0.40% and 0.38% as of March 31, 2020 and 2019, respectively.

The weighted-average rates of interest for the current portion of long-term loans payable were approximately 0.52% and 0.61% as of March 31, 2020 and 2019, respectively.

The weighted-average rates of interest for long-term loans payable (excluding the current portion thereof) were approximately 0.52% and 0.61% as of March 31, 2020 and 2019, respectively. The long-term loans payable were due in 2021 through 2025 and 2020 through 2024 as of March 31, 2020 and 2019, 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 nil and 2.73% as of March 31, 2020 and 2019, respectively.

The short-term and long-term debt as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Short-term loans payable	¥ 53,730	¥ 95,930	$ 493,706
Long-term loans payable (due within one year)	53,225	41,151	489,064
Lease obligations (due within one year)	4,405	2,695	40,480
Other interest-bearing liabilities			
—Long-term other payables (due within one year)	-	6	-
Sub-total	111,360	139,782	1,023,250
Long-term loans payable (excluding amounts due within one year)	123,939	66,428	1,138,835
Lease obligations (excluding amounts due within one year)	11,820	9,024	108,608
Sub-total	135,759	75,452	1,247,443
Total	¥ 247,119	¥ 215,234	$ 2,270,693

The following assets were pledged as collateral for the below listed liabilities as of March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Land	¥ 57	¥ 57	$ 526

Note: Land was pledged as collateral at certain consolidated subsidiaries for customers' housing loans of ¥26 million ($236 thousand) and ¥29 million as of March 31, 2020 and 2019, respectively.

The aggregate annual maturities of long-term loans payable as of March 31, 2020 were as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	¥ 53,225	$ 489,064
2022	42,178	387,562
2023	33,524	308,039
2024	22,910	210,513
Thereafter	25,327	232,721
Total	¥ 177,164	$ 1,627,899

The aggregate annual maturities of finance lease obligations as of March 31, 2020 were as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	¥ 4,405	$ 40,480
2022	3,612	33,186
2023	2,735	25,127
2024	2,997	27,543
Thereafter	2,476	22,752
Total	¥ 16,225	$ 149,088

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($459,432 thousand) with seven financial institutions. Under these credit facilities, no amount has been executed as of March 31, 2020 and 2019.

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, 2020 and 2019 were as follows:

	Yen	Millions of yen		Thousands of U.S. dollars (Note 1)	
		2020	2019	2020	
	Conversion price per share	Outstanding balance			Conversion period
Euro yen zero coupon convertible bonds due 2019	¥ 513.0	¥ -	¥ 100,017	$ -	June 26, 2014 – June 14, 2019

Note: There is no outstanding balance as of March 31, 2020 since the above bonds were redeemed at maturity on June 28, 2019.

No subscription rights were exercised for the years ended March 31, 2020 and 2019.

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 30.5% for the years ended March 31, 2020 and 2019.

Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	*2020*
Deferred tax assets:			
Loss on valuation of inventories	¥ 2,090	¥ 1,179	$ 19,208
Impairment loss	14,460	11,629	132,865
Loss on valuation of investment securities	505	392	4,637
Loss on valuation of stock of subsidiaries	1,291	1,263	11,863
Provision for bonuses	2,575	2,561	23,664
Provision for point card certificates	4,040	3,736	37,126
Net defined benefit liability	8,536	7,963	78,433
Provision for directors' retirement benefits	335	158	3,081
Provision for product warranties	2,371	2,430	21,786
Asset retirement obligations	10,401	9,892	95,572
Consolidated subsidiaries' tax loss carry-forward	18,372	14,782	168,811
Others	8,442	8,430	77,567
Sub-total	73,418	64,415	674,613
Valuation allowance for tax loss carry-forward (Note 2)	(17,737)	(14,249)	(162,975)
Valuation allowance for total of deductible temporary differences	(17,897)	(11,671)	(164,455)
Valuation allowance (Note 1)	(35,634)	(25,920)	(327,430)
Total deferred tax assets	37,784	38,495	347,183
Deferred tax liabilities:			
Unrealized gains on valuation of land	(944)	(941)	(8,671)
Loss recognized corresponding to asset retirement obligations	(6,350)	(6,487)	(58,348)
Others	(1,342)	(1,125)	(12,336)
Total deferred tax liabilities	(8,636)	(8,553)	(79,355)
Net deferred tax assets (Note 3)	¥ 29,148	¥ 29,942	$ 267,828

Notes: 1. Valuation allowance increased by ¥9,714 million ($89,264 thousand). The increase is mainly due to additional recognition of valuation allowance for tax loss carry-forward of ¥5,618 million ($51,621 thousand) at Otsuka Kagu as this company was newly consolidated, and valuation allowance for total of deductible temporary differences of ¥2,162 million ($19,870 thousand).

2. The expiration of tax loss carry-forward and the resulting deferred tax assets as of March 31, 2020 and 2019 were as follows:

	Millions of yen						
	2020						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carry-forward (*1)	¥ 4,435	¥ 2,948	¥ 762	¥ 1,043	¥ 927	¥ 8,257	¥ 18,372
Valuation allowance	(3,800)	(2,948)	(762)	(1,043)	(927)	(8,257)	(17,737) (*2)
Deferred tax assets	635	-	-	-	-	-	635

	Thousands of U.S. dollars (Note 1)						
	2020						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carry-forward (*1)	$ 40,752	$ 27,090	$ 7,000	$ 9,581	$ 8,518	$ 75,870	$ 168,811
Valuation allowance	(34,916)	(27,090)	(7,000)	(9,581)	(8,518)	(75,870)	(162,975) (*2)
Deferred tax assets	5,836	-	-	-	-	-	5,836

	Millions of yen						
	2019						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carry-forward (*1)	¥ 1,785	¥ 4,499	¥ 2,921	¥ 823	¥ 1,047	¥ 3,708	¥ 14,782
Valuation allowance	(1,265)	(4,486)	(2,921)	(823)	(1,047)	(3,708)	(14,249) (*2)
Deferred tax assets	520	13	-	-	0	-	533

(*1) Tax loss carry-forward was determined by multiplying the statutory income tax rate.

(*2) As of March 31, 2020, deferred tax assets of ¥635 million ($5,836 thousand) were recorded for tax loss carry-forward of ¥18,372 million ($168,811 thousand) (multiplied by the statutory income tax rate). This amount of deferred tax assets was recognized mainly for part of the balance of tax loss carry-forward of ¥7,571 million ($69,563 thousand) at consolidated subsidiary BEST DENKI CO., LTD. As of March 31, 2019, deferred tax assets of ¥533 million were recorded for tax loss carry-forward of ¥14,782 million (multiplied by the statutory income tax rate). This amount of deferred tax assets was recognized mainly for part of the balance of tax loss carry-forward of ¥9,040 million at consolidated subsidiary BEST DENKI CO., LTD. The tax loss carry-forward for which deferred tax assets were recorded mainly resulted from an impairment loss of ¥13,646 million ($125,385 thousand) and the provision for business restructuring of ¥8,637 million ($79,366 thousand) recorded in the fiscal year ended February 28, 2010 which became deductible in and after the next fiscal year for tax purposes. Valuation allowance has not been recognized since the deferred tax assets for tax loss carry-forward are determined to be recoverable due to the expected future taxable income.

3. Net deferred tax assets (liabilities) were included in the following accounts in the consolidated balance sheets as of March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Investments and other assets – Deferred tax assets	¥ 29,723	¥ 30,533	$ 273,113
Long-term liabilities – Other long-term liabilities	(575)	(591)	(5,285)

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, 2020 and 2019 were as follows:

	2020	2019
Statutory income tax rate	30.5%	30.5%
Per capita inhabitants taxes	2.6	4.1
Change in valuation allowance	(1.4)	(3.0)
Tax rate differences for net loss subsidiaries	3.4	5.3
Tax rate differences for consolidated subsidiaries	0.8	1.0
Effect of merger of subsidiaries	-	(4.8)
Impairment loss on goodwill	1.0	6.1
Gain on negative goodwill	(2.2)	-
Entertainment and other non-deductible expenses	0.8	1.3
Others, net	0.5	0.6
Effective income tax rate	36.0	41.1

18. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥12,912 million ($118,644 thousand) and ¥1,951 million to credit card companies as of March 31, 2020 and 2019, respectively.

The Group was contingently liable for the following guarantees of debt as of March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Guarantees of debt made to home buyers and the like	¥ 605	¥ 4,111	$ 5,562
Joint and several guarantees of payables to suppliers	270	322	2,481
Guarantees of debt made to employees	8	10	72
Joint and several guarantees of debt made to the lease contract of Azuma Metal Co., Ltd.	-	0	-

The discounted trade notes receivable were ¥1,160 million ($10,656 thousand) and ¥711 million, as of March 31, 2020 and 2019, respectively.

Receivables securitized through a self-created trust as of March 31, 2020 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Accounts receivable	¥ 800	7,351
Other current assets	4,094	37,618
Guarantee deposits	22,309	204,989

The securitized receivables were accounted for as financial transactions, and the corresponding payables as of March 31, 2020 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Short-term loans payable	¥ 800	7,351
Current portion of long-term loans payable	3,854	35,412
Long-term loans payable	21,313	195,841

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 HOMES 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.

Defined benefit plans

(1) The changes in retirement benefit obligations for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Beginning balance	¥ 50,718	¥ 47,858	$ 466,032
Service costs	4,369	4,345	40,148
Interest cost	210	200	1,927
Actuarial gains and losses	180	48	1,653
Payment of benefit obligations	(1,543)	(1,619)	(14,178)
Prior service costs	-	(125)	-
Effect of change from the simplified method to the principle method due to merger	-	11	-
Ending balance	¥ 53,934	¥ 50,718	$ 495,582

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

(2) Changes in pension assets for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Beginning balance	¥ 24,162	¥ 23,416	$ 222,021
Expected return on pension assets	436	489	4,008
Actuarial gains and losses	(18)	(338)	(171)
Contributions paid by the employer	1,445	1,471	13,282
Retirement benefits paid	(855)	(875)	(7,858)
Ending balance	¥ 25,170	¥ 24,163	$ 231,282

(3) Reconciliation of retirement benefit obligations and pension assets and net defined benefit liability (asset) for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Funded retirement benefit obligations	¥ 28,253	¥ 27,020	$ 259,613
Amount of pension assets	(25,170)	(24,162)	(231,282)
	3,083	2,858	28,331
Unfunded retirement benefit obligations	25,681	23,698	235,969
Total net defined benefit liability	¥ 28,764	¥ 26,556	$ 264,300
Net defined benefit liability	30,343	28,114	278,810
Net defined benefit asset	(1,579)	(1,558)	(14,510)
Total net defined benefit liability	¥ 28,764	¥ 26,556	$ 264,300

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Service costs (*)	¥ 4,369	¥ 4,345	$ 40,148
Interest cost	210	200	1,927
Expected return on pension assets	(436)	(489)	(4,008)
Amortization of actuarial differences	0	(8)	1
Amortization of prior service costs	(971)	(941)	(8,921)
Total net periodic retirement benefit costs	¥ 3,172	¥ 3,107	$ 29,147

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Prior service costs	¥ (971)	¥ (816)	$ (8,921)
Actuarial gains and losses	(198)	(395)	(1,823)
Total	¥ (1,169)	¥ (1,211)	$ (10,744)

(6) Accumulated remeasurements of defined benefit plans for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Unrealized prior service costs	¥ (818)	¥ (1,788)	$ (7,514)
Unrealized actuarial gains and losses	(311)	(510)	(2,862)
Total	¥ (1,129)	¥ (2,298)	$ (10,376)

(7) Pension assets as of March 31, 2020 and 2019

(i) The percentages for each classification of total pension assets as of March 31, 2020 and 2019 were as follows:

	2020	2019
Bonds	30.6 %	18.6 %
Stocks	24.0	31.9
Cash and time deposits	9.1	7.1
General accounts	15.3	24.5
Others	21.0	17.9
Total	100.0	100.0

Note: Total pension assets include retirement benefit trusts established for the corporate pension plans in a percentage of 0.4% as of March 31, 2020 and 2019.

(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, 2020 and 2019

	2020	2019
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 the Company and certain consolidated subsidiaries was ¥1,037 million ($9,532 thousand) and ¥951 million for the years ended March 31, 2020 and 2019, respectively.

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 1–47 years.

Changes in asset retirement obligations for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2020	2019	*2020*
Beginning balance	¥ 32,942	¥ 31,701	$ 302,690
Increase due to purchase of property and equipment	928	934	8,527
Adjustments due to passage of time	418	422	3,840
Decrease due to implementation of asset retirement obligations	(208)	(106)	(1,911)
Increase (decrease) due to exchange translation of asset retirement obligations denominated in foreign currencies	0	(9)	3
Increase due to new consolidation	370	-	3,404
Ending balance	¥ 34,450	¥ 32,942	$ 316,553

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 26, 2020, the shareholders approved cash dividends amounting to ¥8,805 million ($80,901 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2020 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, 2020 and 2019 were ¥351 million ($3,228 thousand) and ¥340 million, respectively.

The stock options existing during the years ended March 31, 2020 and 2019 were as follows:

	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Date of resolution	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Persons granted	16 directors	15 directors	14 directors	15 directors
Number of options granted expressed in 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	Common stock 784,200 shares
Date of grant	July 12, 2013	July 14, 2014	July 13, 2015	July 14, 2016
Vesting condition	Not set	Not set	Not set	Not set
Service period covered	Not prescribed	Not prescribed	Not prescribed	Not prescribed
Exercise period*	From July 13, 2013 to July 12, 2043	From July 15, 2014 to July 14, 2044	From July 14, 2015 to July 13, 2045	From July 15, 2016 to July 14, 2046
Number of subscription rights to shares*	4,595 units	4,417 units	6,160 units	7,800 units
Class, description and number of shares of stock to be allotted upon exercise of the subscription rights to shares (*3)*	Common stock 459,500 shares	Common stock 441,700 shares	Common stock 616,000 shares	Common stock 780,000 shares
Subscription price to be paid upon exercise of each subscription right to shares*	¥1	¥1	¥1	¥1
Issue price and amount of capital to be increased due to the issuance of shares upon exercise of the subscription rights to shares*	Issue price: ¥41,190 per 100 shares (*4)	Issue price: ¥292 (*4)	Issue price: ¥405 (*4)	Issue price: ¥453 (*4)
Exercise conditions*	(*5)	(*5)	(*5)	(*5)
Matters concerning the transfer of subscription rights to shares*	(*6)	(*6)	(*6)	(*6)
Matters concerning the allotment of subscription rights to shares in the event of reorganization*	(*7)	(*7)	(*7)	(*7)

	2017 Stock Option	2018 Stock Option	2019 Stock Option
Date of resolution	June 29, 2017	June 28, 2018	July 16, 2019
Persons granted	12 directors	13 directors	12 directors
Number of options granted expressed in the number of shares by class of stock (*1)(*2)	Common stock 707,700 shares	Common stock 774,100 shares	Common stock 909,300 shares
Date of grant	July 14, 2017	July 13, 2018	July 31, 2019
Vesting condition	Not set	Not set	Not set
Service period covered	Not prescribed	Not prescribed	Not prescribed
Exercise period*	From July 15, 2017 to July 14, 2047	From July 14, 2018 to July 13, 2048	From August 1, 2019 to July 31, 2049
Number of subscription rights to shares*	7,077 units	7,729 units	6,824 (8,340) units
Class, description and number of shares of stock to be allotted upon exercise of the subscription rights to shares (*3)*	Common stock 707,700 shares	Common stock 772,900 shares	Common stock 682,400 (834,000) shares
Subscription price to be paid upon exercise of each subscription right to shares*	¥1	¥1	¥1
Issue price and amount of capital to be increased due to the issuance of shares upon exercise of the subscription rights to shares*	Issue price: ¥443 (*4)	Issue price: ¥452 (*4)	Issue price: ¥389 (*4)
Exercise conditions*	(*5)	(*5)	(*5)
Matters concerning the transfer of subscription rights to shares*	(*6)	(*6)	(*6)
Matters concerning the allotment of subscription rights to shares in the event of reorganization*	(*7)	(*7)	(*7)

* Information as of March 31, 2020. Figures as of May 31, 2020 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 subscription rights to shares (the "Subscription Rights to Shares") is 100 shares for 1 Subscription Right to Shares.

In case the Company conducts a share split or a consolidation of shares of its common stock, after the date of the allocation of subscription rights to shares (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 Subscription Rights to Shares 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 Subscription Right to Shares and the fair value of the Subscription Right to Shares at the grant date. The amount of capital to be increased due to the issuance of shares upon exercise of the Subscription Rights to Shares 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 Subscription Rights to Shares 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 Subscription Rights to Shares (the "Right Holder") can exercise the Subscription Rights to Shares 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 Subscription Rights to Shares only in a single lump-sum transaction.

(*6) Any acquisition of the Subscription Rights to Shares 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"), Subscription Rights to Shares 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 Subscription Rights to Shares remaining just before the effective date of the reorganization (the "Remaining Subscription Rights to Shares") according to the conditions (a) to (i) described below. Provided, however, that the foregoing shall be on the condition that the delivery of Subscription Rights to Shares 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 Subscription Rights to Shares of the Reorganized Company to be delivered
The identical number of Subscription Rights to Shares to the number of the Remaining Subscription Rights to Shares 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 Subscription Rights to Shares
Common stock of the Reorganized Company.

(c) Number of shares of the Reorganized Company to be allotted upon exercise of Subscription Rights to Shares
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 Subscription Rights to Shares
The amount of assets to be contributed upon exercise of each of the Subscription Rights to Shares 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 per share of the Reorganized Company to be delivered upon exercise of Subscription Rights to Shares.

(e) Period during which Subscription Rights to Shares 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 Subscription Rights to Shares
   i) The amount of capital to be increased due to the issuance of shares upon exercise of the Subscription Rights to Shares 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 Subscription Rights to Shares 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 Subscription Rights to Shares through transfer
   Any acquisition of the Subscription Rights to Shares through transfer shall require the approval by resolution of the Board of Directors of the Reorganized Company.

(h) Conditions for exercise of Subscription Rights to Shares
   It shall be determined in accordance with (*5) above.

(i) Conditions for acquisition of the Subscription Rights to Shares
   i) The Company may acquire the Subscription Rights to Shares 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 Subscription Rights to Shares in accordance with (*5) above or the allotment agreement for the Subscription Rights to Shares.
   ii) The Company may acquire the Subscription Rights to Shares 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 Subscription Rights to Shares 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 Subscription Rights to Shares by the General Meeting of Shareholders.

The stock option activity expressed in the number of common stock for the year ended March 31, 2020 was as follows:

Date of resolution	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
	(Shares)	(Shares)	(Shares)	(Shares)
Number of stock options expressed in the number of common stock:				
Non-vested				
March 31, 2019 –				
Outstanding	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
March 31, 2020 –				
Outstanding	-	-	-	-
Vested				
March 31, 2019 –				
Outstanding	459,500	441,700	616,000	780,000
Vested	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
March 31, 2020 –				
Outstanding	459,500	441,700	616,000	780,000

	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*
Price information:								
Exercise price	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01
Average price at the exercise date	¥ -	$ -	¥ -	$ -	¥ -	$ -	¥ -	$ -
Fair value at the grant date	¥ 410.9	$ 3.78	¥ 291.0	$ 2.67	¥ 404.0	$ 3.71	¥ 452.0	$ 4.15

Date of resolution	June 29, 2017	June 28, 2018	July 16, 2019
	(Shares)	(Shares)	(Shares)
Number of stock options expressed in the number of common stock:			
Non-vested			
March 31, 2019 –			
Outstanding	-	193,100	-
Granted	-	-	909,300
Forfeited	-	1,200	-
Vested	-	191,900	682,400
March 31, 2020 –			
Outstanding	-	-	226,900
Vested			
March 31, 2019 –			
Outstanding	707,700	581,000	-
Vested	-	191,900	682,400
Exercised	-	-	-
Forfeited	-	-	-
March 31, 2020 –			
Outstanding	707,700	772,900	682,400

	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*
Price information:						
Exercise price	¥ 1	$ 0.01	¥ 1	$ 0.01	¥ 1	$ 0.01
Average price at the exercise date	¥ -	$ -	¥ -	$ -	¥ -	$ -
Fair value at the grant date	¥ 442.0	$ 4.06	¥ 451.0	$ 4.14	¥ 388.0	$ 3.57

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

The fair value of stock option granted during the year ended March 31, 2020 is estimated using the Black-Scholes option pricing model with the assumptions noted in the following table:

	7th compensation-type stock option
Volatility of stock price (*1)	29.724%
Estimated remaining outstanding period (*2)	8.0 years
Estimated dividend (*3)	¥13 per share
Risk-free interest rate (*4)	(0.240)%

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, 2019.

(*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. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of "selling, general and administrative expenses" for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Advertising	¥ 26,253	¥ 26,665	$ 241,227
Salaries	109,269	107,341	1,004,039
Rent expenses	70,936	72,341	651,803
Depreciation	18,118	16,976	166,477
Point card-related promotion	45,292	45,901	416,176
Others	152,458	143,902	1,400,883
Total	¥ 422,326	¥ 413,126	$ 3,880,605

24. OTHER INCOME (EXPENSES)

"Others, net" in "other income (expenses)" in the consolidated statements of income for the years ended March 31, 2020 and 2019 included the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
Foreign exchange (losses) gains, net	¥ (945)	¥ (145)	$ (8,683)
Rent income	3,821	3,936	35,107
Rent expenses	(3,071)	(3,081)	(28,219)
Rental expenses	-	(205)	-
Sales of electric power	1,916	2,002	17,601
Cost of sales of electric power	(815)	(823)	(7,493)
Gain on sale of non-current assets	158	454	1,457
Loss on disposal of non-current assets	(206)	(583)	(1,889)
Gain on sale of investment securities	1,710	557	15,710
Gain on negative goodwill	2,721	-	25,006
Others, net	(61)	929	(560)
Total	¥ 5,228	¥ 3,041	$ 48,037

25. 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)
	2020	2019	*2020*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 296	¥ (1,164)	$ 2,723
Reclassification adjustments	(1,708)	(557)	(15,696)
Valuation difference on available-for-sale securities before related tax effect	(1,412)	(1,721)	(12,973)
Related tax effect	139	405	1,279
Valuation difference on available-for-sale securities, net of taxes	(1,273)	(1,316)	(11,694)
Foreign currency translation adjustments:			
Amount arising during the year	125	1,128	1,145
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	125	1,128	1,145
Related tax effect	-	-	-
Foreign currency translation adjustments, net of taxes	125	1,128	1,145
Remeasurements of defined benefit plans:			
Amount arising during the year	(198)	(261)	(1,824)
Reclassification adjustments	(971)	(950)	(8,920)
Remeasurements of defined benefit plans before related tax effect	(1,169)	(1,211)	(10,744)
Related tax effect	289	279	2,660
Remeasurements of defined benefit plans, net of tax	(880)	(932)	(8,084)
Share of other comprehensive loss of associates accounted for using equity method:			
Amount arising during the year	(0)	(0)	(0)
Reclassification adjustments	-	-	-
Share of other comprehensive loss of associates accounted for using equity method	(0)	(0)	(0)
Total other comprehensive loss	¥ (2,028)	¥ (1,120)	$ (18,633)

26. SEGMENT INFORMATION

- Segment Information

The Group has two business segments — "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, 2020 and 2019 is as follows:

	Millions of yen		
	2020		
	Home electrical appliances & Home information appliances	Other	Total
Sales to external customers ·············	¥ 1,349,473	¥ 262,065	¥ 1,611,538

	Thousands of U.S. dollars (Note 1)		
	2020		
	Home electrical appliances & Home information appliances	Other	Total
Sales to external customers ·············	$ 12,399,825	$ 2,408,022	$ 14,807,847

	Millions of yen		
	2019		
	Home electrical appliances & Home information appliances	Other	Total
Sales to external customers ·············	¥ 1,341,511	¥ 259,072	¥ 1,600,583

Information about geographic area for the years ended March 31, 2020 and 2019 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, 2020 and 2019 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**

For the year ended March 31, 2020

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.

For the year ended March 31, 2019

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

27. RELATED PARTIES

Significant balances with related parties as of March 31, 2020 and 2019 and related transactions for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	*2020*
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)	¥ 89	¥ 88	$ 814
Guarantee deposits (due within one year)	139	139	1,277
Guarantee deposits	2,019	2,157	18,551
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	979	978	8,992
Balances of the Company's consolidated subsidiary:			
Katsuhisa Otsuka, a relative of the Company's significant subsidiary's officer:			
Guarantee deposits received	¥ 37	¥ -	$ 340
Principal transactions of the Company's consolidated subsidiary:			
Land leasing	0	-	1

28. SUBSEQUENT EVENTS

I. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 26, 2020:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥10 ($0.09) per share	¥ 8,805	$ 80,901

II. Transition to Holding Company Structure by Means of Company Split

At the meeting of the Board of Directors held on March 16, 2020, the Company resolved to establish Yamada Denki Split Preparatory Company as a preparatory company to transition to a holding company structure by means of company split (hereinafter, the "Split"), aiming to establish said company on October 1, 2020, and conclude an Absorption-Type Company Split Agreement with the preparatory company on the condition that it would be approved and adopted at the Ordinary General Meeting of Shareholders of the Company held on June 26, 2020, and approvals, etc. are received from the competent agencies when necessary. By transitioning to a holding company structure, the Company will separate the administration and supervision of management and the execution of business, and will strengthen Group governance more than ever by specializing in comprehensive control, including the planning and drafting of management strategies for the sustainable growth and development of the Group, aiming to further enhance the corporate value of the Group.

1. Purpose for transitioning to holding company structure

As a parent company, the holding company will aim to strengthen Group governance more than ever by specializing in comprehensive control, including administration and supervision of management and planning and drafting of management strategies for the sustainable growth and development of the Group. Moreover, the holding company will aim to promptly perform reorganization of businesses through means including business alliances, capital alliances, and M&A. In addition, the operating companies will aim to work to improve the management efficiency of the entire Group and further enhance corporate value through each company focusing on the execution of work in its business under a new system in which business responsibilities are clarified.

2. Overview of the Split

(1) Schedule for the Split

March 16, 2020	: Approval of Absorption-Type Company Split Agreement by Board of Directors
March 31, 2020	: Record date of General Meeting of Shareholders
April 1, 2020	: Establishment of preparatory company for company split
April 13, 2020	: Conclusion of Absorption-Type Company Split Agreement
June 26, 2020	: Approval of Absorption-Type Company Split Agreement at General Meeting of Shareholders
October 1, 2020 (scheduled)	: Effective date of Absorption-Type Company Split Agreement

*Regarding the Split, the preparatory company falls within the scope of cases eligible for a short-form split, pursuant to the provisions of Article 796 of the Companies Act and accordingly plans to use procedures that do not require approval and resolution by the General Meeting of Shareholders.

(2) Method of the Split

A spin-off in the form of an absorption-type company split with the Company as the splitting company and the preparatory company, which is a wholly owned subsidiary of the Company, as the succeeding company.

(3) Details of allocation concerning the Split

As the Company already owns all issued shares of the succeeding company, there is no plan for the payment of money, etc. from the succeeding company to the Company for the rights and duties to be succeeded in the Split.

(4) Handling of subscription rights to shares and bonds with subscription rights to shares

There are no changes to the handling of subscription rights to shares as a result of the Split. The Company has not issued bonds with subscription rights to shares.

(5) Common stock to be increased or decreased through the company split

There will be no change to the common stock of the Company as a result of the Split.

(6) Rights and duties assumed by the succeeding company

Through the Split, the succeeding company will assume the assets, liabilities and other rights and duties (excluding those otherwise prescribed) pertaining to the home electrical appliances and home information appliances sales business and housing-related product sales business which the Company conducts on the effective date of the Split.

Furthermore, the Company plans to manage a portion of non-current assets belonging to each business as a holding company.

The Company will assume the liabilities assumed by the succeeding company in a superimposed manner.

(7) Prospects for fulfillment of obligations

It is expected that the estimated amount of assets of the Company and the succeeding company will exceed the amount of liabilities after the Split, and currently we do not predict the occurrence of any events that would cause an impediment to the performance of obligations arising after the Split, and for these reasons, the Company judges that there are no problems with respect to the prospects for the Company and the succeeding company to fulfill their obligations after the Split.

3. Status after the Split (from October 1, 2020 (scheduled))

3–1 Listed company

(1)	Trade name	YAMADA HOLDINGS CO., LTD. (Trade name scheduled to change from Yamada Denki Co., Ltd. on October 1, 2020)
(2)	Location	1-1 Sakae-cho, Takasaki, Gunma, Japan
(3)	Title and name of the representative	Noboru Yamada, President and Representative Director
(4)	Business description	Planning and drafting of Group management strategies, management and supervision of Group companies' management, common Group services, etc.
(5)	Common stock	¥71,059 million ($652,934 thousand)
(6)	End of Fiscal Year	March 31

3–2 Succeeding company

(1)	Trade name	Yamada Denki Co., Ltd. (Trade name scheduled to change from Yamada Denki Split Preparatory Company on October 1, 2020)
(2)	Location	1-1 Sakae-cho, Takasaki, Gunma, Japan
(3)	Title and name of the representative	Tsuneo Mishima, President and Representative Director
(4)	Business description	Home electrical appliances and home information appliances sales business and housing-related product sales business
(5)	Common stock	¥100 million ($919 thousand)
(6)	End of Fiscal Year	March 31

III. Business Combination through Acquisition

The Company resolved to acquire shares of LEO HOUSE CO., LTD. and make it a subsidiary at the meeting of the Board of Directors held on March 24, 2020, concluded a basic agreement with NAC CO., LTD, which is the parent company of LEO HOUSE CO., LTD., on March 24, 2020, and acquired all shares of LEO HOUSE CO., LTD. on May 14, 2020.

1. Summary of business combination
   (1) Name of acquired company and business lines
   Name of company : LEO HOUSE CO., LTD.
   Business lines : Contracted construction of custom-built houses, etc.
   (2) Main reason for business combination
   LEO HOUSE CO., LTD. is a core company in the housing business of NAC CO., LTD, and provides satisfaction to each and every customer on a made-to-order basis as a company that has received awards, such as first place in the evaluation item of "Price Satisfaction" for three years in a row (2016-2018) on the Oricon Customer Satisfaction Ranking, with the aim of being a company that is the best at listening to customers, premised on the objective of "building houses that enrich life together."
   The Company has judged that there is a high synergistic effect between the Company's proposals available under its "brighten your future with smart housing" concept and the housing business operator LEO HOUSE CO., LTD., and concluded a basic agreement with NAC CO., LTD, which is the parent company of LEO HOUSE CO., LTD.
   (3) Date of business combination
   May 14, 2020
   (4) Legal form of business combination
   Acquisition of shares
   (5) Name of the company after business combination
   YAMADA LEO HOUSE CO., LTD.
   (6) Percentage of voting rights to be acquired
   100%
   (7) Main basis for determining acquiring company
   The Company acquired 100% of voting rights, thereby making the acquired company a wholly owned subsidiary.

2. Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for the acquisition (Cash)	¥489 million ($4,493 thousand)
Acquisition cost	¥489 million ($4,493 thousand)

3. Amount of goodwill generated, reason for generation of goodwill, and method and period of amortization
   Not determined at this time.

IV. Purchase of Treasury Stock

At a meeting of the Board of Directors held on April 1, 2020, the Company approved a resolution regarding purchases of treasury stock pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Article 165, Paragraph 3 of the same Act, and purchased treasury stock since April 2, 2020 as described below.

1. Reason for conducting purchase of treasury stock
   In order to implement a flexible capital policy that can meet changes in the business environment and to enhance the return on profits to shareholders through improvements in capital efficiency

2. Details of matters relating to purchase

(1)	Class of shares to be purchased	Common stock
(2)	Total number of shares to be purchased	100,000,000 shares (maximum) (11.36% of total number of issued shares excluding treasury stock)
(3)	Total amount for share purchase	¥50,000 million ($459,432 thousand) (maximum)
(4)	Purchase period	April 2, 2020 to March 24, 2021
(5)	Method of purchase	Open-market purchase

3. Results of the purchase

The purchases of treasury stock pursuant with the aforementioned resolution are now complete with 63,481,200 shares of common stock of the Company having been purchased (amount for share purchase was ¥31,953 million ($293,609 thousand)) for treasury stock up until May 14, 2020.

V. Beginning the Tender Offer for Hinokiya Group Co., Ltd.

At the meeting of the Board of Directors held on September 8, 2020, the Company resolved to begin a tender offer (the "Tender Offer") for the common stock of Hinokiya Group, Co., Ltd. (the "Target") in order to make the Target a consolidated subsidiary of the Company by tender offer in accordance with the Financial Instruments and Exchange Act.

1. Purpose of the Tender Offer

Under the concept of "brighten your future with smart housing" as a lifestyle infrastructure with consumer appliances at the core, the Group is working to improve the value of its businesses by promoting structural reforms centered on the Kaden Sumairu-kan, which offers total coordination from consumer appliances to comfortable living spaces, and making the Target consolidated subsidiary is expected to generate synergies in the housing business and to further enhance the corporate value of both groups.

2. Outline of Target

(1)	Company name	Hinokiya Group Co., Ltd.
(2)	Location	1-8-3 Marunouchi, Chiyoda-ku, Tokyo
(3)	Title and name of the representative	Akira Kondo, President and Representative Director
(4)	Business description	Housing, real estate investment, thermal insulation materials, renovation, nursing care and childcare, and other businesses
(5)	Common stock	¥390 million ($3,583 thousand) (As of June 30, 2020)
(6)	Date of establishment	October 13, 1988

3. Overview of the Tender Offer

(1) Period for purchase, etc.
From Wednesday, September 9, 2020 to Thursday, October 22, 2020 (30 business days)

(2) Price for purchase, etc.
2,000 yen per share of common stock

(3) Number of share certificates, etc. to be purchased

Number of shares to be purchased	6,327,600 shares
Minimum number of shares to be purchased	5,772,700 shares
Maximum number of shares to be purchased	6,327,600 shares

Note: The maximum number of shares to be purchased is 6,327,600 shares (holding ratio after the purchase, etc.: 50.10%), and if the total number of share certificates offered for sale, etc. in the Tender Offer exceeds the maximum number of shares to be purchased, the Tender Offeror will not purchase, etc. all or part of the shares exceeding the maximum number of shares to be purchased. Delivery and settlement of purchases of share certificates, etc. will be conducted in accordance with the proportional distribution method prescribed in Article 27-13, Paragraph 5 of the Financial Instruments and Exchange Act and Article 32 of the Cabinet Office Ordinance on Disclosure Required for Tender Offer for Share Certificates, etc. by Person Other than Issuer.

(4) Tender Offer price

¥12,655 million

Note: Amount of the number of shares to be purchased (6,327,600 shares) multiplied by the price of purchase, etc. per share (¥2,000)

(5) Change in ownership ratio of share certificates, etc. due to purchase, etc.

Ownership ratio of share certificates, etc. before purchase, etc.	–%
Ownership ratio of share certificates, etc. after purchase, etc.	50.10%

(6) Commencement date of settlement

Thursday, October 29, 2020

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KPMG

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of YAMADA DENKI Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income,the consolidated statements of comprehensive income, changes in net assets and cash flows for the years then ended , and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Naoya Miyaki
Designated Engagement Partner
Certified Public Accountant

/S/ Kentaro Mikuriya
Designated Engagement Partner
Certified Public Accountant

/S/ Tsutomu Fukushima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Kitakanto Office, Japan
September 11, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.