

# In One Network



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**Annual Report 2006**  
For Year ended March, 31, 2006

# Exciting Discovery

# Exciting Discovery In Your Life Style



Working to bring new discoveries that stimulate the sense and liven lifestyles

With our corporate brand, EDION (Exciting Discovery in One Network), we endeavor to introduce “new discoveries” for daily life, to bring exciting and inspiring ideas that please our customers’ senses. The EDION Group strives to put a smile on each and every customer’s face with our management philosophy of “putting customers first”, “community-based business development” and “staying creatively ahead of the curve”. While maximizing economies of scale, we endeavor to enhance our corporate profile and move forward along with our customer.



## Management philosophy

– In pursuit of the customers' best smile

### Putting customers first

We will offer products well-suited to customers' life styles and allow customers to enjoy the greatest satisfaction.

- We will provide new joy and satisfying way of life as the customers have never imagined.
- We will offer full-scale post-sale service enabling customers to always use purchased products in the best condition.

●

Community-based  
business  
development

- With the recognition of being the top-brand in the region, we will aim at making stores that will continue to be supported by returning customers.
- We will focus on building long-term relationships with customers on the basis of trust..
- We will offer quality service in all of stores in all regions.

Creatively ahead  
of the curve

- We will aim at becoming a company always ready to face challenge and innovate.
- We will endeavor to be a "creative company" staying ahead of the curve and offering new value.
- We will improve the flexibility of the company to be able to instantly respond to the changes in customers' needs and times.

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## Financial Highlights

(Millions of Yen)

(Consolidated)	Period from March 29, 2002 to September 30, 2002	Period from October 1, 2002 to March 31, 2003	Period from April 1, 2003 to March 31, 2004	Period from April 1, 2004 to March 31, 2005	Period from April 1, 2005 to March 31, 2006
<b>For the Year</b>					
Net Sales	222,784	220,073	434,166	437,992	714,697
Gross Profit Rate	47,455	46,220	92,587	95,751	157,765
Gross Profit Rate (%)	21.3	21.0	21.3	21.9	22.1
Operating Income	2,533	3,260	5,825	5,011	8,054
Net Income	1,214	1,176	3,017	4,918	8,226
<b>At Year-End</b>					
Total Assets	223,757	230,332	222,614	231,410	319,507
Shareholders' Equity	91,885	92,259	94,465	105,595	128,504

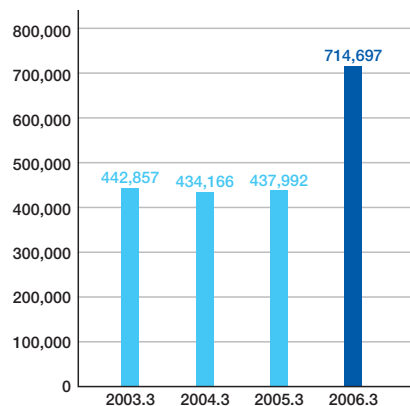
### ● Disclaimer Regarding Forward-Looking Statements

The present document contains forward-looking statements based on currently available information that EDION and the EDION Group consider to be reasonable. Actual results may differ materially from those projected as a result of various risks and uncertainties, including, but not limited to, economic fluctuations or unstable product demands, various domestic and overseas regulations, as well as changes in accounting standards/practices. Consequently, the information contained in this Annual Report should not be construed as the sole basis for investment decisions.

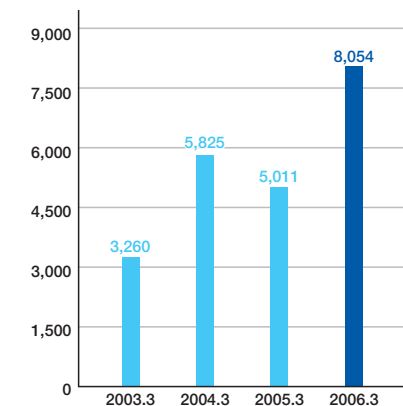
## Indicators

Figures for 2003 net sales, operating income, and net income totaled from September 2002 and March 2003 terms.

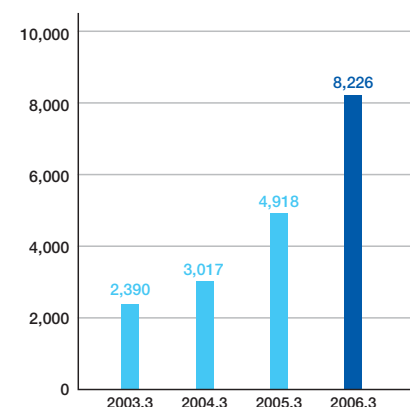
● **Net Sales** (Millions of Yen)



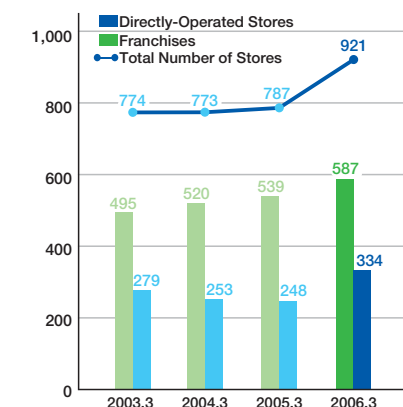
● **Operating Income** (Millions of Yen)



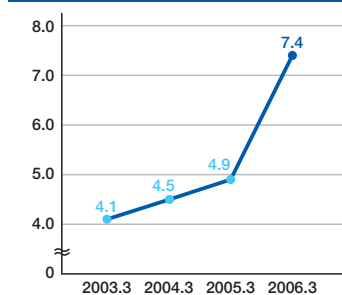
● **Net Income (Loss)** (Millions of Yen)



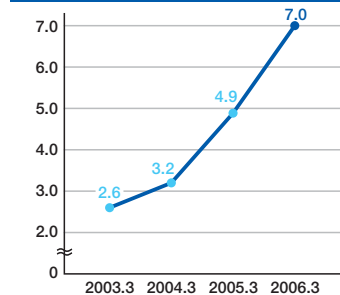
● **Number of Stores** (Stores)



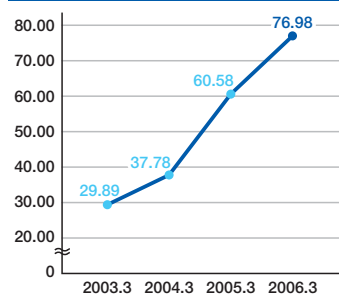
● **ROA (Return on Assets)** (%)



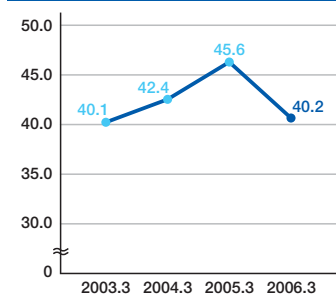
● **ROE (Return of Equity)** (%)



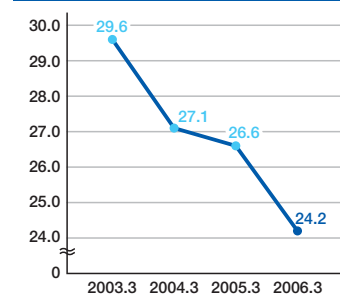
● **Current Net Income Per Share** (yen)



● **Shareholders' Equity to Total Assets** (%)



● **Ratio of Interest-Bearing Debt** (%)





## Exciting Discovery 1 Development of Original Products



Original Product “KuaL”

### ● Massage Chair

By recreating the realistic sensations only the adroit fingers of a professional masseur can produce, our massage chair provides a personalized massage for the unique body form of each individual. Our back massage is key to better facilitation of total blood circulation, thus bringing relief to your stiff shoulders, aching lower back and general fatigue.

Original Products  
Composition Ratio

massage chair

**47.6%**



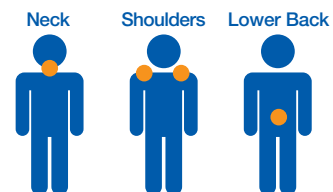
## What's “KuaL”?

## Discovering “Wants”

Designed according to customer requests and needs,  
just like an order-made massage chair!

The creation of our new KuaL Massage Chair starts with highest-quality product, to which we have added EDION-exclusive functions based on vital customer input. Our original mechanisms are built-in to enhance the conventional massage chair function, providing a concentrated massage for the neck, shoulders and lower back. Our seesaw method produces an invigorating experience with massage-balls protruding up to 6cm from the backrest, the pendulum movement reaching deep-lying knots and stiff areas for a painless, soothing massage.

Enjoy the experience of incredible comfort and relaxation, the closest thing you can get to a real masseur kneading your muscles and relieving your stress without visiting a salon; the feeling of a slow and careful massage by the palms of professional hands, pampering those areas that bother you most.



“Concentrated Massage” pinpoints areas of stress  
and brings deep-reaching relief that literally “hits the spot.”

- ◎ Employing the seesaw method of kneading mechanism.
- ◎ Expert technique, circular massage.
- ◎ Automatic search system for shiatsu points using optical sensors.
- ◎ Medical program (8 variations).
- ◎ Thigh power press (air massage for thigh muscles).
- ◎ Center flat foot rest (air massage for calf muscles).
- ◎ Power foot step (air massage for instep, sole, and heel).
- ◎ Buttocks air & vibration massage.
- ◎ Foot-fit tracking (auto length-adjusting footrest).



## Capturing our customer needs, Boosting our original product development

The EDION Group actively boosts development of original products by providing manufacturers with feedback from the field – the requests and opinions of our customers straight from the sales floor. We work with each manufacturer to integrate new ideas that add a plus to conventional products.

In January 2005, based on joint development with domestic home appliance manufacturers, we introduced our new original product series “Kual” to the market. Kual products meet the needs and lifestyles of each customer, offering the appeal of added functions that can’t be found on similar items. In addition, many of our air conditioners and refrigerators have an unheard-of “10 Year Guarantee”, highly coveted by our customers.

We also offer our original appliance series “KEYWORD” for the single lifestyle, our reasonably priced, sensibly functional “e-gg plus personal computer”, and our MY & OUR original lineup of consumption goods such as batteries and light bulbs.

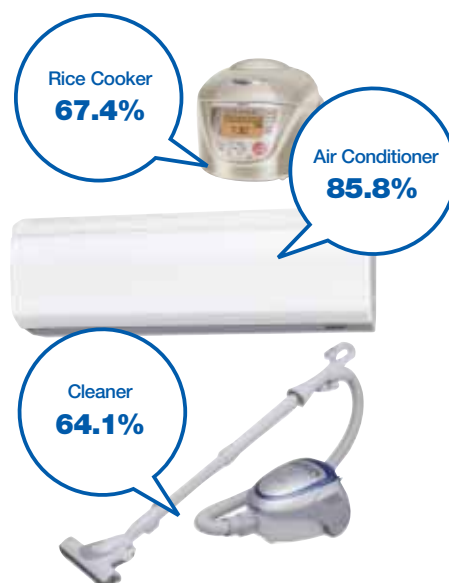
KEYWORD is EDION’s original home electric appliance series featuring “Keyword Colors” which the customer selects based on his or her mood and sense, be it just-right sizes for the single life, functionality, or design.

KEYWORD BLUE indicates a fresh image bringing tranquility and comfort to your life. KEYWORD PINK expresses happiness and an upbeat “pop” lifestyle; a cute and positive color KEYWORD YELLOW imbues a bright, active lifestyle; a color that gives off energy.

In addition, the “MY & OUR” line is an eco-friendly product series offering specialized consumption items such as low-energy batteries and light bulbs.

Our goal for 2006 is to provide 3,000 items, reaching 30% of our product distribution, while constantly developing original user-friendly products, keeping an antenna out to catch even the tiniest voice of the customer.

### Original Products Composition Ratio



EDION's original functions are built-in to a wide range of products, helping to raise the level of comfort and convenience of today's lifestyles.



Our unique product add-ons greatly enhance selling power at sales floor displays, creating positive customer appeal.

### KEYWORD logo and selected product lineup



keywordblue

[KEYWORD BLUE]



keywordpink

[KEYWORD PINK]



keywordyellow

[KEYWORD YELLOW]



keyword  
MY&OUR

### MY&OUR logo and selected product lineup

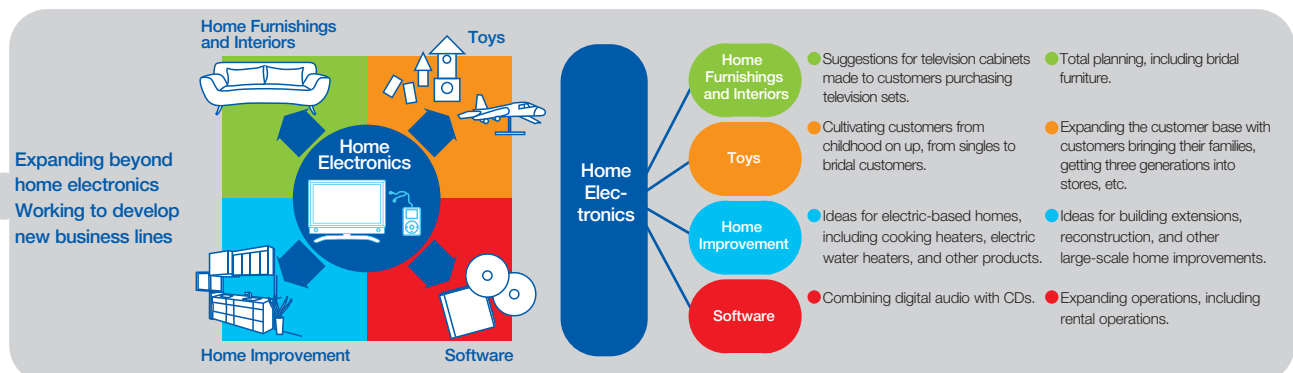






## How to "EDION?" Discovering "Ingenuity"

The EDION Group is working to develop new business lines to suit customers' needs by incorporating a variety of products in addition home electronics, including furniture and interior products, home improvement products, toys, software, and other products, thus adding to the advantages of its specialty stores featuring home electronics as their main products. By establishing stores where customers can purchase products they want and stores where they can make casual purchases of home electronics-related products, and by developing highly convenient business lines with a clear view of consumer purchasing habits, we can broaden our range beyond home electronics to bring joy and satisfaction to our customers in new ways.



## Aiming to improve convenience, working enthusiastically to develop new business lines

While maintaining and expanding business established in our primary line of home electronics as well as peripheral products, the EDION Group is working enthusiastically to develop various new types of business, from stores combining offerings of home electronics and furniture to home furnishings and interiors, remodeling, hobbies, and other lines that fit synergistically with home electronics.

In the area of home furnishings and interiors, we can now possibly provide comprehensive plans, including furniture ideas, to accompany home electronics purchases for newly marrying couples. With toys, we aim to develop a customer base, cultivating new customers from childhood, staying with them through single life and to marriage and beyond. Further prospective expansion of the customer base also includes extended families of three generations coming to shop together in our stores. The Group continues to develop its home improvement business, from providing plans to customers for greater use of electric appliances in the home to consultations with extensions, rebuilding, and other large-scale remodeling projects. The Group is also studying the introduction of new projects in the area of software, including rental businesses.

In July 2005, the Group opened the "Home Expo Rock City Ogaki Store" under the concept "a lifestyle store for a more stylish, comfortable, and joyful daily life." Carrying a wide variety of products relevant to today's lifestyle, the store is showing a synergistic effect with the "EIDEN Ogaki Bell Plaza Store," at which home electronics are sold. In addition, both stores are making pioneering moves, such as actively employing female staff, thus incorporating women's views as only women can, holding a variety of seminars led by outside interior coordinators, and taking other innovative steps to pave the way for further large-scale stores in the future.

Furthermore, in November, the Group opened its "MIDORI Chukan Higashi Osaka Store," primarily featuring home electronics along with a full selection of furniture, interiors, toys, and other products, and opened the "EIDEN Tsu Kita Store," where the "Neverland" toy department is situated, in December. In February of 2006, the Group opened its "DEODEO Neverland Fukuromachi Store" in Hiroshima. In April, utilizing the expertise gained in these new forms of business while actively introducing further new plan concepts, the Group opened its "MIDORI Toyonaka Store," a large-scale complex (9,570 square meters) that offers furniture, home improvement, software, games, toys, and other products and services, while the Group opened its new "EIDEN Toyota Store" (8,250 square meters) in June.

In aiming to increase the attraction of our specialty stores, primarily with home electronics, and to meet our customers' needs even more precisely, the EDION Group is actively pursuing the development of new business lines and making great efforts to make shopping even more convenient for our customers.

## Utilizing our expertise new business development to realize large-scale 10-billion-yen stores in suburban areas

The Group has plans to open a total of 23 new stores in Fiscal 2006, including 13 DEODEO stores, 6 EIDEN stores, and 4 MIDORI DENKA stores.

Along with promotion of the strategy of new store openings, the EDION Group is aiming high in terms of targeted share of the market in each area: 20% in the Chubu region (currently 13%), 15% in the Kinki region (currently 10%), 32% in the Chugoku region (currently 27%), 20% in the Shikoku region (currently 7%), and 10% in the Kyushu region (currently 5%), while aiming to raise current 12% market share in the western Japan area overall to 20%. In addition, the Group is engaged in remodels of mid-sized stores to increase floor space while continuing to match large-scale stores with locations and market areas with the aim of developing 10-billion-yen stores in suburban areas and taking the dominant position as the leader in regional store openings.



The Group is developing products for a wide variety of hobbies to meet adults' exacting expectations.



Interiors offer pleasant discoveries in a relaxing atmosphere.



Stores offer a vast selection of toys to foster children's dreams.





**DFS? EFS?**

**Discovering “The Customer”**

In order to meet our customers' needs and cope with the increased diversity in purchasing options, the EDION Group is also pursuing further sales through small-sized franchise stores, Internet sales, and catalog sales. We are working hard to improve customer convenience through links with offline stores.

#### Small-Sized Franchise Stores

The EDION Group has been developing small-sized franchise stores employing the sales techniques and information gained through directly-operated stores. Assuming a dominant position with directly-managed stores, we are utilizing these stores as showrooms for our products. Amidst increasing diversity in customer needs, we are working to further links with directly-operated stores and franchise stores to ensure our operations closely match the needs of the local community.

##### Model for the Standard Franchise Store

Floor Space: 16 m<sup>2</sup> to 66 m<sup>2</sup>

Operating Style: House-call convenience store

- **DFS** DEODEO Family Shop  
Generic name of franchise stores developed by DEODEO
- **EFS** EIDEN Family Shop  
Generic name of franchise stores developed by EIDEN



Establishing dominant market share  
with directly-operated stores and franchise stores

## Developing EFS to provide even fuller services that meet the needs of local communities

In order to meet our customers' needs and develop services that are more relevant to the local community, we have continued to open small-sized franchise stores in the vicinity of our core directly-operated stores within each market area, and opened our first EFS (EIDEN Family Shop), the "EIDEN Akechi Store," in Ena, Gifu Prefecture.

Operating with the concept of "house-call convenience stores" franchise stores operate as a type of "home electronics convenience stores" offering a wide range of consumable goods such as batteries, electric bulbs, fluorescent tubes and printer ink. Staff at franchise stores distribute special fliers and conducting sales through visits to local customers' homes, while also offering services such as house calls to elderly households for such things as changing electric bulbs.

In this way, franchise stores offer greater convenience as local shops in our customers can use, enabling us to deepen our connection to local customers while providing them with sincere service.

Looking ahead, we will use the expertise of DFS (DEODEO Family Shop) which operates 561 stores mainly in the Chugoku, Shikoku, and Kyushu regions, while advancing with full development of EFS (EIDEN Family Shop) primarily in the Chubu region in fiscal 2006, accompanied by plans to open 100 stores in the next two years by the end of fiscal 2007.

## Active innovation to create new forms of mail order businesses

In addition to "edion direct," which was created with the consolidation of the DEODEO and EIDEN Internet shopping sites in November 2004, the Group also consolidated the shopping sites operated separately by MIDORI DENKA in May 2005. The operational base was centralized to Kurashino Design to improve efficiency and enjoy greater economies of scale.

Currently, edion direct contributes to the EDION Group as the largest shopping site in the industry, with 300,000 members and nearly 220,000 products in lines such as home electronics, personal computers, furniture and interior products, CD/DVD software, hobbies, and gifts.

In addition, we will strive to improve its products' marketability by using its economies of scale as a springboard to improve service capabilities (its core concept) and its distribution system, in addition to renovating the site to make it more attractive to customers.

As for service capabilities, we are pursuing customers' satisfaction by offering such as free shipping throughout Japan for all orders over 10,000 yen, "log-in special price," a special price system for members, point systems, a "My Page" feature with which members can check their purchase history in a private page, and a variety of other services equivalent to those offered at offline stores.

As regards the catalogue mail order business, catalogues are published seven times a year under different themes based on life cycles and lifestyles. We aim to develop products and produce catalogues enabling us to provide customers with everything they need based on their lifestyles and homes.

With the Internet and catalogue mail order businesses as the two main pillars supporting the system of cooperation among the Group's companies, we aim to develop our own distinctive form of mail order business.



EDION near the customer allows prompt and attentive service.



"Home electronics convenience stores" feature a selection of items customers want immediately.



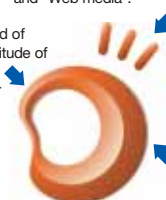
Shops promise satisfaction with customer-based services.



edion direct <http://shop.edion.jp/>

These three lines represent the combination of the three sales channels of "broadcast media", "catalogue media" and "Web media".

The ear-shaped of reflects our attitude of listening to the opinions of our customers.



This symbol also resembles the "OK" sign made by a person's hand, meaning that we offer good service from our users' viewpoint.

edion direct





Are you satisfied?

Discovering "Satisfaction"

Under the management principle of "Putting Customers First" and our business model of "Quality Service Retailing," we have been making efforts to strengthen our service systems to provide customers with greater assurance even after the sale. With programs such as the ee CARD, which due to its comprehensive member benefits has led to a membership in excess of 3 million, and attentive service after the sale, the EDION Group theme is "real service" that truly realizes the sense of assurance in purchasing and enduring satisfaction.

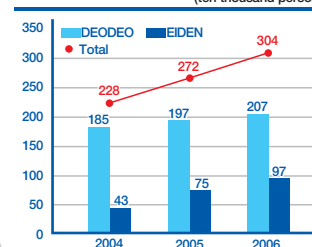


ee CARD

### ee CARD: the passport to "assurance."

The EDION Group membership card, "ee CARD," features a five-year repair warranty system for home electronics and computer products. In addition, with a minimum purchase of 5,250 yen (including tax), special benefits apply not only to members, but to their families as well. Use of the ee CARD reached 330,000 instances in fiscal 2005, bringing great value to numerous customers.

Number of ee CARD members  
(ten thousand persons)



## ee CARD membership has increased to 3 million members

The ee CARD was created through consolidation of membership cards issued separately by DEODEO and EIDEN. The greatest attraction of the ee CARD is that with payment of an annual membership fee of just 1,029 yen (including tax), members are offered a five-year repair guarantee on any product purchased. In January 2005, we introduced a 10-year repair guarantee on designated products such as air conditioners and refrigerators to enhance our service capabilities and provide a service system that enables the EDION Group to literally promise "assurance in purchasing and enduring satisfaction" as no one else can.

In addition, points are awarded for shopping not only at our stores, but also at both participating domestic and overseas stores, as well as for payment of cellular phone charges and satellite broadcast viewing fees through the ee CARD. This convenient and money-saving card now enjoys the support of numerous consumers.

As a result of such support, ee CARD membership reached 3 million in March 2006. Judging from the fact that sales from cardholders account for approximately 63% of total sales, it has been demonstrated that the continued stability of our cardholder base will also be effective in improving services through a grasp and detailed analysis of purchasing trends and other customer data.

By actively striving to add new features and strengthen our benefits services, we aim to increase card membership to 4 million members.

## Pursuing "assurance in purchasing and enduring satisfaction" with full services

In aiming to achieve high-quality after-sales services that satisfy our customers, the EDION Group is working to provide after-sales services through a comprehensive system comprising the group companies (the Technonet division of DEODEO; COMNET, a subsidiary of EIDEN; and Midori Service, a subsidiary of MIDORI DENKA).

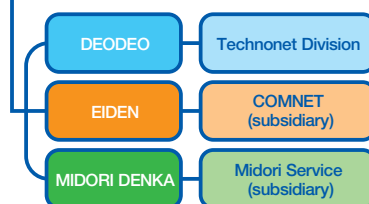
In particular, we will focus on improving services in explaining the handling and use of digital home electronics when they are installed, providing a system for delivering products based on the customer's needs, improving service in receiving customers who bring products into shops for repairs, and other important factors that differentiate us from the competition.

Furthermore, we are actively endeavoring to achieve faster after-sales service through measures such as increase facilities at service locations, same-day repairs with pickups and visits to the customer's home, and reduced parts delivery times.

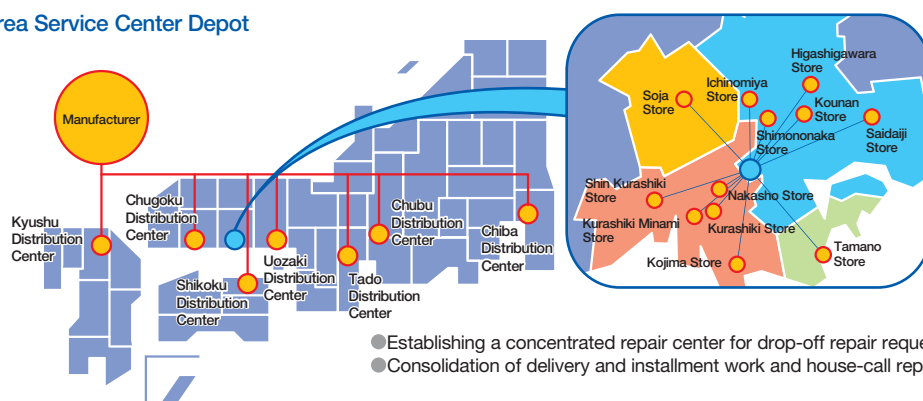
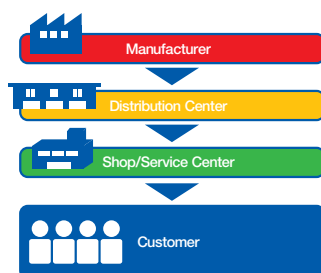
The EDION Group aims to continue with such efforts, further expanding the range of services offered in the pursuit of "assurance in purchasing and enduring satisfaction" through "real service" that far surpasses that available from competing stores.



Offering quality services through a framework consisting of the group companies



### Establishment of the Okayama Area Service Center Depot







Top Interview



# A multifaceted strategy for further pursuit of "Quality Service Retailing" Aiming to be the leader in the era of major competition

## TOP INTERVIEW EDION Corporation President Masataka Kubo

**Q: First, let us ask you about market trends in the home electronics retail industry to which the EDION belongs.**

A: Recently, TV commercial of digital terrestrial broadcasting has come to be a major trend, and since December 2003, broadcasts have steadily expanded to cover the entire nation, and in mid-2006, approximately 80% of households in Japan are able to receive digital terrestrial broadcasts. I'd say this is now the trend getting the most attention in the home electronics industry. Of the EDION Group's areas, broadcasts have begun in the Kinki and Chubu areas, while they are to begin in Fukuoka from July, in Hiroshima starting in November, and in Okayama in December, allowing these areas to enjoy the high-quality images and sounds of digital terrestrial broadcasts.

Along with this expansion in broadcast regions, the market expects to see a rapid advancement in purchases of flat-screen televisions compatible with digital terrestrial broadcasts as people replace their older sets.

**Q: So this presents a major business opportunity for the home electronics industry, right?**

A: That's exactly right. We at the EDION Group are also looking to make the most of the huge opportunity.

**Q: Do you see any new trends regarding products that will be carried?**

A: "Highly-functional, high-grade products" such as washing machines featuring tilted drums and antiseptic and deodorizing functions, air conditioners with automatic filter cleaning functions, and refrigerators with temperature switching compartments. Additionally, we can see a trend whereby the appearance of these products brings up the average price of home electronics used in daily living.

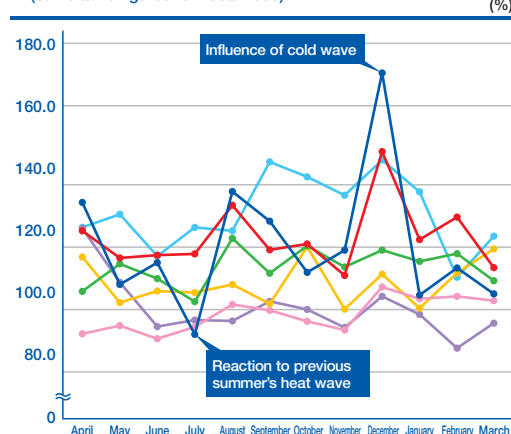
**Q: Even in the home electronics retailing industry, you often hear the term "Eco" in line with calls for global and environmental preservation.**

A: Among our customers, there is an even greater sentiment towards saving energy and conserving resources. People are calling for an even greater awareness of the running costs for air conditioners, refrigerators, lighting, televisions, and other appliances that consume large amounts of electricity.

Although prices for the "highly-functional, high-grade products" I just mentioned are higher, the savings with electricity and water bills allow people to recover the purchase costs in a short period of time.

In response to the increasing need for such high value-added home electronics used in daily life, we are aggressively working to strengthen sales and development of original products and ensure sufficient delivery and installation service systems.

● Entire Directly-Operated Stores  
Ratio of principle products over previous year  
(cumulative figures for fiscal 2005)



Principle Products	Year-on-Year Basis
Color TVs	126.0%
Flat-screen TVs	155.2%
DVD Players	94.3%
DVD Recorders	95.5%
Digital Cameras	102.8%
Air Conditioners	107.3%
Refrigerators	107.1%
Washers	117.7%
Washer/Dryers	140.1%
Personal Computers	93.2%

\*excluding MIDORI DENKA

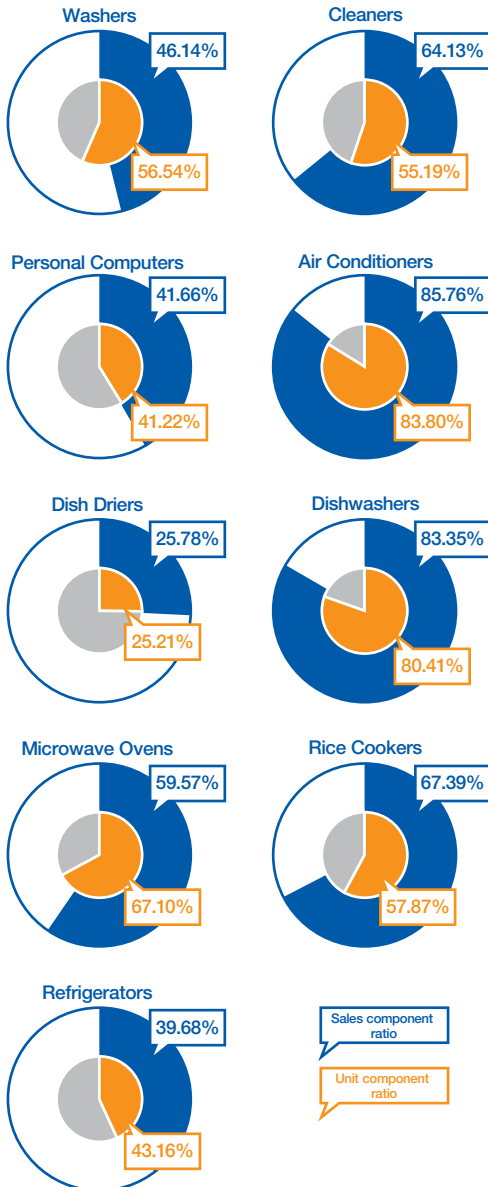
● Product Classification Sales  
(cumulative figures for fiscal 2005)

Principle Products	Amount	Composition Ratio
TVs	97,184	13.6
Video	68,571	9.6
Audio	12,422	1.7
Tape Recorders, Other	17,863	2.5
Air Conditioners	50,076	7.0
Heating Equipment	14,153	2.0
Refrigerators	37,142	5.2
Washers/Cleaners	41,108	5.8
Microwave Ovens	9,211	1.3
Electric Cooking Appliances	23,184	3.2
Electric Beauty/Health Appliances	29,428	4.1
Lighting Equipment	8,499	1.2
Personal Computers	130,923	18.3
Other Office Equipment	31,989	4.5
Audio Software/Musical Instruments	10,974	1.5
Other	131,962	18.5
Total	714,697	100.0



## Top Interview

● Component ratio of original products  
(fiscal 2005)



## Responding to diversified customer needs based on by "putting customers first"

**Q: We'd like to ask what policies will be critical in surviving and advancing amidst this severe business environment.**

A: We in each of the companies comprising the EDION Group have since our respective establishment devoted great efforts to creating a system covering everything from the purchase of the home electronics product to delivery, installation, and repairs so our customers can buy with confidence.

The EDION Group has inherited this corporate outlook and established the management principle of "putting customers first," thus encompassing the spirit at our foundation. We will continue to strive in offering high value-added products that bring the highest levels of satisfaction and creating a robust system of after-sales service that can be used to the fullest.

To achieve this, I believe it is first important to conduct business activity in close proximity to the local community. As a concrete example of such development, DEODEO developed in the Chugoku, Shikoku, and Kyushu regions, EIDEN developed primarily in the Chubu region, and MIDORI DENKA was developed in the Kinki district, and with each of these companies now recognized as the top brand in its respective region, we aim to have these stores continue to receive this support.

Meanwhile, in addition to plans to open more stores in line with the scale of the market area and to increase sales share in the areas of development, we are also adding more member franchise stores and linking them to our directly-managed stores to provide even better services.

**Q: Although the EDION Group is already actively engaged in moving ahead with its efforts, what sorts of projects for new development are in the works?**

A: Right now, we are placing particular stress on working to develop our new businesses of home furnishings and interiors, toys, and software as a means of expanding from home electronics. We are promoting increased customer convenience by opening shopping complexes where a large selection of what the customer needs can be found in one store.

**Q: On April 1, 2005, the EDION Group consolidated operations with MIDORI DENKA Co., Ltd. in a move to pursue greater economy of scale. Please tell us about business indicators constituting objectives for the future.**

A: Citing "1 trillion yen in sales and a ordinary profit rate of 5%" as a midterm goal, we're aiming at pursuing ever greater growth and efficiency. In particular, looking at the balance of shareholder equity and interest-bearing debt, we have been able to maintain a shareholder equity ratio upwards of 40% with an interest-bearing debt at or below 30% for four consecutive terms.

In addition, we are realizing 10% ROA while aiming to raise ROE to 10% or higher, working hard to increase our corporate value even more.

## Bolstering the system for development of high value-added products

**Q: There are various issues involved in achieving these objectives, and it seems you have a strategy to clear these hurdles. Please tell us about some specific steps the EDION Group will be taking in the future.**

A: We at the EDION Group believe it critical to strongly working on differentiating ourselves from competing companies through our strategies for products, for store openings, for channels, and for services, as well as through consolidating operations.

In regard to the first strategy, our product strategy, the EDION Group incorporates customers' views to develop and sell original products available only from EDION.

With development of the "KuaL" series, which adds original features based on the needs of our customers, "keyword," a product line that supports and celebrates single living, and the "MY & OUR" line of environmentally friendly devices, original products have come to account for an approximately 27% composition ratio.

In fulfilling the mission of the retail industry, which features daily contact with customers, we continue to strengthen our development of original products yet further and offer products that meet our customers' needs.

**Q: With product life cycles becoming shorter in recent years, this would seem to present numerous problems for development.**

A: When developing a product, we want to have a very clear grasp of the product's life cycle while increasing the pace of development and demonstrating its originality as rapidly as possible.

It is important to be willing to take on challenges in the future as well, so we are strengthening our system for developing original products focusing on seasonal products and white goods.

## Becoming a "Quality Service Retailer" offering "assurance in purchasing and enduring satisfaction"

**Q: What is the thinking regarding the second aspect, your strategy for store openings?**

A: From EDION's establishment up to the fiscal year ending March 2005, we proceeded with closings of unprofitable small-scale stores. As a result, the organization has been restructures so as to ensure definite profits.

Since the year prior to the addition of MIDORI DENKA, we changed our tack with a strategy of aggressive store openings, and now have opened 28 new home electronics stores since.

Now we are pursuing further growth with plans to open approximately 30 new stores over the next year while endeavoring to develop greater efficiency through measures such as standardization of the store format.







**Q: We can say that not only is your strategy for offline stores important, but the multi-channel strategy is critical, too.**

A: In recent years we have seen even greater diversification in the customer's purchasing environment. Amidst this development, we have been working to develop direct marketing of home electronics, furniture, and interior goods through the Internet and catalogue sales with our Kurashino Design subsidiary.

In particular regard to Internet sales, in May of 2005 we began to intensify measures to concentrate the Group's companies' net shopping functions.

We plan to continue working to strengthen our direct marketing functions in the future, and this includes our links with offline stores.

**Q: Your service strategy is inseparable from sales-related strategies; how are you advancing with this?**

A: The EDION Group's motto is "assurance in purchasing and enduring satisfaction." With this spirit as our basis, the EDION Group to bolster our services in a way that provides our customers with the best conditions to make use of the system, not just giving customers peace of mind when they purchase an item, but also allowing them to maximize product service life.

These days, however, the home electronics products we carry have ever more complex functions. In addition, we are seeing greater diversity in the customers' needs as regards delivery and installation. We need to strengthen our service system more than ever in order to cope with these changes.

Specifically, we think it is critical first to improve our stores' customer services, including knowledge of the product and usage instructions. In creating a better education and training system, the EDION Group has established a human resources development department, and we have made education a priority throughout the Group.

Furthermore, when a home electronics product breaks down, the most important thing for the customer is to have the product repaired as soon as possible and get it back to its original working state. Within the EDION Group we have affiliates and departments in charge of handling delivery, installation, and repairs, and we are making great efforts to reduce the number of days needed to complete repairs and to offer a robust same-day repair system.

Based on our management philosophy of "putting customers first," the EDION Group will continue to pursue our original business model of "service retailing."

## An aggressive midterm strategy to rapidly achieve "1 trillion yen in sales and a ordinary profit rate of 5%"

**Q: Please tell us about you future plans for consolidating operations.**

A: While we consolidated operations with MIDORI DENKA Co., Ltd. in April of 2005, we still want to proceed rapidly with consolidating purchasing and systems, and with financial consolidation through the introduction of CMS (cash management system).

With our experiences in consolidating operations of DEODEO and EIDEN, we have come to understand the processes and effectiveness of consolidation, and we putting this experience to use in moving ahead with our consolidation with MIDORI DENKA.

**Q: By consolidation with MIDORI DENKA, the EDION Group has come to boast the greatest number of stores in Japan, with the No. 1 market share from the Chubu area westward. How is your midterm strategy shaping up for the future?**

A: In order to rapidly achieve our midterm objectives of "1 trillion yen in sales and a ordinary profit rate of 5%," we must simultaneously pursue both growth and efficiency. First, to achieve growth, the three companies, i.e., DEODEO, EIDEN, and MIDORI DENKA, are working to reinforce our area with our active strategy of store openings, including new business lines and aiming to increase market share even more. On top of this, we are working to reinforce existing stores based on the strategies I've just mentioned.

Meanwhile, in regard to efficiency, we are trying to improve efficiency in our delivery and repair systems by concentrating our service centers, gain greater economy of scale through consolidation with MIDORI DENKA, and effect other plans to improve profitability by responding rapidly to the market.

## Aiming to create even greater shareholder value

**Q: It seems that the greatest expectations for shareholders is the increase in the EDION Groups shareholder value. Lastly, please give us the EDION Group's message for the future.**

A: Continuing to follow our unwavering management principle of "putting customers first," the EDION Group is further accentuating our "service retailing" business model that brings us into close contact with local customers and making great efforts to increase "product strength," "service strength," "customer satisfaction," and other aspects of the business.

Then with the assurance and trust of our stakeholders, including our shareholders and investors, customers, employees, local communities, clients, and the Group and its related companies, we will continue to work as a value-creating enterprise and do everything we can to increase corporate value even further for all.

I sincerely hope we continue we continue to receive further support and encouragement in the future.

### Midterm Vision



### "Home electronics distribution network" with the most stores and highest market share in West Japan







## Working to Expand the Group

### Numbers of Directly-Operated and Franchise Stores (As of March 31, 2006)

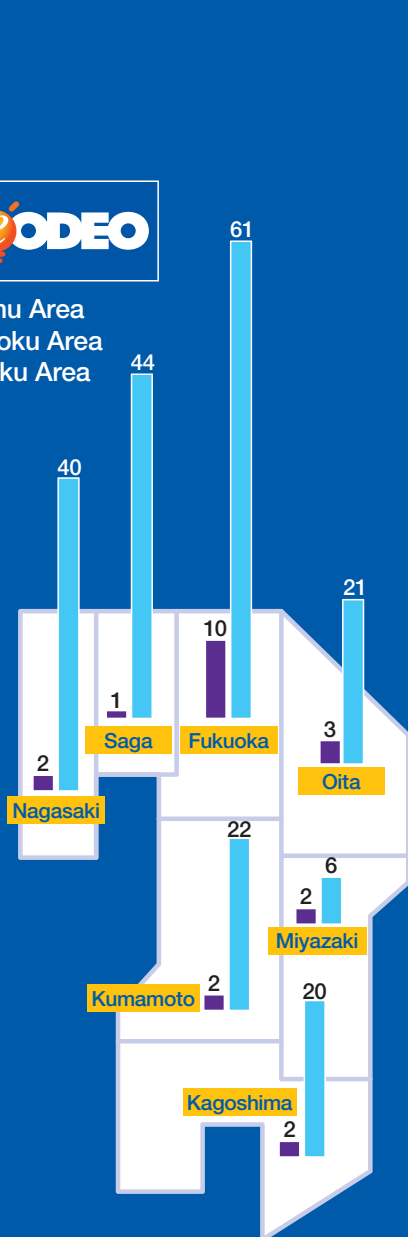
	DEODEO			EIDEN			MIDORI DENKA			EDION		
	RC	FC	Total	RC	FC	Total	RC	FC	Total	RC	FC	Total
Kanto	6	1	7	0	0	0	4	0	4	10	1	11
Chubu	0	5	5	123	22	145	16	0	16	139	27	166
Kinki	0	0	0	1	0	1	74	4	78	75	4	79
Chugoku	78	263	341	0	0	0	0	0	0	78	263	341
Shikoku	10	70	80	0	0	0	0	0	0	10	70	80
Kyushu and Okinawa	22	222	244	0	0	0	0	0	0	22	222	244
Total	116	561	677	124	22	146	94	4	98	334	587	921

(Including subsidiaries)

- Directly-Operated DEODEO Home Electronics Stores
- Franchise DEODEO Stores
- Directly-Operated EIDEN Home Electronics Stores
- Franchise EIDEN Stores
- Directly-Operated MIDORI DENKA Home Electronics Stores
- Franchise MIDORI DENKA Stores



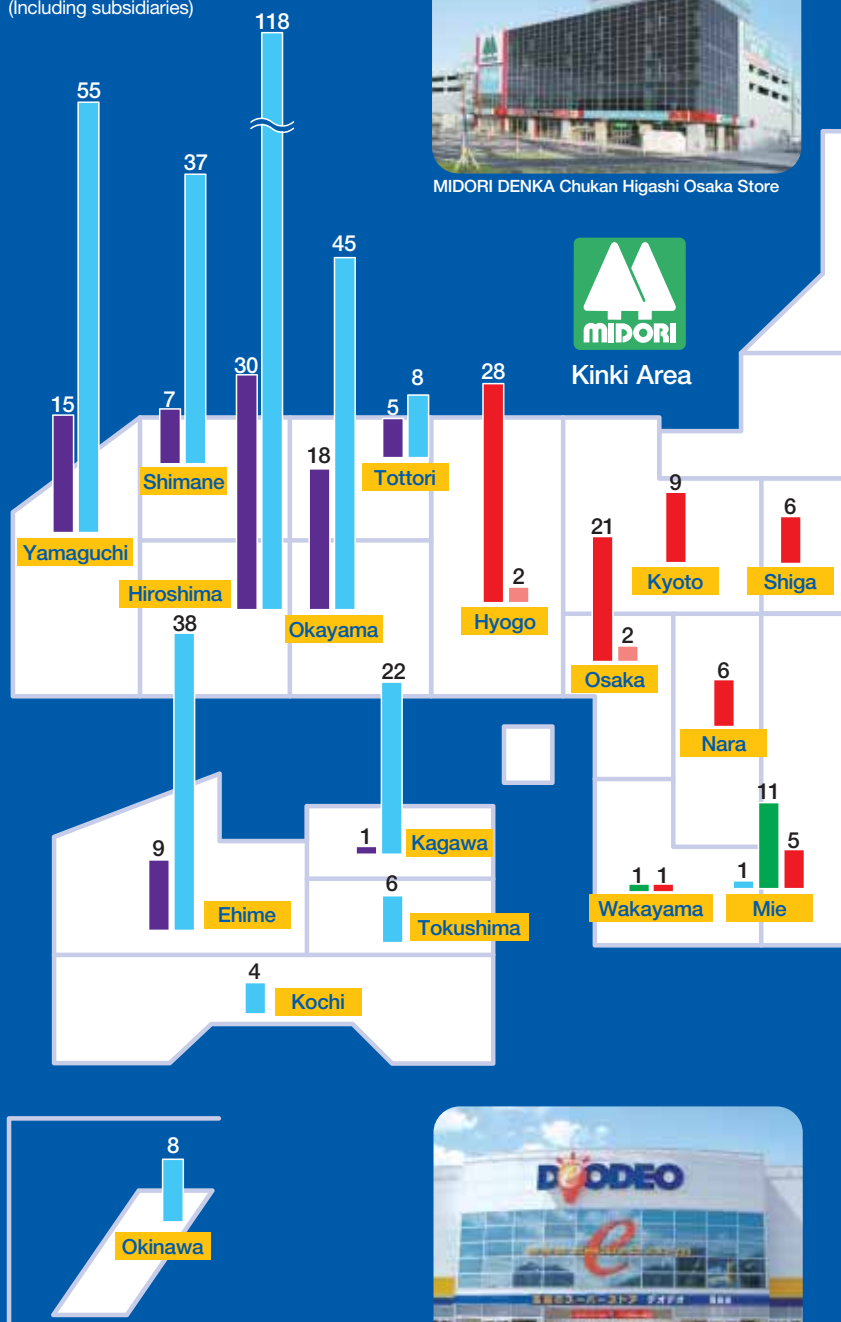
Kyushu Area  
Chugoku Area  
Shikoku Area



MIDORI DENKA Chukan Higashi Osaka Store



Kinki Area



DEODEO Kaita Store



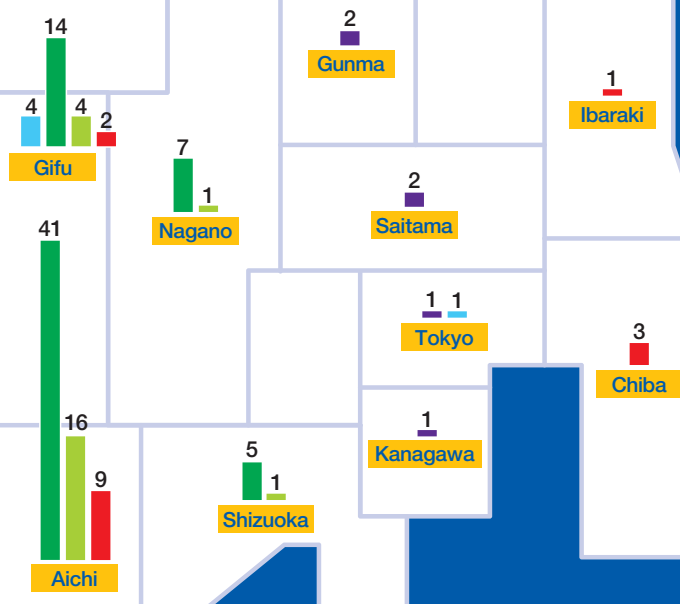
EIDEN Toyota Store

## Expanding even further, from Kanto to Kyushu

The EDION Group is developing stores suited to a market area that extends from the Kanto area to the Kyushu area, continuing with promotion of business activities in close contact with local communities. In regard to our retail stores, we have opened 16 new directly-operated home electronics stores, while increasing the floor space at 15 others. In addition, while we either relocated or scrapped and built 12 stores, 5 other stores have been closed. A further 9 new directly-operated were opened, with 19 such stores being closed.

As a result, the number of stores in operation as of the end of the fiscal year came to 334 stores, with a total sales floor space of 869,197m<sup>2</sup>.

The opening of 59 new franchise stores, coupled with closure of 14 stores brought the total number of franchise stores at the end of the fiscal year to 587 stores, which combined with the Group's directly-operated stores results in a total of 921 stores.



Kanto Area



Chubu Area

### Subsidiaries

Companies	Location	Business Outline
DEODEO Corporation	Naka-ku, Hiroshima	Sales of home electronics and others
EIDEN Co., Ltd.	Nakamura-ku, Nagoya	Sales of home electronics and others
MIDORI DENKA CO., LTD	Amagasaki city, Hyogo	Sales of home electronics and others
Kurashino Design Inc.	Shinagawa-ku, Tokyo	Mail-order business
EIDEN COMMUNICATIONS Co., Ltd.	Chikusa-ku, Nagoya	Sales of cellular telephones
DEODEO Shoji Co., Ltd.	Minami-ku, Hiroshima	Sales of home electronics and others
COMNET Co., Ltd.	Kasugai city, Aichi	Delivery and installation of home electronics
HOME EXPO CO., LTD.	Chikusa-ku, Nagoya	Sales of home improvement store products
NWork Co., Ltd.	Chikusa-ku, Nagoya	Operation and development of computerized information systems
Midori Services, Co., Ltd.	Amagasaki city, Hyogo	Delivery and installation of home electronics
Midori Corporation	Kashiwa city, Chiba	Sales of home electronics and others
MET Special Purpose Company	Chiyoda-ku, Tokyo	Management of assets specified under liquidation plan



## Profiles of EDION Group



President

*K. Tomonori*

### Message

**Our management principle:  
"Putting Customers First"**

Date of Establishment	May 7, 1947
Paid-in Capital	¥19,294 million
URL	<a href="http://www.deodeo.co.jp/">http://www.deodeo.co.jp/</a>
President	Kazutoshi Tomonori
Number of stores	677 (on a consolidated basis)
Number of employees	3,094
Sales in FY2005	¥261.3 billion (on a consolidated basis)
Group companies	DEODEO Shoji Co., Ltd.
Description of business	Sales of home electronics, information and communications equipment, and other products



**DEODEO Corporation**

Its head offices in Hiroshima, DEODEO Corporation has maintained its founding spirit of "constantly acting with the customer first in mind," exhibiting the management philosophy of "putting customers first" at all times. The company has developed its business activities in close connection with local communities.

With today's diversity of lifestyles and values, DEODEO aims to be an organization that responds flexibly with the times, as we maintain a strong interest in the changes of the day and continue to take on the challenge of realizing our possibilities.

#### ● The business concept: "Quality Service Retailing"

In addition to home electronics products that are useful in daily life, feature higher quality, provide a greater sense of assurance, and are more in tune with customers' lifestyles, DEODEO also offers a comprehensive post-sales service system that provides quality maintenance and repair after the sale.

Offering customers products most suited to their needs, then after the customer takes delivery providing services the customer can always use to the fullest--that is DEODEO's business concept.

#### ● Meeting the specialized needs of local customers with comprehensive store development

DEODEO has established large-scale, directly-operated stores (with sales floor spaces from 1,500 to 3,000 m<sup>2</sup>), with "DFS" DEODEO Family Shop franchise stores in the vicinity of the directly-operated stores, and conducting house-call sales under the concept of the "home electronics convenience store."

As of March 2006, the company had a total of 677 stores (116 directly-operated stores and 561 franchise stores), and is expanding its market share in the Chugoku, Shikoku, and Kyushu areas.

In its efforts to clearly differentiate itself from competing companies, DEODEO further aims to provide high-quality after-sales service at all times. To achieve this objective, the company is working to establish comprehensive after-sales service matched to the life cycle of each product, thus creating favorable relationships with our customers by enabling them to use their purchases enjoyably for longer periods of time.

The company presently has 70 service locations throughout Japan and dispatches over 300 service technicians specializing in onsite maintenance and repair of the products the company sells. This type of service, whereby technicians make house calls to the customer's location, is one of DEODEO's strengths, which along with the company's same-day repair service, whereby staff are dispatched to the customer's home the very day the order is made, has brought the company tremendous trust from local communities.



President

## Message

### Strengthening the "quality service retailer" concept

Date of Establishment	April 7, 1955
Paid-in Capital	¥12,694 million
URL	<a href="http://www.eiden.co.jp/">http://www.eiden.co.jp/</a>
President	Shoichi Okajima
Number of stores	146 (on a consolidated basis)
Number of employees	2,224
Sales in FY2005	¥192.9 billion (on a consolidated basis)
Group companies	HOME EXPO Co., Ltd., EIDEN COMMUNICATIONS Co., Ltd., COMNET Co., Ltd., NWork Co., Ltd.
Description of business	Sales of home electronics, information and communications equipment, and other products



Based in Nagoya, EIDEN Co., Ltd. has been actively meet the specialized needs of its customers and striving to improve customer satisfaction through its three main business organizations: "EIDEN," a chain of comprehensive home electronics stores; "CompMart," which offers information and communications equipment; and "HomeExpo" DIY home centers.

Specifically, the company aims to differentiate itself further from the competition with even an even stronger focus on being a "quality service retailer" and improving customer satisfaction through sincere, considerate customer relations based on an understanding of the customer's viewpoint. Furthermore, the company's strategy for store openings includes not just opening large-scale "super-size stores," but also efforts to develop stores in new business lines featuring an expanded selection of items such as furniture and interior goods, games, hobbies and crafts, with the aim of expanding the customer base.

As a result of this aggressive store-opening strategy, the company had a total of 146 stores as of March 2006 (124 directly-operated stores and 22 franchise stores), thus boosting its market share in the Chubu area yet another step.

#### ● Advancing a strategy of store openings to fit the market

The EIDEN Group has been developing its strategy for store openings in a manner that suits the needs of its customers. With CompMart, which sells primarily computers and computer-related products, EIDEN COMMUNICATIONS, which conducts sales of cellular phones, and HomeExpo, which carries products found at home improvement centers, the company fully covers customers' every lifestyle need.

Additionally, with the merger with DISC STATION, a subsidiary selling CDs, DVDs, and software, the Group will continue to proceed with flexible store development in the future, with in-store shops openings linked to EIDEN store openings as well as with openings of separate stores.

The EIDEN Group holds its resources in common, allowing development of integrated stores that bring customers total living comfort and leave them with a lasting impression.

The EIDEN Group will continue to advance its strategy of store openings while maintaining a clear picture of market characteristics.

#### ● Intensifying efforts to improve distribution and service

As for the efficiency of our business, the Group aims for constant improvement in profitability and service levels through integrated management of procurement and distribution, door-to-door delivery, and service operations. Additionally, the Group is working to improve service center operations, aiming to shorten delivery lead times, achieve inventory control that eliminates waste, and further improve delivery and installation operations.



## Profiles of EDION Group



President

*M. Umehara*

### Message

**"Always be skeptical"  
Do not be bound by  
conventional wisdom,  
but pursue the  
"right thing"**

Date of Establishment	August 1961
Paid-in Capital	¥1,560 million
URL	<a href="http://www.midori-de.com/">http://www.midori-de.com/</a>
President	Masayuki Umehara
Number of stores	98 (on a consolidated basis)
Number of employees	2,823 (on a consolidated basis)
Sales in FY2005	¥256.5 billion (on a consolidated basis)
Group companies	Midori Services Co., Ltd, Midori Corporation
Description of business	Sales of home electronics, information and communications equipment, furniture, interior goods, CDs, DVDs, games, toys and other products



## MIDORI DENKA CO., LTD

With its head office in Amagasaki, Hyogo Prefecture, MIDORI DENKA Co., Ltd. has 98 stores as of March 2006 (94 directly-managed and 4 franchise stores), which with service centers located in the center of each of its areas, provides full services "anytime, anywhere." Moreover, through Midori Service Co., Ltd., the company provides rapid, quality service by highly skilled and knowledgeable specialists in close proximity to local communities. Furthermore, the company has initiated home delivery of stocked repair parts, services for such matters as changing electric bulbs and fluorescent lights, along with other new services targeting the country's aging society.

### ● Striving to establish honest and respectful relationships with the customers

We at MIDORI DENKA believe the three following point are important in establishing excellent personnel, along with development and prosperity that is supported by the customers.

- 1) Sincere customer relations.
- 2) Creating an environment in where the products and sales area are treated with care, enabling customers to shop comfortably.
- 3) Keeping in mind the need to improve and maintaining a constant awareness of improving oneself.

To help back up these three aspects, superiors (senior staff) provide on-the-job training to subordinates (junior staff), while the head office provides support for a variety of training and study programs. In this manner, the basis for MIDORI DENKA's human resources education is "fostering humans including all of society." People play the leading role in the business. We believe a passionate devotion to developing better personnel is intimately linked to development and successful growth of the business.

### ● Aiming to develop services that "touch the heart" along with a diverse line of products

At MIDORI DENKA, conversing with the customers is of the utmost importance in allowing the staff to suggest which of the number of products available are most suitable for the customer. We believe that communicating with customers enables our staff members to grasp the customers' preferences, particularities, home environment, and other factors, and using this information, the staff member can then suggest the "products of value" suited to each individual customer.

This requires both extensive knowledge about the products and "people skills" that allow staff to "sell not just the product, but themselves as well" through sincere connections with our customers. MIDORI DENKA aims to improve service quality by cultivating such "people skills."

We also carry products other than home electronics to meet our customers' widely ranging needs. Particular welcome for bridal customers and individuals starting out on their own is the fact that MIDORI DENKA has "everything you need" to set up house, all in one place. And with toys, video games, and sales and rental of CDs and DVDs, we provide total support for our customers' lifestyles.



President

*S. Torigoe*

## Message

**Aiming to be  
Japan's top  
direct marketing  
company for the  
design of  
living spaces**

Date of Establishment	March 1, 2002
Paid-in Capital	¥300 million
URL	<a href="http://www.e-kurashi-de.net/">http://www.e-kurashi-de.net/</a>
President	Sadashige Torigoe
Number of employees	25
Sales in FY2005	¥4.7 billion
Description of business	Mail-order businesses of home electronics, information and communications equipment, furniture, interior goods, and other products by catalog and e-commerce



**Kurashino Design, Inc.**

With its head office in Shinagawa-ku, Tokyo, Kurashino Design, Inc. operates a direct marketing business for sales of furniture, interiors, and home electronics through our "Kurashino Design" mail order catalogues and the "edion direct" Internet shopping site, while providing customers with welcome services. The catalogues speak to "customers' lifestyle dreams" by offering original products that present customers with delightful discoveries with a warm and gentle style of communication.

### ● Participatory product development involves customers' views

At "Kurashino Design," we develop products using a "customer participatory format," in which our customers' views are always incorporated. While we naturally work to improve product quality to enable extended use, we also strive for product development that allows us to propose comprehensive suggestions for new lifestyles and interiors in accordance with different themes, while producing catalogues that are easy and enjoyable to browse.

Issued seven times a year (with an annual run of 3.5 million copies), these catalogues are sold at 48,000 bookstores, convenience stores, and supermarkets, and other sales outlets throughout Japan.

### ● Featuring a huge variety of 220,000 different products

The "edion direct" shopping site specializes in sales of home appliances, furniture, and interior goods that are in tune with customers' dreams over the Internet. And in addition to furniture and interiors, the lineup also feature home electronics, computers, software, and other products available only from the EDION Group.

Moreover, the product development capabilities and expertise accumulated through such catalogue sales are then utilized in further development of original products. We offer a wide variety of attractive furniture and interior products that brighten customers' lives.





## Corporate Governance/CSR Activities



## A comprehensive system to fulfill our social responsibilities as a corporation

In order to keep developing amid severe competition and rapidly changing times, as well as to gain wide acceptance and supported in the local community, the EDION Group considers the establishment of stakeholders' goodwill and the development of corporate governance to ensure transparency and objectivity in making management decisions to be important management issues.

In earning the trust of our customers, it is also essential that we make organizational responses are completely premised on director and employee compliance.

With the establishment of a CSR (Corporate Social Responsibility) committee to discuss the ideal form of corporate social responsibility and specific measures to realize this, as well as a "compliance committee" that acts as our headquarters for risk management as it relates to the thorough adherence to the code of ethics and compliance, the EDION Group will strive to conduct business activities based on the issues of corporate governance and corporate social responsibility.

As regards specific measures, we established a "code of ethics of the EDION Group," and starting in fiscal 2005, we have distributed an "ethics and compliance manual" as well as a "code of ethics card" for employees to carry, also developing a system to implement training and education for employees. Additionally, to achieve rapid compliance with the "Law Concerning the Protection of Personal Information" enacted in April 2005, we have established personal information protection policies and basic administrative provisions for protecting personal information, as well as developing a system to protect and manage personal information.



Tree-planting activity in Takehara City, Hiroshima Prefecture

## Fulfilling our social responsibilities as a corporation in step with the local community

Establishing favorable relationships with shareholders, customers, local communities, clients, and other stakeholders is indispensable to a broad acceptance by local societies as well as for continued development in the rapidly changing business environment.

Beginning with making a contribution to local communities, the EDION Group is involved in a variety of efforts needed to ensure we fulfill our corporate responsibilities to society.

In 1998, DEODEO Corporation developed an "Eco Challenge 21" action program to make a contribute to local communities as the "corporate citizen DEODEO" and has been actively involved in environmental protection activities.

Taking this yet further, the company started a "Hiroshima Forest Planting Activity in Takehara" program in 2005, working as a citizen volunteer in planting trees at the site of the forest fire in Takehara City, Hiroshima Prefecture. At the second such activity, held on March 19, 2006, 110 high school students participated in local environmental protection efforts, an extremely significant activity due to the cooperation of the younger generations who will be assuming responsibility in the future.

In order to maintain the confidence and trust of stakeholders in the future, the EDION Group will continue to be active in working to pursue business activities based on our corporate responsibility to society, and will aim to move forward with our local communities as a "quality service retailer."



### Business Results

#### ● Overall Operations

During fiscal 2005, in spite of instabilities affecting supplies of materials resulting from continued steep increases in crude oil prices and slowdowns in foreign economies, Japan's own economy continued its overall recovery, as seen in a combination of favorable capital expenditures and steady consumer spending.

In the home electronic retailing industry, favorable trends continued in sales of wide-screen flat-panel TVs and other "digital related audio and visual" products due to a recovery in consumer spending and regional expansion of the start of digital broadcasting. Additionally, prices for air conditioners, refrigerators, and washing machines, and other such "lifestyle-related products" increased due to the entry of high value-added products, while heating-related products saw favorable sales trends with the appearance of a record cold wave during the winter. Despite an apparent recovery trend, however, sales of information-related products such as personal computers also remained slow, as a result of lower store prices.

In such circumstances, the Group's acquisition of MIDORI DENKA CO., LTD. shares resulted in that company becoming a subsidiary company of the Group. Furthermore, the Group began operation of the wholly owned internet shopping site "edion direct" (<http://shop.edion.jp>) in May, integrating sales of four subsidiary companies of the Group, thereby beginning operation of Japan's largest shopping site handling a wide range of items, in addition to opening the "MIDORI Tenmabashi Store" as a large-scale urban store. With the Group's corporate strategy of continuing to develop a new business format (furniture, interiors, toys, remodeling, software, etc.), the Group made a number of important actions: in July, the Group opened "HOME EXPO LOC CITY Ogaki," a store selling furniture and interiors; in November, the "MIDORI Chukan-Higashiosaka Store" boasting a full selection of furniture, interiors, toys, and other products, with a primarily focus on home electronic appliances; in December, the Group opened the "EIDEN Tsu-Kita Store," which established the "NeverLand" toy department, and in February, the Group opened its "DEODEO NeverLand Fukuomachi Store," specializing in toys and mobile products, in Hiroshima. In June, EIDEN began to develop small franchise operations utilizing the expertise of DEODEO, and plans to expand services closely covering local areas even further. Continuing to thoroughly pursue this operating principle of being "Quality Service Retailing", the Group aims to claim the top brand for high-volume home electronic appliance sales stores.

### Analysis of Operating Results

#### ● Net Sales

Net sales for the consolidated fiscal year stood at ¥714,698 million (y-o-y increase of 163.2%). The addition of 88 stores (including franchise stores) to the Group due to integration of MIDORI DENKA CO., LTD. on April 1, 2005 and aggressive openings of large-scale urban stores and stores featuring new business formats vastly increased sales.

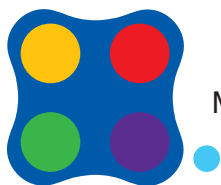
In terms of products, the recovery in consumer spending led to a favorable trend during the summer in sales of air conditioners, refrigerators, and other such products, while the advent of a record cold wave helped carry on the positive trend with sales of heating-related products. Further expansion of areas covered by digital broadcasting along with coverage of the Turino Winter Olympics in February 2006 aided the favorable trend in sales of flat-panel TVs and other digital related audio and visual products throughout the fiscal year and contributed to increased net sales.

#### ● Operating Income

Operating income of ¥8,054 million (y-o-y increase of 160.7%) was posted for the current fiscal year. Although this increase in operating income was due primarily to the integration of MIDORI DENKA CO., LTD., and also was aided by higher sales ratios of original products and lifestyle-related products for the Group as a whole.

#### ● Ordinary Profit

Ordinary profit for the current fiscal year of ¥20,389 million (y-o-y increase of 182.6%) was posted. Non-operating income increased due to factors including an increase in cash rebates of ¥5,732 million as a result of the integration of MIDORI DENKA CO., LTD. Non-operating expenses saw a decrease of 25.9% as compared with the previous period (not including that portion attributable to MIDORI DENKA CO., LTD.) following introduction of cash management system due to financial integration, which also contributed to the increase in ordinary profit.



## Management's Discussion and Analysis

### ● Net Income

Net income for the current fiscal year totaled ¥8,226 million (y-o-y increase of 167.3%). This figure includes an impairment loss on fixed assets of ¥2,063 million, as calculated using loss impairment accounting, as well as corporate tax and other burdens amounting to ¥7,748 million.

## Financial Position

### ● Assets, Liabilities, and Shareholders' Equity

Total assets stood at ¥319,507 million, an increase of ¥88,096 million over assets at the end of the previous fiscal year. This increase was in part due to the acquisition of shares of MIDORI DENKA Co., Ltd. on April 1, 2005, completing the process of making that company a wholly owned Group subsidiary.

Total liabilities were ¥189,978 million, an increase of ¥65,188 million over liabilities at the end of the previous fiscal year. While this increase also was due to the integration of MIDORI DENKA CO., LTD., the results of cash management system introduced with financial integration show the interest-bearing debt, excepting that of MIDORI DENKA CO., LTD., decreasing by ¥9,830 million from the previous fiscal year.

Shareholders' equity totaled ¥128,504 million, and increase of ¥22,908 million over the previous fiscal year. Main increases were due to the integration of MIDORI DENKA CO., LTD. and the ¥8,226 million increase in net income for the period, while the primary reduction came from shareholder dividends of ¥2,113 million. Thus, shareholders' equity ratio became 40.2% from the 45.6% figure in the previous consolidated fiscal year.

### ● Cash Flow Analysis

The consolidated base for the balance of cash and cash equivalents for the current consolidated fiscal year increased by ¥417 million from the end of the previous consolidated fiscal year to ¥13,772 million (y-o-y increase of 103.1%). Cash flows conditions and factors are described below.

#### Cash flows from operating activities

Net cash provided by operating activities totaled ¥11,465 million (increase of ¥5,339 million over the previous consolidated fiscal year). This was primarily attributed to an increase in income before income taxes for the current term of ¥7,178 million, ¥9,172 million in depreciation and amortization due to proactive investment in the past years, and a decrease of ¥8,858 million from increased inventories.

#### Cash flows from investing activities

Net cash used as a result of investing activities totaled ¥16,453 million (decrease of ¥1,160 million over the previous consolidated fiscal year). This was mainly due to payments of ¥13,014 million for acquisition of tangible fixed assets for new stores (opened during the term under review and those to be opened from the next term onwards) and payments of ¥5,022 million for acquisition of intangible fixed assets.

#### Cash flows from financing activities

Net cash used as a result of financing activities stood at ¥1,885 million (increase of ¥13,281 million over the previous consolidated fiscal year). This was primarily attributed to ¥9,992 million in repayments of long-term bank loans, ¥3,240 million in redemption of bonds, ¥2,112 million in cash dividends paid and ¥26,194 million in proceeds from long-term bank loans.



## Consolidated Balance Sheets

EDION Corporation and Subsidiaries  
As of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
<b>Assets</b>			
<b>Current Assets:</b>			
Cash on hand and deposits in banks	¥ 13,495	¥ 13,912	\$ 118,429
Notes and accounts receivable:			
Trade	14,189	20,879	177,743
Other	6,698	6,901	58,745
	20,887	27,780	236,488
Less, allowance for doubtful accounts	(115)	(130)	(1,112)
	20,772	27,650	235,376
Marketable securities (Note 5)	50	—	—
Inventories	47,112	79,659	678,121
Deferred tax assets (Note 9)	3,403	4,639	39,494
Other current assets	2,250	3,244	27,618
<b>Total current assets</b>	<b>87,082</b>	<b>129,104</b>	<b>1,099,038</b>
<b>Investments and Other Assets:</b>			
Investments in securities (Note 5)	3,918	4,204	35,785
Investments in affiliates	12,852	368	3,132
Leasehold deposits	20,527	31,593	268,943
Deferred tax assets (Note 9)	3,459	3,892	33,132
Other assets	4,547	4,644	39,539
	45,303	44,701	380,531
<b>Property and Equipment, at cost (Note 6):</b>			
Land	49,672	58,479	497,818
Buildings and structures	77,108	126,268	1,074,900
Automobiles	116	273	2,328
Furniture and fixtures	13,996	19,314	164,414
Construction in progress	739	3,804	32,380
	141,631	208,138	1,771,840
Less, accumulated depreciation	(47,363)	(71,139)	(605,590)
	94,268	136,999	1,166,250
<b>Intangible Assets and Deferred Charges:</b>			
<b>Consolidating adjustment account</b>	<b>1,122</b>	<b>1,088</b>	<b>9,258</b>
<b>Other intangible assets and deferred charges</b>	<b>3,636</b>	<b>7,615</b>	<b>64,827</b>
	4,758	8,703	74,085
<b>Total Assets</b>	<b>¥231,411</b>	<b>¥319,507</b>	<b>\$2,719,904</b>

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



## Consolidated Balance Sheets

EDION Corporation and Subsidiaries  
As of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
<b>Liabilities, Minority Interests and Shareholders' Equity</b>			
<b>Current Liabilities:</b>			
Short-term bank loans (Note 6)	¥ 27,000	¥ 14,500	\$ 123,436
Current portion of long-term debt (Note 6)	6,730	13,292	113,151
Notes and accounts payable:			
Trade	27,829	51,712	440,213
Other	6,098	17,075	145,358
	33,927	68,787	585,571
Income taxes payable	3,026	4,290	36,522
Accrued expenses	3,338	5,830	49,630
Accrued sales discounts	3,307	5,721	48,705
Other current liabilities	2,593	7,969	67,831
<b>Total current liabilities</b>	<b>79,921</b>	<b>120,389</b>	<b>1,024,846</b>
<b>Long-term Liabilities:</b>			
Long-term debt (Note 6)	27,726	49,665	422,791
Accrued retirement benefits to employees (Note 7)	7,721	7,312	62,244
Accrued retirement benefits to directors and corporate auditors	622	632	5,381
Deferred tax liabilities for land revaluation	2,681	2,664	22,676
Deferred tax liabilities (Note 9)	56	48	411
Other long-term liabilities	6,063	9,268	78,899
<b>Total liabilities</b>	<b>124,790</b>	<b>189,978</b>	<b>1,617,248</b>
<b>Minority Interests in Subsidiaries</b>	<b>1,025</b>	<b>1,025</b>	<b>8,724</b>
<b>Shareholders' Equity (Note 12):</b>			
Common stock, no par value;			
Authorized: 300,000,000 shares: Issued: 88,988,839			
shares in 2005 and 105,665,636 shares in 2006	10,175	10,175	86,615
Capital surplus	66,909	83,419	710,137
Retained earnings	45,102	50,263	427,879
Land revaluation decrement (Note 2(p))	(16,992)	(16,254)	(138,365)
Unrealized gain on other securities (Note 5)	429	947	8,060
Less, treasury stock: 37,597 shares in 2005 and 47,489 shares in 2006	(27)	(46)	(394)
<b>Total shareholders' equity</b>	<b>105,596</b>	<b>128,504</b>	<b>1,093,932</b>
<b>Commitments and Contingent Liabilities (Notes 8 and 10)</b>	<b>¥231,411</b>	<b>¥319,507</b>	<b>\$2,719,904</b>

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



# Consolidated Statements of Income

EDION Corporation and Subsidiaries  
For the Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
<b>Net Sales</b>	<b>¥437,992</b>	<b>¥714,698</b>	<b>\$6,084,087</b>
<b>Cost of Sales</b>	<b>342,241</b>	<b>556,932</b>	<b>4,741,058</b>
Gross profit	95,751	157,766	1,343,029
<b>Selling, General and Administrative Expenses</b>	<b>90,740</b>	<b>149,712</b>	<b>1,274,465</b>
Operating income	5,011	8,054	68,564
<b>Non-operating Income (Expenses):</b>			
Interest and dividend income	288	329	2,803
Interest expenses	(541)	(691)	(5,887)
Purchase discounts	5,383	11,115	94,623
Equity in losses of affiliates	(138)	(18)	(154)
Loss on sale or disposal of property and equipment	(1,597)	(1,595)	(13,579)
Loss on write-down of investments in securities	(201)	(305)	(2,596)
Gain on sale of securities	591	39	335
Loss on fire at stores	(181)	—	—
Cancellation charges on early termination of facility leasing arrangements	(286)	(126)	(1,074)
Impairment loss on fixed assets (Note 2(i))	—	(2,063)	(17,565)
Loss on withdrawal of welfare pension fund (Note 7)	—	(849)	(7,226)
Gain on shift to new retirement benefit plan (Note 7)	—	746	6,348
Gain on transfer to defined contribution pension plan	193	—	—
Other, net	375	1,439	12,253
	3,886	8,021	68,281
<b>Income before income taxes and minority interests</b>	<b>8,897</b>	<b>16,075</b>	<b>136,845</b>
<b>Income taxes (Note 9):</b>			
Current	3,793	6,686	56,918
Deferred	85	1,063	9,048
Total income taxes	3,878	7,749	65,966
<b>Income before minority interests</b>	<b>5,019</b>	<b>8,326</b>	<b>70,879</b>
<b>Less, minority interests in net income of subsidiaries</b>	<b>100</b>	<b>100</b>	<b>851</b>
<b>Net income</b>	<b>¥ 4,919</b>	<b>¥ 8,226</b>	<b>\$ 70,028</b>
	Yen		U.S. dollars
<b>Amounts per share:</b>			
<b>Net income</b>	<b>¥ 60.58</b>	<b>¥ 76.98</b>	<b>\$ 0.66</b>
<b>Cash dividends</b>	<b>¥ 20.00</b>	<b>¥ 20.00</b>	<b>\$ 0.17</b>

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





## Financial Statements

# Consolidated Statements of Shareholders' Equity

EDION Corporation and Subsidiaries  
For the Years Ended March 31, 2005 and 2006

	Millions of yen							
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained Earnings	Land Revaluation decrement	Unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2004</b>	<b>78,278</b>	<b>¥ 4,000</b>	<b>¥60,736</b>	<b>¥46,110</b>	<b>¥(16,959)</b>	<b>¥769</b>	<b>¥(173)</b>	<b>¥(18)</b>
Net income for the year	—	—	—	4,919	—	—	—	—
Cash dividends	—	—	—	(1,567)	—	—	—	—
Bonuses to directors	—	—	—	(61)	—	—	—	—
Reversal of land revaluation decrement	—	—	—	33	(33)	—	—	—
Exercise of stock subscription rights	210	148	147	—	—	—	—	—
Issuance of common stock	10,500	6,027	6,026	—	—	—	—	—
Merger of subsidiaries	—	—	—	(4,384)	—	—	—	—
Changes due to scope change								
of equity method	—	—	—	52	—	—	—	—
Net change in unrealized gain	—	—	—	—	—	(340)	—	—
Translation adjustment	—	—	—	—	—	—	173	—
Fractional shares acquired, net	—	—	—	—	—	—	—	(9)
<b>Balance at March 31, 2005</b>	<b>88,988</b>	<b>10,175</b>	<b>66,909</b>	<b>45,102</b>	<b>(16,992)</b>	<b>429</b>	<b>—</b>	<b>(27)</b>
Net income for the year	—	—	—	8,226	—	—	—	—
Cash dividends	—	—	—	(2,113)	—	—	—	—
Bonuses to directors	—	—	—	(214)	—	—	—	—
Reversal of land revaluation decrement	—	—	—	(738)	738	—	—	—
Issuance of common stock upon stock								
exchange transactions (Note 2 (b))	16,677	—	16,510	—	—	—	—	—
Net change in unrealized gain	—	—	—	—	—	518	—	—
Fractional shares acquired, net	—	—	0	—	—	—	—	(19)
<b>Balance at March 31, 2006</b>	<b>105,665</b>	<b>¥10,175</b>	<b>¥83,419</b>	<b>¥50,263</b>	<b>¥(16,254)</b>	<b>¥947</b>	<b>¥ —</b>	<b>¥(46)</b>

	Thousands of U.S. dollars						
	Common stock	Capital surplus	Retained Earnings	Land Revaluation decrement	Unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	\$86,615	\$569,589	\$383,947	\$(144,652)	\$3,652	\$ —	\$(234)
Net income for the year	—	—	70,028	—	—	—	—
Cash dividends	—	—	(17,983)	—	—	—	—
Bonuses to directors	—	—	(1,826)	—	—	—	—
Reversal of land revaluation decrement	—	—	(6,287)	6,287	—	—	—
Issuance of common stock upon stock							
exchange transactions (Note 2 (b))	—	140,547	—	—	—	—	—
Net change in unrealized gain	—	—	—	—	4,408	—	—
Fractional shares acquired, net	—	1	—	—	—	—	(160)
Balance at March 31, 2006	\$86,615	\$710,137	\$427,879	\$(138,365)	\$8,060	\$ —	\$(394)

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



## Consolidated Statements of Cash Flows

EDION Corporation and Subsidiaries  
For the Years Ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥ 8,897	¥16,075	\$136,845
<b>Adjustments for:</b>			
Depreciation and amortization	5,444	9,172	78,083
Impairment loss on fixed assets	—	2,063	17,565
Net change in accrued bonuses to employees	(58)	634	5,393
Net change in accrued sales discounts	208	(2,067)	(17,601)
Gain on sale of securities	(591)	(39)	(335)
Loss on write-down of investments in securities	201	305	2,596
Equity in losses of affiliates	138	18	154
Loss on sale or disposal of property and equipment	1,597	1,595	13,579
Decrease (Increase) in trade receivables	143	(2,095)	(17,832)
Increase in inventories	(1,840)	(8,858)	(75,405)
(Decrease) increase in trade payables	(6,257)	342	2,913
Others, net	537	4,281	36,439
<b>Subtotal</b>	<b>8,419</b>	<b>21,426</b>	<b>182,394</b>
<b>Interest and dividend received</b>	<b>58</b>	<b>124</b>	<b>1,061</b>
<b>Interest expenses paid</b>	<b>(569)</b>	<b>(693)</b>	<b>(5,897)</b>
<b>Income taxes paid</b>	<b>(1,782)</b>	<b>(9,392)</b>	<b>(79,954)</b>
<b>Net cash provided by operating activities</b>	<b>6,126</b>	<b>11,465</b>	<b>97,604</b>
<b>Cash Flows from Investing Activities:</b>			
Net change in time deposits	960	(270)	(2,298)
Increase in tangible fixed assets and intangibles	(8,166)	(18,036)	(153,542)
Proceeds from sale of tangible fixed assets	562	1,591	13,544
Increase in investments in securities	(12,820)	(168)	(1,429)
Proceeds from sale of investments in securities	2,146	603	5,132
Net change in leasehold deposits to lessors	(1,108)	(1,342)	(11,422)
Net change in leasehold deposits from lessees	1,615	904	7,698
Others, net	(802)	265	2,256
<b>Net cash used in investing activities</b>	<b>(17,613)</b>	<b>(16,453)</b>	<b>(140,061)</b>
<b>Cash Flows from Financing Activities:</b>			
Net change in short-term bank loans	(5,770)	(12,500)	(106,410)
Increase in long-term debt	15,000	26,194	222,981
Repayments of long-term debt	(8,178)	(13,232)	(112,642)
Issuance of common stock	12,257	—	—
Cash dividends paid	(1,565)	(2,112)	(17,978)
Other, net	(348)	(235)	(2,000)
<b>Net cash provided by (used in) financing activities</b>	<b>11,396</b>	<b>(1,885)</b>	<b>(16,049)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(91)</b>	<b>(6,873)</b>	<b>(58,506)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>13,446</b>	<b>13,355</b>	<b>113,691</b>
<b>Increase in cash and cash equivalents upon stock exchange transactions</b>	<b>—</b>	<b>7,290</b>	<b>62,053</b>
<b>Cash and cash equivalents at end of year (Note 4)</b>	<b>¥13,355</b>	<b>¥13,772</b>	<b>\$117,238</b>

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



# Notes to the Consolidated Financial Statements

EDION Corporation and Subsidiaries  
For the Years Ended March 31, 2005 and 2006

## 1. Basis of Consolidated Financial Statements

### (a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by EDION Corporation (the "Company") and its subsidiaries (together, hereinafter referred to as "EDION") in accordance with the provisions set forth in the Commercial Code of Japan ("Code") and the Securities and Exchange Law in Japan, and on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Certain items presented in the consolidated financial statements in Japanese submitted to the Director of Kanto Finance Bureau of Japan have been reclassified for the convenience of readers outside Japan.

Certain comparative figures have been reclassified to conform to the current year's presentation.

### (b) Structure

The Company was incorporated on March 29, 2002 as a 100% holding parent company of DEODEO Corporation ("DEODEO") and EIDEN Co., Ltd. ("EIDEN") through exchanging the Company's shares with the shares of these companies in accordance with the Code. The formation of EDION and the exchanging of shares of DEODEO and EIDEN were accounted for using the pooling-of-interests method in accordance with "Accounting for the Consolidation of a Holding Company Established by Stock Exchange or Stock Transfers" (Accounting Committee Research Report No. 6) issued by the Japanese Institute of Certified Public Accountants ("JICPA"), since the following conditions under the accounting standard above were all met:

- 1) All of the common stock with voting rights of the two companies except for fractional shares were exchanged with those of the Company, and no significant restrictions were attached to the shares of the Company;
- 2) Shareholders of the two companies are regarded as maintaining voting rights and percentage of equity;
- 3) Neither of the two companies had dominance in the decision-making process of the Company relating to significant financial, operating or business policies;
- 4) Neither of the two companies had dominance in the Board of Directors or other decision-making bodies of the Company; and
- 5) Fair values of the two companies were not significantly different from each other.

## 2. Summary of Significant Accounting Policies

### (a) Consolidation and investments in affiliates

Under Japanese accounting standards, a subsidiary and an affiliate are defined as follows:

A subsidiary: a company in which the reporting entity directly or indirectly holds more than 50% of the voting rights thereof or which is deemed to be controlled directly or indirectly by the reporting entity; and

An affiliate: a company in which the reporting entity directly or indirectly holds 20% or more of the voting rights thereof or in which the reporting entity is deemed to exercise significant influence directly or indirectly on its decision making.

### Scope of consolidation and equity method

The consolidated financial statements included the accounts of all subsidiaries. (10 and 13 at March 31, 2005 and 2006, respectively) During the year ended March 31, 2005, Bax Co., Ltd. was liquidated and DEODEO Technonet Co., Ltd. was merged into DEODEO. As the Company acquired a 38.2% equity share of MIDORI DENKA CO., LTD. ("MIDORI DENKA") on March 16, 2005, MIDORI became to be included in the scope of equity method at March 31, 2005. On April 1, 2005, MIDORI DENKA became a wholly owned subsidiary of the Company, then the Company has consolidated the accounts of MIDORI DENKA and its two subsidiaries from the year ended March 31, 2006 (See Note 2(b) below).

Investments in all of the affiliates are accounted for under the equity method. (5 and 3 at March 31, 2005 and 2006, respectively) During the year ended March 31, 2005, IMAGINE Co., Ltd. and TAIIGI Corporation were excluded from the scope of equity method due to the sale of their stocks. Aki Cable Television Co., Ltd. and JHN-Chugoku Co., Ltd. became to be included in the scope of equity method during the year ended March 31, 2005 due to the increase of their materiality. On March 10, 2006, Aki Cable Television Co., Ltd was merged into Fureai Channel Inc., in which the Company's investment is accounted for by the equity method. At March 31, 2005, MIDORI DENKA was included in the scope of equity method.

### Consolidation policies

For the consolidation of the accounts of subsidiaries whose fiscal year-ends do not agree with the Company's year-end, significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

The difference between the cost of investments in subsidiaries and the amount of underlying equity in net assets at fair value of such subsidiaries has been amortized over 5 years, except for the case when a definite useful life is available based on the substantive analysis of the Company. The balance of such difference is recorded as consolidating adjustment account in the accompanying consolidated financial statements. Full portion of the assets and liabilities of the subsidiaries is marked to fair values as of the time of acquisition of the control.

### (b) Agreement of business integration (exchange of shares) with MIDORI DENKA

On May 18, 2004, the Company entered into the integration agreement with MIDORI DENKA for the purpose of establishing the competitive enterprise group. This integration was expected to provide regional service through wide-ranging network



## Financial Statements

simultaneously under the idea of “the business development for customers in the local community” and to raise customer satisfaction by providing the goods and service with higher satisfaction. Business integration is also expected to decrease cost by obtaining the scale merit and accomplish further improvement by maximizing management vitality. In accordance with this integration agreement, on April 1, 2005, the Company issued 16,676,797 shares of common stock of the Company in exchange of outstanding shares of MIDORI DENKA, except for the Company’ s portion. As a result, MIDORI DENKA became a wholly owned subsidiary of the Company.

MIDORI DENKA is engaged in sales and repairs of electric appliances and communication equipment, and sales of furniture and upholstery. The unaudited consolidated financial information of MIDORI DENKA and its subsidiaries as of March 31, 2005 and 2006 or for the year ended March 31, 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
<b>At the year-end:</b>			
Current assets	¥39,948	¥ 42,090	\$ 358,306
Investments and other assets, and intangibles	12,595	15,192	129,322
Property and equipment	39,859	48,238	410,641
Total assets	¥92,402	¥105,520	\$ 898,269
Total liabilities	¥59,937	¥ 70,349	\$ 598,867
Total shareholders' equity	32,465	35,171	299,402
	¥92,402	¥105,520	\$ 898,269
<b>For the year:</b>			
Net Sales	*	¥256,540	\$2,183,873
Operating income	*	939	7,991
Net income	*	3,344	28,468

Note: \* As MIDORI DENKA changed the fiscal year-end in 2005 and the 2005 operational results were represented only for 44-day period, the 2005 operational results were not presented in the table above.

### (c) Foreign currency transaction

All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the respective balance sheet dates and resulting translation gains or losses are included in the determination of net income for the year.

### (d) Cash and cash equivalents

Cash and cash equivalents included in the accompanying consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less , which represent low risk of fluctuation in value.

### (e) Securities

Securities are classified in accordance with Japanese accounting standards into four categories: 1) trading securities; 2) held-to-maturity debt securities; 3) shares in equity of subsidiaries and affiliates; and 4) other securities, whose classification determines the respective accounting method as stipulated by the

accounting standard for financial instruments.

Trading securities and certain financial instruments which meet strict conditions are categorized as current assets and included in marketable securities, and all securities other than investments in subsidiaries are shown as investments in securities or investments in affiliates in the accompanying consolidated balance sheets, as the case may be.

Held-to-maturity debt securities that EDION has intention to hold to maturity are stated at cost after application of amortization/accumulation to premium or discount on acquisition over the period to maturity.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity, net of tax effect thereon. Gains and losses on disposition of marketable securities are computed using the moving average method. Other securities for which market quotations are not available are stated at cost determined by the moving average method.

Held-to-maturity and debt securities due within one year are presented as marketable securities in the current assets and all other securities are presented as non-current assets. Where the fair value of such securities other than trading securities has declined significantly and such impairment in value is not deemed temporary, those securities are written down to the fair value and the resulting losses are charged to net income for the year. Where market values of other securities are 50% of the carrying value or lower at the end of the financial year, such securities are written off to such market value. With respect to other securities of which market values have declined between 30% and 50%, amounts to be written off are determined by considering the recoverability of the respective securities.

### (f) Derivative financial instruments

Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as an asset or liability and included in net income in the same financial year during which the gains and losses on the hedged item or transactions are recognized in accordance with the Japanese accounting standard.

Interest rate swap arrangements are used to hedge against the interest risks associated with long-term bank loans. The related elements including principals, notional amounts, receive/pay rates and terms approximately coincide with those of the corresponding bank loans, accordingly the difference of amounts received or paid on such interest rate swap arrangements are charged/credited to income as an adjustments to interest expenses of the related bank loans in accordance with the Japanese accounting standard.



## Notes to the Consolidated Financial Statements

EDION Corporation and Subsidiaries  
For the Years Ended March 31, 2005 and 2006

### (g) Merchandise Inventories

Merchandise inventories are stated at cost. Cost was principally determined by the moving average method and the first-in, first-out method for consumer electronics merchandise and the retail method for home-center appliance merchandise.

Until the year ended March 31, 2004, cost for consumer electronics merchandise held by DEODEO and EIDEN was principally determined by the moving average method and the first-in, first-out method, respectively. From the year ended March 31, 2005, EIDEN changed its accounting method for such merchandise inventories from the first-in, first-out method to the moving average method based on the unification background of the computerized accounting system of the both companies. This accounting change resulted in no material effects on the consolidated financial statements for the year ended March 31, 2005. MIDORI DENKA, a new subsidiary whose accounts are consolidated from the fiscal year ended March 31, 2006, principally adopts the first-in, first-out method for consumer electronics merchandise.

### (h) Property and equipment

Depreciation is computed based on the declining-balance method while the straight-line method is applied to buildings acquired on and after April 1, 1998. The range of useful lives is principally from 2 to 60 years for buildings and from 2 to 20 years for vehicles, equipment, furniture and tools.

### (i) New accounting standard for "Impairment of fixed assets"

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning April 1, 2005, with earlier adoption permitted. The Accounting Standards Board of Japan issued related practical guidance on October 31, 2003. EDION has adopted this new accounting standard and related practical guidance from the year ended March 31, 2006. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price and value in use. Fixed assets include land, buildings and structures, and equipment and fixtures as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of EDION are principally grouped into cash-generating units based on the managerial accounting classification, other than idle or unused property. An impairment loss is recognized if cash-generating units record negative operating results or the property is not planned to be used in the future. Recoverable amounts of the assets were measured based on their net selling prices primarily for appraisal valuations or amounts of operating cash flows discounted by a rate of 2.78%. For the year

ended March 31, 2006, EDION recognized an impairment loss on fixed assets of ¥2,063 million (\$17,565 thousand), principally consisting of buildings and structures of ¥1,019 million (\$8,674 thousand) and land of ¥650 million (\$5,534 thousand).

### (j) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as finance leases except that leases do not transfer ownership of the assets at the end of the lease term are accounted for using the accounting treatment similar to operating leases, in accordance with accounting principles generally accepted in Japan.

### (k) Intangible assets

Amortization of intangible assets including capitalized software for internal use is computed using the straight-line method mainly for 5 years.

Pre-operating costs and new share issue costs are amortized over five and three years, respectively, as permitted by the Commercial Code Enforcement Regulation of Japan.

### (l) Leasehold deposits

The balances of leasehold deposits comprise fixed leasehold deposits and advances made to lessors for construction costs.

Fixed leasehold deposits are mainly those paid to lessors in connection with the lease of buildings and facilities or chain store operations. Lessors in Japan generally require leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally refundable only when the lease is terminated.

In connection with the lease of a store, EDION generally enters into an agreement with and makes advances to lessors in the amount equivalent to the construction cost of a store. Under such agreement, EDION leases the land and building from lessors after the completion of construction and pays lease rentals thereon from such advances previously made to lessors in installments over the period specified in each agreement (generally 20 years). Lease rentals from such agreements are charged to income as incurred. Such advances are included in "Leasehold deposits" in the accompanying consolidated balance sheets.

### (m) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at the aggregate amount of estimated credit losses based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated using historical loss experience for a certain past period.

### (n) Accrued sales discounts

Certain points are granted to member customers on their purchase of merchandise at stores in proportion to their purchase amounts, allowing them purchase discounts on merchandise in the future



## Financial Statements

(“point card system”). EDION has recorded accrued sales discounts granted to member customers through the point card system stated above based on the available appropriate estimates at the fiscal year-ends.

### (o) Accrued retirement benefits

EDION has defined retirement benefit plans in addition to retirement lump sum payment schemes covering substantially all employees. In certain cases additional payments are made to employees who terminate their service.

In accordance with the Japanese accounting standard for employee retirement benefits, accrued retirement benefits to employees represent the actuarial present value of projected benefit obligations calculated based on the actuarial appraisal approach in excess of the fair value of the pension plan assets less unrecognized actuarial differences and unrecognized past service cost with respect to assumptions and accounting policies employed for the calculation of accrued retirement benefits to employees (See Note 7). Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees from the next year in which they arise. Past service cost is amortized on a straight-line basis over ten years as a certain period within the average remaining service lives of employees from the year in which it occurs.

As is customary in Japan, accrued retirement benefits to directors and corporate auditors of EDION are provided for based on internal regulations. EDION recognizes 100% of such liability EDION would have paid if all directors and corporate auditors had retired at year-end, which is shown as “Accrued retirement benefits to directors and corporate auditors” in the accompanying consolidated balance sheets. Payment of such retirement benefits to directors and corporate auditors requires prior approval of shareholders as a part of appropriation of retained earnings.

### (p) Revaluation of land

In accordance with the Law Concerning Revaluation of Land, DEODEO and EIDEN elected the one-time revaluation to restate the cost of land used for the business at values rationally reassessed effective in March 2002, reflecting appropriate adjustments for land shape and other factors, based on the municipal property tax bases. According to the Law, the amount equivalent to the tax effect on the excess portion of sound reassessed values over the original book values is recorded as deferred tax liabilities for land revaluation account, and the difference between the carrying amount and the revalued amount, net of the tax effect, is recorded in the shareholders' equity as land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2005 and 2006, the differences of the carrying values of land used for the business after reassessment over the market value of such land at the respective fiscal year-end amounted to ¥11,071 million and

¥12,071 million (\$102,760 thousand), respectively.

### (q) Consumption taxes

Consumption taxes are levied at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld by EDION on its revenues and consumption tax paid by EDION on its purchases of products, merchandise and services from vendors are not included in the amounts of respective accounts in the consolidated statements of income, but are recorded as an asset or a liability, as the case may be and the net balance is included in other current liabilities on the consolidated balance sheets.

### (r) Income taxes

Deferred tax accounting is applied for the preparation of consolidated financial statements. Income taxes are accounted for using the assets and liability approach in order to recognize deferred tax assets and liabilities in respect of temporary differences which arise between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

### (s) Appropriation of retained earnings

Under the Code, the plan for appropriation of retained earnings (including year-end cash dividends) proposed by the Board of Directors should be approved at the shareholders' annual general meeting, which must be held within three months after the end of each fiscal year. On the other hand, the Code allows directors to make interim cash dividends at a certain date in accordance with the Article of Incorporation specifically stipulated in the Code.

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. Payments of bonuses to directors and corporate auditors, if any, are recorded as a part of the appropriations mentioned above, instead of being charged to income for the year, as permitted by the Japanese accounting standard.

### (t) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. At March 31, 2005 and 2006, the Company had no dilutive potential common shares, while the Company had stock subscription rights outstanding at the respective fiscal year-ends. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.





## Notes to the Consolidated Financial Statements

EDION Corporation and Subsidiaries  
For the Years Ended March 31, 2005 and 2006

For the purpose of calculation of earnings per share, net income shown in the consolidated statements of income is reduced, in accordance with the Japanese accounting standard, by the amounts deemed not attributable to the shareholders holding ordinary shares of the company, which include dividends to preferred stocks and bonuses to directors and corporate auditors which are approved by the shareholders as appropriation of retained earnings of that year.

### 3. United States Dollar Amounts

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes for the year ended March 31, 2006 are translated at ¥117.47=US\$1, the rate of exchange prevailing at March 31, 2006. These amounts are included solely for the convenience of readers, and should not be construed as representations that Japanese yen amounts have been, or could be converted into U.S. dollars at that or any other rate of exchange.

### 4. Cash and Cash Equivalents

The reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows to the account balances in the accompanying consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash on hand and deposits in banks	¥13,495	¥13,912	\$118,429
Securities in current assets	50	—	—
Less, time deposits with maturities more than three months	(190)	(140)	(1,191)
Cash and cash equivalents	¥13,355	¥13,772	\$117,238

### 5. Marketable Securities and Investments in Securities

EDION did not have any securities classified as trading securities for the years ended March 31, 2005 and 2006. Information for marketable securities and investments in securities held by EDION is as follows:

(a) The following is a summary of other securities and held-to-maturity securities at March 31, 2005 and 2006:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
<b>At March 31, 2005:</b>				
Other Securities:				
Market value available	¥2,197	¥ 766	¥47	¥2,916
Market value not available	1,046	—	—	1,046
Total other securities	3,243	766	47	3,962
Held-to-maturity securities	¥ 6	¥ —	¥—	¥ 6

**At March 31, 2006:**

Other Securities:				
Market value available	¥2,109	¥1,569	¥ 1	¥3,677
Market value not available	521	—	—	521
Total other securities	2,630	1,569	1	4,198
Held-to-maturity securities	¥ 6	¥ —	¥—	¥ 6

	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
<b>At March 31, 2006:</b>				
Other Securities:				
Market value available	\$17,954	\$13,358	\$12	\$31,300
Market value not available	4,434	—	—	4,434
Total other securities	22,388	13,358	12	35,734
Held-to-maturity securities	\$ 51	\$ —	\$—	\$ 51

EDION wrote-off equity securities amounting to ¥36 million for the year ended March 31, 2005.

(b) Details of other securities sold for the years ended March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Equity securities:			
Sales amount	¥2,265	¥488	\$4,158
Aggregate gain	926	133	1,132
Aggregate loss	335	94	797

(c) Contractual maturities of other securities and held-to-maturity securities as at March 31, 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Other securities	Held-to-maturity	Other securities	Held-to-maturity
Due over 1 year to 5 years	¥101	¥6	\$856	\$51

### 6. Short-term loans and long-term debt

The annual average interest rate applicable to short-term bank loans was 0.37% for the year ended March 31, 2006 (0.39% of short-term bank loans for the year ended March 31, 2005).

Long-term debt at March 31, 2005 and 2006 consisted of the following:



## Financial Statements

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
1.55% unsecured straight bonds due July 29, 2005	¥ 2,000	¥ —	\$ —
0.36% unsecured straight bonds due August 12, 2005	1,000	—	—
1.04% unsecured straight bonds due April 30, 2007	500	500	4,257
0.36% unsecured straight bonds due March 27, 2009	—	780	6,640
Bank loans	30,956	60,022	510,958
Other liabilities relating to the store construction	—	1,655	14,087
	34,456	62,957	535,942
Less, portion due within one year	(6,730)	(13,292)	(113,151)
	¥27,726	¥49,665	\$422,791

Aggregated annual maturities of long-term debt are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥13,292	\$113,151
2008	11,756	100,077
2009	5,955	50,690
2010	16,514	140,581
2011	9,829	83,670
Thereafter	5,611	47,773
	¥62,957	\$535,942

At March 31, 2005 and 2006, the following assets are pledged as collateral for long-term debt and other long-term liabilities:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Buildings and structures	¥2,971	¥ 9,782	\$ 83,271
Land	5,115	14,047	119,582
	¥8,086	¥23,829	\$202,853

At March 31, 2005 and 2006, the Company entered into the loan commitment agreements with major banks. At March 31, 2005 and 2006, total committed lines of credit under such agreements amounted to ¥40,000 million and ¥30,000 million (\$255,384 thousand), respectively, of which ¥13,000 million and ¥20,000 million (\$170,256 thousand) were available, respectively. As is customary in Japan, substantially all loans from banks (including short-term bank loans) are made under general agreements which provide that, at the request of the relevant bank, the borrower is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to the loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the bank concerned. EDION has not received such requests. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default thereon, to offset deposits at the banks against the indebtedness due to the banks.

### 7. Accrued Retirement Benefits to Employees

Accrued retirement benefits to employees at March 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligations	¥13,026	¥12,346	\$105,102
Pension plan assets	(5,226)	(6,560)	(55,852)
Projected benefit obligations in excess of pension plan assets	7,800	5,786	49,250
Unrecognized actuarial differences	(350)	695	5,917
Unrecognized past service cost	258	831	7,077
Prepaid pension cost	13	—	—
Balance of accrued retirement benefits to employees	¥ 7,721	¥ 7,312	\$ 62,244

Note: Projected benefit obligation of certain subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

Net periodic benefit expense for the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥1,655	¥ 837	\$7,123
Interest cost	256	191	1,628
Expected return on plan assets	(52)	(50)	(427)
Amortization of actuarial differences	237	98	835
Amortization of past service cost	(24)	(96)	(816)
Other	(148)	96	813
Net periodic benefit expense	¥1,924	¥1,076	\$9,156

Note: 1) Net periodic benefit expense for subsidiaries adopting a simplified method is recorded in "Service cost".

2) DEODEO and its subsidiary had an approval from Japanese government for the withdrawal from a certain welfare pension fund organized by others including DEODEO on April 27, 2005. This withdrawal required DEODEO to pay a special contribution to the fund in the amount of ¥849 million (\$7,226 thousand), which was recorded as non-operating expenses for the year ended March 31, 2006. At the same time, DEODEO rebuilt a new retirement benefit plan and recorded a reversal of accrued retirement benefits of approximately ¥746 million (\$6,348 thousand) as non-operating income in relation to this shift to a new retirement benefit plan for the year ended March 31, 2006.

Major assumptions used in the calculation of the above information were as follows:

	2005	2006
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	1.4%~2.0%	1.5%~2.0%
Expected rate of return on pension plan assets	0.8%~1.0%	0.8%~1.0%
Amortization of actuarial differences	10 years	10 years
Amortization of past service cost	10 years	10 years

### 8. Contingent liabilities

EDION was contingently liable for guarantee of bank borrowings made by certain affiliates in the aggregate amounts of ¥1,478 million and ¥2,059 million (\$17,524 thousand) at March 31, 2005 and 2006, respectively. EDION was also contingently liable for guarantee of debt of others for ¥784 million and ¥29 million (\$ 244 thousand) at March 31, 2005 and 2006, respectively.



## Notes to the Consolidated Financial Statements

EDION Corporation and Subsidiaries  
For the Years Ended March 31, 2005 and 2006

### 9. Income Taxes

Income taxes in Japan applicable to EDION consist of corporate tax, inhabitants' taxes and enterprise taxes. Enterprise taxes are deductible when paid as an expense for the purpose of the calculation of other income taxes. The effective statutory tax rate was 40.2% for the years ended March 31, March 31, 2005 and 2006, respectively.

At March 31, 2005 and 2006, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Depreciation expense	¥ 398	¥1,208	\$10,281
Allowance for doubtful accounts	243	199	1,691
Accrued bonuses to employees	1,344	1,904	16,210
Impairment loss on fixed assets	—	725	6,172
Accrued retirement benefits to employees	3,049	3,005	25,578
Accrued retirement benefits to directors and corporate auditors	267	262	2,233
Accrued welfare expenses	137	202	1,723
Accrued sales discounts	1,334	1,324	11,270
Enterprise tax accruals	326	397	3,380
Intercompany gain on fixed assets	139	115	984
Consolidating valuation adjustment	—	1,522	12,956
Operating loss carryforward	107	704	5,993
Other	796	971	8,267
Total deferred tax assets	8,140	12,538	106,738
Less, valuation allowance	(824)	(3,099)	(26,383)
Net deferred tax assets	7,316	9,439	80,355
Deferred tax liabilities:			
Unrealized gain on other securities	(294)	(621)	(5,290)
Other	(216)	(335)	(2,850)
Total deferred tax liabilities	(510)	(956)	(8,140)
Net deferred tax assets	¥6,806	¥8,483	\$72,215

At March 31, 2005 and 2006, deferred tax assets and liabilities were recorded as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Current	¥3,403	¥4,639	\$39,494
Non-current	3,459	3,892	33,132
Deferred tax liabilities:			
Non-current	(56)	(48)	(411)
Net deferred tax assets	¥6,806	¥8,483	\$72,215

In assessing the realizability of deferred tax assets, management of EDION considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2005 and 2006, a valuation allowance was provided to reduce the deferred tax

assets to the extent that the management believes that the amount of the deferred tax assets is expected to be realizable.

Reconciliation of the differences between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2006 was as follows:

	2005	2006
Japanese statutory effective tax rate	40.2%	40.2%
Increase (decrease) due to:		
Permanent non-deductible expenses	0.3	0.3
Different income tax rates applied to a certain subsidiary	(1.3)	(0.8)
Local minimum taxes per capita levy	3.1	2.2
Amortization of consolidating adjustment account	0.5	(0.0)
Change in valuation allowance	(0.6)	4.6
Other	1.4	1.7
Actual effective tax rate in the consolidated statements of income	43.6%	48.2%

### 10. Leases

Total lease expenses under finance lease contracts other than those which transfer ownership of the assets at the end of the lease term amounted to ¥2,277 million and ¥2,246 million (\$19,119 thousand) and are charged to expense when incurred for the years ended March 31, 2005 and 2006, respectively, while the reversal of allowance for impairment loss on leased property of ¥62 million (\$525 thousand) for the year ended March 31, 2006.

Pro forma information of the leased property such as acquisition costs, accumulated depreciation, depreciation and interest expenses, as at or for the years ended March 31, 2005 and 2006, on "as if capitalized" basis, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Acquisition costs	¥10,809	¥8,799	\$74,908
Accumulated depreciation	6,298	4,523	38,504
Accumulated impairment loss	—	108	922
Net book value	¥4,511	¥4,168	\$35,482
Depreciation	¥2,161	¥2,092	\$17,808
Interest	98	80	677
Impairment loss on fixed assets	—	116	984

Note:1) Pro forma depreciation of the leased property is computed by the straight-line method over the lease contract terms, assuming the leased property had been capitalized.  
2) Pro forma interest on lease obligations for financing leases is computed by the interest method over the lease contract terms.



## Financial Statements

At March 31, 2005 and 2006, aggregate future minimum lease payments for such noncancelable agreements were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finance leases as lessee:			
Within one year	¥ 1,732	¥ 1,661	\$ 14,138
Over one year	2,855	2,621	22,316
	¥ 4,587	¥ 4,282	\$ 36,454
Allowance for impairment loss on leased property	¥ —	¥ 54	\$ 459
Operating leases as lessee:			
Within one year	¥ 2,572	¥ 3,092	\$ 26,322
Over one year	28,215	30,034	255,670
	¥30,787	¥33,126	\$281,992

### 11. Segment Information

Information by industry segment is not disclosed, as EDION operates predominantly in a principal industry, "Household electric and related products and repair service" for the years ended March 31, 2005 and 2006. Information by geographic segment and overseas sales is also not disclosed, as EDION had no overseas subsidiaries and branches.

### 12. Subsequent Events

#### (a) Appropriation of retained earnings

The following appropriations of retained earnings in respect of the year ended March 31, 2006 were proposed by the Board of Directors and approved by the shareholders of the Company at the annual general meeting held on June 29, 2006:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Year-end cash dividends (¥10 per share)	¥1,056	\$8,991

#### (b) Capital cooperation agreement with Ishimaru Denki

The Company reached to the agreement for the capital cooperation with Ishimaru Denki Co., Ltd. ( "Ishimaru Denki" ) based on the resolution of the Board of Directors held on April 27, 2006. The Company plans to acquire 33.4% equity interest of Ishimaru Denki in July 2006. Ishimaru Denki is a household electric retailer located in Kanto area of Japan. This cooperation is expected to provide strong wide-ranging retail network to develop more efficient management resources. Information of Ishimaru Denki is as follows:

Establishment date	January 1966
Address of head office	Chiyoda-ku, Tokyo
Capital stock	¥100 million (\$851 thousand) (*)
Gross sales	¥41,026 million (\$349,246 thousand)(*)
Numbers of store	19 (*)
Numbers of employees	612 (*)

(\*) Data as of or for the year ended March 20, 2006



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**Report of Independent Auditors**

To the Board of Directors and Shareholders of  
EDION Corporation

We have audited the accompanying consolidated balance sheets of EDION Corporation and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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 subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As disclosed in Note 2(i), effective for the year ended March 31, 2006, EDION Corporation and its subsidiaries have adopted a new accounting standard for impairment of fixed assets. In addition, as described in Note 2(g), effective for the year ended March 31, 2005, a certain subsidiary, EIDEN Corporation, changed its accounting method of merchandise inventories.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

*ChuoAoyama PricewaterhouseCoopers*  
ChuoAoyama PricewaterhouseCoopers  
Nagoya, Japan  
June 29, 2006



## Corporate Profile

### Corporate Information (As of March 31, 2006)

● Company Name	EDION Corporation
● Business	Safeguarding and management of subsidiary companies DEODEO Corporation, EIDEN Co., Ltd., and MIDORI DENKA Co., Ltd., which are primarily engaged in sales of home electronics, and Kurashino Design Co., Inc., which is engaged in mail-order sales of furniture and interior goods, though joint ownership of the subsidiaries' stock.
● Date of Establishment	March 29, 2002
● Paid-In Capital	¥10,174.63 million
● Main Store	8-9-5 Nishi Gotanda Shinagawa-ku, Tokyo 140-0031
● Head Office	8-70-1, Kakuoza-dori, Chikusa-ku, Nagoya city, Aichi 464-8646
● Number of Employees	Non-Consolidated: 246 Consolidated: 8,413

### Share Status (As of March 31, 2006)

● Close of Fiscal Year	March 31
● Number of Shares Issuable	300,000,000
● Number of Shares Issued	105,665,636
● Number of Shareholders	15,791
● Stock Listing	First section of Tokyo and Nagoya Stock Exchanges
● Stock Code	2730

### Board of Directors and Corporate Auditors (As of June 29, 2006)

#### ● Board of Directors

President	Masataka Kubo	Chairman, DEODEO Corporation
Vice President	Shoichi Okajima	President, EIDEN Co., Ltd.; Chief of Administration Department, Manager of Business Development Department
Vice President	Masayuki Umehara	President, MIDORI DENKA Co., Ltd.
Vice President	Kazutoshi Tomonori	President, DEODEO Corporation; Chief of Sales Management Department
Director	Tsutomu Yanagita	Executive Director, DEODEO Corporation; Chief of Product Control Department
Director	Makoto Fujikawa	Executive Director, EIDEN Co., Ltd.; Manager of Personnel Department
Director	Hiroo Murata	Executive Director, MIDORI DENKA Co., Ltd.
Director	Shingo Toyama	Chief of Corporate Planning Department

#### ● Auditor

Standing Auditor	Masahiro Sasaki	Auditor, EIDEN Co., Ltd.
Auditor	Katsuharu Ishida	
Outside Auditor	Takenori Iso	Auditor, EIDEN Co., Ltd.
Outside Auditor	Takashi Okinaka	Auditor, MIDORI DENKA Co., Ltd.