# EDION ANNUAL REPORT 2012

Fiscal Year Ended March 31, 2012

10th ANNIVERSARY

# Contents

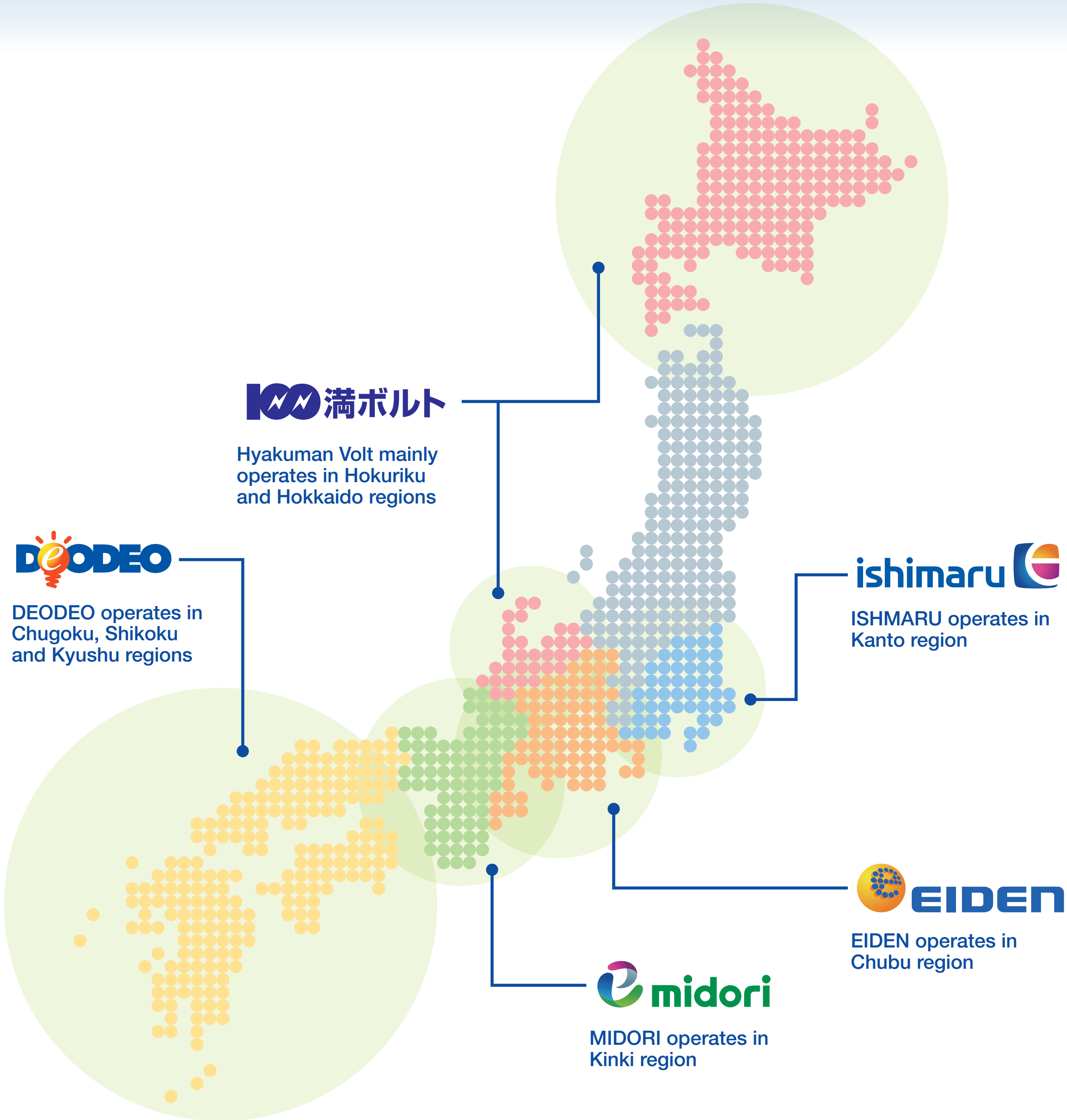


## Disclaimer Regarding Forward-Looking Statements

The present 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.

Consequently, the information contained in this Annual Report should not comprise the sole basis for investment decisions.



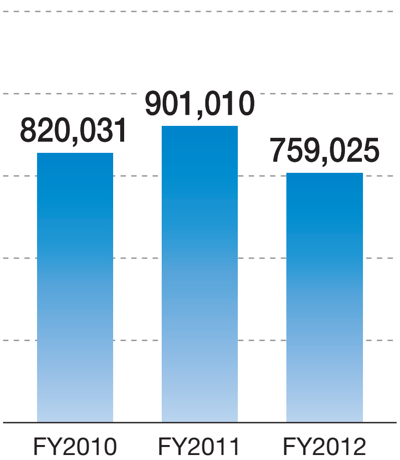

The EDION Group boasts of a network of over 1,100 home electrical appliance mass retailing stores within Japan, with a top share of stores in the regions of Western Japan.  We have leveraged our strong store brand recognition accumulated in each of our respective businesses until now, but we will begin using a single brand for all of our stores beginning in October 2012 in commemoration of our 10th year of operations.

# Financial Highlights

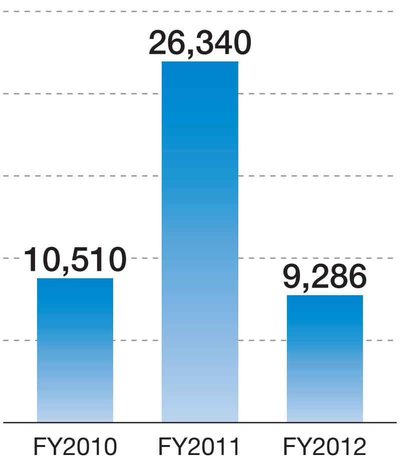
(Millions of yen)

| | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|---|---|---|---|---|---|
| Period | From April 1, 2007 to March 31, 2008 | From April 1, 2008 to March 31, 2009 | From April 1, 2009 to March 31, 2010 | From April 1, 2010 to March 31, 2011 | From April 1, 2011 to March 31, 2012 |
| Net sales | 851,206 | 803,004 | 820,031 | 901,010 | **759,025** |
| Operating income | 8,480 | 1,233 | 10,510 | 26,340 | **9,286** |
| Net income | 6,755 | (13,506) | 9,323 | 16,212 | **3,698** |
| Net assets | 177,577 | 135,583 | 141,642 | 155,948 | **144,229** |
| Total assets | 437,410 | 387,137 | 403,180 | 403,400 | **362,654** |
| Book-value per share (yen) | 1,290.78 | 1,149.25 | 1,237.96 | 1,376.18 | **1,384.69** |
| Earnings per share (yen) | 63.96 | (127.90) | 89.60 | 157.76 | **35.87** |
| Equity ratio (%) | 31.16 | 31.35 | 31.67 | 34.97 | **39.53** |
| Return on equity (%) | 5.02 | (10.48) | 7.49 | 12.06 | **2.60** |
| Price earnings ratio (%) | 14.42 | – | 10.75 | 4.48 | **16.17** |
| Cash flows from operating activities | 16,156 | 26,323 | 35,576 | 41,833 | **15,134** |
| Cash flows from investing activities | (41,040) | (31,399) | (23,010) | (16,539) | **(10,232)** |
| Cash flows from financing activities | 25,884 | (5,040) | (11,713) | (23,169) | **(14,211)** |
| Cash and cash equivalents | 28,591 | 17,012 | 17,864 | 19,990 | **10,686** |
| Number of stores | 1,077 | 1,078 | 1,101 | 1,130 | **1,176** |
| Capital expenditure | 37,000 | 32,124 | 25,854 | 20,242 | **9,163** |
| Number of employees | 10,534 | 10,664 | 10,640 | 10,022 | **9,759** |

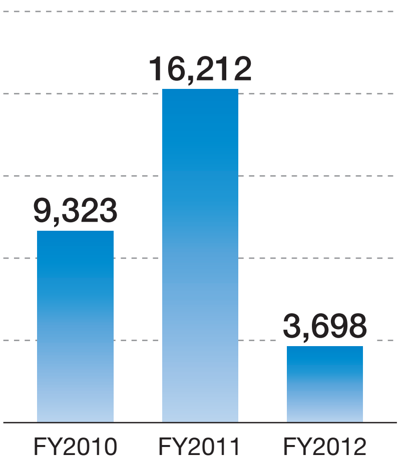
● Net sales (Millions of yen)




● Operating income (Millions of yen)




● Net income (Millions of yen)



## Business Performance

During the consolidated fiscal year under review, the Japanese economy underwent a gradual recovery from the large declines in corporate production activities and consumer spending in the aftermath of the Great East Japan Earthquake last year. However, the future of the Japanese economy was clouded by various uncertainties including the potential for electric power shortages in the aftermath of the earthquake, European sovereign debt crisis, strong yen, weak share prices, flooding in Thailand, and continued high crude oil prices.

The home electrical appliance retail industry benefitted from strong replacement demand for televisions and Blu-Ray Disc recorders on the back of the switch to digital transmission by terrestrial broadcasting television stations (excluding the three prefectures of the Tohoku region). However, in the wake of this replacement demand, pricing has fallen and demand remains weak. Furthermore, weak demand caused by the termination, in the previous fiscal year, of the eco-point system for consumer electronic products (a system that generated strong demand to replace older consumer electronic products with newer more energy efficient products) has also compounded the severe operating environment. The launch of a number of new smartphone products is contributing to favorable demand to replace traditional mobile phones and strong sales of mobile phones overall.

Amidst these operating conditions, the EDION Group has launched a new business called the “Eco-Friendly Living and Solar Power Business” that focuses on marketing of all electric household appliances, products used in home remodeling, solar power systems, and other new products. In addition, we seek to capitalize on the strong demand for smartphones to expand our overall sales. In October 2011 we acquired all shares of 3Q Co., Ltd. turning it into a 100% owned subsidiary. At the same time we reformed our organizational structure and restructured our logistics center to improve the overall management efficiency of entire Group.

In the current fiscal year, the EDION Group newly opened 13 directly-operated home electrical appliance stores including “EIDEN Matsumoto Murai store (Nagano),” “DEODEO Setouchi (Okayama)” and “MIDORI Kitaoji VIVRE (Kyoto)”, relocated three stores—“DEODEO AEON Mall Niihama (Ehime),” “EIDEN Cross Garden Fuji Chuo (Shizuoka)” and “Ishimaru Nishi Ageo store (Saitama)” —and extended sales floor area in one store, “Hyakuman Volt Kanazawa Honten (Ishikawa)” in a bid to expand its market share in each area. Meanwhile, the Group closed one unprofitable store. In addition, it closed 2 non-home electrical appliance stores, including a toy specialty store. The EDION Group increased its franchise stores by 36 (on a net basis). As a result, the number of stores at the end of the current fiscal year totaled 1,176 including 751 franchise stores.

Consequently, net sales was ¥759,025 million, a decrease by 15.8% year-over-year, and operating income was ¥9,286 million, a decrease by 64.7% year-over-year. Net income was ¥3,697 million, a decrease by 77.2% year-over-year, due to the surcharge payment of ¥4,047 million imposed by the Japan Fair Trade Commission and recorded as extraordinary loss.

## Key Points of the Current Fiscal Year

- Lower sales and profits in the wake of the termination of the Eco-Point System and switch to digital terrestrial broadcasting
- Maintained a sound financial position on improvements in our equity ratio

## Management Philosophy

# Realizing "Customers First" by offering "Provision of Value" and "Long Lasting Sales"

## "Provision of Value"

- Not to simply sell products to customers, but to provide "value" and "satisfaction" together with fun, affluence and convenience through our products

## "Long Lasting Sales"

- Offering customers reliable service so that they can continue using the products in their best condition until the end of the life of those products

Chairman and President

Q Please tell us about business performance during the fiscal year under review.

## A Sales and profits decreased in the wake of special demands related to eco-point system and digital terrestrial broadcast.

During the previous fiscal year, EDION achieved record high sales and profits on the back of the home electrical appliance eco–point system, an economic stimulus measure, and the switch to digital terrestrial broadcasting. However, the disappearance of the replacement demand created by these measures led to weak demand and caused sales to decline by 15.8% year-over-year to ¥759,025 million in the term under review. In particular, the weakening in demand for televisions and video recording equipment exceeded our expectations by a large margin, and despite our efforts to reduce selling, general and administrative expenses by 7.8% year-over-year to ¥175,930 million, operating income declined by 64.7% year-over-year to ¥9,286 million. Furthermore surcharges levied by the Japan Fair Trade Commission caused net income to decline by 77.2% year-over-year to ¥3,698 million. Furthermore, on February 16, 2012 we received a cease and desist order and surcharge fees payment order from the Japan Fair Trade Commission for alleged violations of fair trade laws. However, due to differences in our interpretations of the various laws, we have requested that the courts consider our case.

Q Please tell us about your views on EDION’s financial position?

## A We achieved an improvement in our equity ratio and maintain a healthy financial position.

Conditions within the home electrical appliance retailing industry are extremely difficult in the wake of the special demand created last year. Against this backdrop, EDION is endeavoring to overcome these difficult conditions through measures to fortify its financial position. During the fiscal year under review, we achieved a 4.5% improvement in our equity ratio to 39.5%, while our interest bearing liability ratio deteriorated by 5.4% to 28.6%. Also, we received an A- rating from the Japan Credit Rating Agency, Ltd. in July 2011.

Q Please tell us about your endeavors in the coming term.

## A We will promote a business strategy with a view to the new era of “Smart Homes.”

While demand for televisions and video recording equipment continues to stagnate, demand for smartphones and tablet terminals remains extremely strong. At the same time, sales of solar power systems and various products for home remodeling are trending strongly. Also in the future, the “smart home” concept will employ solar power generation systems and connect homes with smartphones and other hand held terminals to enable users to control various household products remotely. In this new age of networks, EDION will leverage its knowhow in the Internet connectivity business to expand its energy management services technologies including the “Edi-Smart Energy Management System.” Therefore we will invest in these growth fields in order to increase the range of our business responses in the new age of networks.

Q Please tell us about your plans to unify your stores under one brand name.

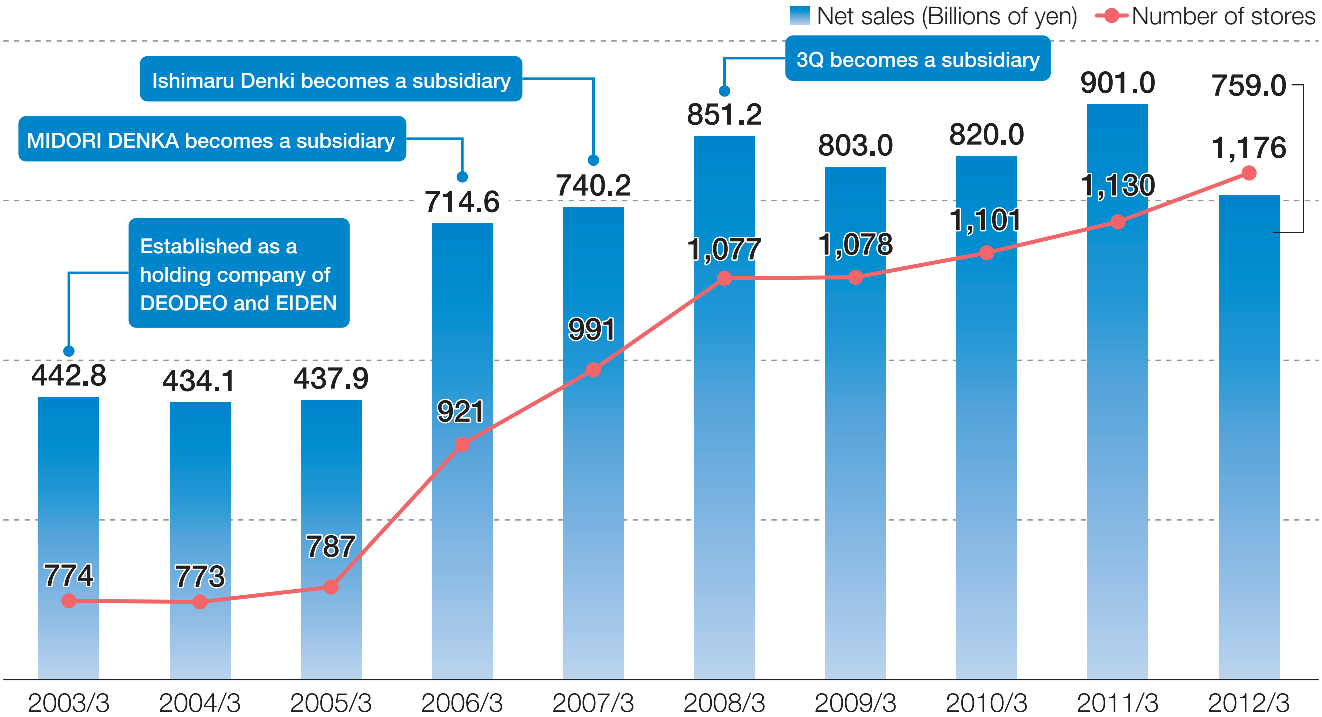
## A In commemoration of our 10th anniversary since our founding, we will unify our stores under one brand name.

EDION is celebrating its 10th anniversary since its founding. And until now, we have chosen to use the store brands which have long been used by our constituent group companies that have long been recognized in the local markets. However in commemoration of our 10th year anniversary of operations on October 1, 2012, the name and new brand name of “EDION” will be used for all of our directly operated home electrical appliance retail stores now carrying the brand names “DEODEO,” “EIDEN,” “Midori,” and “Ishimaru.”

EDION エディオン

# 10th Year of Operations of the EDION Group

## Sales, Store Number Trends




| | 2003/3 | 2012/3 | |
|---|---|---|---|
| **Net Sales** | 442.8 billion yen | 759.0 billion yen | Expansion through business integration and aggressive new store openings |
| **Operating Income** | 3.261 billion yen | 9.286 billion yen | Profit margin improvements through purchasing function integration, cost reduction through headquarter division and system integration |
| **Number of stores** | 774 stores | 1,176 stores | Increases through business integration, Increases through franchise business area expansion |
| **Number of employees** | 5,086 employees | 9,759 employees | Increases through business integration, increases through new store openings and business expansion |

## Group History

### Establishment

EDION Corporation was established in March 2002 as a joint holding company of EIDEN Co., Ltd., based in the Chubu region, and DEODEO Corporation, based in the Chugoku, Shikoku and Kyushu regions.

In each individual market area, long-established local mass retailers had traditionally been maintaining large market shares. After deregulation, however, Kanto region-based mass retailers began focusing on opening new stores in other local market areas. In response, we decided to integrate our business management and established EDION Corporation.

### Expansion through merger and acquisition

In 2005, we acquired 100% ownership of MIDORI DENKA Co. Ltd., based in the Kinki region, through an exchange of shares. In 2007, we also obtained the shares of Ishimaru Denki Co., Ltd., based in the Kanto region, and 3Q Co., Ltd, based in the Hokkaido and Hokuriku regions, and converted them into subsidiaries.

Through these mergers and acquisitions, the EDION Group has become a home electrical appliance retailer with an expanded store network throughout Japan.

### Improvement of business efficiency through organizational restructuring efforts

While expanding our Global network by merger and acquisition, we have also focused on organizational restructuring efforts to improve business efficiency.

In November 2007, we integrated the operations of stores in the Kanto region into TOKYO EDION Corporation a subsidiary established in the Kanto region. Subsequently, in February 2009 EIDEN Co. Ltd. merged with Tokyo EDION Corporation and Ishimaru Denki Co., Ltd.

In October 2009, EIDEN Co., Ltd. changed its corporate name to EDION EAST Corporation. DEODEO Corporation also merged with MIDORI DENKA Co., Ltd., changing the name of the new company to EDION WEST Corporation.

As a result, the organizational structure of the EDION Group become such that EDION EAST Corporation manages the operations of stores located in the Chubu and Kanto regions, and EDION WEST Corporation manages the operations of stores located in the Kinki, Chugoku, Shikoku and Kyushu regions.

### Completion of integration contributes to further growth

Along with the restructuring of our organization, the system that integrates our Group began operating in November 2009. Through the launch of this system, we have facilitated a structure that allows us to manage our Group as an integrated unit.

In October 2010, EDION absorbed the companies EDION EAST Corporation and EDION WEST Corporation through a merger. Consequently, EDION shifted from a holding company structure to an operating company structure.

And in commemoration of EDION's 10th year of operations to be celebrated in October 2012, directly operated stores will adopt the single brand name of "EDION." In addition to the increased convenience offered to customers under the single unified store brand, we expect to raise our operating efficiency by eliminating various duplicate costs associated with our existing multiple brand strategy.

# Pursuit of Growth

## Fortify New Store Openings

### Expand Share in Existing Areas

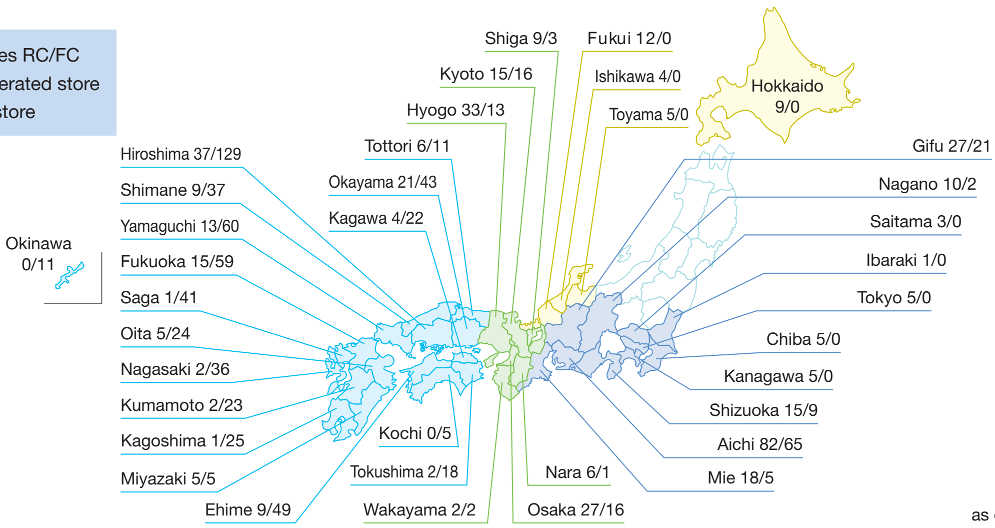
In the main operating area of EDION in the regions to the west of the Chubu (Nagoya) area, we boast of a high market share. But because there are still numerous areas within our current operating territory where we can open new stores, we expect to continue to focus our new store openings within these regions as part of our strategy of growing our sales and profits.

### Developing New Areas

At the same time, we have begun opening new stores in the Eastern Japan region as part of our future growth strategy.

**Number of stores by geographic region**

Number of stores RC/FC
RC: Directly operated store
FC: Franchise store




as of March 31, 2012

## Focus Upon New Growth Realms

### Eco-Friendly Living and Solar Power Business

Eco-friendly living and solar power business entails the sale of products like electric water heaters, IH cooking equipment, and other all electric home appliances, bath, toilet, and kitchen fixtures for home remodeling, and solar power generation systems. As these products are intimately related to home electrical appliances, we are engaging in this business as a pioneer.

### Mobile Phone Business

The smartphone market has expanded rapidly within the past several years. We seek to expand our share of the mobile phone market on the back of this rapid expansion in the smartphone market.

### E-Commerce

EDION operates the Internet shopping site called “EDION Net Shop” (http://www.EDION.com). We endeavor to make our online site an attractive Internet shopping site by offering highly attractive products and services.

## Fortifying Our Corporate Structure

### Endeavors to make our management structure more efficient

#### ● Turning 3Q Co., Ltd. Into A Fully Owned Consolidated Subsidiary

On October 3, 2011, we acquired all of the remaining shares in 3Q Co., Ltd., turning it into a fully owned consolidated subsidiary. In the future, we will integrate the headquarter and marketing functions as a means of improving our management efficiency and increasing earnings generation capability.

#### ● 3Q House System Name and Structure Changed

On April 1, 2012 the name of 3Q House System Co., Ltd. was changed to EDION House System Corporation as part of a new strategy for the company to capture new opportunities as the eco-friendly living and solar power business expands. In particular, we will pursue opportunities in the solar power generation business.

### Strengthening activities based on our management philosophy

## Security in Purchases, Satisfaction in Ownership

#### ● Customer Monitoring System

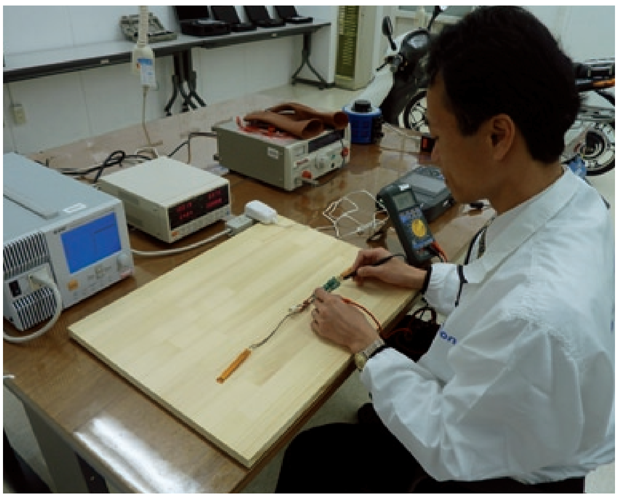
The EDION Group conducts a "customer monitoring system" as a means of ensuring that customers concerns are reflected in our corporate activities. This system uses surveys of customers who are monitors of products to reflect their opinions and needs in the development of our own original products and in our marketing activities.

We ask our customers to evaluate the usability, practicality, and design of the products they are monitoring. We provide this information as feedback to manufacturers to be used in the function, design, packaging, manual creation and other development processes for future products to make them more satisfying to customers.

Customer Monitoring System

#### ● Product Performance Testing Laboratory

The EDION Group has established the "Product Performance Testing Laboratory" to conduct its own independent safety, usability, and durability testing of products as a means of providing customers piece of mind in their product purchases and ownership after purchase. This Laboratory conducts various tests to verify whether or not new products meet the Electrical Appliances and Material Safety Act, Household Goods Quality Labeling Act and other various laws. At the same time the Laboratory analyzes the source of product troubles and conveys this information to manufacturers for them to make improvements from the viewpoint of customers.



Product Performance Testing Laboratory

# Directly Operated Stores

**415 ▶ 425** (as of March 31, 2012)

## Directly Operated Store Sales Strategy

EDION seeks to raise its operating efficiency and satisfy its customers' needs by facilitating stores that respond to various markets. In larger markets we adopt a dominant store strategy where we open numerous large stores. By opening numerous stores we can leverage the effect of advertising and logistics, and thereby raise our profitability. In smaller markets with a lesser number of customers, we open small to medium sized stores that respond to the needs of customers in those respective markets.


EDION Toyoda Main Store

## Conditions During the Current Term

During fiscal year 2011, EDION opened the "EDION Matsumoto Murai Store," "EDION Setouchi Store," "Midori Kitaoji Zebure Store," and 11 other stores, for a total of 13 new stores. At the same time we moved three stores including the "DEODEO Aeon Mall Niihama Store," "EIDEN Cross Garden Fuji Chuo Store," and "Ishimaru Nishi Ageo Store." We also expanded the floor space at one of our stores, the "100 Man (One Million) Volt Kanazawa Main Store," as part of our efforts to expand our share of the local market. We also closed several stores, including one because of its unprofitability, and another two children's toy stores. Consequently the total number of directly operated stores at the end of March 2012 stood at 425.

## New Store Openings

| Store name | Opening date | Classification | Location | Floor space |
|---|---|---|---|---|
| DEODEO AEON Mall Niihama store | Apr.22,2011 | Relocated | Niihama City, Ehime | 3,502㎡ |
| MIDORI Abeno Q's Mall store | Apr.26,2011 | Newly opened | Abeno-ku, Osaka City | 1,977㎡ |
| EIDEN Cross Garden Fujichuo store | Jun.17,2011 | Relocated | Fuji City, Shizuoka | 3,336㎡ |
| EIDEN Chikuma store | Jun.24,2011 | Newly opened | Chikuma City, Nagano | 993㎡ |
| DEODEO AEON Mall Omuta store | Sep.23,2011 | Newly opened | Omuta City, Fukuoka | 2,639㎡ |
| DEODEO Kamogata store | Sep.30,2011 | Newly opened | Asakuchi City, Okayama | 1,017㎡ |
| Ishimaru Nishiageo store | Oct.7,2011 | Relocated | Ageo City, Saitama | 2,440㎡ |
| EIDEN Shinnakajima store | Oct.21,2011 | Newly opened | Nakagawa-ku, Nagoya City | 1,945㎡ |
| EIDEN Uedasiodano store | Nov.3,2011 | Newly opened | Ueda City, Nagano | 2,309㎡ |
| MIDORI Teramachi store | Nov.18,2011 | Newly opened | Shimogyo-ku, Kyoto City | 2,047㎡ |
| MIDORI Bellfa Miyakojima | Dec.2,2011 | Newly opened | Miyakojima-ku, Osaka City | 2,777㎡ |
| EIDEN Mastumotomurai store | Dec.2,2011 | Newly opened | Matsumoto City, Nagano | 1,478㎡ |
| MIDORI Wadayama store | Dec.9,2011 | Newly opened | Asago City, Hyogo | 1,226㎡ |
| DEODEO Itozu store | Feb.24,2012 | Newly opened | Kokurakita-ku, Kitakyushu City | 2,487㎡ |
| DEODEO Setouchi store | Mar.9,2012 | Newly opened | Setouchi City, Okayama | 983㎡ |
| MIDORI Kitaoji VIVRE store | Mar.23,2012 | Newly opened | Kita-ku, Kyoto City | 1,322㎡ |

## Franchise Store

**715 ▶ 751** (as of March 31, 2012)

### Franchise Store Sales Strategy

EDION is promoting an aggressive small franchise store opening strategy. This is a strategy unique to the EDION Group and entails a system of turning existing electronics retail stores operating in local markets into franchised stores. While the trend within the home electrical appliance market is to open large mass retail stores, there are still a large number of customers who frequent smaller shops located closer to their homes. To service these customers, we operate "EIDEN Family Shop" in the Chubu region, "Midori Family Shop" in the Kinki region, and "DEODEO Family Shop" in the Chugoku and Shikoku regions.

DEODEO Kumano Store

### Conditions in the Current Term

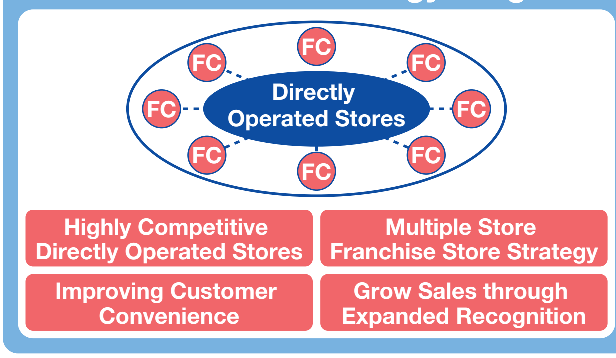
During fiscal year 2011 we opened 53 new franchise stores and closed 17 for a net growth of 36 stores. Consequently at the end of March 2012, the total number of franchise stores stood at 751.

### Directly Operated, Franchised Store Numbers

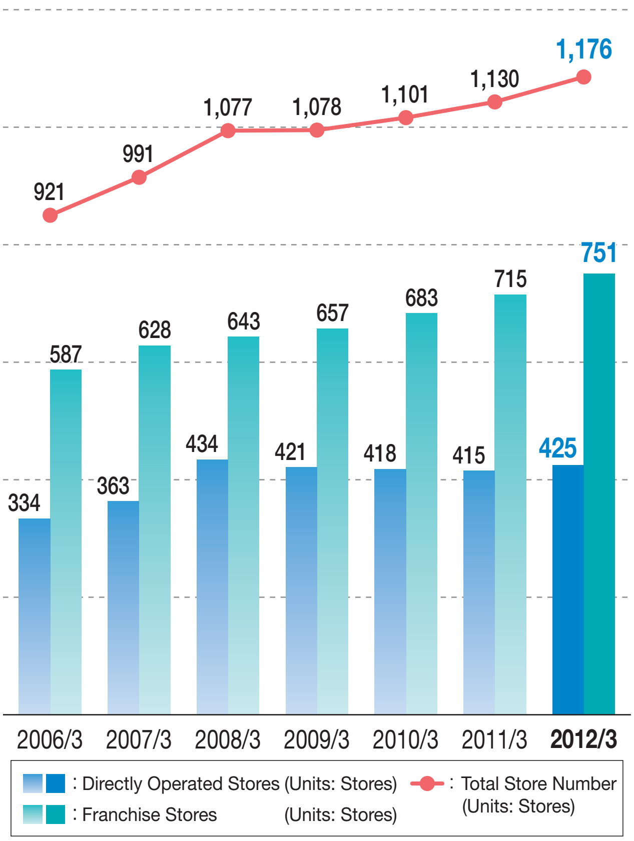
| | Directly operated store | | Franchise store | Total |
|---|---|---|---|---|
| | Electrical store | Non-electrical store | | |
| Hokkaido | 6 | 3 | 0 | 9 |
| Kanto | 15 | 4 | 0 | 19 |
| Hokuriku | 14 | 7 | 0 | 21 |
| Chubu | 98 | 54 | 102 | 254 |
| Kinki | 91 | 1 | 51 | 143 |
| Chugoku | 83 | 3 | 280 | 366 |
| Shikoku | 15 | 0 | 94 | 109 |
| Kyushu | 30 | 1 | 224 | 255 |
| Total | 352 | 73 | 751 | 1,176 |

(as of March 31, 2012)

### Dominant Store Strategy Diagram




### Store Number Trend



## Card Strategy

The EDION card, the unique membership card of the EDION Group, was introduced with the aim of providing our customers with great assurance. For an annual fee of ¥1,029, customers can enjoy a five-year extended repair warranty for designated home electrical appliances (excepting certain products) purchased at our stores for a price of ¥5,250 or more.

Moreover, EDION Card holders can earn points, not just by shopping at EDION Group stores, but also by using the card when shopping on credit at stores both in and outside Japan. As of March 2012, EDION card holders totaled 4.3 million, showing that the Card is one of Japan's major membership cards.

In addition to the "EDION Card" with points and repair warranty service, we have also introduced a new card that provides points and warranty repair services with no annual membership fee called "Anshin Hosho Card (Safety Warranty Card)" from June 2012. So from this year forward, we can respond to customers' needs with these two cards to provide them with added security in their purchases by using our credit cards.

EDION Card

Safety Warranty Card

## After-sales service systems

To ensure that our customers can continue using merchandise purchased at our stores under optimal conditions, we have been engaged in establishing high-quality after-sales service systems.

Regarding delivery service, our service department employees are engaged in accurately and promptly handling repair requests submitted at the dedicated service counters in our stores. Repair service at the customer's home is also available.

Currently there are about 1,500 EDION Group service department employees. As this number indicates, we have developed the most enhanced after-sales service system in Japan's home electrical appliance retail industry, there by offering the highest quality service to our customers.


Repair service counter


Repair service at customer's home

## A wide variety of customer services

Our business operations are not limited just to the sales and repair of home electrical appliances. To satisfy our customers' diverse needs and requests regarding home electrical appliances, we also offer a wide variety of customer services. Such services include light bulb replacement for elderly households, and cleaning of our customers' home air-conditioners to remove musty odor and ensure proper functioning of the air conditioner.

## Original Products

As a means of providing more detailed responses to our customers' needs, we are jointly developing original products with manufacturers. Some examples of our original products include external air conditioner units with rust proof coating, microwave ovens with original menu settings, and other original home electrical appliances with unique functions called "KuaL." EDION offers another line of products that features sizes and functions that are suited to single customers called "keyword" and consumable products called "MY&OUR." The number of our original products stood at approximately 700 items at the end of March 2012.


## EDION Net

EDION also provides Internet connectivity services in addition to its product sales. Within our Internet connectivity business we provide a mobile connectivity service called "KuaL.Net" and fixed line connectively service called "Enjoy.Net." From June 2012, we have integrated these two services to become called "EDION Net." As a result of this integration, we are able to provide new services which offer multiple options of connectivity both at home and away from home that match the diversifying needs of our customers.

フレッツ光・ADSLプロバイダ
エンジョイネット
Enjoy net

Main service plans: NTT Flet's ISP Service, Softbank BB collaborative business service

モバイルインターネットサービス
クオルネット
KuaL net

Main service plans: WiMAX Plan, E-Mobile 3G Plan, Docomo, and other mobile communications ISP services

快適・安心・低価格
edion Internet
エディオンネット

# Eco-Friendly Living and Solar Power Business

EDION's "Eco-Friendly Living and Solar Power Business" entails the sale all electric home appliances, home remodeling related fixtures, solar power generation systems, and other products and services. Until now, we emphasized strategies including the expansion of the number of our stores, personnel training, and other measures to fortify our management structure. In particular, we were able to rapidly expand our sales by leveraging our bountiful sales knowhow for consumer electronic products and by introducing new sales methods that did not exist within the realm of the construction industry.

## Home Remodeling

We provide various solutions in the areas of the "kitchen," "bathroom," and "toilet" in our home remodeling business. Our remodeling plans include not only products, but packaged solutions which include the construction work associated with dismantling and installation of various fixtures, as well as interior related walls and floorings. This service is extremely popular because of the transparency and safety provided in the ability to see various products and fixtures at our stores. Sales of this business are expanding rapidly as its recognition grows on the back of increases in the number of stores at which we provide this service.

Home Remodeling Corner

## Solar Power Generation System, All Electric Home Appliances

Home use solar power generation systems and all electric home appliances have received a growing amount of attention on the back of heightened consumer focus upon energy conservation. Consumer interest in all electric home appliances is growing rapidly because of the ability to reduce electricity bills by large margins by taking advantage of cheaper night time electric power rates. In addition, solar power generation systems are also growing rapidly on the back of the increased interest in energy conservation and because of the Government's subsidies on home power generation system installations and price hikes on excess electricity sold by homeowners to electric power companies. EDION has established training facilities at four locations within Japan to promote training of staff so that our efforts in this new business can keep pace with the rapidly growing demand.

All Electric Appliance Corner

Solar Power Generation System Installation Training Center

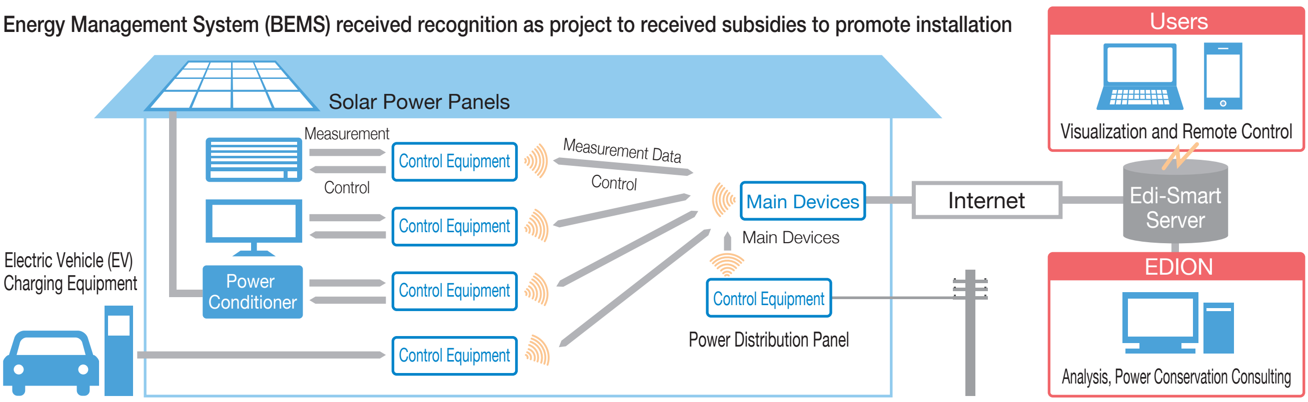
## Edi-Smart Energy Management System

EDION is cultivating new businesses, and its first is the "Edi-Smart Energy Management System." In this business, we sell control equipment that assesses electric power consumption and enables homes and offices to reduce energy consumption. We will fortify our operations in this business as we expect it to record strong growth on the back of growing awareness of issues relating to electric power supplies within Japan.

### Become a Pioneer by Entering Electric Power and Energy Conservation Market

**Edi-Smart Energy Management System**

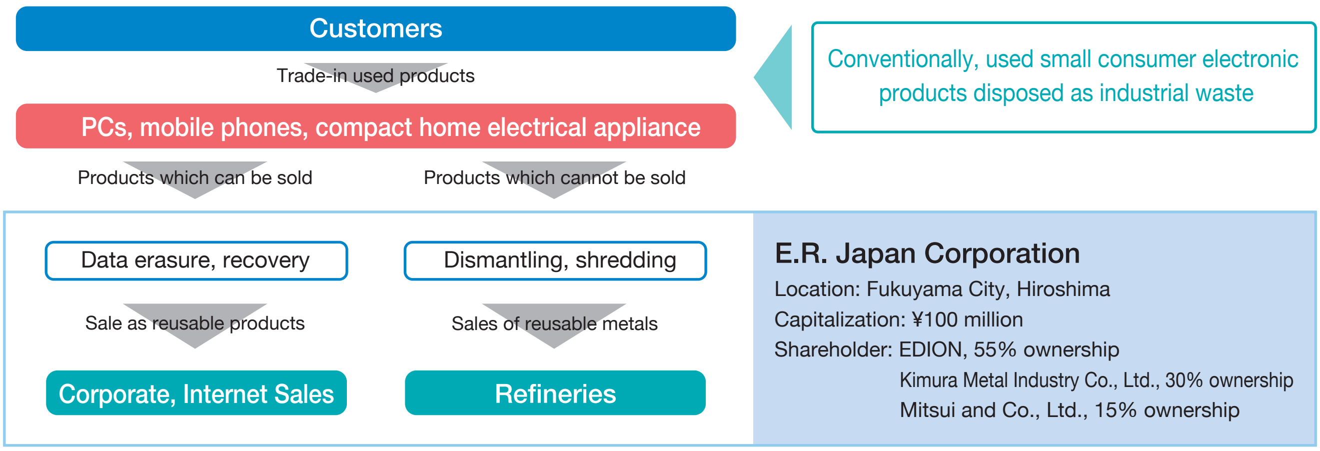
Energy Management System (BEMS) received recognition as project to received subsidies to promote installation




## Recycling Business

Our second new business development is the recycling business. Until now we have depended upon disposal companies to process and dispose of used microwave ovens, DVD recorders, and other small consumer electronic products. However many of these products contain valuable rare metals and other recyclable materials. Therefore to ensure that these resources do not go to waste, we have established a recycling company called E.R. Japan Corporation. We purchase used personal computers, mobile phones, and other products for resale as reusable used products. Products that we cannot resell are dismantled and taken apart to salvage rare metal and other metallic parts to be sold.

### Realm of Our Businesses Expanded with Entry to the Recycling Business



## Community Activities

We hold various sports and cultural activities to promote development of regional communities.

### Sports Promotion

The EDION Group is contributing to the development of sports in local communities by providing support for local sports clubs and community-based sports activities.

#### ● Sanfrecce Hiroshima FC.

We serve as the main sponsor of Sanfrecce Hiroshima FC., a member team of the Japan Professional Football League (J.League). Sanfrecce Hiroshima FC won at the Fuji Xerox Super Cup in 2008, and played in the Asian Champions League in 2010, substantially contributing to the regional development of Hiroshima.

Sanfrecce Hiroshima FC.

#### ● EDION Athletic Club for Women

Since its establishment in 1989, EDION Athletic Club for Women has participated 22 times in the All-Japan Corporate Women's Ekiden Championships, and has produced excellent athletes who were selected as national contestants for the London 2012 Olympic Games. The Club has contributed substantially to the development of athletic sports in Japan.

Athletic Club for Women

#### ● EDION Archery Club

Since its establishment in 1990, EDION Archery Club has produced outstanding archers, as proven by the fact that some club members were selected as national contestants for the London 2012 Olympic Games and the world championship in 2010 contributing greatly to the development of archery in Japan.

Archery Club

### Cultural Activities

EDION Group is active in various cultural efforts to always work together with local communities.

#### ● EDION Club

EDION operates a club for its card members in the Hiroshima region called “EDION Club” as a means of promoting enjoyment of consumer electronic appliances. The Club holds various events including hobby and educational classes using various consumer electronic products. In addition to showing card members how to enjoy their consumer electronic products, these events act as opportunities for card members to communicate with each other.


EDION Club

## Environmental Activities

We are actively involved in environmental initiatives to contribute to environmental conservation.

### Participation in tree-planting and forestation programs

At the EDION Group, we have been active in various tree-planting and forestation programs, as part of our environmental contribution to local communities. We have participated in the "Hiroshima Forest Planting Activity in Takehara" every year since the first event was held in November 2004. In addition, our employees also participate in the "Yoshino Forestation Activity" reforestation activities on Mt. Yoshino in Nara Prefecture, which is registered as a World Heritage Cultural Site, and the "Planting in Nagoya Nishi-no Mori Forest" program in Todagawa Green Park, Nagoya City since 2008. We will continue working together with local residents and participating in various environmental initiatives, to contribute all the more to local environment.

Tree-planting activity

### Retail shops that excel at promoting energy-efficient products

The Energy Conservation Center of Japan selected a total of 301 EDION stores*, the largest number of stores ever selected for a single company, to be awarded with the "retail shops that excel at promoting energy-efficient products." This recognition is given to home appliance retailers that actively promote energy-efficient products.

*Total number of stores in fiscal year 2009 and 2010. This recognition award for promotion of energy efficient products is valid for three years. There were no recognition awards given during fiscal year 2011.

Director General Prize of Agency of Natural Resource and Energy

2010年度

Shop

Retail Shops Excelling in the Promotion of Energy Efficient Products Recognition Award

### Promoting the installation of energy efficient equipment

We at the EDION Group have been promoting the installation of various types of energy-efficient equipment in our stores.

In fiscal 2010, we introduced a "real-time HVAC (heating, ventilation and air conditioning) & lighting fixture control system for energy saving." The purpose of this system is to enable careful overall control of air-conditioning equipment and lighting fixtures in individual stores. Moreover, we have been promoting the installation of light-emitting diodes (LEDs) and motion sensors in warehouses, as well as the use of eco-friendly floor tiles, primarily targeting newly opened stores.

Solar Power Panels Installed on Roof of DEODEO's Main Store Annex

## Outline of our corporate governance system

We have set up a board of directors that meets twice monthly and serves as a management decision-making body; a management meeting, held prior to the board of directors meeting, that serves as a liaison meeting for operational adjustments and discusses how to address Group-wide important management issues; a compliance committee that serves as risk management headquarters in charge of ensuring compliance with our corporate ethics code; and a risk management committee that conducts overall management of risks to companies within the Group. In addition, the board of corporate auditors and the Internal Audit Department focus on information sharing by conducting liaison meetings to enhance the corporate governance system of the EDION Group as a whole.

## Reasons for introducing the corporate governance system

The EDION Group's concept of "quality service retailing" is based on our philosophy that our retail business activities are closely linked to the local communities and made possible by the relationship of trust formed with our various stakeholders, including shareholders, customers, local communities, and business partners.

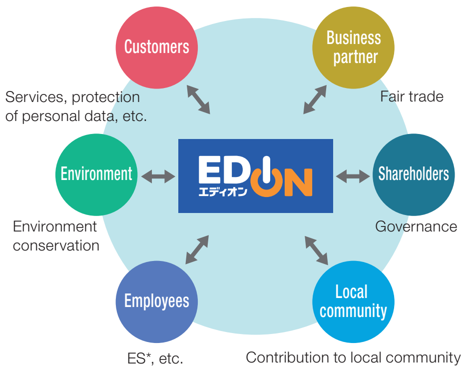
In order to maintain growth amidst the rapid changes and severe competition within our operating environment, we need to be accepted and receive the support of local communities as a "quality service retail business," while at the same time maintaining our recognition of the importance of governance within our Group as an important management issue. Therefore, we need to create an upper management structure that is able to implement an accurate and quick decision making process and quickly execute decisions made. At the same time, we also need to constantly exert efforts to improve communications with our various stakeholders in order to reflect their opinions and needs in our decision making process in a timely fashion.

Furthermore, our Group is aware of the importance of maintaining good relationships with our various stakeholders and has identified this task as a key management issue. Consequently we will endeavor to create an upper management structure and conduct corporate activities with a view to our corporate social responsibility by maintaining a decision making process that is transparent, objective, and reasonable from the standpoint of our stakeholders (namely our shareholders).

Moreover we cannot overlook the need to maintain a structure that responds with strict compliance by our management and employees to ensure that we maintain the trust of our customers. The EDION Group also views corporate governance as another important management issue. Therefore we adopt a system whereby Vice Presidents, Executives also take on additional roles as division managers or other management positions to fortify our supervision capabilities and to be able to implement quick diffusion of the our management decisions throughout our entire organization. EDION also implements strict management of our Group and controls the various subsidiaries of our Group.

### 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.




*ES is an abbreviation for employee satisfaction.

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

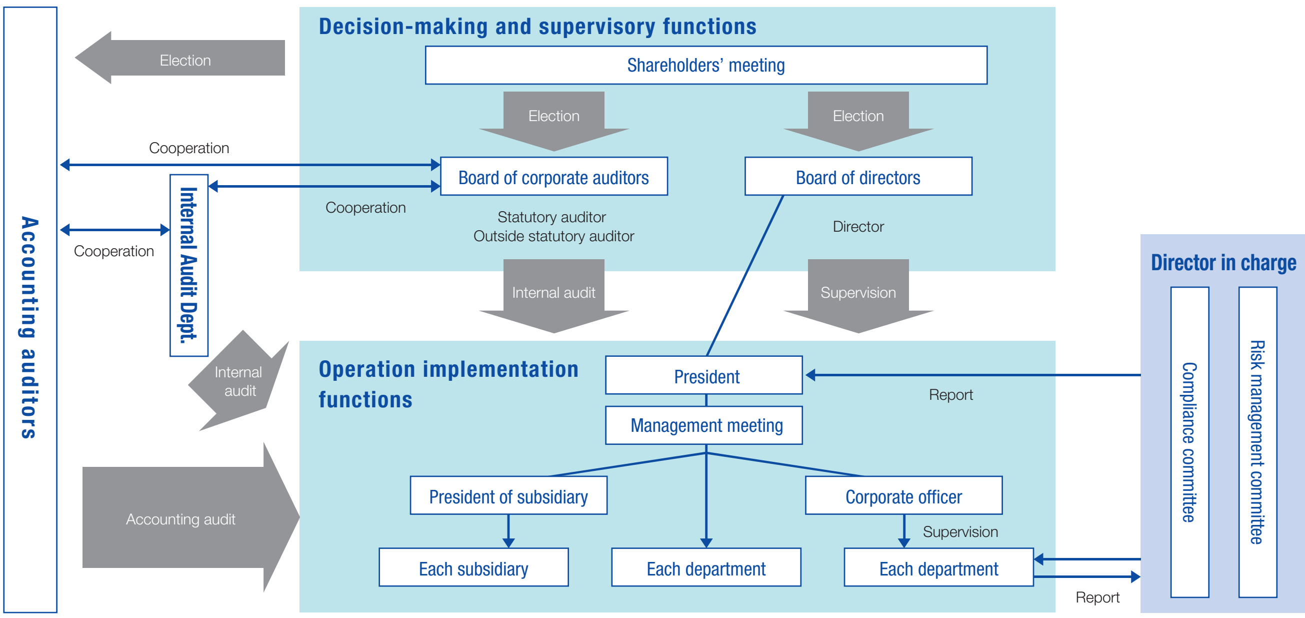
a. The Board of Directors, consisting of 8 members (as of June28, 2012), meets twice monthly.

b. At EDION Corporation, the President/Vice-Presidents or Directors concurrently serve as general manager of one headquarters or of one department, seeking to enhance the thorough Group-wide management system with EDION Corporation at its core. EDION Corporation also pays key roles in the coordination between EDION Corporation and subsidiaries, as well as among the Group's subsidiary companies.

c. We have established a management meeting that serves as a liaison meeting for operational adjustments. It is held prior to the board of directors meeting, to discuss how to address Group-wide important management issues. The weekly management meeting, chaired by the President, consists of Directors and general managers of relevant departments of EDION Corporation.

d. As part of our efforts to enhance corporate governance, in December 2004 the EDION Group established a corporate ethics code, the "EDION" Group Corporate Ethics." Since 2005, the EDION Group has also reinforced its compliance training and education system for new employees, distributing the Group's "Ethics and Compliance Manual" and "Code of Ethics" cards to employees, to carry around with them. The Group has also established a compliance committee that serves as risk management headquarters in charge of ensuring compliance with the ethics code. The compliance committee, which meets as necessary, consists of the head (President of EDION Corporation), chairperson (director in charge of compliance-related matters) and other members (General Affairs Dept. staff, Human Resource Dept. staff, Internal Control Dept. staff and corporate auditors). A risk management committee, which conducts overall management if risks to companies within the Group, also meets as necessary, and is comprised of the head (President of EDION Corporation), chairperson (director in charge of risk management affairs) and other members (General Affairs Dept. staff, Human Resources Dept, staff, Internal Control Dept. staff and corporate auditors). Furthermore, based on an advisory contract with a law office, EDION Corporation has been consulting an expert regarding legal judgments on its management decisions and daily store operations, as well as executive and employee compliance with its ethical code. Concerning the Personal Information Protection Law that took effect in April 2005, the EDION Group has instituted a "Personal Information Protection Policy" and an "Administrative Regulation for Protecting Personal Information," establishing an appropriate personal information protection and management system that is managed by the General Affairs and Human Resources Dept. of EDION Corporation.

### Corporate governance structure



# Consolidated Balance Sheets

EDION Corporation and Consolidated Subsidiaries
March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents *(Note 11)* | ¥ 10,686 | ¥ 19,990 | $ 130,016 |
| Time deposits *(Note 11)* | – | 1,605 | – |
| Marketable securities *(Notes 4 and 11)* | 6 | 6 | 73 |
| Notes and accounts receivable: | | | |
| Trade *(Note 11)* | 29,492 | 40,084 | 358,827 |
| Other | 12,726 | 8,287 | 154,837 |
| Allowance for doubtful receivables | (69) | (29) | (840) |
| | 42,149 | 48,342 | 512,824 |
| Inventories: | | | |
| Merchandise and products | 80,578 | 89,131 | 980,387 |
| Supplies | 362 | 432 | 4,404 |
| | 80,940 | 89,563 | 984,791 |
| Deferred income taxes *(Note 10)* | 8,723 | 10,532 | 106,132 |
| Other current assets | 4,640 | 4,222 | 56,455 |
| Total current assets | 147,144 | 174,260 | 1,790,291 |
| Property and equipment, at cost *(Note 7)*: | | | |
| Land *(Notes 5 and 8)* | 76,039 | 75,434 | 925,161 |
| Buildings and structures *(Note 8)* | 159,176 | 161,508 | 1,936,683 |
| Tools, furniture and fixtures | 24,806 | 24,497 | 301,813 |
| Leased assets | 2,583 | 2,583 | 31,427 |
| Construction in progress | 1,714 | 415 | 20,854 |
| Other | 3,202 | 3,604 | 38,959 |
| | 267,520 | 268,041 | 3,254,897 |
| Accumulated depreciation | (113,045) | (106,272) | (1,375,410) |
| Net property and equipment | 154,475 | 161,769 | 1,879,487 |
| Investments and other assets: | | | |
| Investments in securities *(Notes 4 and 11)* | 4,445 | 4,329 | 54,082 |
| Investments in an unconsolidated subsidiary and affiliates *(Note 11)* | 424 | 460 | 5,159 |
| Goodwill | 0 | 368 | 0 |
| Leasehold deposits *(Note 11)* | 30,542 | 32,137 | 371,602 |
| Deferred income taxes *(Note 10)* | 8,429 | 8,227 | 102,555 |
| Other *(Note 16)* | 17,195 | 21,850 | 209,210 |
| Total investments and other assets | 61,035 | 67,371 | 742,608 |
| Total assets | ¥ 362,654 | ¥ 403,400 | $ 4,412,386 |

*See accompanying notes to consolidated financial statements.*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Short-term bank loans *(Notes 8 and 11)* | ¥ **23,000** | ¥ 21,212 | $ **279,839** |
| Current portion of long-term debt *(Notes 8 and 11)* | **19,607** | 22,385 | **238,557** |
| Notes and accounts payable: | | | |
| Trade *(Note 11)* | **39,544** | 55,085 | **481,129** |
| Other | **15,304** | 13,854 | **186,203** |
| | **54,848** | 68,939 | **667,332** |
| Lease obligations *(Notes 8 and 11)* | **152** | 145 | **1,849** |
| Accrued income taxes *(Note 10)* | **500** | 2,989 | **6,083** |
| Allowance for employees' bonuses | **5,395** | 6,785 | **65,641** |
| Reserve for point service program | **8,690** | 8,765 | **105,731** |
| Other current liabilities | **11,571** | 17,294 | **140,784** |
| Total current liabilities | **123,763** | 148,514 | **1,505,816** |
| Long-term liabilities: | | | |
| Long-term debt *(Notes 8 and 11)* | **61,971** | 64,063 | **753,997** |
| Accrued retirement benefits *(Note 9)* | **9,376** | 9,786 | **114,077** |
| Lease obligations *(Notes 8 and 11)* | **878** | 1,029 | **10,683** |
| Negative goodwill *(Note 21)* | **1,708** | 3,634 | **20,781** |
| Deferred income taxes for land revaluation *(Note 10)* | **2,181** | 2,513 | **26,536** |
| Allowance for merchandise warranties | **5,992** | 5,069 | **72,904** |
| Asset retirement obligations *(Note 6)* | **4,823** | 4,604 | **58,681** |
| Other long-term liabilities *(Note 8)* | **7,733** | 8,240 | **94,087** |
| Total long-term liabilities | **94,662** | 98,938 | **1,151,746** |
| Contingent liabilities *(Note 13)* | | | |
| Net assets | | | |
| Shareholders' equity *(Note 14)*: | | | |
| Common stock | **10,175** | 10,175 | **123,799** |
| Capital surplus | **82,334** | 82,347 | **1,001,752** |
| Retained earnings | **65,447** | 64,419 | **796,289** |
| Treasury stock, at cost | **(1,477)** | (2,184) | **(17,971)** |
| Total shareholders' equity | **156,479** | 154,757 | **1,903,869** |
| Accumulated other comprehensive income (loss): | | | |
| Net unrealized gain (loss) on other securities | **8** | (136) | **97** |
| Land revaluation difference *(Note 5)* | **(13,118)** | (13,533) | **(159,605)** |
| Accumulated other comprehensive loss, net | **(13,110)** | (13,669) | **(159,508)** |
| Stock acquisition rights *(Note 14)* | **246** | 209 | **2,993** |
| Minority interests | **614** | 14,651 | **7,470** |
| Total net assets | **144,229** | 155,948 | **1,754,824** |
| Total liabilities and net assets | ¥ **362,654** | ¥ 403,400 | $ **4,412,386** |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Income

EDION Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Net sales | ¥ 759,025 | ¥ 901,010 | $ 9,235,004 |
| Cost of sales *(Note 15)* | 573,809 | 683,868 | 6,981,494 |
| Gross profit | 185,216 | 217,142 | 2,253,510 |
| Selling, general and administrative expenses | 175,930 | 190,802 | 2,140,528 |
| Operating income | 9,286 | 26,340 | 112,982 |
| Non-operating income (expenses): | | | |
| Interest and dividend income | 417 | 445 | 5,074 |
| Interest expenses | (1,054) | (1,132) | (12,824) |
| Purchase discounts | 5,203 | 6,559 | 63,305 |
| Amortization of negative goodwill *(Note 23)* | 1,926 | 1,926 | 23,434 |
| Gain on recognition of negative goodwill *(Note 21)* | 1,860 | – | 22,630 |
| Loss on disposal of property and equipment | (255) | (1,052) | (3,103) |
| Loss on impairment of fixed assets *(Notes 16 and 23)* | (3,991) | (6,974) | (48,558) |
| Cumulative effect of initial adoption of accounting standard for asset retirement obligations | – | (2,252) | – |
| Surcharge *(Note 17)* | (4,048) | – | (49,252) |
| Other, net | 603 | (460) | 7,336 |
| | 661 | (2,940) | 8,042 |
| Income before income taxes and minority interests | 9,947 | 23,400 | 121,024 |
| Income taxes *(Note 10)*: | | | |
| Current | 2,758 | 7,262 | 33,556 |
| Prior years | – | 711 | – |
| Deferred | 1,626 | (2,368) | 19,784 |
| Total income taxes | 4,384 | 5,605 | 53,340 |
| Income before minority interests | 5,563 | 17,795 | 67,685 |
| Minority interests | 1,865 | 1,583 | 22,692 |
| Net income | ¥ 3,698 | ¥ 16,212 | $ 44,993 |

| Amounts per share: | Yen | | U.S. dollars |
|---|---|---|---|
| Net income | | | |
| – Basic | ¥ 35.87 | ¥ 157.76 | $ 0.44 |
| – Diluted | 34.88 | 140.99 | 0.42 |
| Cash dividends | 20.00 | 25.00 | 0.24 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Comprehensive Income

EDION Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Income before minority interests | ¥ 5,563 | ¥ 17,795 | $ 67,685 |
| Other comprehensive income (loss) *(Note 18)*: | | | |
| Net unrealized gain (loss) on other securities | 133 | (411) | 1,618 |
| Land revaluation difference | 313 | (13) | 3,808 |
| Other comprehensive income (loss), net | 446 | (424) | 5,426 |
| Comprehensive income | ¥ 6,009 | ¥ 17,371 | $ 73,111 |
| Comprehensive income attributable to: | | | |
| Shareholders of EDION Corporation | ¥ 4,154 | ¥ 15,801 | $ 50,541 |
| Minority interests | 1,855 | 1,570 | 22,570 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Changes in Net Assets

EDION Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

*Millions of yen*

| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity | Net unrealized (loss) gain on other securities | Land revaluation difference | Accumulated other comprehensive loss, net | Stock acquisition rights | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2010 | ¥ 10,175 | ¥ 82,368 | ¥ 50,723 | ¥ (1,874) | ¥ 141,392 | ¥ 261 | ¥ (13,980) | ¥ (13,719) | ¥ 85 | ¥ 13,885 | ¥ 141,643 |
| Cash dividends | | | (2,056) | | (2,056) | | | – | | | (2,056) |
| Reversal of land revaluation difference | | | (460) | | (460) | | | – | | | (460) |
| Net income | | | 16,212 | | 16,212 | | | – | | | 16,212 |
| Purchases of treasury stock | | | | (880) | (880) | | | – | | | (880) |
| Disposition of treasury stock | | (21) | | 570 | 549 | | | – | | | 549 |
| Other changes | | | | | – | (397) | 447 | 50 | 124 | 766 | 940 |
| Balance at April 1, 2011 | 10,175 | 82,347 | 64,419 | (2,184) | 154,757 | (136) | (13,533) | (13,669) | 209 | 14,651 | 155,948 |
| Cash dividends | | | **(2,568)** | | **(2,568)** | | | **-** | | | **(2,568)** |
| Reversal of land revaluation difference | | | **(102)** | | **(102)** | | | **-** | | | **(102)** |
| Net income | | | **3,698** | | **3,698** | | | **-** | | | **3,698** |
| Purchases of treasury stock | | | | **(1)** | **(1)** | | | **-** | | | **(1)** |
| Disposition of treasury stock | | **(13)** | | **708** | **695** | | | **-** | | | **695** |
| Other changes | | | | | **-** | **144** | **415** | **559** | **37** | **(14,037)** | **(13,441)** |
| Balance at March 31, 2012 | **¥ 10,175** | **¥ 82,334** | **¥ 65,447** | **¥ (1,477)** | **¥ 156,479** | **¥ 8** | **¥ (13,118)** | **¥ (13,110)** | **¥ 246** | **¥ 614** | **¥ 144,229** |

*Thousands of U.S. dollars (Note 1)*

| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity | Net unrealized (loss) gain on other securities | Land revaluation difference | Accumulated other comprehensive loss, net | Stock acquisition rights | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2011 | $ 123,799 | $ 1,001,910 | $ 783,782 | $ (26,573) | $ 1,882,918 | $ (1,655) | $ (164,655) | $ (166,310) | $ 2,542 | $ 178,258 | $ 1,897,408 |
| Cash dividends | | | **(31,245)** | | **(31,245)** | | | **-** | | | **(31,245)** |
| Reversal of land revaluation difference | | | **(1,241)** | | **(1,241)** | | | **-** | | | **(1,241)** |
| Net income | | | **44,993** | | **44,993** | | | **-** | | | **44,993** |
| Purchases of treasury stock | | | | **(12)** | **(12)** | | | **-** | | | **(12)** |
| Disposition of treasury stock | | **(158)** | | **8,614** | **8,456** | | | **-** | | | **8,456** |
| Other changes | | | | | **-** | **1,752** | **5,050** | **6,802** | **451** | **(170,788)** | **(163,535)** |
| Balance at March 31, 2012 | **$ 123,799** | **$ 1,001,752** | **$ 796,289** | **$ (17,971)** | **$ 1,903,869** | **$ 97** | **$ (159,605)** | **$ (159,508)** | **$ 2,993** | **$ 7,470** | **$ 1,754,824** |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Cash Flows

EDION Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Cash flows from operating activities** | | | |
| Income before income taxes and minority interests | ¥ 9,947 | ¥ 23,400 | $ 121,024 |
| Adjustments for: | | | |
| Depreciation and amortization | 13,945 | 14,823 | 169,668 |
| Loss on impairment of fixed assets | 3,991 | 6,974 | 48,558 |
| Interest and dividend income | (417) | (445) | (5,074) |
| Interest expense | 1,054 | 1,132 | 12,824 |
| Amortization of negative goodwill, net | (1,558) | (1,527) | (18,956) |
| Gain on recognition of negative goodwill | (1,859) | – | (22,618) |
| Cumulative effect of initial adoption of accounting standard for asset retirement obligations | – | 2,252 | – |
| Surcharge | 4,048 | – | 49,252 |
| (Decrease) increase in allowance for employees' bonuses | (1,390) | 1,464 | (16,912) |
| (Decrease) increase in reserve for point service program | (75) | 26 | (913) |
| (Decrease) increase in accrued retirement benefits | (410) | 38 | (4,988) |
| Loss on disposal of property and equipment | 255 | 1,052 | 3,103 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in notes and accounts receivable | 6,153 | (1,208) | 74,863 |
| Decrease (increase) in inventories | 8,623 | (6,450) | 104,915 |
| (Decrease) increase in notes and accounts payable | (14,091) | 6,870 | (171,444) |
| Other, net | (6,022) | 2,845 | (73,269) |
| | 22,194 | 51,246 | 270,033 |
| Interest and dividends received | 230 | 177 | 2,798 |
| Interest paid | (959) | (1,074) | (11,668) |
| Income taxes refunded | 1,131 | 1,194 | 13,761 |
| Income taxes paid | (7,462) | (9,710) | (90,790) |
| Net cash provided by operating activities | 15,134 | 41,833 | 184,134 |
| **Cash flows from investing activities** | | | |
| Investments in time deposits | (502) | (1,625) | (6,108) |
| Proceeds from time deposits | 2,107 | 3,360 | 25,636 |
| Purchases of property and equipment | (6,701) | (17,598) | (81,531) |
| Proceeds from sales of property and equipment | 415 | 246 | 5,049 |
| Purchases of intangible assets | (996) | (1,665) | (12,118) |
| Payments of long-term prepaid expenses | (18) | (270) | (219) |
| Purchases of investments in securities | (25) | (102) | (304) |
| Proceeds from sales of investments in securities | 40 | 1,183 | 487 |
| Purchases of investments in subsidiaries | (4,824) | – | (58,693) |
| Purchases of investments in subsidiaries resulting in change in scope of consolidation | (425) | – | (5,171) |
| Decrease (increase) in leasehold deposits, net | 36 | (150) | 438 |
| Increase in leasehold deposits received from tenants, net | 70 | 234 | 852 |
| Other, net | 591 | (152) | 7,190 |
| Net cash used in investing activities | (10,232) | (16,539) | (124,492) |
| **Cash flows from financing activities** | | | |
| Increase (decrease) in short-term bank loans, net | 2,036 | (18,183) | 24,772 |
| Increase in long-term loans | 31,500 | 18,600 | 383,258 |
| Repayments of long-term loans | (23,134) | (19,653) | (281,470) |
| Redemption of bonds | (13,235) | – | (161,029) |
| Cash dividends paid | (2,564) | (2,056) | (31,196) |
| Cash dividends paid to minority shareholders | (804) | (804) | (9,782) |
| Purchase of treasury stock | (0) | (880) | (0) |
| Purchase of treasury stock held by an subsidiary | (8,490) | – | (103,297) |
| Other, net | 480 | (193) | 5,840 |
| Net cash used in financing activities | (14,211) | (23,169) | (172,904) |
| Effect of exchange rate changes on cash and cash equivalents | 0 | 0 | 0 |
| Net (decrease) increase in cash and cash equivalents | (9,309) | 2,125 | (113,262) |
| Cash and cash equivalents at beginning of year | 19,990 | 17,865 | 243,217 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 5 | – | 61 |
| Cash and cash equivalents at end of year *(Note 20)* | ¥ 10,686 | ¥ 19,990 | $ 130,016 |

*See accompanying notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements (March 31, 2012)

### 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, 2011 to the 2012 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥82.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2012. 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 numbers of consolidated subsidiaries were 6 and 150 as of March 31, 2012 and 2011, respectively.

COMNET Co., Ltd., a wholly-owned subsidiary in the previous year, was excluded from the scope of consolidation from current fiscal year because it was merged into the Company on April 1, 2011. In addition, consolidated subsidiaries of 3Q Takashimaya Co., Ltd. "3Q Takashimaya" and 144 companies were also excluded from the scope of consolidation from current fiscal year because they were merged into 3Q Co., Ltd., ("3Q"), a consolidated subsidiary, on September 1, 2011. Moreover, due to the Company's acquisition of stocks of 3Q House System Co., Ltd. and Mr. Consent Co., Ltd. on October 3, 2011, these companies were included in the scope of consolidation from current fiscal year. 3Q House System Co., Ltd. changed its name to EDION House System Corporation on April 1, 2012.

MMKS Japan Corporation ("MMKS"), an unconsolidated subsidiary in the previous fiscal year, ceased to be a subsidiary because the silent partnership contracts designating MMKS as the business operator were terminated upon expiration of the contracts and the businesses under the silent partnership contracts were then liquidated.

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, 2012 and 2011.

Neo System Co., Ltd. was excluded from the scope of the equity method as its impact is not significant to the Company's net income, retained earnings and others.

All significant intercompany accounts, transactions and unrealized profit and loss have been eliminated in consolidation.

The fiscal year end of one consolidated subsidiary falls on December 31, a date which differs from that of the Company. As a result, adjustments have been made for any significant transactions occurring during the period from December 31 to March 31.

#### (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) Marketable securities and 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 (loss) income. 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 or the last purchase price method. Inventories of home-center appliance merchandise are stated at the lower of cost or net selling value, cost determined by the retail 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) Goodwill and negative goodwill

Goodwill is amortized by the straight-line method over a period of 5 years, except for cases where a specific expected useful life is available.

Negative goodwill recognized on or prior to March 31, 2010 is amortized by the straight-line method over a period of 5 years. Negative goodwill recognized on and after April 1, 2010 is credited to income as incurred.

#### (h) 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.

# Notes to Consolidated Financial Statements (continued)

## 2. Summary of Significant Accounting Policies (continued)

### (i) 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.

### (j) 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.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the year end.

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.

### (k) 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.

### (l) Allowance for merchandise warranties

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

### (m) 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.

### (n) Derivatives and hedging activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss credited or charged to income, 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.

### (o) Per share information

Basic net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income 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 statements 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 net income per share for the years ended March 31, 2012 and 2011 were 103,077 thousand and 102,765 thousand, respectively.

The dilutive potential of shares of common stock for the years ended March 31, 2012 and 2011 was 2,935 thousand and 12,218 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, 2012 and 2011 were ¥1,384.69 ($16.85) and ¥1,376.18, respectively.

**(Change in method of calculating net income per share)**

Effective the year ended March 31, 2012, the Company adopted the "Accounting Standard for Earnings Per Share" (Accounting Standards Board of Japan ("ASBJ") Statement No. 2, revised on June 30, 2010) and the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, revised on June 30, 2010). In determining diluted net income per share, for stock options that will vest after a specified service period, the Company has changed to a calculation method in which the portion of the fair value of the stock options corresponding to the future service of eligible persons expected to be provided to the Company is included in the proceeds expected to be received by the exercise of the options. Under the previous accounting standard, diluted net income per share for the year ended March 31, 2011 was ¥140.82.

### (p) 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 24. "Subsequent Event").

## 3. Supplementary Information

### Adoption of accounting standard for accounting changes and error corrections

Effective the year ended March 31, 2012, the Group has adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No. 24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

## 4. Marketable Securities and Investments in Securities

Information regarding marketable securities classified as other securities at March 31, 2012 and 2011 was summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Cost | Unrealized gain | Unrealized loss | Carrying value |
| **March 31, 2012** | | | | |
| Equity securities | **¥ 2,297** | **¥ 176** | **¥ 263** | **¥ 2,210** |
| Other | **2,310** | **66** | **491** | **1,885** |
| Total | **¥ 4,607** | **¥ 242** | **¥ 754** | **¥ 4,095** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Cost | Unrealized gain | Unrealized loss | Carrying value |
| **March 31, 2011** | | | | |
| Equity securities | ¥ 2,421 | ¥ 143 | ¥ 421 | ¥ 2,143 |
| Other | 2,362 | 90 | 596 | 1,856 |
| Total | ¥ 4,783 | ¥ 233 | ¥ 1,017 | ¥ 3,999 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Cost | Unrealized gain | Unrealized loss | Carrying value |
| **March 31, 2012** | | | | |
| Equity securities | **$ 27,948** | **$ 2,141** | **$ 3,200** | **$ 26,889** |
| Other | **28,105** | **803** | **5,974** | **22,934** |
| Total | **$ 56,053** | **$ 2,944** | **$ 9,174** | **$ 49,823** |

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 ¥350 million ($4,259 thousand) and ¥330 million as of March 31, 2012 and 2011, respectively.

Hybrid financial instruments containing embedded derivatives were included in "Other" in the above table at March 31, 2012, and 2011. Aggregate losses on devaluation of these hybrid financial instruments had been recognized in the amount of ¥491 million ($5,974 thousand) and ¥584 million for the years ended March 31, 2012 and 2011, respectively.

Proceeds from sales of other securities for the years ended March 31, 2012 and 2011 were ¥41 million ($499 thousand) and ¥1,207 million, respectively. Gross realized gains on these sales were ¥0 million ($0 thousand) and ¥387 million for the years ended March 31, 2012 and 2011, respectively. Gross realized losses on these sales were ¥12 million ($146 thousand) and ¥42 million for the years ended March 31, 2012 and 2011, respectively.

Losses on devaluation of investments in securities of ¥124 million ($1,509 thousand) and ¥68 million were recognized for the years ended March 31, 2012 and 2011, respectively.

Carrying values of held-to-maturity debt securities at March 31, 2012 and 2011 were ¥6 million ($73 thousand) and ¥6 million, respectively. The information on held-to-maturity debt securities at March 31, 2012 and 2011 has been omitted due to its immateriality.

## 5. 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, respectively. 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 ¥10,172 million ($123,762 thousand) and ¥9,321 million at March 31, 2012 and 2011, respectively, of which a certain portion of this land, in the amount of ¥2,894 million ($35,211 thousand) and ¥2,815 million, corresponded to real estate for lease at March 31, 2012 and 2011, respectively.

## 6. 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 mainly a discount rate of 1.74%.

Changes in asset retirement obligations for the years ended March 31, 2012 and 2011 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| Asset retirement obligations at the beginning of the year | **¥ 4,604** | ¥ 4,503 | **$ 56,017** |
| Liabilities incurred due to the acquisition of property and equipment | **197** | 171 | **2,397** |
| Accretion expense | **81** | 80 | **985** |
| Liabilities settled | **(59)** | (150) | **(718)** |
| Asset retirement obligations at the end of the year | **¥ 4,823** | ¥ 4,604 | **$ 58,681** |

Asset retirement obligations of ¥4,503 million at April 1, 2010 in the above table represented the cumulative effect of initial application of "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21 issued on March 31, 2008.)

## 7. 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 ¥723 million ($8,797 thousand) and ¥647 million for the years ended March 31, 2012 and 2011, 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 ¥396 million ($4,818 thousand) and ¥1,184 million was recognized in the loss on impairment of fixed assets for the years ended March 31, 2012 and 2011, respectively.

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

*Millions of yen*

| **2012** | | | |
|---|---|---|---|
| **Carrying Value** | | | **Fair Value** |
| **March 31, 2011** | **Net change** | **March 31, 2012** | **March 31, 2012** |
| **¥ 26,970** | **¥ (1,054)** | **¥ 25,916** | **¥ 24,596** |

*Millions of yen*

| 2011 | | | |
|---|---|---|---|
| Carrying Value | | | Fair Value |
| March 31, 2010 | Net change | March 31, 2011 | March 31, 2011 |
| ¥ 28,592 | ¥ (1,622) | ¥ 26,970 | ¥ 26,348 |

*Thousands of U.S. dollars*

| **2012** | | | |
|---|---|---|---|
| **Carrying Value** | | | **Fair Value** |
| **March 31, 2011** | **Net change** | **March 31, 2012** | **March 31, 2012** |
| **$ 328,142** | **$ (12,824)** | **$ 315,318** | **$ 299,258** |

Notes:

(a) The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.

(b) The components of net change in the carrying value included increases mainly due to the change in the holding purpose in the amount of ¥144 million ($1,752 thousand) and decreases mainly due to impairment loss of ¥396 million ($4,818 thousand) and depreciation expenses of ¥590 million ($7,178 thousand) for the year ended March 31, 2012. The components of net change in the carrying value included increases mainly due to acquisition of properties of ¥188 million and decreases mainly due to impairment loss of ¥1,184 million and depreciation expenses of ¥653 million for the year ended March 31, 2011.

(c) The fair value was based on the real estate appraisals issued by 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.

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

Short-term bank loans at March 31, 2012 and 2011 consisted of bank overdrafts. The annual average interest rates applicable to the short-term bank loans were 0.46% and 0.53% at March 31, 2012 and 2011, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

# Notes to Consolidated Financial Statements (continued)

### 8. Short-Term Bank Loans, Long-Term Debt and Lease Obligations (continued)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| 1.49% secured bonds due April 26, 2012 issued by MET Special Purpose Company | ¥ 500 | ¥ 500 | $ 6,083 |
| Zero coupon unsecured convertible bonds (with stock acquisition rights) due May 10, 2013 | 1,765 | 15,000 | 21,475 |
| Loans principally from banks and insurance companies with an average interest rate of 0.99%: | | | |
| – Collateralized | 1,904 | 2,685 | 23,166 |
| – Unsecured | 75,801 | 66,555 | 922,265 |
| Long-term loans due to a tenant for store construction, interest rate of 2.11% | 1,608 | 1,708 | 19,565 |
| | 81,578 | 86,448 | 992,554 |
| Less: current portion of long-term debt | (19,607) | (22,385) | (238,557) |
| | ¥ 61,971 | ¥ 64,063 | $ 753,997 |

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on May 9, 2008 are convertible at ¥1,353 ($16) per share in the period from May 23, 2008 to April 26, 2013 subject to adjustment in certain circumstances.

On May 9, 2011, the Company made early redemption of a part of the zero coupon unsecured convertible bonds upon exercise of the bond holders' option in accordance with issuance conditions.

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 were summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 19,607 | $ 238,557 |
| 2014 | 13,769 | 167,526 |
| 2015 | 22,356 | 272,004 |
| 2016 | 11,908 | 144,884 |
| 2017 | 12,860 | 156,467 |
| 2018 and thereafter | 1,078 | 13,116 |
| Total | ¥ 81,578 | $ 992,554 |

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 3.10% and 3.26% at March 31, 2012 and 2011, respectively.

The aggregate annual maturities of lease obligations subsequent to March 31, 2012 were summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 152 | $ 1,849 |
| 2014 | 159 | 1,935 |
| 2015 | 118 | 1,436 |
| 2016 | 52 | 633 |
| 2017 | 54 | 657 |
| 2018 and thereafter | 495 | 6,022 |
| Total | ¥ 1,030 | $ 12,532 |

The assets pledged as collateral for long-term loans and the current portion of long-term loans of ¥1,904 million ($23,166 thousand), bonds of ¥500 million ($6,083 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,163 million ($14,150 thousand) was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Land | ¥ 6,368 | $ 77,479 |
| Buildings and structures – net of accumulated depreciation | 5,404 | 65,750 |
| Total | ¥ 11,772 | $ 143,229 |

In order to achieve more efficient and flexible financing, the Group has concluded line-of-credit agreements with 16 banks. Total committed lines of credit under such agreements amounted to ¥50,000 million ($608,347 thousand), of which ¥38,000 million ($462,343 thousand) was available as of March 31, 2012.

### 9. 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. 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. Some consolidated subsidiaries newly established defined benefit plans during the year ended March 31, 2012.

Accrued retirement benefits for employees at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Retirement benefit obligation | ¥ (13,666) | ¥ (12,831) | $ (166,273) |
| Plan assets at fair value | 6,961 | 6,849 | 84,694 |
| Unfunded retirement benefit obligation | (6,705) | (5,982) | (81,579) |
| Unrecognized actuarial loss | 186 | 381 | 2,263 |
| Unrecognized prior service cost | (2,857) | (4,185) | (34,761) |
| Accrued retirement benefits | ¥ (9,376) | ¥ (9,786) | $ (114,077) |

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Service cost | ¥ 357 | ¥ 688 | $ 4,344 |
| Interest cost | 265 | 288 | 3,224 |
| Expected return on plan assets | (55) | (53) | (669) |
| Recognized actuarial loss | 68 | 120 | 827 |
| Amortization of prior service cost | (450) | (288) | (5,475) |
| Other | 1,872 | 1,316 | 22,776 |
| Retirement benefit expenses | ¥ 2,057 | ¥ 2,071 | $ 25,027 |

As permitted under the accounting standard for retirement benefits, certain consolidated subsidiaries calculate accrued retirement benefits for their employees by the simplified method. The related retirement benefit expenses for these subsidiaries are included in service cost presented in the above table.

"Other" in the above table represented contributions to defined contribution pension plans.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2012 and 2011 were summarized as follows:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 2.0% | 2.0% |
| Expected rate of return on plan assets | 0.8% | 0.8% |

### 10. Income Taxes

Income taxes applicable to the Group comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of 40.6% for the years ended March 31, 2012 and 2011.

The effective taxes rates for the years ended March 31, 2012 and 2011 differed from the corresponding statutory tax rate for the following reasons:

| | 2012 | 2011 |
|---|---|---|
| Statutory tax rate: | **40.6%** | 40.6% |
| Expenses not deductible for income tax purposes | **1.3** | 0.2 |
| Dividends not taxable for income tax purposes | **(3.3)** | (2.5) |
| Inhabitants' per capita taxes | **4.1** | 2.0 |
| Lower income tax rates applicable to a certain subsidiary | **(1.7)** | (0.7) |
| Amortization of negative goodwill, net | **(6.5)** | (2.8) |
| Change in valuation allowance | **(18.6)** | (20.3) |
| Elimination of intercompany dividends | **4.8** | 2.8 |
| Income taxes for prior years | **–** | 4.1 |
| Gain on recognition of negative goodwill | **(7.6)** | – |
| Effect of change in statutory tax rates | **14.4** | – |
| Surcharge | **16.5** | – |
| Other, net | **0.1** | 0.6 |
| Effective tax rates | **44.1%** | 24.0% |

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 Company and its consolidated subsidiaries at March 31, 2012 and 2011 were summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Deferred tax assets: | | | |
| Depreciation | **¥ 1,505** | ¥ 1,265 | **$ 18,311** |
| Allowance for employees' bonuses | **2,053** | 2,762 | **24,979** |
| Loss on impairment of fixed assets | **6,868** | 6,948 | **83,562** |
| Accrued retirement benefits | **3,421** | 3,989 | **41,623** |
| Reserve for point service program | **3,325** | 3,585 | **40,455** |
| Allowance for merchandise warranties | **2,273** | 2,077 | **27,656** |
| Unrealized loss on revaluation of land acquired by merger | **3,351** | 3,936 | **40,771** |
| Asset retirement obligations | **1,722** | 1,833 | **20,951** |
| Net operating tax loss carryforwards | **1,305** | 2,930 | **15,878** |
| Other | **3,988** | 5,690 | **48,522** |
| Less valuation allowance | **(11,747)** | (15,032) | **(142,925)** |
| Total deferred tax assets | **18,064** | 19,983 | **219,783** |
| Deferred tax liabilities: | | | |
| Asset retirement obligations | **(670)** | (827) | **(8,152)** |
| Unrealized holding loss on other securities | **(34)** | (71) | **(413)** |
| Other | **(208)** | (326) | **(2,531)** |
| Total deferred tax liabilities | **(912)** | (1,224) | **(11,096)** |
| Net deferred tax assets | **¥ 17,152** | ¥ 18,759 | **$ 208,687** |

Due to the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), the corporate income tax rate will be lowered and the special corporation tax for restoration will be imposed from fiscal years beginning on or after April 1, 2012.

In line with these revisions, the Group changed the statutory tax rate to calculate deferred tax assets and deferred tax liabilities from 40.6% to 38.0% for temporary differences expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company and domestic consolidated subsidiaries changed the statutory tax rate to calculate deferred tax assets and deferred tax liabilities from 40.6% to 35.6% for temporary differences expected to be realized from fiscal years beginning April 1, 2015.

As a result of these changes in statutory tax rates, net deferred tax assets (after netting with deferred tax liabilities) and deferred tax liabilities for land revaluation difference decreased by ¥1,431 million ($17,411 thousand) and ¥313 million ($3,808 thousand), respectively, and deferred income taxes - deferred increased by ¥1,427 million ($17,362 thousand) as of and for the year ended March 31, 2012. In addition, net income decreased by ¥1,427 million ($17,362 thousand) for the year ended March 31, 2012.

### 11. Financial Instruments – Fair Value

#### Overview

#### (a) Policy for financial instruments

The Group manages its funds by investing in short-term deposits, safe financial assets and comparably safe hybrid financial instruments which contain embedded derivatives with principally low risk of deterioration from the original investment value.

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 are mainly held-to-maturity bonds, or shares of companies with which the Group has business relationships. Securities and investments 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 Director 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 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.

# Notes to Consolidated Financial Statements (continued)

### 11. Financial Instruments – Fair Value (continued)

**(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 sheets as of March 31, 2012 and 2011 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*

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Estimated fair value | Difference | Carrying value | Estimated fair value | Difference |
| Assets: | | | | | | |
| Cash and cash equivalents | ¥ 10,686 | ¥ 10,686 | ¥ – | ¥ 19,990 | ¥ 19,990 | ¥ – |
| Time deposits | – | – | – | 1,605 | 1,605 | – |
| Notes and accounts receivable-trade | 29,492 | 29,492 | – | 40,084 | 40,084 | – |
| Marketable securities and investments in securities: | | | | | | |
| Held-to-maturity debtsecurities | 6 | 6 | – | 6 | 6 | – |
| Investments in securities | 4,096 | 4,096 | – | 3,999 | 3,999 | – |
| Total assets | ¥ 44,280 | ¥ 44,280 | ¥ – | ¥ 65,684 | ¥ 65,684 | ¥ – |
| Liabilities: | | | | | | |
| Notes and accounts payable-trade | ¥ 39,544 | ¥ 39,544 | ¥ – | ¥ 55,085 | ¥ 55,085 | ¥ – |
| Short-term bank loans | 23,000 | 23,000 | – | 21,212 | 21,212 | – |
| Current portion of bonds | 500 | 500 | – | – | – | – |
| Long-term debt: | | | | | | |
| Bonds | – | – | – | 500 | 504 | 4 |
| Convertible bonds with stock acquisition rights | 1,765 | 1,750 | (15) | 15,000 | 14,968 | (32) |
| Long-term loans, including current position | 79,313 | 78,144 | (1,169) | 70,948 | 71,166 | 218 |
| Lease obligations | 1,030 | 1,093 | 63 | 1,174 | 1,227 | 53 |
| Total liabilities | ¥145,152 | ¥144,031 | ¥ (1,121) | ¥163,919 | ¥164,162 | ¥ 243 |

*Thousands of U.S. dollars*

| | 2012 | | |
|---|---|---|---|
| | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| Cash and cash equivalents | $ 130,016 | $ 130,016 | $ – |
| Time deposits | – | – | – |
| Notes and accounts receivable-trade | 358,827 | 358,827 | – |
| Marketable securities and investments in securities: | | | |
| Held-to-maturity debtsecurities | 73 | 73 | – |
| Investments in securities | 49,836 | 49,836 | – |
| Total assets | $ 538,752 | $ 538,752 | $ – |
| Liabilities: | | | |
| Notes and accounts payable-trade | $ 481,129 | $ 481,129 | $ – |
| Short-term bank loans | 279,839 | 279,839 | – |
| Current portion of bonds | 6,083 | 6,083 | – |
| Long-term debt: | | | |
| Bonds | – | – | – |
| Convertible bonds with stock acquisition rights | 21,475 | 21,292 | (183) |
| Long-term loans, including current position | 964,996 | 950,773 | (14,223) |
| Lease obligations | 12,532 | 13,299 | 767 |
| Total liabilities | $ 1,766,054 | $ 1,752,415 | $ (13,639) |

(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, time deposits and notes and accounts receivable-trade:

Because these items are settled in a short time period, their carrying value approximates fair value.

Marketable securities and 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 4. "Marketable Securities and 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.

Bonds and convertible bonds with stock acquisition rights:

The market prices of all bonds were not available. The fair value of bonds is based on the present value of the total of principal and interest discounted by the interest rate with reference to the remaining periods and the credit risk.

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 12. "Derivatives."

(2) Financial instruments for which it is extremely difficult to determine the fair value

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Unlisted stocks | ¥ 350 | ¥ 330 | $ 4,259 |
| Investments in an unconsolidated subsidiary and affiliates | 424 | 460 | 5,159 |
| Leasehold deposits | 30,542 | 32,137 | 371,602 |

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.

(3) Redemption schedule for cash and cash equivalents, time deposits, notes and accounts receivable – trade and marketable securities with maturity dates at March 31, 2012 and 2011 was as follows:

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2012** | | | |
| | 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 | **¥ 5,231** | **¥ –** | **¥ –** | **¥ –** |
| Notes and accounts receivable-trade | **29,492** | **–** | **–** | **–** |
| Marketable securities: | | | | |
| Held-to-maturity debt securities | **7** | **–** | **–** | **–** |
| | **¥ 34,730** | **¥ –** | **¥ –** | **¥ –** |

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2011** | | | |
| | 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 | ¥ 15,484 | ¥ – | ¥ – | ¥ – |
| Time deposits | 1,605 | – | – | – |
| Notes and accounts receivable-trade | 40,084 | – | – | – |
| Marketable securities: | | | | |
| Held-to-maturity debt securities | 6 | – | – | – |
| | ¥ 57,179 | ¥ – | ¥ – | ¥ – |

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | **2012** | | | |
| | 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 | **$ 63,645** | **$ –** | **$ –** | **$ –** |
| Notes and accounts receivable-trade | **358,827** | **–** | **–** | **–** |
| Marketable securities: | | | | |
| Held-to-maturity debt securities | **85** | **–** | **–** | **–** |
| | **$ 422,557** | **$ –** | **$ –** | **$ –** |

Cash and cash equivalents in the table above do not include cash on hand of ¥5,455 million ($66,371 thousand) and ¥4,506 million at March 31, 2012 and 2011, respectively.

(4) Refer to Note 8. "Short-Term Bank Loans, Long-Term Debt and Lease Obligations" for the redemption schedule for long-term debt.

## 12. Derivatives

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

| | | | *Millions of yen* | | |
|---|---|---|---|---|---|
| | | | **2012** | | |
| Method of hedge accounting | Transaction | Hedged item | Notional amount | Notional amount maturing in more than one year | Fair value |
| Swap rate applied to underlying debt | Interest rate swap Receive / floating and pay / fixed | Long-term loans | **¥ 59,255** | **¥ 46,000** | **(*1)** |

| | | | *Millions of yen* | | |
|---|---|---|---|---|---|
| | | | **2011** | | |
| Method of hedge accounting | Transaction | Hedged item | Notional amount | Notional amount maturing in more than one year | Fair value |
| Swap rate applied to underlying debt | Interest rate swap Receive / floating and pay / fixed | Long-term loans | ¥ 43,340 | ¥ 29,855 | (*1) |

| | | | *Thousands of U.S. dollars* | | |
|---|---|---|---|---|---|
| | | | **2012** | | |
| Method of hedge accounting | Transaction | Hedged item | Notional amount | Notional amount maturing in more than one year | Fair value |
| Swap rate applied to underlying debt | Interest rate swap Receive / floating and pay / fixed | Long-term loans | **$ 720,951** | **$ 559,679** | **(*1)** |

(*1) Because interest rate swap agreements are accounted for as a single item with underlying long-term loans, their market values were included in those of long-term loans.

## 13. Contingent Liabilities

The Group was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥349 million ($4,246 thousand) at March 31, 2012.

## 14. 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, 2012 and 2011.

In accordance with the Law, stock option plans for certain directors and certain employees of the Company and certain directors of certain subsidiaries were approved at annual general meetings of the shareholders of the Company. The 2009 stock option plan (the 2009 plan) was approved by shareholder meeting of the Company on June 26, 2009.

According to the 2009 plan, on August 6, 2009, the Company granted 1,570,000 stock options for common stock to 9 board directors and 3 employees of the Company and 12 board directors, 21 managing directors and 647 employees of certain subsidiaries. The service period for grantees is from August 6, 2009 to August 6, 2011 and the exercisable period is August 7, 2011 to August 6, 2014. Stock option expenses of ¥42 million ($511 thousand ) and ¥125 million were included in selling, general and administrative expenses for the years ended March 31, 2012 and 2011, respectively.

Movements in the number of stock options not yet vested for the stock option plan of the Company during the years ended March 31, 2012 and 2011 were summarized as follows:

| | **2012** | | | | |
|---|---|---|---|---|---|
| | Outstanding as of April 1, 2011 | Granted | Forfeited | Vested | Outstanding as of March 31, 2012 |
| The 2009 plan | **1,542,000** | – | **1,000** | **1,541,000** | – |
| | **2011** | | | | |
| | Outstanding as of April 1, 2010 | Granted | Forfeited | Vested | Outstanding as of March 31, 2010 |
| The 2009 plan | 1,562,000 | – | 20,000 | – | 1,542,000 |

Movements in the number of vested stock options for the stock option plan of the Company during the year ended March 31, 2012 were summarized as follows:

# Notes to Consolidated Financial Statements (continued)

### 14. Shareholders' Equity (continued)

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Outstanding as of April 1, 2011 | Vested | Exercised | Forfeited | Outstanding as of March 31, 2012 |
| The 2009 plan | – | **1,541,000** | **25,000** | **5,000** | **1,511,000** |

The unit price of the stock options under the 2009 plan of the Company during the year ended March 31, 2012 was summarized as follows:

| | *the 2009 plan* (Yen) | *the 2009 plan* (U.S. dollars) |
|---|---|---|
| Unit price of stock options: | | |
| Exercise price at March 31, 2012 | **¥ 597** | **$ 7.26** |
| Average market price per share upon exercise | **665** | **8.09** |
| Estimated fair value of unit price at grant date | **163** | **1.98** |

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

Movements in common stock and treasury stock for the years ended March 31, 2012 and 2011 were summarized as follows:

| | Note | *Number of shares* 2012: April 1, 2011 | Increase | Decrease | March 31, 2012 |
|---|---|---|---|---|---|
| Common stock | | **105,665,636** | **–** | **–** | **105,665,636** |
| Treasury stock | (a) and (b) | **3,144,516** | **788** | **1,018,654** | **2,126,650** |

| | Note | *Number of shares* 2011: April 1, 2010 | Increase | Decrease | March 31, 2011 |
|---|---|---|---|---|---|
| Common stock | | 105,665,636 | – | – | 105,665,636 |
| Treasury stock | (c) and (d) | 2,533,812 | 1,401,482 | 790,778 | 3,144,516 |

The Company introduced an employee incentive plan, "Employee Stock Ownership Plan" for the purpose of enhancing mid and long-term corporate value by promoting motivation and corporate management participation by employees. In addition, the plan aims to contribute to enhancing the Company's stock value.

Under this plan, a monetary trust (the "Trust") was set up and participating employees in the EDION Group Employee Stock Ownership Group (the "ESO Group") who met certain criteria became beneficiaries of the Trust. The Trust may purchase a number of the Company's shares, which can then be sold to the ESO Group on a certain date every month during the following year.

The Company guarantees the liabilities of the trust account (the "Trust Account") at Mitsubishi UFJ Trust Banking Corporation resulting from the purchase and sale of the Company's stock and accounts for transactions involving the Trust Account as its own. Accordingly, shares of the Company held by the Trust Account, assets, liabilities, expenses and income of the Trust Account were recorded in the accompanying consolidated financial statements.

Transactions of the Trust Account are accounted for as those of the Company. Consequently, the sale of the Company's shares to the Trust Account was not treated as a decrease of treasury stock.

There were no sales of treasury stock of the Company to Trust Account for the year ended March 31, 2012 and the Trust Account did not hold any Company shares at March 31, 2012. In addition, the sale of 1,044,100 shares of the Company to the Trust Account on March 18, 2011 was not treated as a decrease of treasury stock, and treasury stock at March 31, 2011 in the table above included 993,600 shares of the Company owned by the Trust.

(a) The increase in treasury stock (788 common shares) for the year ended March 31, 2012 was due to the purchase of 788 fractional shares.

(b) The decrease of treasury stock (1,018,654 common shares) for the year ended March 31, 2012 consisted of the sales from the Trust to the EDION Group Employee Stock Ownership Group ("ESO Group") of 993,600 shares and sales to shareholders of 54 fractional shares at their request and exercising of stock options of 25,000 shares.

(c) The increase in treasury stock (1,401,482 common shares) for the year ended March 31, 2011 was due to the purchase of 1,400,000 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on August 6, 2010, and the purchase of 1,482 fractional shares.

(d) The decrease of 790,778 common shares for the year ended March 31, 2011 consisted of the sales from the Trust to the ESO Group of 790,700 shares and sales to shareholders of 78 fractional shares at their request.

Movements in stock acquisition rights during the years ended March 31, 2012 and 2011 were summarized as follows:

| 2012 | *Thousands of shares* April 1, 2011 | Increase | Decrease | March 31, 2012 | *Millions of yen* March 31, 2012 | *Thousands of U.S. dollars* March 31, 2012 |
|---|---|---|---|---|---|---|
| Stock acquisition rights attached to convertible bonds due May 10, 2013 | **11,086** | – | **9,782** | **1,304** | **¥ –** | **$ –** |
| Stock acquisition rights as stock options | – | – | – | – | **246** | **2,993** |
| | **11,086** | – | **9,782** | **1,304** | **¥ 246** | **$ 2,993** |

| 2011 | *Thousands of shares* April 1, 2010 | Increase | Decrease | March 31, 2011 | *Millions of yen* March 31, 2011 |
|---|---|---|---|---|---|
| Stock acquisition rights attached to convertible bonds due May 10, 2013 | 11,086 | – | – | 11,086 | ¥ – |
| Stock acquisition rights as stock options | – | – | – | – | 209 |
| | 11,086 | – | – | 11,086 | ¥ 209 |

### 15. Cost of Sales

Loss on inventory valuation included in cost of sales for the year ended March 31, 2012 amounted to ¥192 million ($2,336 thousand). The amount for the year ended March 31, 2011 was immaterial.

### 16. Loss on Impairment of Fixed Assets

The Group recognized losses on impairment of fixed assets of ¥3,991 million ($48,558 thousand) and ¥6,974 million for the years ended March 31, 2012 and 2011, respectively, as follows:

March 31, 2012

| Use | Classification | Location |
|---|---|---|
| Store | Buildings, structures and other | Kagawa Prefecture and other |
| Rental property | Land, buildings, structures and other | Aichi Prefecture and other |
| System | Software included in other assets | Osaka Prefecture and other |
| Idle property | Land, buildings, structures and other | Nagano Prefecture and other |

| March 31, 2011 | | |
|---|---|---|
| Use | Classification | Location |
| Store and planned store site | Land, buildings, structures and other | Aichi Prefecture and other |
| Rental property | Land, buildings, structures and other | Shimane Prefecture and other |
| System | Tools, furniture, fixtures and software included in other assets | Osaka Prefecture and other |
| Idle property | Land, buildings, structures and other | Chiba Prefecture and other |

The Group groups its fixed assets 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 fixed assets were recorded for the years ended March 31, 2012 and 2011 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. In addition, loss on impairment of systems and related assets was recorded for the years ended March 31, 2012 and 2011 because they were not expected to be utilized in the future due to the reorganization of the Group.

As a result, for the year ended March 31, 2012, 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 and rental property was recognized in the amount of ¥3,866 million ($47,037 thousand). In addition, losses on impairment were recognized for systems of ¥17 million ($207 thousand), and idle property of ¥108 million ($1,314 thousand).

For the year ended March 31, 2011, 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, planned store sites and rental property was recognized in the amount of ¥6,147 million, of which the amount corresponding to planned store sites was ¥4,112 million. In addition, losses on impairment were recognized for systems of ¥495 million, and idle property of ¥332 million.

For the years ended March 31, 2012 and 2011, the principal components of loss on impairment by asset classification were buildings and structures of ¥3,143 million ($38,241 thousand) and ¥1,241 million, tools, furniture and fixtures of ¥158 million ($1,922 thousand) and ¥160 million, land of ¥179 million ($2,178 thousand) and ¥5,080 million, and "other" in intangible assets of ¥113 million ($1,375 thousand) and ¥478 million, respectively.

The recoverable amounts of asset groups are measured at the higher of their net realizable value or value in use. The net realizable 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 3.51% and 3.17% for the years ended March 31, 2012 and 2011, respectively.

## 17. Surcharge

The Company received a cease and desist order from the Japanese Fair Trade Committee ("JFTC") on February 16, 2012 for abuse of a superior bargaining position under Article 2, Paragraph 9, Item 5 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (the "Act") and for violating a provision of Article 19 of the Act. In addition, the Company was ordered to pay a surcharge in the amount of ¥4,048 million ($49,252 thousand), which was recorded as non-operating expense for the year ended March 31, 2012.

On March 7, 2012, the Company decided to request a hearing of JFTC pursuant to provisions of Article 49, Paragraph 6 and Article 50, Paragraph 4 of the Act and initiated proceedings for the hearing on April 24, 2012.

## 18. Other Comprehensive Income

An analysis of other comprehensive income for the year ended March 31, 2012 was as follows:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| | 2012 | 2012 |
| **Net unrealized gain on other securities:** | | |
| Amount arising during the year | ¥ 43 | $ 523 |
| Reclassification adjustments | 136 | 1,655 |
| Before tax effect | 179 | 2,178 |
| Tax effect | (46) | (560) |
| Total | 133 | 1,618 |
| **Land revaluation difference:** | | |
| Tax effect | 313 | 3,808 |
| Total other comprehensive income | ¥ 446 | $ 5,426 |

## 19. 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, accumulated impairment loss and net book value of the leased assets at March 31, 2012 and 2011 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* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | |
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value |
| Buildings and structures | ¥ 3,924 | ¥ 1,864 | ¥ – | ¥ 2,060 | ¥ 3,924 | ¥ 1,668 | ¥ – | ¥ 2,256 |
| Tools, furniture and fixtures | 1,359 | 1,123 | 0 | 236 | 1,578 | 1,062 | 8 | 508 |
| Other | 734 | 608 | – | 126 | 775 | 498 | – | 277 |
| | ¥ 6,017 | ¥ 3,595 | ¥ 0 | ¥ 2,422 | ¥ 6,277 | ¥ 3,228 | ¥ 8 | ¥ 3,041 |

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value |
| Buildings and structures | $ 47,743 | $ 22,679 | $ – | $ 25,064 |
| Tools, furniture and fixtures | 16,535 | 13,664 | 0 | 2,871 |
| Other | 8,930 | 7,397 | – | 1,533 |
| | $ 73,208 | $ 43,740 | $ 0 | $ 29,468 |

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 reversal of and recognized loss on impairment of finance leases accounted for as operating leases for the years ended March 31, 2012 and 2011 were summarized as follows:

# Notes to Consolidated Financial Statements (continued)

## 19. Leases (continued)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Lease payments | ¥ 478 | ¥ 501 | $ 5,816 |
| Reversal of loss on impairment of finance leases | 193 | 255 | 2,348 |
| Depreciation | 623 | 700 | 7,580 |
| Interest expense | 39 | 53 | 475 |

Future minimum lease payments subsequent to March 31, 2012 for finance leases accounted for as operating leases were summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 568 | $ 6,911 |
| 2014 and thereafter | 1,995 | 24,273 |
| Total | ¥ 2,563 | $ 31,184 |

Future minimum lease payments subsequent to March 31, 2012 for non-cancelable operating leases were summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 3,600 | ¥ 43,801 |
| 2014 and thereafter | 26,401 | 321,219 |
| Total | ¥ 30,001 | ¥ 365,020 |

## 20. Supplemental Information on Consolidated Statements of Cash Flows

In connection with the preparation of the consolidated statements of cash flows, an increase in asset retirement obligations amounting to ¥4,604 million was recognized as a significant non-cash transaction for the year ended March 31, 2011.

## 21. Business Combinations

The Group accounted for the mergers described below as transactions under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ No. 21 issued on December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 revised on December 26, 2008).

### (a) Merger of COMNET Co., Ltd.

COMNET Co., Ltd. (“COMNET”) was a wholly-owned subsidiary of the Company and has been engaged in delivery of goods, installation services and so on.

On April 1, 2011, COMNET was merged into the Company. The purpose of this merger is to accelerate the speed of decision making and establish a system for comprehensively utilizing resources of the Group.

### (b) Merger of 3Q Takashimaya and 144 other subsidiaries by 3Q

3Q was a 40% owned subsidiary of the Company. 3Q Takashimaya and 144 other companies were wholly owned subsidiaries of 3Q. These companies have been engaged in the sales of electrical products to customers.

On September 1, 2011, 3Q Takashimaya and 144 other subsidiaries were merged into 3Q. The purpose of this merger is to accelerate the speed of decision making and establish a system for comprehensively utilizing resources of the Group.

### (c) Acquisition of Additional Shares of 3Q

On October 1, 2011, the Company acquired 60% of the shares in 3Q for ¥4,824 million ($58,693 thousand) making it a wholly-owned subsidiary. The purpose of this acquisition is to further promote integration of purchasing and general marketing functions for improving management efficiency and expanding the business size and profitability. As a result of this acquisition, the Group recognized negative goodwill of ¥1,064 million ($12,946 thousand) because the acquisition cost of the additional shares was less than the decrease in minority interest due to the acquisition. Negative goodwill incurred was credited to income immediately.

On October 3, 2011, the Company acquired 100% shares of 3Q House System Co., Ltd. and Mr. Consent Co., Ltd. As these share acquisitions are immaterial to the Company, the disclosure of detailed information for the year ended March 31, 2012 has been omitted.

## 22. Related Party Transactions

Principal transactions between the Company and a company which is majority owned by a director and the director’s relatives during the year ended March 31, 2012, and 2011 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| SHOEI Co., Ltd: | | | |
| Insurance expense | ¥ 130 | ¥ 56 | $ 1,582 |

The outstanding balance of prepaid expenses and accounts payable at March 31, 2012 amounted to ¥54 million ($657 thousand) and ¥7 million ($85 thousand), respectively. The outstanding balance of prepaid expenses at March 31, 2011 amounted to ¥46 million.

SHOEI Co., Ltd. (“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 business. The capital amount of SHOEI was ¥90 million ($1,095 thousand) and ¥90 million at March 31, 2012 and 2011, respectively.

Insurance premiums are determined in the same manner as general insurance offered by insurance companies.

Principal transactions between EDION EAST Corporation (“EDION EAST”), a consolidated subsidiary, and a company which is majority owned by a director and the director’s relatives for the year ended March 31, 2011:

| | Millions of yen |
|---|---|
| | 2011 |
| SHOEI: | |
| Insurance expense | ¥ 2 |

Insurance premiums are determined in the same manner as general insurance offered by insurance companies.

On October 1, 2010, EDION EAST was merged into the Company.

Transactions between 3Q, a consolidated subsidiary, and companies which are majority owned by a director and the director’s relatives for the year ended March 31, 2012 and 2011:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| SS Co., Ltd. | | | |
| Donations | ¥ 22 | ¥ – | $ 268 |
| Purchases of shares in subsidiary | 3,328 | 55 | 40,492 |
| SHIMODA Co., Ltd.: | | | |
| Donations | ¥ 31 | ¥ – | $ 377 |
| Purchases of shares in subsidiary | 499 | 68 | 6,071 |

SS Co., Ltd. ("SS") was a majority owned company by a director and the director's relatives, located in Fukui City, Fukui and it is engaged in the management consultant business. The capital amounts of SS were ¥3 million ($37 thousand) and ¥3 million at March 31, 2012 and 2011, respectively.

The outstanding balance of other current liabilities due to SS at March 31, 2012 and 2011 were nil and ¥55 million, respectively.

SHIMODA Co., Ltd. ("SHIMODA") was a majority owned company by a director and the director's relatives, located in Fukui City, Fukui and it is engaged in the management consultant business. The capital amounts of SHIMODA were ¥3 million ($37 thousand) and ¥3 million at March 31, 2012 and 2011, respectively.

The outstanding balance of other current liabilities due to SHIMODA at March 31, 2012 and 2011 were nil and ¥68 million, respectively.

Purchase prices of shares in subsidiaries were determined with reference to net assets of the subsidiaries.

Principal transactions between the Company and an unconsolidated subsidiary during the year ended March 31, 2011 are summarized as follows:

| | *Millions of yen* |
|---|---|
| | **2011** |
| MMKS: | |
| Purchase of land | ¥ 6,811 |

MMKS is an unconsolidated subsidiary, located in Chiyoda-ku, Tokyo. The capital amount of MMKS was ¥350 million at March 31, 2011 and it operates a real estate business.

Purchase prices of land are determined with reference to the real estate appraisals issued by professional appraisers. There were no outstanding balances at March 31, 2011 for the above transaction.

## 23. Segment Information

Reportable segments of the Group are "Sales of home electric appliances," "Home center stores" and "Others."

As the "Home center stores" and "Others" segments are immaterial in relation to the segment total, the disclosure of segment information for the years ended March 31, 2012 and 2011 has been omitted.

Loss on impairment of fixed assets for all segments was recorded in the amount of ¥3,991 million ($48,558 thousand) and ¥6,974 million for the years ended March 31, 2012 and 2011, respectively. In addition, amortization of goodwill for all segments was recorded in the amounts of ¥368 million ($4,477 thousand) and ¥399 million for the years ended March 31, 2012 and 2011, respectively. Remaining balance of goodwill for all segments was recorded in the amounts of ¥0 million ($0 thousand) and ¥368 million as of March 31, 2012 and 2011, respectively. Amortization of negative goodwill for all segments was recorded in the amounts of ¥1,926 million ($23,434 thousand) and ¥1,926 million for the years ended March 31, 2012 and 2011, respectively. Remaining balance of negative goodwill for all segments was recorded in the amounts of ¥1,708 million ($20,781 thousand) and ¥3,634 million as of the March 31, 2012 and 2011, respectively.

The Company recognized gain on negative goodwill of ¥1,860 million ($22,630 thousand), resulting from the acquisition of additional shares of 3Q and other consolidated subsidiaries for the year ended March 31, 2012. There was no gain on recognition of negative goodwill for the year ended March 31, 2011.

As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statements of income, the disclosure of the segment information by product and service for the years ended March 31, 2012 and 2011 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, 2012 and 2011 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, 2012 and 2011 has been omitted.

As sales of products and services to specific customers account for less than 10% of net sales in the consolidated statements of income, the disclosure of information by major customers for the years ended March 31, 2012 and 2011 has been omitted.

## 24. Subsequent Event

### Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2012 was approved at the Company's annual general meeting of shareholders held on June 28, 2012:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Year-end cash dividends of ¥10.00 ($0.12) per share | ¥ 1,035 | $ 12,593 |

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, 2012, 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, 2012, 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 29, 2012

Ernst & Young ShinNihon LLC

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# Corporate Profile

## Corporate Information

| | |
|---|---|
| Company Name | EDION Corporation |
| Business | Sales of home electrical appliances |
| Establishment | March 29, 2002 |
| Capital Stock | ¥10,174 million |
| Registered Office Address | 2-1-8 Kamiyacho, Naka-ku, Hiroshima |
| Head Office Address | Dojima Grand Building, 1-5-17 Dojima, Kita-ku, Osaka |
| Number of Employees | Non-consolidated: 8,502<br>Consolidated: 9,759<br>(as of March 31, 2012) |

## Stock Information (as of March 31, 2012)

| | |
|---|---|
| Fiscal Year | April 1 to March 31 |
| Number of Shares Authorized | 300,000,000 shares |
| Number of Shares Issued | 105,655,636 shares |
| Number of Shareholders | 23,287 |
| Stock Listing | First sections of Tokyo and Nagoya Stock Exchanges |
| Stock Code | 2730 |

## Directors and Corporate Auditors (as of June 28, 2012)

- Directors

**Chairman and President**
**Masataka Kubo**

**Deputy Chairman**
**Shoichi Okajima** President of EDION COMMUNICATIONS Corporation., 3Q Co., Ltd

**Deputy Chairman**
**Kazutoshi Tomonori** President of EDION House System Corporation

**Executive Vice President**
**Hirohisa Kato** Head of Sales HQ. and Merchandizing Div.

**Executive Vice President**
**Seiichi Funamori** Head of Marketing HQ.

**Executive Vice President**
**Yuji Asada** Head of Administrative HQ., Head of Accounting and Financing Div.

**Executive Vice President**
**Norio Yamasaki** Head of Corporate Strategy HQ., and Public Relations Dept.

**Vice President**
**Ryuji Yuyama** Head of Store Development HQ.

- Corporate Auditors

**Standing Statutory Auditor**
**Masayuki Umehara**

**Statutory Auditor**
**Masahiro Sasaki**

**Outside Statutory Auditor**
**Takenori Isou**

**Outside Statutory Auditor**
**Takashi Okinaka**

## Group History

| | |
|---|---|
| March 2002 | EDION Corporation established |
| April 2005 | Acquired 100% ownership of MIDORI DENKA Co., Ltd., based in Kinki region, through exchange of shares. |
| May 2005 | Operations of nine stores of failed NINOMIYA Co., Ltd. Transferred to EDION Group |
| June 2005 | Commenced development of EIDEN Family Shop (EFS), small-scale franchise stores based in Chubu region. |
| February 2007 | EIDEN Co., Ltd., acquired 100% of shares of Mitsuishi Denka Center Co., Ltd., converting it into wholly owned subsidiary. |
| March 2007 | Obtained a total of 40% shares in Ishimaru Denki Co., Ltd., based in Kanto region; converted the company into consolidated subsidiary. |
| June 2007 | Acquired a total of 40% of shares of 3Q Co., Ltd., which centers on Hokkaido and Hokuriku regions, and converted the company into consolidated subsidiary. |
| October 2007 | Established wholly owned subsidiary TOKYO EDION Corporation. |
| October 2008 | TOKYO EDION Corporation, acquired remaining shares of Ishimaru Denki Co., Ltd. |
| February 2009 | EIDEN Co., Ltd. mergerd with TOKYO EDION Corporation, Ishimaru Denki Co., Ltd. and Mitsuishi Denka Center Co., Ltd. |
| May 2009 | Initiated full-scale home remodeling business operations. |
| October 2009 | EIDEN Co., Ltd., changed its corporate name to EDION EAST Corporation.<br>DEODEO Corporation merged with MIDORI DENKA Co., Ltd., changed its corporate name to EDION WEST Corporation. |
| October 2009 | Began offering WiMax (Worldwide Interoperability for Microwave Access) internet-access service, named “EDION-KuaL net”. |
| November 2009 | Integrated operational management system of EDION Group commenced function. |
| March 2010 | Initiated development of MIDORI Family Shop (MFS), small-scale franchise store in Kinki region. |
| March 2010 | EDION product performance testing laboratory established. |
| October 2010 | EDION Corporation merged with EDION WEST Corporation and EDION EAST Corporation. |
| October 2010 | Changed Corporate name of subsidiary EIDEN COMMUNICATIONS Co., Ltd., to EDION COMMUNCATIONS Corporation; integrated its mobile phone business operations. |
| April 2011 | EDION Corporation acquired COMNET Co., Ltd. |
| October 2011 | Acquired the remaining shares of 3Q Group Co., Ltd., and made the company a wholly-owned subsidiary. |

# EDION Corporation

**EDION Corporation** http://www.edion.com

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