EDION Corporation

EDION Corporation Ticker code: 2730 (TYO)

http://www.edion.com/

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Annual Report 2016

Management Principle

Achieving the goal of "Customers First" through the provision of high-quality products and reliable service

Provision of high-quality products

We do not simply sell products we provide value and satisfaction together with fun, affluence and convenience through our products.

Reliable service

We offer reliable customer service so that our customers can continue using the products in their best condition for a long time.

Corporate Message

Reassuring Feelings and Lasting Satisfaction

We transmit our corporate message, Reassurance and Lasting Satisfaction, to customers to communicate our commitment to Customers First through high-quality products and reliable service in an easy-to-understand manner, and strive to enhance our brand value so that all stakeholders including our customers can recognize, understand and empathize with our brand.

Group History

Mar.	2002	DEODEO Corporation based in the Chugoku, Shikoku, and Kyushu regions, and EIDEN Co., Ltd. based in the Chubu region, established EDION Corporation through the equity transfer method.
Apr.	2005	EDION Corporation acquired 100% ownership of MIDORI DENKA Co., Ltd. based in the Kinki region by a way of a share-for-share exchange.
Feb.	2007	EIDEN Co., Ltd. acquired 100% of the outstanding shares in Mitsuishi Denka Center Co., Ltd.
Mar.	2007	EDION Corporation invested additional capital to acquire more shares in Ishimaru Denki Co., Ltd. (40% of outstanding shares in total), converting it to a consolidated subsidiary.
June	2007	EDION Corporation acquired 40% of the outstanding shares in 3Q Co., Ltd. based in the Hokkaido and Hokuriku regions, converting it to a consolidated subsidiary.
Oct.	2007	EDION Corporation established TOKYO EDION Corporation, a wholly-owned subsidiary, to strengthen its business base in the Kanto region.
Oct.	2008	Tokyo EDION Corporation acquired all remaining outstanding shares in Ishimaru Denki Co., Ltd.
Feb.	2009	EIDEN Co., Ltd. merged with TOKYO EDION Corporation, Ishimaru Denki Co., Ltd. and others.
May	2009	Initiated home remodeling business operations.
Oct.	2009	DEODEO Corporation merged with MIDORI DENKA Co., Ltd. and changed its company name to EDION WEST Corporation.
		EIDEN Co., Ltd. changed its company name to EDION EAST Corporation.
		EDION Corporation began offering WiMax (Worldwide Interoperability for Microwave Access) Internet access service, EDION KuaL net.
Mar.	2010	EDION Corporation established the EDION Product Performance Testing Laboratory.
Oct.	2010	EDION Corporation merged with EDION WEST Corporation and EDION EAST Corporation.
		EIDEN COMMUNICATIONS Co., Ltd., a consolidated subsidiary, changed its company name to EDION COMMUNICATIONS Corporation, and consolidated the mobile phone business operations.
Apr.	2011	EDION Corporation merged with COMNET Co., Ltd.
Oct.	2011	EDION Corporation acquired all remaining outstanding shares in 3Q Co., Ltd.
Apr.	2012	3Q House System Co., Ltd., a subsidiary, changed its company name to EDION HOUSE SYSTEM Corporation, and established a framework to strengthen the housing equipment business, including home improvement, solar power generation systems and all-electric homes.
		EDION Corporation jointly invested in E.R. JAPAN Corporation, a subsidiary that engages in the reuse and recycling business.
Oct.	2012	EDION Corporation unified its multiple store brands, Ishimaru, EIDEN, MIDORI and DEODEO, into EDION.
Aug.	2013	EDION Corporation formed a capital and business alliance with the LIXIL Group Corporation and increased their capital by allotment of new shares to a third party.
Oct.	2014	EDION Corporation split and transferred the operation of home improvement stores.
Feb.	2015	EDION Corporation won an *Advanced Remodeling Contractor Award* (Ministry of Economy, Trade and Industry), the first retailer of home electrical appliances in Japan to do so.
Apr.	2015	EDION Corporation began *a T-point service*, a common point service program, as the first retailer of home electrical appliances in Japan.
Sep.	2015	EDION Corporation began operation of *EDION Housing*, a real estate brokerage agent.

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Disclaimer regarding Forward-Looking Statements

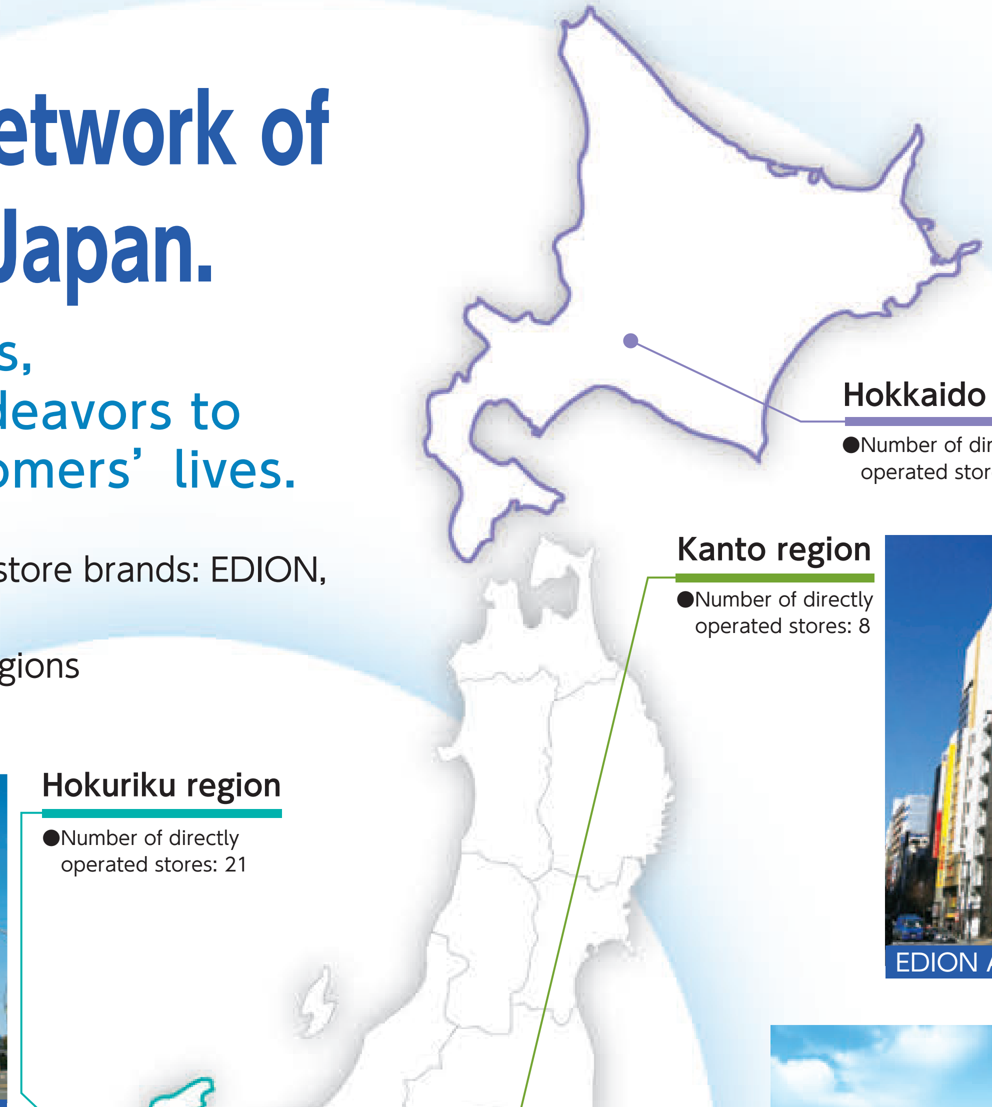
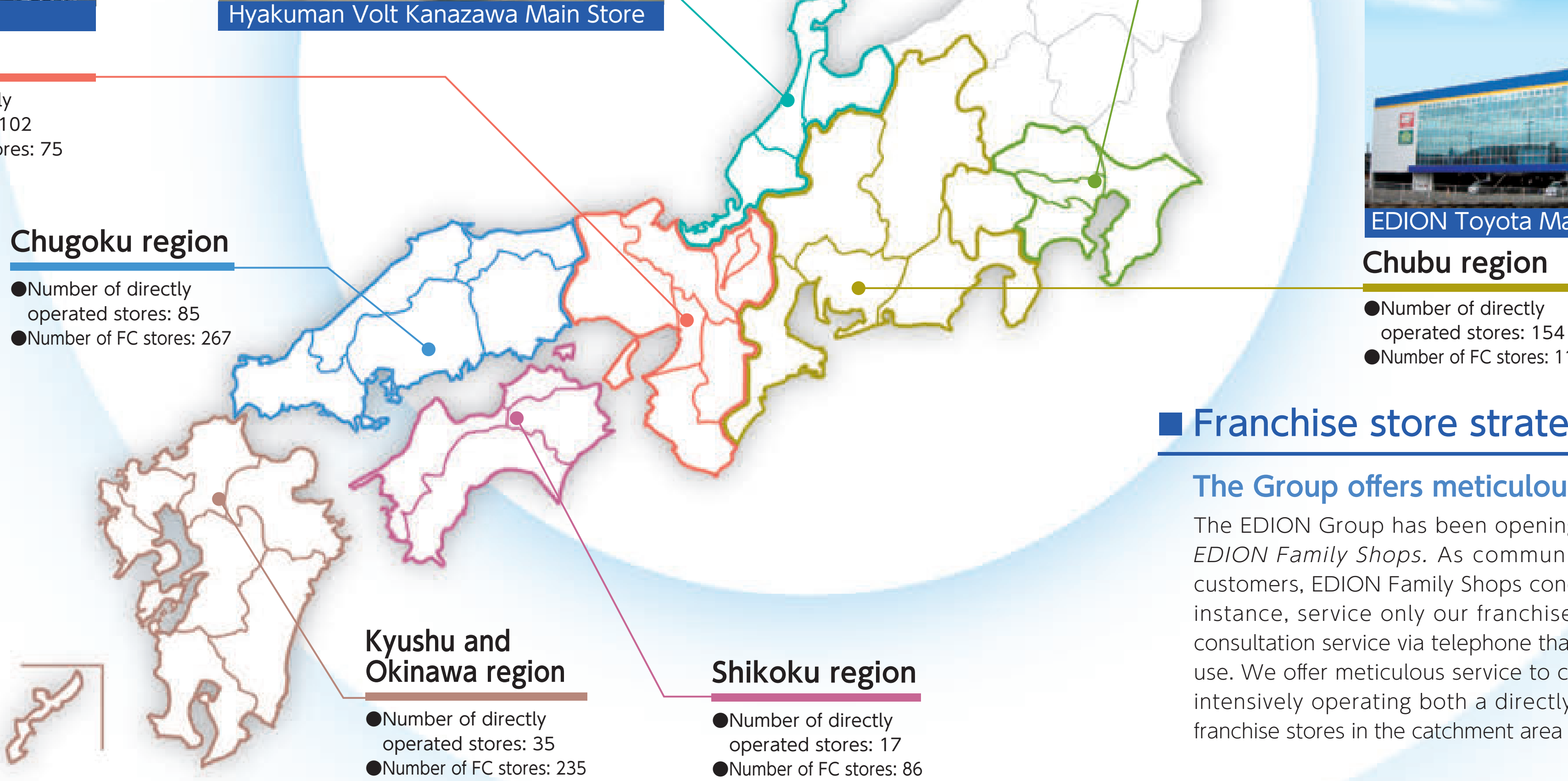
This document contains forward-looking statements based on currently available information that EDION Corporation and the EDION Group consider to be reasonable. Actual results may differ materially from those projected, due to various risks and uncertainties, including, but not limited to, economic fluctuations, unstable product demand, changes in domestic and/ or overseas regulations, as well as changes in accounting standards/practices. Information contained in this Annual Report does not constitute a solicitation for the sale or purchase of any security or other investment. All investment decisions are the exclusive responsibility of the investor.

Outline of the EDION Group

The EDION Group operates a network of over 1,200 retail stores across Japan.

The Group engages in a variety of businesses, aiming to be a company that continually endeavors to provide richness and abundance in our customers' lives.

The EDION Group runs community-based stores under the following store brands: EDION, which operates in the Kanto to Kyushu and Okinawa regions; and *Hyakuman Volt,* which operates in the Hokuriku and Hokkaido regions

Hokkaido region
●Number of directly operated stores: 8

Kanto region
●Number of directly operated stores: 8

Hokuriku region
●Number of directly operated stores: 21

Kinki region
●Number of directly operated stores: 102
●Number of FC stores: 75

Chugoku region
●Number of directly operated stores: 85
●Number of FC stores: 267

Chubu region
●Number of directly operated stores: 154
●Number of FC stores: 113

Kyushu and Okinawa region
●Number of directly operated stores: 35
●Number of FC stores: 235

Shikoku region
●Number of directly operated stores: 17
●Number of FC stores: 86

EDION Toyonaka store

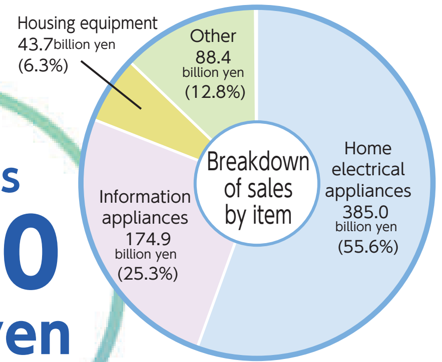
Hyakuman Volt Kanazawa Main Store

EDION Hiroshima Main store

EDION Akiba

EDION Toyota Main store

Net sales
692.0 billion yen
Fiscal year ended March 2016



Number of full-time employees
8,663 employees
As of March 31, 2016

Number of stores
1,206 stores
As of March 31, 2016

Number of directly operated stores: **430**
Number of FC stores: **776**

※FC stores stand for franchise stores.

■ Franchise store strategy

The Group offers meticulous services to customers in each region.

The EDION Group has been opening small-scale stores called *EDION Family Shops.* As community-based stores close to customers, EDION Family Shops conduct business activities, for instance, service only our franchise stores can offer, such as consultation service via telephone that customers can feel free to use. We offer meticulous service to customers in each region by intensively operating both a directly-operated large store and franchise stores in the catchment area (strategic dominance).

Concept of EDION's strategic dominance

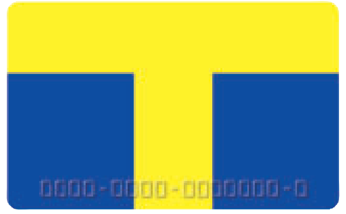
EDION Group's Highlights
in Fiscal Year Ended March 2016

2015

4 APR.

The Group began a *T-point service* as the first retailer of home electrical appliances in Japan to do so.

We concluded a point program agreement with T Point Japan Co., Ltd. and began offering T-point service at EDION stores nationwide from April 20, 2015 (Monday).



The Group opened four EDION stores and one Hyakuman Volt store.

We opened five stores: Nagano Aokijima store, Morinomiya store, Foleo Osaka Dome City store, Rokujizo MOMO Terrace store, and Hakui Hodatsushimizu store.

▲Foleo Osaka Dome City store

▲Nagano Aokijima store

◀Hakui Hodatsushimizu store

Related articles on Page 11 & 12

6 JUN.

The Group obtained the naming rights of the Osaka Prefectural Gymnasium.

We obtained the naming rights of the *Osaka Prefectural Gymnasium*, which is famous as the venue of the March Sumo Grand Tournament. We have named the gymnasium *EDION Arena Osaka*.

Related articles on Page 19

6-7 JUN.-JUL.

The Group opened three EDION stores.

We opened three stores: Wakayama store, Shizuoka Magarikane store, and Ecoll-Mami store.

◀Shizuoka Magarikane store

▼Ecoll-Mami store

Related articles on Page 11

8 AUG.

The Group jointly established HOUSALL Corporation.

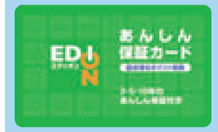
We established HOUSALL Corporation, a strategic joint venture that operates a living service platform business, with LIXIL Group Corporation, Hinokiya Holdings Co., Ltd., The Shizuoka Bank, Ltd., etc.

9 SEP.

The number of card members exceeded 10 million.

The number of card members—EDION Card, ID Card, and Reassurance Warranty Card—exceeded 10 million.

▲EDION Card



▲Reassurance Warranty Card

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9-10 SEP.-OCT.

The Group began operation of *EDION Housing*, a real estate brokerage agent.

Under the concept of *a real estate agent at an electrical appliance store with which customers are familiar and feel free to consult*, EDION Housing began operating with the aim of not only to offering real estate brokerage services, but also providing proposals on home improvement and electrical appliances to *live a comfortable life*.

We opened the Itami office within the EDION Itami store (Itami-shi, Hyogo) on September 1, 2015 (Tuesday) and the Hiroshima office within the EDION Hiroshima Main store on October 30, 2015 (Friday).

Related articleson Page 13

10 OCT.

The Group began offering Enjoy☆au Optical Service.

EDION Net, an Internet service provider, began offering *Enjoy☆au Optical Service*, a service using *au Optical*, leased KDDI optical lines, on October 28, 2015 (Wednesday).

エンジョイ☆auひかり

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11-12 NOV.-DEC.

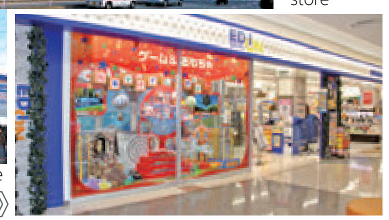
The Group consecutively opened three stores in the northern area of Osaka.

We consecutively opened LaLaport EXPOCITY store, Higashiawaji store, and Mino Semba store to establish a dominant position in the northern area of Osaka.

◀Mino Semba store

▼LaLaport EXPOCITY store

▲Higashiawaji store



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2016

1 JAN.

The Group tied up with Chugoku Electric Power to begin a new loyalty point program from April 2016.

We announced that the EDION Group will begin offering *EDION Menu*, a collaboration menu that allows customers to exchange Chugoku Electric Power's *Energia Points* with *EDION Points* on *Gutto Zutto Club*, a website membership service offered by Chugoku Electric Power.

2 FEB.

The Group began accepting subscriptions to an electricity service menu offered by Chubu Electric Power in the Tokyo metropolitan area.

Before the start of full deregulation and liberalization of electric power retail sales from April 2016, we tied up with Chubu Electric Power Co., Inc. and began accepting subscriptions to Chubu Electric Power's electricity service menu at our 10 stores in the Tokyo metropolitan area.

3 MAR.

The Group opened *Universal City Walk Osaka™* store, its first-ever tax-free specialty store.

We opened our first-ever tax-free specialty store at the fourth floor of *Universal City Walk Osaka™*, an entertainment and commercial facility next to Universal Studios Japan®.

▲Universal City Walk Osaka™ store

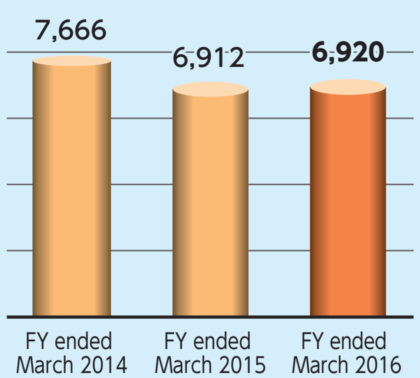
Related articleson Page 12

Financial Highlights

Business term	11th	12th	13th	14th	15th
Fiscal year	FY ended March 2012	FY ended March 2013	FY ended March 2014	FY ended March 2015	FY ended March 2016
Net sales (million yen)	759,025	685,145	766,699	691,216	692,087
Ordinary income (loss)(million yen)	16,384	1,476	14,883	11,118	17,275
Net income (loss) (million yen)	3,697	(2,640)	5,149	4,929	6,022
Comprehensive income (loss)(million yen)	6,009	(2,395)	5,122	5,494	3,916
Net assets (million yen)	144,229	138,489	146,756	145,086	141,986
Total assets (million yen)	362,653	378,087	385,799	367,338	360,312
Book-value per share (yen)	1,384.69	1,361.19	1,325.29	1,389.43	1,437.65
Earnings (loss) per share (yen)	35.87	(25.80)	48.42	45.77	60.04
Shareholders' equity ratio (%)	39.53	36.56	37.96	39.48	39.39
Return on equity (%) (ROE)	2.60	(1.88)	3.62	3.38	4.20
Price earnings ratio (times) (PER)	16.17	–	11.88	19.75	19.75
Price book-value ratio (times) (PBR)	0.42	0.32	0.43	0.65	0.65
Cash flows from operating activities (million yen)	15,133	(4,643)	45,741	(17,215)	37,154
Cash flows from investing activities (million yen)	(10,231)	(13,400)	(13,154)	(3,774)	(9,753)
Cash flows from financing activities (million yen)	(14,210)	17,325	(22,259)	9,697	(24,156)
Cash and cash equivalents at the end of the period (million yen)	10,685	9,967	20,293	9,001	12,246
Number of stores	1,176	1,177	1,212	1,212	1,206
Capital expenditure (million yen)	9,163	15,670	20,068	12,162	12,163
Number of employees [Average number of temporary employees not included in the above numbers]	9,759 [6,502]	9,602 [6,450]	9,109 [6,894]	8,788 [6,749]	8,663 [6,982]

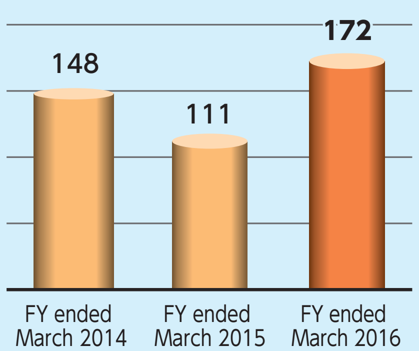
■ Net sales

(Unit: 100 million yen)



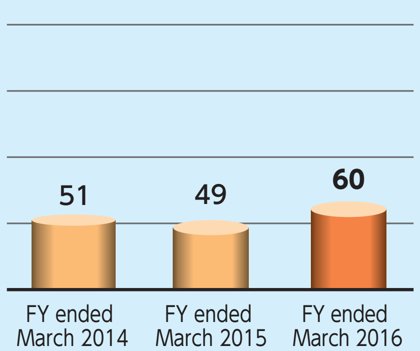
■ Ordinary income

(Unit: 100 million yen)



■ Net income (*)

(Unit: 100 million yen)



(*) Net income attributable to EDION Corp.

■ Business Performance

In the current fiscal year (April 1, 2015 to March 31, 2016), the Japanese economy remained robust, supported by improvements in corporate earnings due to the government's economic policy, the Bank of Japan (BoJ)'s monetary policy, the yen's depreciation, and falling crude oil prices. Meanwhile, the economic outlook continued to be uncertain due to concerns over the slowdown of the economies in China and emerging countries, the introduction of negative interest rates by the BoJ, and sharp fluctuations in stock prices and foreign exchange rates.

In the home electrical appliance retail sector, sales of air conditioners, mainly ones with advanced features, were steady, although the summer heat did not last very long and the winter was unseasonably mild. Furthermore, sales of not only home appliances, such as washing machines, electric cooking devices, and beauty appliances, but also television sets, mainly 4K-compatible, which have been increasing robustly, grew solidly. Moreover, there was a last-minute rise in demand for cellular phones from the end of 2015 to January 2016 because of anticipation of higher handset prices reflecting the Ministry of Internal Affairs and Communications' guidelines for the abolition of *virtually zero-yen* offers.

In this environment, the EDION Group introduced *T Point Service*, a common point service program, from April 2015 as the first retailer of home electrical appliances in Japan to do so. Moreover, the Group saw its sales grow due to a sales campaign to celebrate *Sanfrecce Hiroshima F.C.* (the Group serves as a top partner for the club) becoming Japan Professional Football League Division 1 champions in 2015. Meanwhile, the EDION Group concentrated its resources on *Eco-Living & Solar Power* goods, centered on home improvement, as a growth engine. The Group took steps to improve both customer satisfaction and the productivity of its sales staff through in-house training and strengthen its installation work system by increasing the number of its installation work bases. In addition, with the start of full deregulation and liberalization of electric power retail sales, the EDION Group began accepting subscriptions to the *KatEne Plan*, a service through which customers can check the details of their monthly electricity bills and electricity usage in the most recent two years (volumes and charges), offered by Chubu Electric Power, at its stores in the service areas of Chubu Electric Power and in the Kanto area. Moreover, the Group has tied up with Chugoku Electric Power and began offering *EDION Menu*, a service that allows customers to exchange Energia Points with EDION Points, under the *Collaboration Menu* offered by Chugoku Electric Power.

The EDION Group opened eight directly-operated home electrical appliance retail stores, including *Universal City Walk Osaka™ Store* (Osaka), closed five stores, and relocated four stores, including the *Higashi Awaji Store* (the former Suita store, Osaka). The Group also closed five directly-operated non-home electrical appliance retail stores. Meanwhile, the number of franchise stores decreased by four (net). As a result, the number of stores at the end of the current fiscal year totaled 1,206, including 776 franchise stores.

Consequently, in the current fiscal year, the EDION Group posted net sales of 692,087 million yen (100.1% of the previous year), operating income of 17,050 million yen (158.7% of the previous year), ordinary income of 17,275 million yen (155.4% of the previous year) and net income attributable to EDION Corporation of 6,022 million yen (122.2% of the previous year).

Interview with President

President, Chairman,
and Representative Director

In the fiscal year ended March 31, 2016, we saw net sales and profits increase from the previous fiscal year.

In the fiscal year ending March 31, 2017, we will continue strive to expand sales and reduce expenses.

Q Could you tell us about the financial results for the fiscal year ended March 31, 2016?

A

In the fiscal year ended March 31, 2016, both net sales and profits increased from the previous year. Although the summer heat did not last very long and the winter was unseasonably mild, sales of seasonal merchandise, mainly air conditioners with advanced features, were steady. Furthermore, sales of not only home appliances, such as washing machines, vacuum cleaners, electric cooking devices, and beauty appliances, but also audio visual equipment, such as television sets, mainly 4K-compatible, which have been increasing robustly, grew solidly. In addition, we endeavored to reduce expenses and succeeded in restraining the growth of selling, general and administrative expense. Consequently, we saw net sales and profits increase from the previous fiscal year, with net sales of 692.0 billion yen (100.1% of the previous year), ordinary income of 17.2 billion yen (155.4% of the previous year), and net income attributable to EDION Corporation of 6.0 billion yen (122.2% of the previous year).

Q Could you describe the Group's projection of financial results for the fiscal year ending March 31, 2017?

A

We expect sales of audio visual equipment, mainly 4K-compatible television sets, to grow, since the Summer Olympic Games in Rio de Janeiro, Brazil will be held in the fiscal year ending March 31, 2017. Moreover, we believe sales of home appliances, which have been steady from the previous fiscal year, will continue to increase.
With the start of full deregulation and liberalization of electric power retail sales, the awareness of reducing electricity bills has been rising. Therefore, we expect sales of EcoCute water heaters and IH cooking heaters to expand. Regarding the home improvement business, we will raise our installation work system to the industry's leading level by enhancing the proposal-making capabilities of sales staff and providing training to installation workers with the aim of improving the quality of customer service and installation work.
In the fiscal year ending March 31, 2017, we will continue actively cutting back expenses to expand earnings. Moreover, we will continue open new stores mainly in western Japan to expand our market share in the region.

EDION' s Activities

Store development

We aim to open more attractive stores.

- Newly opened stores
- Relocated and refurbished stores

Store development and business development

We not only offer sales of electrical appliances but also services such as the proposal of solutions to everyday life needs.

- EDION' s first duty-free shop, *EDION Universal City Walk Osaka™ Store*
- Creating a store in accordance with the concept of a shopping mall
- Eco-Living & Solar Power goods

We will promptly respond to diversified markets and new demand for further growth.

- E-commerce business
- Energy management & support service business
- Internet service provider business

Service

We will always put ourselves in our customers' shoes and provide our customers with the services and support they need without fail.

- Well-established after-sales service
- Meticulously serving customers
- Reassuring and advantageous service for membership card holders

Activities

Store development — We aim to open more attractive stores.

Newly opened stores

EDION Mino Semba store (Osaka)

As part of our growth strategy, we have been actively opening new stores. To improve profitability, we have tried to open stores tailored to the needs of the customers in each region and tailored to the size of the market. With the aim of enhancing the efficiency of our logistics network and advertising and meticulously serving customers' needs, we have been intensively opening new stores in western Japan, where we have many existing stores, by considering the requirements in each region and the size of the market. We opened 22 new stores in the fiscal year ended March 2016.

EDION Shizuoka Magarikane store (Shizuoka)

Relocated and refurbished stores

EDION Ecoll-Mami store (Nara)

We operate many stores. With the passage of time, some of them have failed to properly meet the requirements of their market areas, such as location and size. In addition, demand trends have sometimes changed due to the advent of new products, requiring us to review our sales floors to cope with such changes in the market. To that end, we have actively relocated and refurbished existing stores. In the fiscal year ended March 2016, we relocated four stores, introduced a sales floor specializing in home improvement, and refurbished sales floors at existing stores to respond to customers' needs that change on a daily basis.

Activities

Store development and business development

We are not only marketing home electrical appliances, but also proposing and offering services to our customers with an eye on their entire lives.

■ Universal City Walk Osaka™ store, EDION's first-ever tax-free specialty store

▲Universal City Walk Osaka™ store

In March 2016, we opened Universal City Walk Osaka™ store, our first-ever tax-free specialty store. We created our store to attract the around one million foreign tourists who visit neighboring Universal Studios Japan® annually as our main target.The store handles a variety of goods, including electrical appliances built for overseas use (tourist models), such as beauty appliances and rice cookers, precision equipment and craft work, such as wrist watches, Nanbu ironware, and gold foiled wallets, and confectionery, stationery, and basic cosmetics. The store also has a section for plastic models of popular animations. Moreover, all 15 staff members can serve customers in English and 12 of whom can also attend to customers in Chinese. At the store, customers can pay with not only various credit cards, but also *UnionPay debit card*, the most popular debit card in China, and *Alipay*, electronic money. We will carry a wide range of selections and create a sales floor to meet customers' needs so that customers can enjoy shopping more comfortably.

■ Creating our stores according to the concept of each shopping mall

▲EDION Foleo Osaka Dome City store

▲EDION LaLaport EXPOCITY store

We have created our stores based on not only our basic store concept—sales floors where customers can touch and feel the products—but also in line with the concept of each shopping mall where we open our store. At the *EDION Foleo Osaka Dome City store* that was opened in April 2015, we created our sales floor by focusing on daily life scenes, such as *dietary and health* and *sports and beauty*, because Foleo Osaka Dome City is a commercial facility that operates under the theme of health and sports. Furthermore, since the facility is directly connected to *Kyocera Dome Osaka*, a baseball stadium, our store has a variety of goods useful for watching baseball games and attending concerts, such as digital cameras with a telephoto lens, and pocket-size radios.
To entice customers to come into our store, we have created attractive window displays at the entrance of the EDION LaLaport EXPOCITY store that was open in November 2015. In addition, we have turned our store into a place which the whole family can enjoy together, for instance, we offer a proposal of electrical appliances that the whole family looks forward to using together, set up *KIDSBOOKS*, where children can enjoy reading books, and a playground with play equipment featuring electrical appliances.

■ Eco-living & solar power goods business

※ (Source) The Japan Journal of Remodeling September 2015

We have been focusing on expanding the eco-living & solar power goods business, including home improvement, photovoltaic power generation systems, and all-electric homes. After making a full-scale entry into the home improvement business in 2009, we saw our sales increase steadily and achieved a leading position as a retailer. Placing the home improvement business as our next growth engine, we have been striving to improve the store environment and develop specialist staff for home improvement, for instance, increasing the number of stores that handle home improvement goods. In addition, we established home improvement training centers at four locations in Japan to foster workers and raise their skills and also upgraded our improvement work management system.
In September 2015, *EDION Housing*, a real estate brokerage agent, began operating. We will offer customers proposals to *live a comfortable life* by cooperating with the home improvement business.

● Home improvement

Our home improvement service is being well received by consumers due to the following reasons: (1) we have introduced an easy-to-understand and transparent price package, which includes construction costs, such as installation and demolition work, so that customers can consider home improvement easily; and (2) customers can touch and feel the products at our stores beforehand, gaining a sense of reliability.
We have been offering *Puchi de Refo*, an equipment replacement service, covering items such as range hoods and built-in dishwashing machines, and *Pack de Refo*, a re-modeling of existing domestic plumbing including interior finishing work, such as the walls and floors of kitchens, bathrooms, and toilets. In addition, in some of our large-scale stores, we have begun offering *Home de Refo*, which meets remodeling demands in the entire house, such as the front door, external walls, roofing, tatami mats, and a garden room.

● All-electric home and photovoltaic power generation system

With the start of full deregulation and liberalization of electric power retail sales, the awareness of energy conservation and reducing electricity bills has been rising. Consequently, many people have recently become interested in highly energy efficient equipment, such as EcoCute water heaters and IH cooking heaters. Furthermore, demand for domestic photovoltaic power generation systems, which have advantages including a high power saving effect, is likely to continue growing stably. With the feed-in tariff rates having been recently reviewed, consciousness of electricity self-sufficiency has increased. Thus, the market for photovoltaic power generation systems, together with energy-related goods, such as rechargeable batteries and HEMS, is expected to expand.

● Real estate brokerage agent, *EDION Housing*

In September 2015, *EDION Housing*, a real estate brokerage agent, began operating. Under the concept of *a real estate agent at an electrical appliance store with which customers are familiar and feel free to consult*, EDION Housing aims not only to offer real estate brokerage services, but also provide proposals on home improvement and electrical appliances to *live a comfortable life*. EDION Housing sets up its offices within EDION stores and employees who are qualified as a *licensed real-estate agent* attend to customers. With regard to real estate under exclusive right-to-sell listing and exclusive agency listing agreements, we have introduced the *Housing Assurance Plus One*, an original guarantee system, so that both sellers and buyers can conduct transactions without anxiety. Furthermore, we return 10% of the broker commission to buyers in the form of EDION points under our original system.

Activities

Business development

We will promptly respond to diversified markets and new demand for future growth.

E-commerce Business

EDION ネットショップ

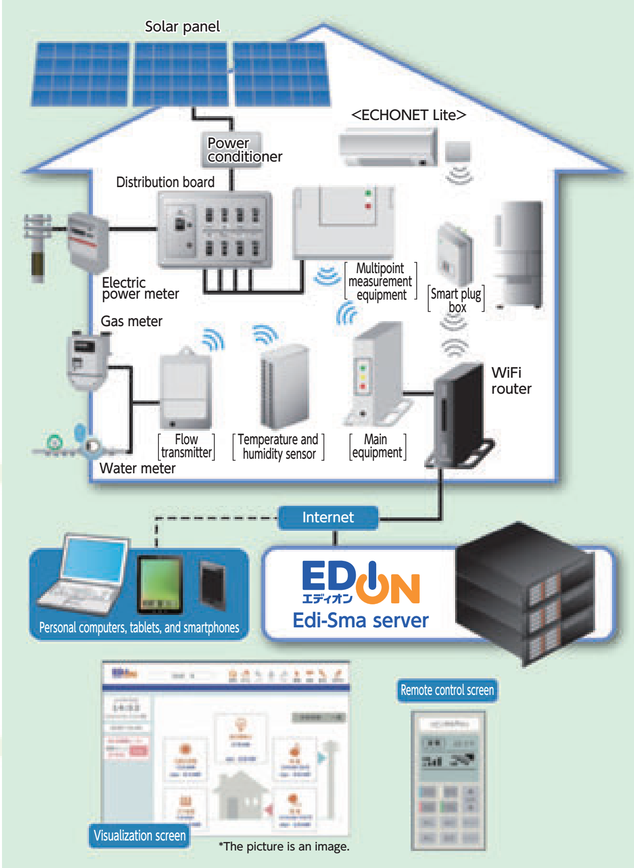
If you order the wrong item, you can return it and get an exchange.
Exchange Guarantee
Accept an exchange of our designated home electrical appliances
* Exchange is subject to our guarantee conditions.

Companies subject to the scheme: Our designated competitors—five major retailers of home electrical appliances
Guaranteed Lowest Price scheme
Please feel free to contact us by e-mail for inquiries.

We operate *EDION Net Shop* to cope with the customer preference to shop on the Internet that has been expanding year by year in the home electrical appliance market. To meet the diversified needs of customers who use our Internet shop, we carry a wide selection of goods other than home electrical appliances, including the handling of household sundries, beverages, and food. In addition to the expanding of product lineups, we have introduced new services, including the *Guaranteed Lowest Price scheme* under which customers can purchase goods through us without spending too much time comparing the prices with those of our competitors and the *Exchange Guarantee scheme*, a service only available on EDION Net Shop to accept the exchange of products that have been unpacked but not used. Furthermore, we have stepped up our logistics system to enhance delivery capacity along with the expansion of sales. We will further improve and strengthen services to increase the convenience of shopping on the Internet in the future.

Energy Management & Support Service Business

Structure of Edi-Sma HEMS System



*The picture is an image.

We have been providing customers with *Edi-Sma Energy Management System Service*, a service that enables residential and business customers to save energy and electricity.
Edi-Sma HEMS, a service for residential customers, has the following convenient functions: customers can check the usage of various forms of energy to efficiently reduce energy consumption by monitoring the use of gas and water as well as electricity and measuring the temperature and humidity in rooms; and customers can remotely turn on and off home electrical appliances, such as air conditioners, and control room temperature. Moreover, we also offer customers *Photovoltaic Power Generation System Maintenance Assurance Service*, a one-stop maintenance service in which we, in place of customers, remotely monitor data on the power generated by a photovoltaic power generation system, which is obtained through *Edi-Sma HEMS*; and send staff members from our service base to the site to inspect the system and request the manufacturer to repair the system when a problem occurs.
In *Edi-Sma BEMS*, a service for business customers, we measure the use of electricity in buildings and stores to conduct power demand management with the aim of efficiently controlling the use of electricity during peak hours. In addition, we provide customers with an energy saving support service in which we digitize and graph data to visualize the use of electricity so that customers can find what time of day has a higher electricity consumption or which equipment consumes a lot of electricity to reduce wasteful power consumption.

Internet Service Provider Business

Amenity, Reassurance, and Low Price
EDION Net
EDION Internet Service
Enjoy net　KuaL net

エディオン光

エンジョイ☆auひかり

We operate *EDION Net*, an Internet service provider business. Under this business, we run *KuaLnet*, services for customers using mobile equipment, and *Enjoynet*, services for customers using fixed-line Internet, such as optical lines. We have also started offering *EDION Optical Service*, a service using leased NTT optical lines, in March 2015 and *Enjoy☆au Optical Service*, a service using leased KDDI optical lines, in October 2015. In addition, we have started an application service provider (ASP) business, which enables customers to enjoy using the Internet safely. We have a wide selection of services, including *Enjoy with U-NEXT*, a video distribution service that delivers more than 60,000 movies and dramas, and Internet security applications. Since our video distribution service is available on multiple platform devices, such as PCs, smartphones, tablet PCs, and 4K-compatible TV sets, customers can enjoy it anytime and anywhere. To meet diversified customers' needs, we allow our customers to combine the above mentioned services as they like.

Activities

Service

We will always put ourselves in our customers' shoes and provide our customers with the services and support they need without fail.

■ Well-established after-sales service

We have devoted ourselves to building a high-quality after-sales service system to ensure that our customers can continue using the goods they have purchased in their optimal condition. Currently, there are approximately 1,500 employees in our Service Division, one of the most advanced service systems in Japan's home electrical appliance retail industry. In addition to delivery and installation services that meet customers' needs, including same-day delivery and time-specified delivery, we also offer prompt on-site service by our service staff. In the fiscal year ended March 2016, our service staff visited approximately 900,000 customers to fix their problems. Furthermore, we have introduced Himawari-gou, a vehicle with special equipment, such as various antennas, testers, and tools. We are using the vehicle for advertising on the street when we open a new store and provide free-of-charge electrical appliance check-up services at sales events.

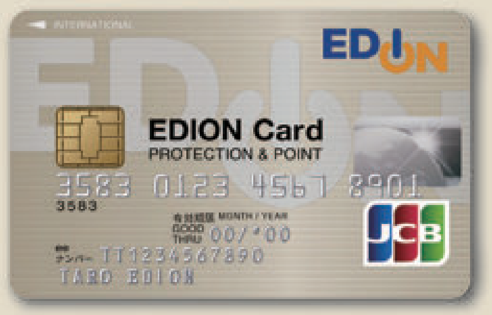
In addition, we also provide a variety of services, including *Electrical Appliance Total Support*, a service whereby we respond to various customers' needs (not only repairs of electrical appliances, but also the cleaning of air conditioners and washing machine's tubs, and the cleaning and inspection of electrical appliances) so that customers can use the goods comfortably.

■ Meticulously serving customers

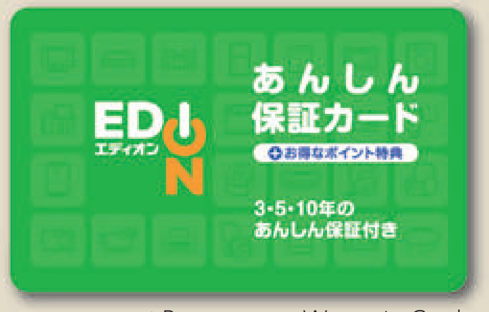
To recommend products most suited to customers' needs, we have been paying special attention to staff education. In addition to training given when employees enter the company, we implement our education training for our employees in accordance with the year in which they joined the company and their position. We have also upgraded our education system for temporary employees. In the fiscal year ended March 2016, we offered our training to a total of approximately 5,500 staff to improve the quality of customer services by our employees.

Furthermore, in order to help our employees master product knowledge, we are encouraging our employees to acquire the qualification of qualified electric home appliance advisor certified by the Association for Electric Home Appliances. A total of 4,710 employees are qualified as electric home appliance advisors (as of the end of December 2015). They are recommending the optimum products to customers using their extensive product knowledge.

■ Reassuring and advantageous service for membership card holders



▲EDION Card



▲Reassurance Warranty Card

The *EDION Card*, a membership card of the EDION Group, features a five-year and a 10-year repair warranty for our designated electrical home appliances (more than 100 items) that are over 5,000 yen/item (excluding consumption tax) for an annual service fee of only 980 yen (excluding consumption tax). Moreover, using the EDION Card offers additional advantages to customers, since they can earn loyalty points not only every time they shop at EDION Group stores, but also when they purchase goods on credit in Japan or overseas. In addition, we have also introduced the *Reassurance Warranty Card*, a convenient card that charges no annual service fee, but offers customers loyalty points and repair warranty. Meanwhile, the number of card members exceeded 10 million in September 2015. We will continue respond to diversified customers' needs and offer improved service.

Furthermore, we have started a T Point service for the convenience of customers and to entice new users to come into our stores in April 2015, the first retailer of home electrical appliances in Japan to do so.

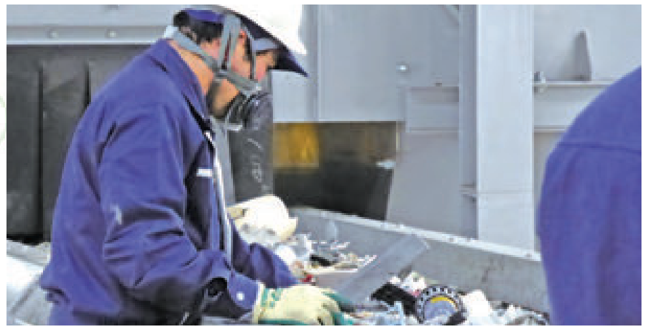
CSR Activities
(Philanthropic Activity Program)

Environmental activities

As a good corporate citizen, we conduct business while giving due consideration to the environment and have been actively implementing environmental protection measures. In addition to our recycling business and forest conservation activities, we are not only introducing LED lighting in our new stores but also replacing the lights in our existing stores with LED lights in stages to protect the global environment and reduce charges for heat and electricity. Furthermore, we have installed charging stations for EVs and PHVs at our stores to contribute to the promotion of widespread use of electric vehicles (EVs) and plug-in hybrid vehicles (PHVs). We will continue working together with local communities and participating in various environmental protection activities.

■ Promoting the recycling of resources

We established E.R. Japan Corporation in April 2012, jointly with Mitsui & Co., Ltd. and others with the aim of starting a business to reuse and recycle home electrical appliances. In August 2014, E.R. Japan Corporation gained accreditation from the Ministry of the Environment and the Ministry of Economy, Trade and Industry as a resources-recycling business operator under the Small Home Appliance Recycling Law. At a plant in Fukuyama, Hiroshima Prefecture, E.R. Japan Corporation is engaged in resource recycling in which it disassembles and shreds end-of-life small home electrical appliances to select, recover and recycle steel, aluminum, copper, gold and silver residues and various plastics. The Company also purchases and recycles used information communication equipment, such as personal computers and cellular phones. We will recover end-of-life small home electrical appliances at EDION and Hyakuman Volt stores to enhance the convenience of customers and the quality of services and try to promote recycling for further contribution to the local community and environmental protection.



■ Forest development activities

We have been actively participating in tree-planting projects and forest development activities in each region in which we operate, as part of our activities to contribute to local communities and environmental protection. Every year, we have participated in the Hiroshima Forest Planting Activities in Takehara, which Hiroshima Prefecture has implemented as a series of its forest popularization project, since the start of the event. In addition, we have also taken part in the Yoshino Forestation Activities, forest thinning on Mt. Yoshino in Nara Prefecture, which is registered as a World Heritage Cultural Site.

Cultural activities

We operate the *EDION Club*, an exclusive club for our card members, at the EDION Hiroshima Main store (Hiroshima) and the EDION Nagoya Main store (Aichi), to help our customers enjoy using home electrical appliances.
The Club holds various events including hobby and educational classes, in which participants use home electrical appliances. These gatherings provide our customers with opportunities to learn how to use appliances efficiently and get to know each other better.

Sports promotion

We have been getting involved in sports promotion as part of activities for the development of regional communities and social contribution. We operate a women's track and field club and an archery club. In addition, to supporting various sports activities, we have concluded a sponsorship agreement with Sanfrecce Hiroshima F.C., a professional football club, *Chunichi Dragons*, a professional baseball team, and *EDION Aikodai OB BLITZ*, a non-professional baseball team.

■ EDION Women's Track and Field Club

At *the 21st Asian Athletics Championship* held in Wuhan, China in June 2015, Ms. Ayako Kimura participated in the women's 100-meters hurdles and won a bronze medal. Since its establishment in 1989, the EDION Women's Track and Field Team has been focusing on the Women's Corporate Team Ekiden. The team has participated in the All-Japan Women's Corporate Team Ekiden Championships, which is held every December, a total of 24 times, contributing substantially to the development of athletics in Japan and overseas.

■ EDION Archery Club

▲Mr. Ayumi Iwata

Mr. Ayumi Iwata participated in the *Shanghai 2015 Archery World Cup* held in May 2015 and won the championship in the men's recurve team archery competition (with two other Japanese team members). At *the 63rd All-Japan Corporate Team Archery Competition* held in July 2015, the EDION team (Mr. Hideki Kikuchi, Mr. Shohei Ota, and Mr. Fumiya Kobayashi (the current coach)) won the championship in the men's recurve team archery competition for the third time in a row.
Since its establishment in 1990, our team has produced four national Olympic team members, contributing greatly to the development of archery in Japan and overseas.

■ Sanfrecce Hiroshima F.C.

©2016 S.FC

We serve as a top partner for *Sanfrecce Hiroshima F.C.*, one of our affiliated companies and a member team of the Japan Professional Football League (the J. League). Sanfrecce became Japan Professional Football League Division 1 champions in 2015. Furthermore, the club participated in *FIFA Club World Cup Japan 2015* held in December 2015 as a representative of the host country and finished in third place. In addition, Sanfrecce Hiroshima F.C. won the FUJI XEROX SUPER CUP 2016 in February 2016, the third time it has won the competition after an interval of two years.

■ EDION Arena Osaka

We have obtained the naming rights of the *Osaka Prefectural Gymnasium*, where the March Sumo Grand Tournament and various boxing events are held, for three years from September 1, 2015 to August 31, 2018. We have named the gymnasium *EDION Arena Osaka*.
As a member of regional society, we are determined to contribute to the development of sports and cultural activities in the region. We also hope people in the region feel comfortable using the facility.

Corporate Governance

Outline of our corporate governance system

In addition to a board of directors, which meets twice a month in principle and serves as the management decision-making body, we have set up conference bodies that are not required to be established by laws and regulations, such as the Executive Committee and Executive Vice President Meeting, to discuss how to address issues flexibly and sufficiently according to importance and urgency. We also have set up the *Management Discussion Meeting*, which consists of both independent directors and representative director, under the Board of Directors to exchange opinions on management issues.

Moreover, the Board of Corporate Auditors strictly audits decision-making by the Board of Directors and the execution of duties by directors and shares information with the Internal Audit Department through liaison conferences.

Furthermore, we have established the *Compliance Committee* and the *Risk Management Committee* to collectively manage risks surrounding the Group companies.

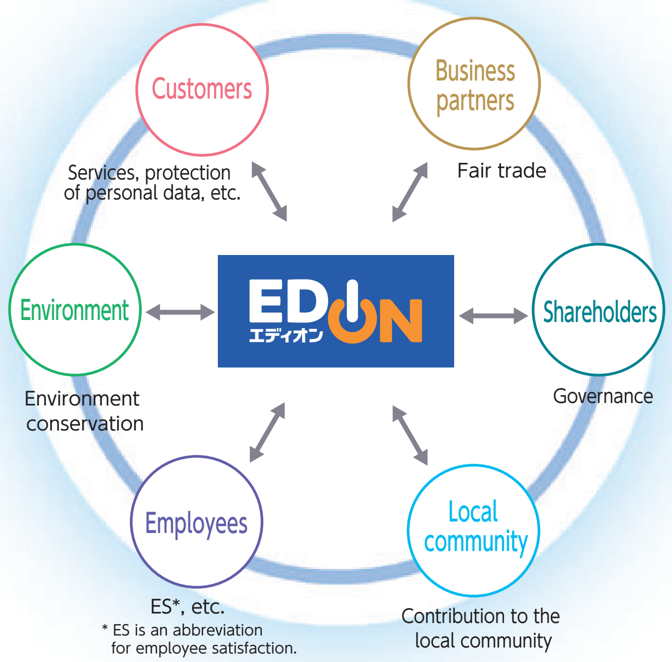
Having established the above-mentioned system, we have been endeavoring to enhance the corporate governance system of the EDION Group as a whole, to achieve sustainable growth, and to raise corporate value over the medium and long-term.

Reasons for introducing a corporate governance system

The EDION Group's concept of quality service retailing is based on our belief that our retail business activities are closely linked to local communities and depend on the trust and reliance that our stakeholders, including our shareholders, customers, business partners, and local communities, have in us.

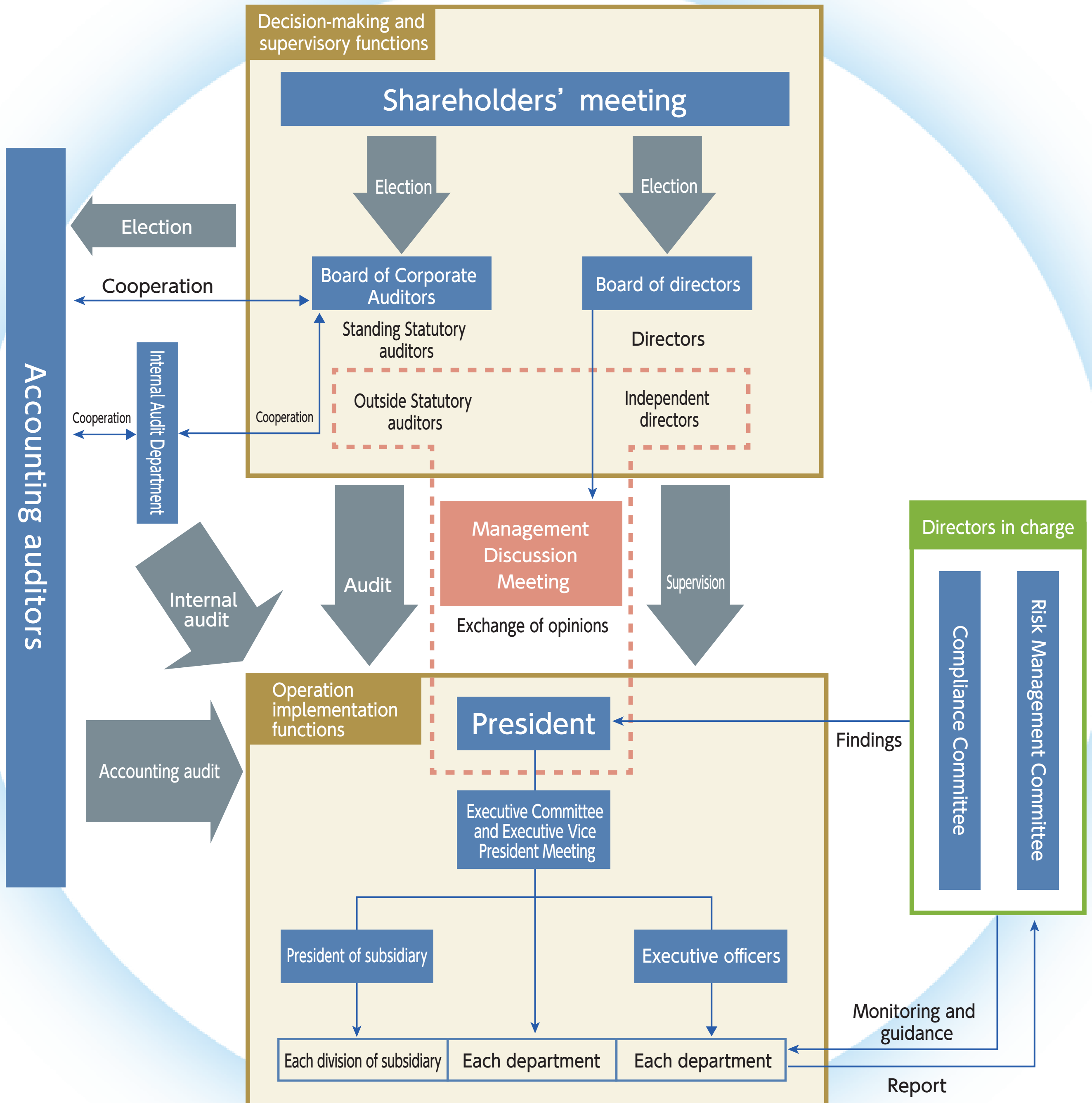
To continue growing in a competitive and rapidly changing business environment and to win recognition and receive support from local communities as a quality service retailer, we recognize that ensuring an appropriate exercise of governance in the EDION Group is an important management issue. We have been making efforts to create a system that enables not only employees to make decisions promptly and precisely through adequate empowerment but also top management to execute what is decided without hesitation and improve communications within the Group, to have information at the sales floor and the opinions and requests of each stakeholder reach our directors in a timely manner. We also understand that building and maintaining a good relationship between our Group and our stakeholders is another key management issue. To that end, we will endeavor to secure the rationality and reasonability of management measures and transparency of decision-making processes from the viewpoint of all of our stakeholders, and fulfill our accountability to all stakeholders sufficiently. Moreover, it is indispensable for us to make group-wide efforts to foster and maintain a sense of compliance among all officers and employees so that we can obtain and maintain the trust of our customers. The EDION Group regards all these matters as issues of corporate governance.

In the EDION Group, directors serve as chief officers to grasp management issues promptly and accurately. This facilitates us to strengthen our management function and ensure that all employees in our stores understand management decisions promptly. Furthermore, in accordance with Management Rules for Subsidiary Companies, we ensure that each subsidiary company complies with the basic rules of the EDION Group by taking into account the individuality and characteristics of each subsidiary. At the same time, we try to build a unity of purpose as the EDION Group by promoting exchange of human resources to activate communication among our Group companies.



Corporate governance structure

The following chart shows the main organizations and the status of development of the internal control system and the risk management system in our Group.



Corporate Governance

■ Current situation of our internal control system and risk management system

1. The board of directors, consisting of 12 members, meets twice a month in principle.

2. In the EDION Group, directors serve as chief officers to promptly and accurately grasp issues that may cause substantial losses to the Company and refer or report them to the board of directors.

3. We have prepared and operated systems that enable directors to execute their jobs efficiently. For example, in addition to the holding meetings of the board of directors, we have set up conference bodies that are not required to be established by laws and regulations, such as the Executive Committee and the Executive Vice President Meeting, to discuss how to address issues flexibly and sufficiently according to their importance and urgency.

4. We also have set up the *Management Discussion Meeting*, which consists of independent officers and outside statutory auditors who do not engage in the execution of business and the representative directors, a "C-suite." The Management Discussion Meeting offers advice and opinions on important management issues in general to achieve the Company's sustainable growth and increase corporate value over the medium and long-term.

5. As part of our efforts to enhance corporate governance, we have established a corporate ethics code, the *EDION Group Corporate Ethics*, distributed the *Group's Ethics and Compliance Manual* and portable *Code of Ethics Cards* to all directors and employees, and implemented our compliance training and education programs.

■EDION Group Corporate Ethics

1. We will provide maximum satisfaction and reassurance to our customers.
2. We will engage in customer-centered and fair competition.
3. We will ensure transparency in business transactions with our clients and strive for mutually beneficial business relationships.
4. We will take meticulous care when handling personal information or the business secrets of our customers and clients.
5. We will maintain sound and appropriate relations with political groups and government offices.
6. We will disclose our corporate information at appropriate times in an appropriate manner.
7. We will be actively involved in environmental issues.
8. As a good corporate citizen, we will promote cooperation with local communities.
9. We will not associate with anti-social activities or movements.
10. We will strive to create ideal working conditions, to ensure fair and equitable treatment of employees, and to help employees reach their full potential.

6. We have also established the *Compliance Committee*, which serves as a crisis management headquarters in charge of ensuring compliance. The Compliance Committee, consisting of a chairperson (a director) appointed by the representative director, and members (General Affairs Dept. staff, Human Resources Dept. staff, and Internal Audit Dept. staff) appointed by the chairperson, which meets as necessary to upgrade our compliance system. In addition, we have set up the *Risk Management Committee* with a chairperson (a director) appointed by the representative director which meets as necessary to integrally respond to various management risks.

7. To ensure the appropriateness of subsidiaries' business, we have established rules for businesses each subsidiary company operates in accordance with the *Management Rules for Subsidiary Companies*. We implement the rules to create a governance system for each subsidiary company.

Promotion of active social participation by women

■ Efforts to create an environment where female employees feel comfortable to work

We have been expanding schemes to assist female employees who return to work after pregnancy, childbirth and childcare. We offer an irregular pregnancy leave for those who find it difficult to work due to morning sickness and we allow employees to extend their maternity leave. To support those who return to their workplaces, we have also prepared schemes as follows: *Short-Time Work for Child Care* and *Limitation on Overtime and Midnight Work*, schemes that employees can use up to the time their child enters the 6th grade of elementary school, and *Leave for Nursing a Child*, a scheme that enables employees to look after their child or take their child to receive a vaccination or a medical checkup. In addition, we have been trying hard to create a work environment where female employees find it easy to continue working and playing an active role. For example, we hold a get-together for employees who are caring for a child or are pregnant in each region so that they can exchange information with each other and the labor union and management have together launched the *Diversity Promotion Labor and Management Project*.

■ Interview with a store manager

EDION Kitaoji VIVRE store (Kyoto)　Ms. Saori Fujii, Store Manager

Ms. Fuji became a store manager in April 2015 after serving as the person in charge of electrical appliances, eco-living & solar power business and as an acting store manager at three stores. She works hard as a store manager, winning the trust of fellow employees.

Q Can you balance your job and family? What is the thing that you care about the most?

A Since I am a store manager, I have to work long hours some times in particular seasons. However, as the Company prepares various holiday schemes, I take my holidays in the off-season. Moreover, I have endeavored to create as many opportunities as possible to communicate with my family, for instance, I keep in mind to have breakfast with all the family.

Q From this fiscal year, the Company will upgrade its training programs for female employees. What do you expect from it?

A When I was an ordinary employee, the Company did not have such training programs for female employees. So, female employees did not have the opportunity to speak of their worries to each other. I believe the increase in such opportunities is good for female employees, because it will help build horizontal relationships among them. I hope more female employees will deepen their understanding of the Company's schemes to assist them and want to continue their current jobs.

Q Is the Company's work environment women-friendly? Do you find any problems in the Company's work environment?

A I feel the Company's work environment has become much better compared to before. The industry is considered to be male-centered because of its features, such as sales of electrical appliances and home improvement services. However, many women, especially housewives, usually use electrical appliances, that is exactly why there are many things that female employees can understand. I will be happy if I can change the industry's image by keeping such things in mind.

Q Could you please give your message to female employees?

A Anybody may have difficult time or face a serious problem in performing their jobs. As the Company has created a work environment where its employees can ask for advice, I would like to recommend female employees to consult someone, if they have a problem. I think it is important to always think about balancing your job and life instead of only thinking about your job when you get married or get pregnant. I believe that carefully carrying out our daily work will certainly lead to a bright future. Work harder together!

IR Activities

Analysts meeting

NSE IR EXPO 2015

We have conducted various activities to have better communication with investors. In addition to the issuance of an annual report, we publish an IR newsletter to our shareholders twice a year. We also update our website accordingly with the aim of disclosing information in a timely manner. Furthermore, we hold an analysts meeting twice a year (financial results for the first half and full year) in Tokyo. Every time, security analysts and many other market participants attend the meeting. In addition, we hold individual meetings with institutional investors and an earnings conference call every quarter. In August 2015, we visited Hong Kong and Singapore to have communication with overseas investors and had meetings with 12 institutional investors.

Meanwhile, we participated in *NSE IR EXPO 2015*, sponsored by the Nagoya Stock Exchange and held in Nagoya in July 2015, to communicate with individual investors. Approximately 9,000 people came to the two-day event, and around 260 individual investors visited our booth. At our booth, we talked with investors face-to-face to deepen their understanding of EDION Corporation.

We also plan to arrange an opportunity to hear opinions and requests from more shareholders and investors in the future.

Consolidated Financial Statements

Consolidated Balance Sheet

EDION Corporation and Consolidated Subsidiaries March 31, 2016

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Assets			
Current assets:			
Cash and cash equivalents *(Note 10)*	¥ 12,247	¥ 9,001	$ 108,684
Notes and accounts receivable:			
Trade *(Note 10)*	32,034	29,223	284,293
Other	9,240	10,119	82,004
Allowance for doubtful receivables	(54)	(44)	(479)
	41,220	39,298	365,818
Inventories:			
Merchandise and products	102,648	106,528	910,970
Supplies	344	324	3,057
	102,992	106,852	914,027
Deferred income taxes *(Note 9)*	7,814	8,071	69,343
Other current assets	3,512	3,809	31,169
Total current assets	167,785	167,031	1,489,041
Property and equipment, at cost *(Notes 6 and 15)*:			
Land *(Notes 4 and 7)*	72,918	73,520	647,127
Buildings and structures *(Note 7)*	165,661	165,718	1,470,191
Tools, furniture and fixtures	24,301	24,299	215,663
Leased assets	1,040	1,428	9,232
Construction in progress	1,344	1,515	11,930
Other	988	680	8,755
	266,252	267,160	2,362,898
Accumulated depreciation	(122,442)	(118,426)	(1,086,632)
Property and equipment, net	143,810	148,734	1,276,266
Investments and other assets:			
Investments in securities *(Notes 3 and 10)*	2,255	3,313	20,014
Investments in affiliates *(Note 10)*	857	759	7,604
Leasehold deposits *(Note 10)*	27,332	28,964	242,565
Deferred income taxes *(Note 9)*	7,964	7,390	70,674
Other *(Note 15)*	10,311	11,148	91,500
Total investments and other assets	48,719	51,574	432,357
Total assets	¥ 360,314	¥ 367,339	$ 3,197,664

See accompanying notes to consolidated financial statements.

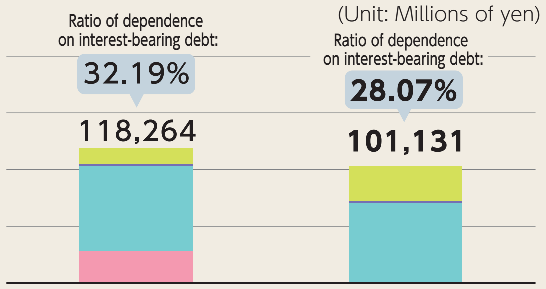
	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Liabilities and net assets			
Current liabilities:			
Short-term bank loans *(Notes 7 and 10)*	¥ –	¥ 27,000	$ –
Current portion of long-term debt *(Notes 7 and 10)*	20,712	16,376	183,811
Notes and accounts payable:			
Trade *(Note 10)*	39,475	34,253	350,328
Other	11,682	11,729	103,673
	51,157	45,982	454,001
Lease obligations *(Notes 7 and 10)*	102	96	904
Accrued income taxes *(Note 9)*	5,418	559	48,084
Allowance for employees' bonuses	4,657	4,368	41,332
Reserve for point service program	8,911	9,229	79,084
Other current liabilities	13,827	11,967	122,709
Total current liabilities	104,784	115,577	929,925
Long-term liabilities:			
Long-term debt *(Notes 7 and 10)*	79,427	73,831	704,892
Liability for retirement benefits *(Note 8)*	9,519	7,652	84,483
Lease obligations *(Notes 7 and 10)*	890	961	7,901
Deferred income taxes *(Note 9)*	10	27	85
Deferred income taxes for land revaluation *(Note 9)*	1,773	1,870	15,733
Allowance for merchandise warranties	8,296	8,416	73,627
Asset retirement obligations *(Note 5)*	6,844	6,581	60,735
Other long-term liabilities	6,784	7,337	60,199
Total long-term liabilities	113,543	106,675	1,007,655
Contingent liabilities *(Note 12)*			
Net assets			
Shareholders' equity *(Note 13)*:			
Common stock	11,940	11,940	105,967
Capital surplus	84,310	84,310	748,221
Retained earnings	64,164	60,401	569,436
Treasury stock, at cost	(10,457)	(5,471)	(92,798)
Total shareholders' equity	149,957	151,180	1,330,826
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities	149	719	1,328
Land revaluation difference *(Note 4)*	(6,689)	(7,011)	(59,366)
Retirement benefit liability adjustments *(Note 8)*	(1,479)	135	(13,128)
Total accumulated other comprehensive loss, net	(8,019)	(6,157)	(71,166)
Non-controlling interests	49	64	424
Total net assets	141,987	145,087	1,260,084
Total liabilities and net assets	¥ 360,314	¥ 367,339	$ 3,197,664

See accompanying notes to consolidated financial statements.

Key points of consolidated balance sheet

●Assets (down 7,000 million yen from the previous year)	Increase in cash and deposits	Up 3,200 million yen	
	Decrease in merchandise and products	Down 3,800 million yen	···Reduction of inventories
	Decrease in property and equipment	Down 4,900 million yen	···Posting of impairment loss, repayment of leasehold deposits
●Liabilities (down 3,900 million yen from the previous year)	Repayment of short-term bank loans	Down 27,000 million yen	
	Issuance of convertible bond-type bonds with subscription rights to shares	Up 15,000 million yen	
●Net assets (down 3,100 million yen)	Net income	Up 6,000 million yen	
	Acquisition of treasury stock	Down 4,900 million yen	
	Payment of dividends	Down 2,000 million yen	

Balance of interest-bearing debt (Actual figures for the 15th business term are provided.)



(Unit: Millions of yen)

	14th business term	15th business term
Short-term bank loans	27,000	–
Long-term bank loans*	75,207	70,071
Lease obligations*	1,056	992
Sub-total	103,624	71,063
Convertible bond-type bonds with subscription rights to shares	15,000	30,067
Total	118,264	101,131

*(Including the current portion)

Consolidated Financial Statements

Consolidated Statement of Income

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2016

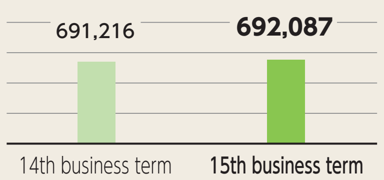
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥ 692,087	¥ 691,217	$ 6,142,057
Cost of sales *(Note 14)*	496,011	500,857	4,401,941
Gross profit	196,076	190,360	1,740,116
Selling, general and administrative expenses	179,026	179,615	1,588,798
Operating income	17,050	10,745	151,318
Non-operating income (expenses):			
Interest and dividend income	172	228	1,528
Interest expense	(660)	(843)	(5,853)
Provision of allowance for doubtful receivables	(235)	–	(2,085)
Subsidy income	184	178	1,632
Loss on sales or disposal of property and equipment	(974)	(717)	(8,646)
Loss on impairment of property and equipment *(Notes 15 and 20)*	(4,256)	(2,791)	(37,774)
Gain on sales of investments in securities *(Note 3)*	150	158	1,331
Gain on sales of shares of subsidiary	–	2,575	–
Other, net	483	582	4,286
	(5,136)	(630)	(45,581)
Profit before income taxes	11,914	10,115	105,737
Income taxes *(Note 9)*:			
Current	5,269	1,362	46,768
Deferred	637	3,838	5,655
Total income taxes	5,906	5,200	52,423
Profit	6,008	4,915	53,314
Profit (loss) attributable to:			
Non-controlling interests	(15)	(15)	(137)
Owners of parent	¥ 6,023	¥ 4,930	$ 53,451
	Yen		U.S. dollars
Amounts per share:			
Profit attributable to owners of parent			
– Basic	¥ 60.04	¥ 45.77	$ 0.53
– Diluted	47.66	42.69	0.42
Cash dividends	22.00	20.00	0.20

See accompanying notes to consolidated financial statements.

Key points of consolidated statement of income (figures in parenthesis are changes from the previous year.)

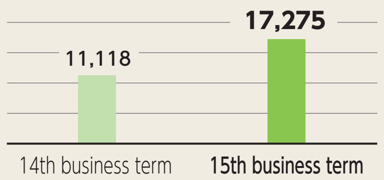
Net sales 692,000 million yen (up 800 million yen)

(Unit: Millions of yen)



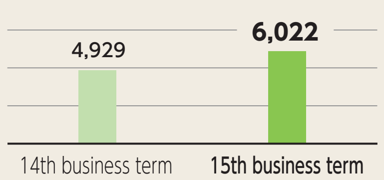
Ordinary income 17,200 million yen (up 6,100 million yen)

(Unit: Millions of yen)



Net income attributable to EDION Corporation 6,000 million yen (up 1,100 million yen)

(Unit: Millions of yen)



Consolidated Statement of Comprehensive Income

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Profit	¥ 6,008	¥ 4,915	$ 53,314
Other comprehensive (loss) income *(Note 16)*:			
Net unrealized (loss) gain on other securities	(570)	527	(5,055)
Land revaluation difference	93	198	823
Retirement benefit liability adjustments	(1,614)	(145)	(14,326)
Other comprehensive (loss) income, net	(2,091)	580	(18,558)
Comprehensive income	¥ 3,917	¥ 5,495	$ 34,756
Comprehensive income attributable to:			
Owners of parent	¥ 3,932	¥ 5,510	$ 34,893
Non-controlling interests	(15)	(15)	(137)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2016

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2014	¥ 11,940	¥ 84,168	¥ 59,220	¥ (802)	¥ 154,526	¥ 192	¥ (8,559)	¥ 280	¥ (8,087)	¥ 239	¥ 79	¥ 146,757
Cumulative effect of changes in accounting policy	–	–	22	–	22	–	–	–	–	–	–	22
Restated Balance	11,940	84,168	59,242	(802)	154,548	192	(8,559)	280	(8,087)	239	79	146,779
Cash dividends	–	–	(2,421)	–	(2,421)	–	–	–	–	–	–	(2,421)
Reversal of land revaluation difference	–	–	(1,350)	–	(1,350)	–	–	–	–	–	–	(1,350)
Profit attributable to owners of parent	–	–	4,930	–	4,930	–	–	–	–	–	–	4,930
Purchases of treasury stock	–	–	–	(4,999)	(4,999)	–	–	–	–	–	–	(4,999)
Disposition of treasury stock	–	142	–	330	472	–	–	–	–	–	–	472
Other changes	–	–	–	–	–	527	1,548	(145)	1,930	(239)	(15)	1,676
Balance at April 1, 2015	11,940	84,310	60,401	(5,471)	151,180	719	(7,011)	135	(6,157)	–	64	145,087
Cash dividends	–	–	(2,031)	–	(2,031)	–	–	–	–	–	–	(2,031)
Reversal of land revaluation difference	–	–	(229)	–	(229)	–	–	–	–	–	–	(229)
Profit attributable to owners of parent	–	–	6,023	–	6,023	–	–	–	–	–	–	6,023
Purchases of treasury stock	–	–	–	(4,986)	(4,986)	–	–	–	–	–	–	(4,986)
Disposition of treasury stock	–	0	–	0	0	–	–	–	–	–	–	0
Other changes	–	–	–	–	–	(570)	322	(1,614)	(1,862)	–	(15)	(1,877)
Balance at March 31, 2016	**¥ 11,940**	**¥ 84,310**	**¥ 64,164**	**¥ (10,457)**	**¥ 149,957**	**¥ 149**	**¥ (6,689)**	**¥ (1,479)**	**¥ (8,019)**	**¥ –**	**¥ 49**	**¥ 141,987**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Non-controlling interests	Total net assets
Balance at April 1, 2015	$ 105,967	$ 748,221	$ 536,042	$ (48,556)	$ 1,341,674	$ 6,383	$ (62,221)	$ 1,198	$ (54,640)	$ 561	$ 1,287,595
Cash dividends	–	–	(18,025)	–	(18,025)	–	–	–	–	–	(18,025)
Reversal of land revaluation difference	–	–	(2,032)	–	(2,032)	–	–	–	–	–	(2,032)
Profit attributable to owners of parent	–	–	53,451	–	53,451	–	–	–	–	–	53,451
Purchases of treasury stock	–	–	–	(44,242)	(44,242)	–	–	–	–	–	(44,242)
Disposition of treasury stock	–	0	–	0	0	–	–	–	–	–	0
Other changes	–	–	–	–	–	(5,055)	2,855	(14,326)	(16,526)	(137)	(16,663)
Balance at March 31, 2016	**$ 105,967**	**$ 748,221**	**$ 569,436**	**$ (92,798)**	**$ 1,330,826**	**$ 1,328**	**$ (59,366)**	**$ (13,128)**	**$ (71,166)**	**$ 424**	**$ 1,260,084**

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

■ Consolidated Statement of Cash Flows

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2016

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2016	2015	**2016**
Cash flows from operating activities			
Profit before income taxes	¥ **11,914**	¥ 10,115	$ **105,737**
Adjustments for:			
Depreciation and amortization	**9,543**	10,364	**84,691**
Loss on impairment of property and equipment	**4,256**	2,791	**37,774**
Interest and dividend income	**(172)**	(228)	**(1,528)**
Interest expense	**660**	843	**5,853**
Increase (decrease) in allowance for employees' bonuses	**289**	(1,333)	**2,568**
Decrease in reserve for point service program	**(318)**	(109)	**(2,824)**
Increase (decrease) in liability for retirement benefits	**1,867**	(416)	**16,571**
Loss on sales or disposal of property and equipment	**974**	717	**8,646**
Gain on sales of shares of subsidiary	**–**	(2,575)	**–**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**(1,932)**	19,850	**(17,150)**
Decrease (increase) in inventories	**3,917**	(23,016)	**34,763**
Increase (decrease) in notes and accounts payable	**5,928**	(17,914)	**52,611**
Decrease in advances received	**(76)**	(9,565)	**(671)**
Other, net	**1,179**	(2,709)	**10,456**
Subtotal	**38,029**	(13,185)	**337,497**
Interest and dividends received	**101**	61	**898**
Interest paid	**(620)**	(803)	**(5,499)**
Subsidies received	**201**	384	**1,786**
Income taxes refunded	**426**	2	**3,776**
Income taxes paid	**(982)**	(3,674)	**(8,719)**
Net cash provided by (used in) operating activities	**37,155**	(17,215)	**329,739**
Cash flows from investing activities			
Purchases of property and equipment	**(8,504)**	(9,227)	**(75,471)**
Proceeds from sales of property and equipment	**185**	3,791	**1,643**
Purchases of intangible assets	**(1,473)**	(1,296)	**(13,070)**
Payments of long-term prepaid expenses	**(51)**	(119)	**(452)**
Purchases of investments in securities	**–**	(65)	**(4)**
Proceeds from sales of investments in securities	**391**	437	**3,468**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	**–**	4,048	**–**
Decrease (increase) in leasehold deposits, net	**81**	(1,158)	**720**
(Decrease) increase in leasehold deposits received from tenants, net	**(205)**	137	**(1,820)**
Other, net	**(177)**	(323)	**(1,570)**
Net cash used in investing activities	¥ **(9,753)**	¥ (3,775)	$ **(86,556)**
Cash flows from financing activities			
(Decrease) increase in short-term bank loans, net	¥ **(27,000)**	¥ 23,000	$ **(239,617)**
Proceeds from long-term loans	**12,000**	1,500	**106,496**
Repayments of long-term loans	**(17,028)**	(22,540)	**(151,118)**
Proceeds from issuance of convertible bonds	**15,003**	14,942	**133,145**
Cash dividends paid	**(2,026)**	(2,421)	**(17,984)**
Purchase of treasury stock	**(4,986)**	(4,999)	**(44,242)**
Proceeds from exercise of stock options	**–**	370	**–**
Other, net	**(119)**	(155)	**(1,061)**
Net cash (used in) provided by financing activities	**(24,156)**	9,697	**(214,381)**
Effect of exchange rate changes on cash and cash equivalents	**0**	0	**0**
Net increase (decrease) in cash and cash equivalents	**3,246**	(11,293)	**28,802**
Cash and cash equivalents at the beginning of the year	**9,001**	20,294	**79,882**
Cash and cash equivalents at the end of the year *(Note 18)*	¥ **12,247**	¥ 9,001	$ **108,684**

See accompanying notes to consolidated financial statements.

■ Notes to Consolidated Financial Statements March 31, 2016

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of EDION Corporation (the "Company") and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.
In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.
Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2015 to the 2016 presentation. Such reclassifications had no effect on consolidated profit, net assets or net cash flow.
The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥112.68 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2016. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation
The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. The number of consolidated subsidiaries was 5 as of March 31, 2016 and 2015.
Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The Company has applied the equity method to investments in 3 affiliates for the years ended March 31, 2016 and 2015.
Neo System Co., Ltd. and HOUSALL Corporation were excluded from the scope of the equity method as their impact is not significant to the Company's profit or loss, retained earnings and others.
All significant intercompany accounts, transactions and unrealized profit and loss have been eliminated in consolidation.
The fiscal year end of consolidated subsidiaries is the same as that of the Company.

(b) Cash and cash equivalents
Cash and cash equivalents are consisted of cash on hand and demand deposits. Cash and cash equivalents also include short-term investments with a maturity date within three months of the date of acquisition, which are readily convertible into cash and are exposed to an insignificant risk of change in value.

(c) Investments in securities
Securities have been classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited and charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost determined by the moving average method.
The Group recognizes impairment loss on securities in cases where the fair value of a security declines by more than 50% of carrying value. The Group also recognizes impairment loss of a necessary amount by considering the significance of the amount of decline in fair value, the recoverability of fair value and so forth when the fair value declines by 30% to 50%.

(d) Inventories
Inventories such as consumer electronics merchandise are stated principally at the lower of cost or net selling value, cost being determined by the moving average method. Supplies are stated at cost determined by the last purchase price method.

(e) Property and equipment (other than leased assets)
Property and equipment are stated at cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets, while the straight-line method is applied to buildings (other than attachments) acquired on and after April 1, 1998. The range of estimated useful lives is principally from 2 to 60 years for buildings and structures, and from 2 to 20 years for tools, furniture and fixtures.

(f) Leased assets
Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.
Finance lease transactions which do not transfer ownership to the lessee and commenced prior to April 1, 2008 were accounted for as operating leases.

(g) Allowance for doubtful receivables
Allowance for doubtful receivables is provided at an amount calculated based on historical experience of bad debts on ordinary receivables, plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(h) Allowance for employees' bonuses
Allowance for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(i) Retirement benefits
The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees.
Liability for retirement benefits is provided based on the amount of the projected benefit obligation after deducting the pension plan assets at fair value at the year end. The retirement benefit obligation is attributed to each period by the benefit-formula basis over the estimated remaining years of service of the eligible employees.
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.
Prior service cost is amortized by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.

Consolidated Financial Statements

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(j) Reserve for point service program
Reserve for point service program is provided at an estimate of the total cost expected to be incurred subsequent to the balance sheet date based on the historical data of utilization of points by customers.

(k) Allowance for merchandise warranties
Allowance for merchandise warranties is provided at an estimate of the total cost expected to be incurred at the balance sheet date during the warranty period based on the historical data for repair expenses.

(l) Income taxes
Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Group has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(m) Derivatives and hedging activities
Derivatives positions are carried at fair value with any changes charged to profit, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred.
If interest-rate swap contracts are used as hedges and meet certain hedging criteria, the net amounts to be paid or received under the interest-rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contracts are executed ("Special treatment").

(n) Per share information
Basic profit attributable to owners of parent per share is computed based on the profit attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price, and stock acquisition rights were exercised into common stock at the time of issue at the average stock price. Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of such years.
The average number of shares of common stock used to compute basic profit attributable to owners of parent per share for the years ended March 31, 2016 and 2015 were 100,311 thousand and 107,721 thousand, respectively. The dilutive potential of shares of common stock for the year ended March 31, 2016 and 2015 were 26,046 thousand and 7,760 thousand, respectively.
Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end. Amounts per share of net assets at March 31, 2016 and 2015 were ¥1,437.65 ($12.76) and ¥1,389.43, respectively.

(o) Distribution of retained earnings
Under the Corporation Law of Japan (the "Law"), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at an annual meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 21. "Subsequent Events").

(p) Changes in accounting policy

(Application of Accounting Standard for Business Combinations)

Effective from the fiscal year ended March 31, 2016, the Company and its domestic consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No.21, September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013). As a result, under these revised accounting standards, the difference arising from changes in the ownership interest in a subsidiary that is still under the parent's control shall be accounted for in capital surplus, and the corresponding acquisition-related costs shall be accounted for as expenses in the period in which the costs are incurred. For business combinations occurring on or after April 1, 2015, any change to the allocation of the acquisition cost resulting from the finalization of the provisional accounting treatment are reflected in the consolidated financial statements for the period in which the business combination occurs. Additionally, a change in presentation has been made to net income, and the previous accounting standard category of minority interests has changed to non-controlling interests. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been restated.
The Company has adopted these accounting standards from the beginning of the fiscal year ended March 31, 2016, in accordance with transitional treatment based on Article 58-2(4) of ASBJ Statement No.21, Article 44-5(4) of ASBJ Statement No.22, and Article 57-4(4) of ASBJ Statement No.7.
There was no effect on the consolidated financial results for the year ended March 31, 2016 resulting from the adoption.

(q) Accounting standards issued but not yet effective
Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview
Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.
- Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- Category requirements for (Category 2) and (Category 3)
- Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of adoption
The revised implementation guidance will be adopted from the beginning of the fiscal year ending March 31, 2017.
(3) Impact of adopting revised implementation guidance
The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

3. Investments in Securities

(a) Information regarding investments in securities classified as other securities inclusive of marketable securities at March 31, 2016 and 2015 were summarized as follows:

Millions of yen

	2016			2015		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 2,060	¥ 1,798	¥ 262	¥ 3,084	¥ 2,029	¥ 1,055
Subtotal	¥ 2,060	¥ 1,798	¥ 262	¥ 3,084	¥ 2,029	¥ 1,055
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	¥ 147	¥ 183	¥ (36)	¥ 139	¥ 151	¥ (12)
Subtotal	¥ 147	¥ 183	¥ (36)	¥ 139	¥ 151	¥ (12)
Total (*a)	¥ 2,207	¥ 1,981	¥ 226	¥ 3,223	¥ 2,180	¥ 1,043

Thousands of U.S. dollars

	March 31, 2016		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$18,289	$15,964	$ 2,325
Subtotal	$18,289	$15,964	$ 2,325
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	$ 1,303	$ 1,621	$ (318)
Subtotal	$ 1,303	$ 1,621	$ (318)
Total (*a)	$19,592	$17,585	$ 2,007

Notes:
(*a) Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted equity securities are not included in the preceding table. The carrying values of such unlisted equity securities amounted to ¥48 million ($422 thousand) and ¥90 million as of March 31, 2016 and 2015, respectively.

(b) Proceeds from sales of and gross realized gain and loss on other securities for the fiscal years ended March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Proceeds from sales	¥ 391	¥ 437	$ 3,468
Gross realized gain	150	158	1,331
Gross realized loss	–	–	–

(c) Losses on devaluation of investments in securities of ¥0 million ($1 thousand) and nil were recognized in the consolidated statements of income for the fiscal years ended March 31, 2016 and 2015, respectively.

4. Land Revaluation

The Company revaluated land held for business use, in accordance with the "Law on Land Revaluation" at March 28 and March 31, 2002. Differences on land revaluation have been accounted for as "land revaluation difference" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluations was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its fair value by ¥11,269 million ($100,013 thousand) and ¥11,596 million at March 31, 2016 and 2015, respectively, of which a certain portion of this land, in the amount of ¥2,845 million ($25,253 thousand) and ¥3,135 million, corresponded to real estate for lease at March 31, 2016 and 2015, respectively.

5. Asset Retirement Obligations

Asset retirement obligations mainly consist of restoration costs related to lease contracts for stores and rental property.
The amount of asset retirement obligations is calculated by the estimated useful life according to the terms of the agreement or mostly 15 years (in the case of agreements under the former Act on Land and Building Leases) using discount rates ranging from 0.02% to 2.75%.
Changes in asset retirement obligations during the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Balance at the beginning of the year	¥ 6,581	¥ 5,934	$ 58,400
Liabilities incurred due to the acquisition of property and equipment	303	757	2,688
Accretion expense	100	98	891
Liabilities settled	(140)	(208)	(1,244)
Balance at the end of the year	¥ 6,844	¥ 6,581	$ 60,735

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own store properties including buildings and land for rent mainly in the main cities of Osaka, Aichi and other prefectures. Net rental income for these properties was recognized in the amount of ¥420 million ($3,727 thousand) and ¥390 million for the years ended March 31, 2016 and 2015, respectively. Rental income was included in net sales and rental expenses were mainly included in selling, general and administrative expenses. Impairment of rental property of ¥407 million ($3,613 thousand) and ¥271 million was recognized in loss on impairment of property and equipment for the years ended March 31, 2016 and 2015, respectively.

Consolidated Financial Statements

Notes to Consolidated Financial Statements (continued)

6. Investment and Rental Property (continued)

The carrying value of rental property in the consolidated balance sheet, net change in the carrying value and its fair value of those properties were as follows:

Millions of yen

2016			
Carrying Value			Fair Value
March 31, 2015	Net change	March 31, 2016	March 31, 2016
¥ 23,525	¥ (924)	¥ 22,601	¥ 23,028

Millions of yen

2015			
Carrying Value			Fair Value
March 31, 2014	Net change	March 31, 2015	March 31, 2015
¥ 25,576	¥ (2,051)	¥ 23,525	¥ 23,865

Thousands of U.S. dollars

2016			
Carrying Value			Fair Value
March 31, 2015	Net change	March 31, 2016	March 31, 2016
$ 208,774	$ (8,197)	$ 200,577	$ 204,364

Notes:
1. The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2. The main component of net change in the carrying value are the increases due to acquisition of properties of ¥24 million ($214 thousand) and decreases due to depreciation of ¥507 million ($4,497 thousand) for the year ended March 31, 2016. The main component of net change in the carrying value are the increases due to the reclassification from other properties related to the change in the holding purpose in the amount of ¥1,151 million and decreases due to sales of ¥2,488 million for the year ended March 31, 2015.
3. The fair value was based on the real estate appraisals issued by the third party professional appraisers for main properties and internal computations including the adjustment by an index and others in accordance with appraisal standards for other properties.

7. Short-Term Bank Loans, Long-Term Debt and Lease Obligations

Short-term bank loans at March 31, 2015 consisted of bank overdrafts. The annual average interest rate applicable to the short-term bank loans was 0.39% at March 31, 2015. The Group had no outstanding short-term bank loans at March 31, 2016.
Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Zero coupon unsecured convertible bonds (with stock acquisition rights) due October1, 2021	¥ 15,000	¥ 15,000	$ 133,120
Zero coupon unsecured convertible bonds (with stock acquisition rights) due June 19, 2025	15,068	–	133,720
Unsecured loans principally from banks and insurance companies with an average interest rate of 0.67%	68,882	73,910	611,306
Long-term loans with an interest rate of 2.05%	1,189	1,297	10,557
	100,139	90,207	888,703
Less: current portion of long-term debt	(20,712)	(16,376)	(183,811)
	¥ 79,427	¥ 73,831	$ 704,892

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on October 3, 2014 are convertible at ¥896 ($7.46) per share in the period from October 17, 2014 to September 17, 2021 subject to adjustment in certain circumstances.
Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on June 19, 2015 are convertible at ¥1,240 ($11.00) per share in the period from July 3, 2015 to June 5, 2025 subject to adjustment in certain circumstances.
The aggregate annual maturities of long-term debt subsequent to March 31, 2016 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 20,712	$ 183,811
2018	21,364	189,599
2019	15,600	138,448
2020	1,603	14,224
2021	1,605	14,245
2022 and thereafter	39,187	347,777
Total	¥ 100,071	$ 888,104

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 2.96% and 3.00% at March 31, 2016 and 2015, respectively.
The aggregate annual maturities of lease obligations subsequent to March 31, 2016 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 102	$ 904
2018	104	919
2019	79	699
2020	69	613
2021	71	628
2022 and thereafter	567	5,042
Total	¥ 992	$ 8,805

The assets pledged as collateral for long-term loans and the current portion of long-term loans of ¥1,189 million ($10,557 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,180 million ($10,469 thousand) was as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,371	$ 12,167
Buildings and structures - net of accumulated depreciation	3,206	28,451
Total	¥ 4,577	$ 40,618

In order to achieve more efficient and flexible financing, the Group has concluded bank overdraft agreements with 20 banks and line-of-credit agreements with 11 banks. Total committed lines of credit under such agreements amounted to ¥109,600 million ($972,666 thousand), of which ¥109,600 million ($972,666 thousand) was available as of March 31, 2016.

8. Retirement Benefit Plans

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum payment from the Company and the consolidated subsidiaries and annuity payments from a trustee. In addition to the retirement benefit plans described above, the Company and certain consolidated subsidiaries pay additional retirement benefits under certain conditions.
The changes in the retirement benefit obligation during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Retirement benefit obligation at the beginning of the year	¥ 14,766	¥ 15,033	$ 131,043
Cumulative effect of changes in accounting policy	–	(36)	–
Restated balance	14,766	14,997	131,043
Service cost	456	462	4,051
Interest cost	161	164	1,432
Actuarial loss	1,933	225	17,153
Retirement benefit paid	(891)	(1,082)	(7,906)
Retirement benefit obligation at the end of the year	¥ 16,425	¥ 14,766	$ 145,773

The changes in plan assets at fair value during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Plan assets at fair value at the beginning of the year	¥ 7,114	¥ 6,965	$ 63,132
Expected return on plan assets	292	153	2,588
Actuarial (loss) gain	(293)	279	(2,605)
Contribution by the Company	282	377	2,509
Retirement benefit paid	(489)	(660)	(4,334)
Plan assets at fair value at the end of the year	¥ 6,906	¥ 7,114	$ 61,290

The balances of retirement benefit obligation and plan assets at fair value and liabilities recognized in the consolidated balance sheet at March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Funded retirement benefit obligation	¥ 8,756	¥ 7,625	$ 77,707
Plan assets at fair value	(6,906)	(7,114)	(61,290)
	1,850	511	16,417
Unfunded retirement benefit obligation	7,669	7,141	68,066
Net liability for retirement benefits in the balance sheet	¥ 9,519	¥ 7,652	$ 84,483

The components of retirement benefit expense for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Service cost	¥ 456	¥ 462	$ 4,051
Interest cost	161	164	1,432
Expected return on plan assets	(292)	(153)	(2,588)
Amortization of actuarial loss	201	87	1,777
Amortization of prior service cost	(315)	(390)	(2,804)
Retirement benefit expense	¥ 211	¥ 170	$ 1,868

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Actuarial (loss) gain	¥ (2,226)	¥ 54	$ (19,758)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 are as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Unrecognized prior service cost	¥ 1,398	¥ 1,713	$ 12,402
Unrecognized actuarial loss	(3,581)	(1,544)	(31,778)
Total	¥ (2,183)	¥ 169	$ (19,376)

The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 are as follows:

	2016	2015
Bonds	25%	21%
Stocks	12	15
General accounts	61	61
Other	2	3
Total	100%	100%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future and long-term expected rate of return from multiple plan assets at present and in the future.
The assumptions used in accounting for the above plans were as follows:

	2016	2015
Discount rates	0.1%-0.2%	1.0%-1.1%
Expected rates of return on plan assets	3.5%	4.1%
Expected rates of salary increase	1.1%-2.8%	1.2%-3.7%

Notes:
In addition to the above, the Company and certain consolidated subsidiaries charged contributions of ¥1,913 million ($16,979 thousand) and ¥1,875 million to the defined contribution pension plans to income during the years ended March 31, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (continued)

9. Income Taxes

Income taxes applicable to the Group comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in the statutory tax rates of 33.0% and 35.6% for the years ended March 31, 2016 and 2015, respectively.
The effective tax rates for the years ended March 31, 2016 and 2015 differed from the corresponding statutory tax rates for the following reasons:

	2016	2015
Statutory tax rates:	33.0%	35.6%
Expenses not deductible for income tax purposes	0.3	0.4
Inhabitants' per capita taxes	3.1	4.1
Change in valuation allowance	7.8	4.0
Effect of change in statutory tax rate	5.6	13.1
Effect of land evaluation difference	(0.0)	(4.0)
Other, net	(0.2)	(1.6)
Effective tax rates	49.6%	51.6%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Group at March 31, 2016 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Depreciation	¥ 1,674	¥ 1,601	$ 14,860
Allowance for employees' bonuses	1,449	1,449	12,857
Loss on impairment of property and equipment	8,754	8,507	77,687
Liability for retirement benefits	2,273	2,539	20,174
Reserve for point service program	2,777	3,075	24,641
Allowance for merchandise warranties	2,644	2,824	23,465
Unrealized loss on revaluation of land acquired by merger	1,548	1,638	13,740
Asset retirement obligations	2,125	2,143	18,862
Net operating tax loss carry forwards	221	306	1,964
Other	5,279	4,363	46,841
Less valuation allowance	(11,953)	(11,618)	(106,076)
Total deferred tax assets	16,791	16,827	149,015
Deferred tax liabilities:			
Asset retirement obligations	(714)	(827)	(6,337)
Unrealized holding gain on other securities	(87)	(328)	(776)
Other	(222)	(238)	(1,970)
Total deferred tax liabilities	(1,023)	(1,393)	(9,083)
Net deferred tax assets	¥ 15,768	¥ 15,434	$ 139,932

The "Act for Partial Amendment for the Income Tax Act, etc." (Act No.15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.13 of 2016) were promulgated on March 29, 2016, and the Company is subject to the amended local tax effective for fiscal years beginning on or after April 1, 2016. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities has been changed from 32.2% to 30.8% for the temporary differences expected to be realized or settled from April 1, 2016 to March 31, 2018, and to 30.6% for those expected to be realized or settled on or after April 1, 2018.

As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by ¥703 million ($6,238 thousand), income taxes-deferred increased by ¥670 million ($5,944 thousand), net unrealized gain on other securities increased by ¥4 million ($34 thousand), and retirement benefit liability adjustments decreased by ¥37 million ($328 thousand). In addition, deferred income taxes for land revaluation decreased by ¥93 million ($823 thousand), and land revaluation difference increased by the same amount as of and for the year ended March 31, 2016.

10. Financial Instruments

Overview

(a) Policy for financial instruments
The Group manages its funds by investing in short-term deposits and safe financial assets.
In consideration of plans for capital investment, the Group finances necessary funds mainly by bank borrowings, bond issuances and other means. The Group utilizes derivatives to avoid the risk of fluctuation in market interest rates.

(b) Types of financial instruments, related risks and risk management
Trade receivables, notes and accounts receivables, are exposed to credit risk of customers. To respond to this risk, the Group manages settlement due dates and balances of each customer and monitors the financial conditions of customers when appropriate.
Securities and investments in securities inclusive marketable securities are mainly shares of companies with which the Group has business relationships. Securities and investments in securities inclusive marketable securities which have market price are subject to the risk of market price fluctuations. Non-marketable securities are exposed to the risk of impairment due to the decline in the financial results of the issuers. To correspond to this risk, the Group periodically monitors their market values and corporate values and reports information to meetings of the Board of Directors if the Group identifies significant fluctuations.
Trade payables, notes and accounts payable, are all due within one year.
Short-term bank loans are mainly utilized for business operations of the Group and long-term loans are mainly utilized for capital investments. Loans with floating interest rates are exposed to the risk of fluctuation of interest rates. Certain long-term loans are hedged by utilizing derivative transactions, such as interest rate swap agreements, to avoid the risk of fluctuation of interest rates and fix the interest rates. Effectiveness testing for hedging instruments and hedged items is omitted because the conditions are satisfied which allow the Group to account for them as if the interest rates applied to the interest-rate swap agreements had originally applied to the underlying loans.
The execution and control of derivative transactions of the Group are made in accordance with internal policy including the authorization process. In addition, to mitigate the risk of counterparty nonperformance, the Group enters into transactions only with the financial institutions with high credit ratings.
In addition, trade payables and loans are exposed to liquidity risk. This risk is managed by the adoption of a cash management system in the Group.

(c) Supplementary explanation of fair value of financial instruments
The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

(d) Estimated fair value of financial instruments
Carrying value, estimated fair value and the difference between them of financial instruments on the consolidated balance sheet as of March 31, 2016 and 2015 were shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

	Millions of yen					
	2016			2015		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash and cash equivalents	¥ 12,247	¥ 12,247	¥ -	¥ 9,001	¥ 9,001	¥ -
Notes and accounts receivable-trade	32,034	32,034	-	29,223	29,223	-
Investments in securities, inclusive marketable securities:						
Other securities	2,207	2,207	-	3,223	3,223	-
Total assets	¥ 46,488	¥ 46,488	¥ -	¥ 41,447	¥ 41,447	¥ -
Liabilities:						
Notes and accounts payable-trade	¥ 39,475	¥ 39,475	¥ -	¥ 34,253	¥ 34,253	¥ -
Short-term bank loans	-	-	-	27,000	27,000	-
Long-term debt:						
Long-term loans (*1)	70,071	70,820	749	75,207	75,560	353
Convertible bonds (with stock acquisition rights)	30,068	31,426	1,358	15,000	17,291	2,291
Lease obligations (*1)	992	1,149	157	1,057	1,203	146
Total liabilities	¥ 140,606	¥ 142,870	¥ 2,264	¥ 152,517	¥ 155,307	¥ 2,790

Notes:
(*1) Long-term loans and lease obligations include the current portion of long-term debt.

	Thousands of U.S. dollars		
	2016		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and cash equivalents	$ 108,684	$ 108,684	$ -
Notes and accounts receivable-trade	284,293	284,293	-
Investments in securities, inclusive marketable securities:			
Other securities	19,592	19,592	-
Total assets	$ 412,569	$ 412,569	$ -
Liabilities:			
Notes and accounts payable-trade	$ 350,328	$ 350,328	$ -
Short-term bank loans	-	-	-
Long-term debt:			
Long-term loans (*1)	621,863	628,507	6,644
Convertible bonds (with stock acquisition rights)	266,840	278,892	12,052
Lease obligations (*1)	8,805	10,200	1,395
Total liabilities	$ 1,247,836	$ 1,267,927	$ 20,091

Notes:
(*1) Long-term loans and lease obligations include the current portion of long-term debt.

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets
Cash and cash equivalents and notes and accounts receivable-trade:
Because these items are settled in a short time period, their carrying value approximates fair value.
Investments in securities:
The fair values of stocks are based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by financial institutions. Refer to Note 3. "Investments in Securities" for further information on securities by holding purpose.
Liabilities
Short-term bank loans and notes and accounts payable-trade:
Because these items are settled in a short time period, their carrying value approximates fair value.
Convertible bonds (with stock acquisition rights):
All bonds are valued at market price.
Long-term loans:
The fair value of long-term loans is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming that new loans under similar conditions to existing loans are made.
Certain long-term loans with floating interest rates were hedged by interest rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loans hedged by the swap agreements is based on the present value of the total principal, interest and net cash flows of the swap agreements discounted by the interest rates to be applied assuming that new loans under similar conditions to the existing loans are made.
Lease obligations:
The fair value of lease obligations is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new lease agreements are made.
Derivative transactions:
Refer to Note 11. "Derivatives."

(2) Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted stocks	¥ 48	¥ 90	$ 422
Investments in affiliates	857	759	7,604
Leasehold deposits	27,332	28,964	242,565

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

Notes to Consolidated Financial Statements (continued)

10. Financial Instruments (continued)

(d) Estimated fair value of financial instruments (continued)
(3) Redemption schedules for cash and cash equivalents, and notes and accounts receivable – trade with maturity dates at March 31, 2016 and 2015 were as follows:

Millions of yen

	2016			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 8,679	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	32,034	–	–	–
	¥ 40,713	¥ –	¥ –	¥ –

Millions of yen

	2015			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 5,689	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	29,223	–	–	–
	¥ 34,912	¥ –	¥ –	¥ –

Thousands of U.S. dollars

	2016			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$ 77,024	$ –	$ –	$ –
Notes and accounts receivable-trade	284,293	–	–	–
	$ 361,317	$ –	$ –	$ –

Cash and cash equivalents in the table above do not include cash on hand of ¥3,568 million ($31,660 thousand) and ¥3,312 million at March 31, 2016 and 2015, respectively.

(4) Refer to Note 7. "Short-Term Bank Loans, Long-Term Debt and Lease Obligations" for the redemption schedule for long-term debt.

11. Derivatives

Derivative transactions to which hedge accounting is applied
Interest rate-related transactions

Millions of yen

			2016		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 56,400	¥ 40,600	(*)

Millions of yen

			2015		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 63,100	¥ 50,400	(*)

Thousands of U.S. dollars

			2016		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	$ 500,532	$ 360,312	(*)

Notes:
(*) Because interest rate swap agreements are accounted for as if the contract rate applied to the swap agreement had originally applied to the underlying long-term loans, their fair values are included in those of the underlying long-term loans.
There are no derivative transactions to which hedge accounting is not applied for the years ended March 31, 2016 and 2015.

12. Contingent Liabilities

The Company was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥113 million ($999 thousand) at March 31, 2016.

13. Shareholders' Equity

The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.
The legal reserve of the Company was nil at March 31, 2016 and 2015.

Movements in common stock and treasury stock for the years ended March 31, 2016 and 2015 were summarized as follows:

Number of shares

		2016			
	Notes	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock		112,005,636	–	–	112,005,636
Treasury stock	(a) and (b)	7,629,557	5,646,490	50	13,275,997

Number of shares

		2015			
	Notes	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock		112,005,636	–	–	112,005,636
Treasury stock	(c) and (d)	1,509,193	6,740,664	620,300	7,629,557

(a) The increase in treasury stock of 5,646,490 common shares for the year ended March 31, 2016 was due to the purchase of 5,644,200 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on June 3, 2015 and the purchase of 2,290 fractional shares.
(b) The decrease in treasury stock of 50 common shares for the year ended March 31, 2016 was due to the sales of fractional shares.
(c) The increase in treasury stock of 6,740,664 common shares for the year ended March 31, 2015 was due to the purchase of 6,739,000 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on September 17, 2014 and the purchase of 1,664 fractional shares.
(d) The decrease of treasury stock of 620,300 common shares for the year ended March 31, 2015 was due to exercise of stock option rights.
Movements in stock acquisition rights during the years ended March 31, 2016 and 2015 were summarized as follows:

Thousands of shares

	2016			
	April 1, 2015	Increase	Decrease	March 31, 2016
Stock acquisition rights attached to convertible bonds due October 1, 2021	16,741	–	–	16,741
Stock acquisition rights attached to convertible bonds due June 19, 2025	–	12,096	–	12,096
	16,741	12,096	–	28,837

Thousands of shares

	2015			
	April 1, 2014	Increase	Decrease	March 31, 2015
Stock acquisition rights attached to convertible bonds due October 1, 2021	–	16,741	–	16,741
	–	16,741	–	16,741

Notes: Stock acquisition rights attached to convertible bonds were not accounted for separately.

14. Cost of Sales

Losses on inventory valuation included in cost of sales for the years ended March 31, 2016 and 2015 were ¥82 million ($730 thousand) and ¥350 million, respectively.

15. Loss on Impairment of Property and Equipment

The Group recognized losses on impairment of property and equipment of ¥4,256 million ($37,774 thousand) and ¥2,791 million for the years ended March 31, 2016 and 2015, respectively, as follows:

March 31, 2016		
Use	Classification	Location
Store	Buildings and structures, Leased assets, Tools, furniture and fixtures, and other	Osaka Prefecture and other
Rental property	Buildings and structures, and Land	Aichi Prefecture and other
Other	Buildings and structures, Tools, furniture and fixtures, and Land	Nagano Prefecture and other

March 31, 2015		
Use	Classification	Location
Store	Buildings, structures and other	Shizuoka Prefecture and other
Rental property	Buildings, structures and other	Mie Prefecture and other
Other	Tools, furniture and fixtures, Land and Other	Fukui Prefecture and other

The Group groups its property and equipment based on management control units. It also groups assets which are not currently utilized for its operations and are not anticipated to be utilized in the future as idle assets individually.
Losses on impairment of property and equipment were recorded for the years ended March 31, 2016 and 2015 as the assets and asset groups listed above recorded consecutive years of negative operating cash flows and because their utilization in the future was not determinable.
As a result, for the year ended March 31, 2016, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥3,865 million ($34,303 thousand). In addition, a loss on impairment of rental property was ¥11 million ($94 thousand). Moreover, a loss on impairment of other was ¥380 million ($3,377 thousand).
For the year ended March 31, 2015, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥2,430 million. In addition, a loss on impairment of rental property was ¥198 million. Moreover, a loss on impairment of other was ¥163 million.
For the years ended March 31, 2016 and 2015, the principal components of loss on impairment by asset classification were buildings and structures of ¥3,065 million ($27,199 thousand) and ¥2,149 million, tools, furniture and fixtures of ¥358 million ($3,179 thousand) and ¥321 million, land of ¥365 million ($3,237 thousand) and ¥267 million, leased assets of ¥422 million ($3,742 thousand) and nil, and other of ¥46 million ($417 thousand) and ¥21 million, respectively.
The recoverable amounts of asset groups are measured at the higher of their net selling value or value in use. The net selling value for significant assets is based on professional appraisals. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 3.86% and 3.69% for the years ended March 31, 2016 and 2015, respectively.

■ Notes to Consolidated Financial Statements (continued)

16. Other Comprehensive (Loss) Income

Reclassification adjustments and tax effects for each component of other comprehensive (loss) income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized (loss) gain on other securities:			
Amount arising during the year	¥ (702)	¥ 846	$ (6,232)
Reclassification adjustments	(115)	(95)	(1,021)
Before tax effect	(817)	751	(7,253)
Tax effect	247	(224)	2,198
Total	(570)	527	(5,055)
Land revaluation difference:			
Tax effect	93	198	823
Retirement benefit liability adjustments:			
Amount arising during the year	(2,226)	54	(19,758)
Reclassification adjustments	(116)	(304)	(1,026)
Before tax effect	(2,342)	(250)	(20,784)
Tax effect	728	105	6,458
Total	(1,614)	(145)	(14,326)
Total other comprehensive (loss) income	¥ (2,091)	¥ 580	$ (18,558)

17. Leases

The Group utilizes finance leases for store equipment. Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.
The Group continues to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating lease transactions.
The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2016 and 2015 which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen					
	2016			2015		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 3,924	¥ 2,649	¥ 1,275	¥ 3,924	¥ 2,453	¥ 1,471

	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	$ 34,827	$ 23,509	$ 11,318

Lease payments relating to finance leases accounted for as operating leases, the corresponding depreciation computed by the straight-line method for the respective lease periods assuming a nil residual value, interest expense computed by the interest method, and accounted for as operating leases for the years ended March 31, 2016 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease payments	¥ 216	¥ 216	$ 1,917
Depreciation	196	196	1,741
Interest expense	15	17	136

Future minimum lease payments subsequent to March 31, 2016 for finance leases accounted for as operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 203	$ 1,799
2018 and thereafter	1,189	10,550
Total	¥ 1,392	$ 12,349

Future minimum lease payments subsequent to March 31, 2016 for non-cancelable operating leases as a lessee were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 3,733	$ 33,132
2018 and thereafter	31,535	279,867
Total	¥ 35,268	$ 312,999

Future minimum lease receipts subsequent to March 31, 2016 for non-cancelable operating leases as a lessor were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 224	$ 1,984
2018 and thereafter	3,785	33,594
Total	¥ 4,009	$ 35,578

18. Supplementary Information on the Consolidated Statement of Cash Flows

Information on significant non-cash transaction:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Increase in asset retirement obligations	¥ 403	¥ 855	$ 3,579
Capitalized lease	34	5	302

19. Related Party Transactions

(a) Principal transactions between the Company and related parties during the years ended March 31, 2016 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
SHOEI Co., Ltd.:			
Insurance expense	¥ 130	¥ 131	$ 1,155
Masataka Kubo:			
Sales of goods	3	–	30

The outstanding balance of prepaid expenses and accounts payable related to insurance expense outlined above regarding SHOEI Co., Ltd. ("SHOEI") amounted to ¥17 million ($146 thousand) and ¥19 million, and ¥0 million ($1 thousand) and ¥0 million at March 31, 2016 and 2015, respectively. There were no outstanding balances with Masataka Kubo at March 31, 2016 and 2015, respectively.
SHOEI is a majority owned company by a director and the director's relatives, located in Nisshin City, Aichi and it is engaged in the insurance agency business. The capital amount of SHOEI was ¥90 million ($799 thousand) at March 31, 2016 and 2015. Masataka Kubo is President, Chairman, and Representative Director of the Company at March 31, 2016 and 2015.
Insurance premiums are determined in the same manner as general insurance offered by insurance companies. Sales prices are determined at the same price as those to general customers.

(b) Principal transactions between the Company's subsidiaries and related parties during the years ended March 31, 2016 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
SHOEI Co., Ltd.:			
Insurance expense	¥ 3	¥ –	$ 30
Masataka Kubo:			
Sales of goods	13	–	112

The outstanding balance of prepaid expenses related to insurance expense outlined above regarding SHOEI amounted to ¥0 million ($3 thousand) and nil at March 31, 2016 and 2015, respectively.
There were no outstanding balances with Masataka Kubo at March 31, 2016 and 2015.
Insurance premiums are determined in the same manner as general insurance offered by insurance companies. Sales prices are determined at the same price as those to general customers.

20. Segment Information

Reportable segments of the Group are "Sales of home electric appliances" and "Others." As the "Others" segment is immaterial to the segment total, the disclosure of segment information for the years ended March 31, 2016 and 2015 has been omitted.
Loss on impairment of property and equipment for all segments was recorded in the amounts of ¥4,256 million ($37,774 thousand) and ¥2,791 million for the years ended March 31, 2016 and 2015, respectively. The remaining balance of goodwill for all segments as of March 31, 2016 and 2015 was nil.
As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statement of income, the disclosure of the segment information by product and service for the years ended March 31, 2016 and 2015 has been omitted.
As there were no overseas sales of products and services to external customers, the disclosure of net sales by geographical region for the years ended March 31, 2016 and 2015 has been omitted.
As there was no property and equipment located overseas, the disclosure of property and equipment by geographical region as of March 31, 2016 and 2015 has been omitted.
As sales of products and services to specific customers account for less than 10% of net sales in the consolidated statement of income, the disclosure of information by major customers for the years ended March 31, 2016 and 2015 has been omitted.

21. Subsequent Events

a. Impact of the 2016 Kumamoto Earthquake

Due to the 2016 Kumamoto Earthquakes, which occurred from April 14, 2016 onward, three stores of the Group, including the Kumamoto main store (Kumamoto), SunLive City Kumanan store (Kumamoto) and Isahaya store (Nagasaki), suffered damages including the collapse of buildings and the falling of merchandise from store shelves and storage areas.
On May 27, 2016, Kumamoto main store and SunLive City Kumanan store resumed operation, excluding some areas of those stores. On May 28, 2016, Isahaya store resumed full operation.
The Group is currently in the process of estimating the amount of the losses, and the effect of the disaster on the consolidated results of operations for the following fiscal year has not been determined at this time.

b. Civil actions against Joshin Denki Co., Ltd. over unauthorized use of trade secrets

On April 25, 2016, the Group sued Joshin Denki Co., Ltd. ("Joshin") for unauthorized use of trade secrets in the Group's home improvement business (the "Case") and filed a civil suit in the Osaka District Court, seeking ¥5,000 million ($44,373 thousand) in damages, in addition to an injunction and the disposal of business management software, in-house documents and exhibition booths resulting from the unauthorized use of trade secrets.
In light of the criminal court record of the Case and evidence the Group gathered, Joshin is presumed to start a home improvement business using the Group's trade secrets and continued unauthorized use of the trade secrets up to the present time. As the continuation of such unauthorized use of trade secrets is likely to diminish Company's motivation for pursuing fair trade competition, the Group has determined to file the Case to expose such unfair competition practices.

c. Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2016 was approved at the Company's annual general meeting of shareholders held on June 29, 2016:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥12.00 ($0.11) per share	¥ 1,185	$ 10,514

Consolidated Financial Statements

■ Independent Auditor' s Report

EY
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Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
EDION Corporation

We have audited the accompanying consolidated financial statements of EDION Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EDION Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Osaka, Japan
June 30, 2016

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Company Profile

Company Information (As of March 31, 2016)

Company name	EDION Corporation
Main business	Sale of home electrical appliances, etc.
Foundation	March 29, 2002
Capital stock	11,940 million yen
Registered office address	2-1-18 Kamiya-cho, Naka-ku, Hiroshima
Head office address	2-3-33 Nakanoshima, Kita-ku, Osaka
Number of full-time employees	7,218 (on a non-consolidated basis), 8,663 (on a consolidated basis)

Stock Information (As of March 31, 2016)

Fiscal year	April 1 to March 31 of the following year
Number of shares authorized	300,000,000 shares
Number of shares outstanding	112,005,636 shares
Number of shareholders	37,093
Stock listing	First section of the Tokyo and Nagoya Stock Exchanges
Ticker code	2730

Main subsidiary companies and affiliated companies (As of March 31, 2016)

■ Company name	■ Main office	■ Main business
3Q Co., Ltd.	Fukui City, Fukui	Sale of home electrical appliances
EDION COMMUNICATIONS Co., Ltd.	Nakamura-ku, Nagoya City	Sale of mobile phones
EDION HOUSE SYSTEM Co., Ltd.	Naka-ku, Hiroshima City	Sale and installation of photovoltaic power generation system, home improvement
NWORK Co., Ltd.	Chikusa-ku, Nagoya City	Operation and development of IT systems
E.R. Japan Corporation	Naka-ku, Hiroshima City	Reuse of information equipment, recycling of home electrical appliances
Fureai Channel Inc. (*)	Naka-ku, Hiroshima City	Cable television broadcasting
Sanfrecce Hiroshima FC Co., Ltd. (*)	Nishi-ku, Hiroshima City	Professional soccer team
Maruni Wood Industry Inc. (*)	Hatsukaichi City, Hiroshima	Manufacturing and sale of furniture

* Equity method affiliated companies

Directors and Statutory Auditors (as of June 29, 2016)

■ Directors

President, Chairman, Representative Director	Masataka Kubo	
Deputy Chairman, Representative Director	Shoichi Okajima	President, Representative Director of EDION COMMUNICATIONS Corporation
Senior Executive Vice President	Hirohisa Kato	Chief Marketing Officer
Senior Executive Vice President	Seiichi Funamori	Chairman, Representative Director of 3Q Co., Ltd.
Senior Executive Vice President	Norio Yamasaki	Chief Corporate Planning Officer
Senior Executive Vice President	Masayuki Umehara	Chief Franchise Officer
Managing Director	Kaoru Koyano	Chief Administrative Officer
Senior Vice President	Kazumasa Doho	Chief Eco-Living & Solar-Power Business Officer
Senior Vice President	Yuji Ikehata	General Manager of Marketing, Division Marketing Department
Senior Vice President	Takahiro Kato	Chief IT Logistics Services Officer
Independent Director	Shozo Ishibashi	
Independent Director	Shimon Takagi	

■ Statutory Auditors

Standing Statutory Auditor	Makoto Fujikawa
Outside Statutory Auditor	Takashi Okinaka
Outside Statutory Auditor	Soumitsu Takehara