EDION Corporation

EDION Corporation Ticker code: 2730

http://www.edion.com/

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EDION
エディオン

ANNUAL REPORT

Annual Report 2014

Fiscal Year Ended March 31, 2014

Management Principle

Achieving the principle of Customers First through high-quality products and reliable service

Provision of high-quality products

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

Reliable service

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

Corporate Message

Reassuring Feelings and Lasting Satisfaction

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

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Disclaimer Regarding Forward-Looking Statements

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

Group History

Mar. 2002	DEODEO Corporation based in the Chugoku, Shikoku, and Kyushu regions, and EIDEN Co., Ltd. based in the Chubu region, established EDION Corporation through the equity transfer method.
Apr. 2005	EDION Corporation acquired 100% ownership of MIDORI DENKA Co., Ltd. based in the Kinki region by a way of a share-for-share exchange.
July 2006	EDION Corporation acquired 33.4% of shares in Ishimaru Denki Co., Ltd. based in the Kanto region.
Feb. 2007	EIDEN Co., Ltd. acquired 100% of outstanding shares in Mitsuishi Denka Center Co., Ltd.
Mar. 2007	EDION Corporation invested additional capital to acquire more shares in Ishimaru Denki Co., Ltd. (40% of outstanding shares in total), converting it to a consolidated subsidiary.
June 2007	EDION Corporation acquired 40% of outstanding shares in 3Q Co., Ltd. based in the Hokkaido and Hokuriku regions, converting it to a consolidated subsidiary.
Oct. 2007	EDION Corporation established TOKYO EDION Corporation, a wholly-owned subsidiary, to strengthen its business base in the Kanto region.
Oct. 2008	Tokyo EDION Corporation acquired all remaining outstanding shares in Ishimaru Denki Co., Ltd.
Feb. 2009	EIDEN Co., Ltd. merged with TOKYO EDION Corporation, Ishimaru Denki Co., Ltd. and others.
May 2009	Initiated home remodeling business operations.
Oct. 2009	DEODEO Corporation merged with MIDORI DENKA Co., Ltd. and changed its company name to EDION WEST Corporation.
Oct. 2009	EIDEN Co., Ltd. changed its company name to EDION EAST Corporation.
Oct. 2009	EDION Corporation began offering WiMax (Worldwide Interoperability for Microwave Access) Internet access service, *EDION KuaL net*.
Mar. 2010	EDION Corporation established the EDION Product Performance Testing Laboratory.
Oct. 2010	EDION Corporation merged with EDION WEST Corporation and EDION EAST Corporation.
Oct. 2010	EIDEN COMMUNICATIONS Co., Ltd., a consolidated subsidiary, changed its company name to EDION COMMUNICATIONS Corporation, and consolidated the mobile phone business operations.
Apr. 2011	EDION Corporation merged with COMNET Co., Ltd.
Oct. 2011	EDION Corporation acquired all remaining outstanding shares in 3Q Co., Ltd.
Apr. 2012	3Q House System Co., Ltd., a subsidiary, changed its company name to EDION HOUSE SYSTEM Corporation, and established a framework to strengthen the housing equipment business, including home improvement, solar power generation systems and all-electric homes.
Apr. 2012	EDION Corporation jointly invested in E.R. JAPAN Corporation, a subsidiary that engages in the reuse and recycling business.
July 2012	EDION Corporation introduced *Reassurance Warranty Card*.
Oct. 2012	EDION Corporation unified its multiple store brands, *Ishimaru*, *EIDEN*, *MIDORI* and *DEODEO*, into *EDION*.
Aug. 2013	EDION Corporation formed a capital and business alliance with the LIXIL Group Corporation and increased their capital by allotment of new shares to a third party.

Outline of the EDION Group

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

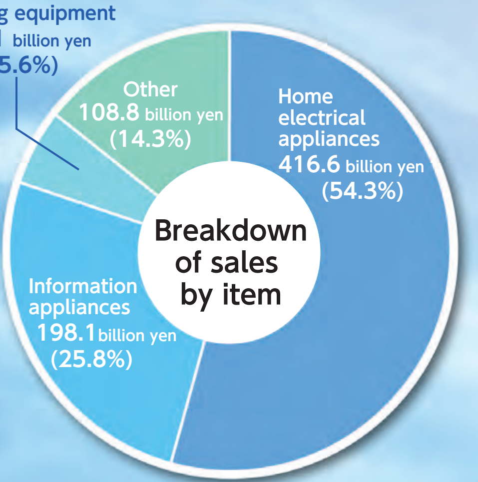
The Group engages in a variety of businesses, aiming to be a company that *continually endeavors to support richness and abundance in our customers' lives.*

The EDION Group runs community-based stores under the following store brands: *EDION*, which EDION Corporation operates in the Kanto, Chubu, Kinki, Chugoku, Shikoku, and Kyushu and Okinawa regions; and *Hyakuman Volt*, which 3Q Co., Ltd., our subsidiary, operates in the Hokuriku and Hokkaido regions.

Net sales

766.6 billion yen

(Fiscal year ended March 2014)



Number of full-time employees

9,109 employees

(As of March 31, 2014)

Number of stores

1,212 stores

Number of directly operated stores: 435

Number of FC stores: 777

* FC stores stand for franchise stores.

(As of March 31, 2014)

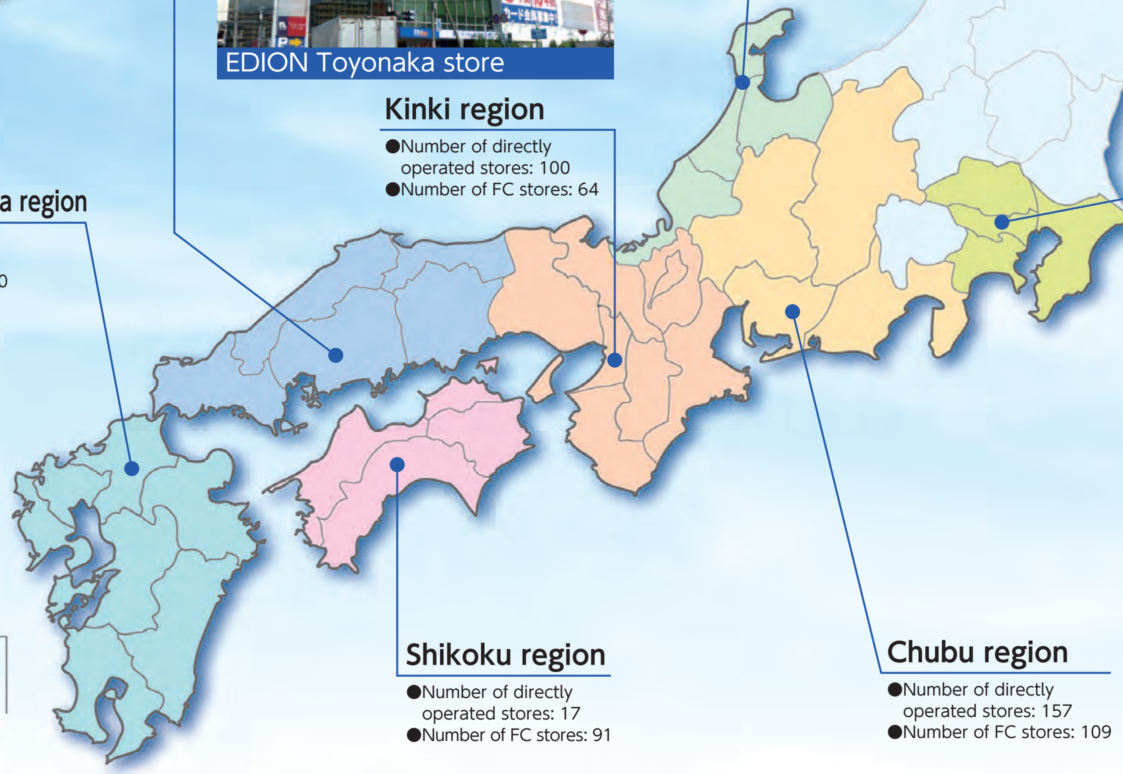
EDION Hiroshima Main store

EDION Toyonaka store

Hyakuman Volt Kanazawa Main store

EDION AKIBA

EDION Toyota Main store



Hokkaido region
- Number of directly operated stores: 8
- Number of FC stores: 0

Hokuriku region
- Number of directly operated stores: 20
- Number of FC stores: 0

Chugoku region
- Number of directly operated stores: 85
- Number of FC stores: 273

Kinki region
- Number of directly operated stores: 100
- Number of FC stores: 64

Kyushu and Okinawa region
- Number of directly operated stores: 37
- Number of FC stores: 240

Kanto region
- Number of directly operated stores: 11
- Number of FC stores: 0

Shikoku region
- Number of directly operated stores: 17
- Number of FC stores: 91

Chubu region
- Number of directly operated stores: 157
- Number of FC stores: 109

Franchise stores

The Group offers meticulous services to customers in each region.

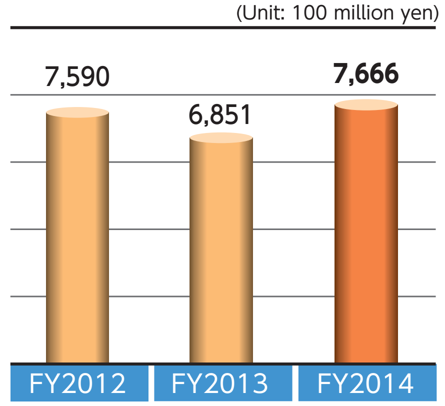
The EDION Group has been opening small-scale stores called EDION Family Shops. As a neighborhood store close to customers in each region, EDION Family Shops offer a wide selection of consumable goods to enhance convenience for customers and also conduct community-based business activities, including a service of replacing electric bulbs and fluorescent lamps.

Financial Highlights

Business term	9th	10th	11th	12th	13th
Fiscal year	FY ended March 2010	FY ended March 2011	FY ended March 2012	FY ended March 2013	FY ended March 2014
Net sales (million yen)	820,031	901,010	759,025	685,145	766,700
Operating income (loss)(million yen)	10,510	26,340	9,286	(2,477)	13,721
Net income (loss) (million yen)	9,323	16,212	3,698	(2,641)	5,150
Comprehensive income (loss)(million yen)	—	17,371	6,009	(2,396)	5,123
Net assets (million yen)	141,643	155,948	144,229	138,489	146,757
Total assets (million yen)	403,180	403,400	362,654	378,087	385,800
Book-value per share (yen)	1,237.96	1,376.18	1,384.69	1,361.19	1,325.29
Earnings (loss) per share (yen)	89.60	157.76	35.87	(25.80)	48.42
Shareholders' equity ratio (%)	31.67	34.97	39.53	36.56	37.96
Return on equity (%)	7.49	12.06	2.60	(1.88)	3.62
Price earnings ratio (times)	10.75	4.48	16.17	–	11.88
Cash flows from operating activities (million yen)	35,576	41,833	15,134	(4,644)	47,741
Cash flows from investing activities (million yen)	(23,010)	(16,539)	(10,232)	(13,401)	(13,155)
Cash flows from financing activities (million yen)	(11,713)	(23,169)	(14,211)	17,326	(22,259)
Cash and cash equivalents at the end of the period (million yen)	17,865	19,990	10,686	9,967	20,294
Number of stores	1,101	1,130	1,176	1,177	1,212
Capital expenditure (million yen)	25,854	20,242	9,163	15,670	20,068
Number of employees [Average number of temporary employees not included in the above numbers]	10,640 [6,371]	10,022 [7,095]	9,759 [6,502]	9,602 [6,450]	9,109 [6,894]

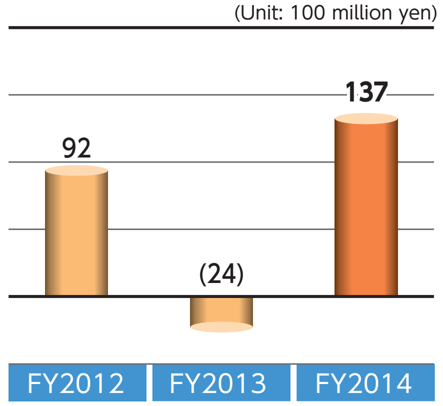
Net sales

(Unit: 100 million yen)



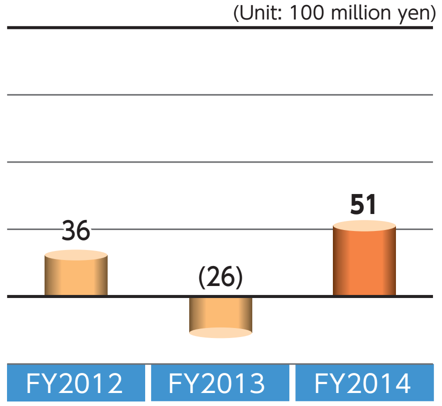
Operating income

(Unit: 100 million yen)



Net income

(Unit: 100 million yen)



Business Performance

In the current fiscal year, stock prices rose and corporate earnings have continued to recover in Japan against the backdrop of the Japanese government's economic measures and the Bank of Japan's monetary policy. With consumer sentiment turning around due to rising expectations for improvement in the employment environment and economic recovery, consumer spending has also continued to recover.

In the home electrical appliance retail sector, sales of home appliances, such as air conditioners, refrigerators, and washing machines, grew steadily due to last-minute demand before the consumption tax hike besides the recovery of consumer spending. In addition, the EDION Group saw sales of television sets, especially large-size devices centering on 4K models, increase year on year for eight months in a row from August 2013. Moreover, sales of personal computers also grew sharply, since replacement demand increased ahead of the ending of support for the Windows XP operating system.

In this environment, the EDION Group strove to further expand its *eco-living & solar power* goods on which it had been focusing for several years. Particularly in the field of home improvement, the Group began developing *Puchi De Refo*, a simple home improvement service that costs little money and takes little time to complete, and expanded its line-ups by marketing dishwashing and drying machines from March 2014, in addition to sanitary ware, range hoods, and washstands. As a result, sales of eco-living & solar power goods increased substantially. As the EDION Group regards the home improvement business as its next growth engine, it concluded a capital and business alliance agreement with the LIXIL Group, a manufacturer of building materials and housing equipment, to further strengthen the home improvement business. Management promoted this important business alliance by accepting experienced employees on loan from the LIXIL Group.

The EDION Group opened 23 directly operated home electrical appliance retail stores, including the *Fuji Grand Kitahama store (Ehime)* and the *Kuzuha Mall store (Osaka)*. It also relocated eight directly operated home electrical appliance retail stores, including the *Nagoya Main store (Aichi)*, and opened two directly operated non-home electrical appliance retail stores. At the same time, the Group closed nine directly operated home electrical appliance retail stores and six directly operated non-home electrical appliance retail stores, while franchise stores increased by 25, since Kakoi Electro Co., Ltd. in Kagoshima, which operates 20 stores, became a franchisee of the EDION Group in October 2013. As a result, the number of stores at the end of the current fiscal year totaled 1,212, including 777 franchise stores.

Consequently, the EDION Group posted net sales of 766,699 million yen (111.9% of the previous year), operating income of 13,720 million yen (operating loss of 2,476 million yen in the previous year), ordinary income of 14,883 million yen (1,007.9% of the previous year) and net income of 5,149 million yen (net loss of 2,640 million yen in the previous year).

Interview with President

Fiscal 2014

Our sales increased substantially due to last-minute demand before the consumption tax rate hike.

We focused our efforts on expanding the Internet shopping business.

President, Chairman, and Representative Director

Q Could you please tell us about the financial results for fiscal year ended March 31, 2014?

A Sales of television sets, which had been sluggish after the full transition to digital terrestrial broadcasting, finally hit a bottom and started recovering from August 2013. In addition, consumer spending gradually picked up due to economic stimulus measures by the Japanese government. Furthermore, last-minute demand before the consumption tax rate hike in April 2014 largely exceeded our projection. Consequently, our financial results exceeded our guidance, with net sales of 766.6 billion yen (up 11.9% from the previous year), ordinary income of 14.8 billion yen (up 907.9% from the previous year) and net income of 5.1 billion yen (net loss of 2.6 billion yen in the previous year).

Q Could you please describe the Group's efforts to expand the Internet shopping business?

A Although our Internet shopping business had been lagging behind that of our competitors, we enhanced our efforts to expand the business from April 2013. Our efforts paid off, boosting our sales in the Internet shopping business to around 11.3 billion yen, up 379% from the previous fiscal year. Since we consider the Internet shopping as a potential channel for areas where we have fewer stores, we will further strengthen our efforts to increase sales through e-commerce, including increasing distribution capacity, expanding product line-ups, and opening our store on leading e-commerce shopping malls.

Q Could you please describe the Group's projection of financial results for the fiscal year ending March 2015?

A Sales decreased in reaction to last-minute demand before the consumption tax rate hike in April 2014, but the decline was smaller than we had previously expected. We expect sales will recover soon. Since high value-added goods, such as energy-saving refrigerators and air-conditioners, in particular, sold steadily in and after April 2014, we consider it is important to put more efforts into the marketing of high value-added goods. In addition, with the number of aging houses increasing, demand for home improvement, on which we have been focusing, is expected to expand continuously. We will try to grow sales and profits by enhancing our efforts in both the marketing of high value-added goods and the cultivation of home improvement demand.

EDION's Activities

Store development

We aim to open more attractive stores.

- Newly opened stores
- Relocated and refurbished stores

Business development

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

- Eco-living & solar power goods business
- Energy management & support service business
- E-commerce business
- Mobile phones and smartphones business
- Internet service provider business

Service

We will always put ourselves in our customers' shoes and provide our customers with needed services and reassurance without fail.

- Well-established after sales service
- Card strategy
- Meticulously serving customers

Activities-1

Store development

We aim to open more attractive stores.

Newly opened stores

EDION Isahaya store (Nagasaki)

We have been opening new stores actively with the aim of boosting sales and profits. To improve profitability, we have tried to open stores tailored to the needs of customers in each region and their market size. We have been intensively opening new stores in western Japan, where we have many existing stores, to raise profitability by enhancing the efficiency of our logistics networks and advertising. We opened 23 new stores, mainly in western Japan, in fiscal 2014.

Relocated and refurbished stores

EDION Nagoya Main store (Aichi)

EDION Soja store (Okayama)

We are operating many stores across Japan. With the passage of time, some of them have failed to properly meet the characteristics of their market areas, such as location and size. In addition, the advent of new products has sometimes changed demand. To cope with such changes in the market, we have actively relocated and refurbished existing stores. In fiscal 2014, we relocated eight stores and refurbished many existing stores.

Activities-2

Business Development

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

Eco-living & solar power goods business

Refurbished kitchen

Industrial-use photovoltaics power generation systems

All-electric home appliance

The housing equipment-related market, including home improvement and photovoltaics power generation systems, is a large market that is comparable in size to the home electrical appliance market. In particular, the home improvement market is expected to expand in the future, since the Japanese government positions home improvement as a part of its New Growth Strategy. In addition, demand for products used at all-electric home appliance, such as photovoltaics power generation systems, EcoCute, and IH cooking heaters, is likely to grow, along with increased awareness of energy-saving and a reduction in power consumption. Since the eco-living & solar power goods business—including home improvement, photovoltaics power generation systems, and all-electric home appliance—has huge growth potential, we will continue to strengthen this business.

More detailed articles are available on pages 14 and 15 of this Annual Report.

Mobile phones and smartphones business

The growth of the smartphone market, which had expanded in recent years thanks to solid replacement demand, slowed down from the middle of 2013. One of the largest reasons is mobile phone bills. Generally, customers need to pay more for the services they use each month when they replace existing mobile phones with smartphones. Some customers show strong resistance to higher communication charges, even if they have interest in smartphones with many functions, which they feel to be convenient and fun. To attract such price-conscious customers, we have begun to offer the *EDION Select Smartphone*, with more affordable smartphone plans. We will strengthen our lineup of economical smartphone options so that consumers can enjoy using smartphones without worrying about telephone charges.

E-commerce business

In the home electrical appliance market, sales through the Internet have been growing year after year. To respond to the needs of customers who use our Internet shop, we have expanded our product lineups and introduced a guaranteed minimum price scheme so that customers can purchase goods through us without spending too much time comparing prices with those of our competitors. In addition, we have also upgraded our logistics system to substantially increase our distribution capacity along with sales expansion.

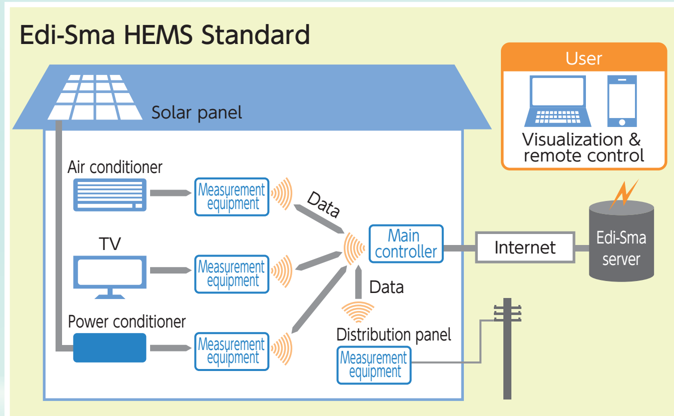
In the future, we will further improve and strengthen our services to enhance our market share in the Internet market.

Internet service provider business

We operate *EDION Net*, an Internet service provider business. Under this business, we run *KuaLnet*, services for customers using mobile equipment, and *Enjoynet*, services for customers using fixed-line Internet, such as optical fibers and Asymmetric Digital Subscriber Line (ADSL). Our customers can combine the above services as they like. We provide many service plans to meet diversified customer needs.

In addition, we have started the application service provider (ASP) business, which enables customers to enjoy using the Internet safely. We have a wide selection of services, including *Enjoy with U-NEXT*, a video distribution service that delivers more than 55,000 movies and dramas, and Internet security applications.

Energy management & support service business



This service is designed to enable customers to monitor and manage their use of electricity. Customers can check power consumption through personal computers, smartphones, and tablets connected to the Internet instead of specialized monitors. In addition, the service allows customers to use solar power generation systems and control equipment based on the use of electricity. Furthermore, we are offering *Energy Saving and Reducing Power Consumption Consulting Service* to optimize the use of electricity using power consumption data.

Activities-3

Service

We will always put ourselves in our customers' shoes and provide our customers with needed services and reassurance without fail.

Well-established after sales service

On-site services

Service counter

「家電のプロ」の知識と技術を、ご家庭へ。
家電トータルサポート
クリーニング テレビ・PC設定 おそうじ・点検 電気工事 リフォーム

Air conditioner cleaning service

We have been devoting ourselves to building a high-quality after-sales service system to ensure that our customers can continue using the goods they have purchased under optimal conditions.

In addition to services that meet customers' needs, including same-day delivery and time-specified delivery, we also offer problem diagnosis at service counters in our stores and on-site services by our service staff. Currently, there are approximately 1,500 employees in our Service Division, one of the most advanced service systems in the Japan's home electrical appliance retail industry.

Furthermore, we also provide *Electrical Appliance Total Support*, a service whereby we respond to various customers' needs (not limited to sales and repairs of electrical appliances), including the cleaning of air conditioners and the inspection of electrical appliances by professional experts.

Card strategy

The EDION Card, a membership card of the EDION Group, features a five-year (sometimes 10-year) repair warranty for electrical home appliances that are over 5,000 yen/item (excluding consumption tax; with some exceptions) for an annual service fee of only 980 yen (excluding consumption tax).

Moreover, using the EDION Card offers additional advantages to customers, since they can earn loyalty points not only every time they shop at EDION Group stores, but also when they purchase goods on credit in Japan or overseas. In addition, we have also introduced the *Reassurance Warranty Card*, a convenient card that charges no annual service fee, but offers customers loyalty points and repair warranty. We will respond to diversified customers' needs and offer reliable service with these two types of cards.

Meticulously serving customers

To recommend products most suited to customers' needs, we have been paying special attention to personnel education.

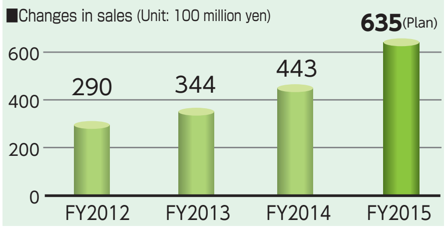
In addition to training given when employees enter the company, we implement our stratified education training for our employees in accordance with the year when they joined the company and their position.

Furthermore, in order to help employees master product knowledge, etc., we are encouraging our employees to acquire qualifications, including for a qualified electric home appliance advisor and a qualified electrical home appliance engineer, certified by the Association for Electric Home Appliances. A total of 4,325 employees are qualified as an electric home appliance advisor (as of June 30, 2014). They are recommending optimum products to customers using their extensive product knowledge.

Feature Articles

Eco-living & solar power goods

We have been focusing on expanding the *eco-living & solar power goods* business, including home improvement, photovoltaics power generation systems, and all-electric homes. Above all, we regard the home improvement business as our next growth engine, and we will thus increase the number of stores that handle the home improvement business. After making a full-scale entry into the home improvement business in fiscal 2010, we saw our sales increase steadily and achieved a leading position as a retailer. In addition, we will establish home improvement training centers at four locations in Japan to foster workers and raise the skills of workers and increase the number of improvement work supervisors, so that we can offer customers a home improvement proposal to *live a comfortable life* and create a solid work management system that *meets the demands of customers*.



Ranking of re-modeling contractors in terms of sales in 2013

EDION achieved a leading position among companies in the retail industry in terms of sales. **No.1**[*1]

Proven track record

Number of orders received for home improvement, photovoltaics power generation, and all-electric home appliance

70,000 orders (annual)[*2]

Our *innovative home improvement* was evaluated.

Japan Productivity Center Service Industry Productivity Council

High Service Japan 300 Award[*3]

*1: Source: The Japan Journal of Remodeling September 24, 2013 *2: Actual from January 2013 to December 2013 *3: The EDION Group's innovative home improvement program, which has achieved easy-to-implement renovations, was designated as one of the "High Service Japan 300" selected under the Service Productivity & Innovation for Growth program of the Japan Productivity Center.

Home improvement

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

Photovoltaics power generation system

The market for photovoltaics power generation systems has been growing rapidly against the backdrop of increased awareness of energy conservation and demand stimulus measures, such as the government's subsidy and the feed-in tariff system. In particular, the installation of industrial-use photovoltaics power generation systems on the roofs of buildings and condominiums has been rapidly progressing, thanks to significant support from the government, including an all-quantity buyback system of renewable energy and tax breaks on green investment.

All-electric home

An all-electric home appliance aims to reduce household's utilities costs by replacing gas ranges and hot-water supply systems with induction heating (IH) cooking heaters and EcoCute, an electric heat pump water heater. The system enables users to cut back on utility expenses through the supply of hot water heated using cheap nighttime power. It has won popularity due to its safety aspects: little risk of a fire, etc.

Packaged solutions which include the construction work

Reliable service and abundant experience

Reliable remodeling of EDION

- Remodeling
- Photovoltaic power generation system
- All-electric home appliance

Home de Refo

Remodeling of the interior and exterior of the house

EDION respond to various needs of whole house remodeling and partial remodeling.

Pack de Refo

Remodeling of the plumbing related equipment

EDION improve the domestic plumbing related equipment including interior.

Kitchen

¥858,000 (without tax)

Bathroom

¥858,000 (without tax)

Sanitary room

¥288,000 (without tax)

Petit de Refo

Replacement of the housing equipment

EDION solve the problem of the housing equipments for low cost and short time.

Washstands

¥66,800 (without tax)

Range hoods

¥75,800 (without tax)

Sanitary ware

¥132,800 (without tax)

Built-in dishwashing machines

¥94,800 (without tax)

CSR Activities
(Philanthropic Activity Program)

Environmental activities

We have been engaged in activities aimed at protecting the global environment.

Global environmental protection activities

Hiroshima Forest Planting Activities in Takehara

We have been actively participating in various tree-planting projects and environmental protection activities, as part of our activities to contribute to local communities and environmental protection.

Every year, we have participated in the *Hiroshima Forest Planting Activities in Takehara*, which Hiroshima Prefecture has implemented as a series of its forest popularization project, since the start of the event. In addition, we have also taken part in the *Yoshino Forestation Activities*, forest thinning on Mt. Yoshino in Nara Prefecture, which is registered as a World Heritage Cultural Site.

We will continue working together with local communities and participating in various environmental protection activities.

Promoting the recycling of resources

We established E.R. Japan Corporation in April 2012, jointly with Kimura Metal Industry Co., Ltd. and Mitsui & Co., Ltd., with the aim of starting the reuse and recycling business.

The joint venture company not only purchases and sells used information communications equipment, including personal computers and mobile phones, but is also engaged in the resource recycling business in which the company removes, recovers and recycles copper, steel, aluminum, and plastic from end-of-life small home electrical appliances at a plant in Fukuyama, Hiroshima Prefecture, which began operating in December 2013. We sell recycled useful resources to metal trading houses and refinery companies in Japan, contributing to the recycling of resources.

Introducing energy-saving equipment

Solar power generation systems installed on the roof of the EDION Nagoya Main store

We have been introducing energy-saving equipment in our stores to protect the global environment and reduce utility costs.

In fiscal 2011, we began installing a real-time energy saving control system, which enables persons in head office to meticulously control air conditioners and lighting at our stores. In addition, we have been promoting the installation of solar power generation panels, light-emitting diode (LED) lightning, motion sensors in warehouses, and the use of eco-friendly floor tiles at newly opened stores.

Community Activities

We have been getting involved in sports promotion and cultural activities to contribute to the development of regional communities.

Sports promotion

●EDION Women' s Track and Field Club

Since its establishment in 1989, the EDION Women' s Track and Field Team has been focusing on the Women' s Corporate Team Ekiden. The team has participated in the All-Japan Women' s Corporate Team Ekiden Championships—held every December—a total of 23 times, and has produced excellent athletes, some of whom were selected for the Japanese national team for the London 2012 Olympic Games. Our team has contributed substantially to the development of athletics in Japan and overseas.

●EDION Archery Club

Since its establishment in 1990, the EDION Archery Team has produced outstanding archers, who have been selected for the Japanese national team for the Atlanta 1996 Olympics, the Athens 2004 Olympics, and the London 2012 Olympics. The team won the championship in the team competition of the 62nd All-Japan Corporate Team Archery Championships in 2014. In the Archery World Cup 2014 in Shanghai, one of our team members won the championship in the individual competition, and the Japanese national team, which included our members, won the championship in the team competition. Our team has contributed greatly to the development of archery in Japan and overseas.

●Sanfrecce Hiroshima F.C.

We serve as a main sponsor of Sanfrecce Hiroshima F.C., a member team of the Japan Professional Football League (J. League). Sanfrecce Hiroshima FC won the J. League Division 1 championship in 2012 and 2013, and won Fuji Xerox Super Cup in 2008,2013 and 2014, substantially contributing to the promotion and development of sports activities in Hiroshima.

Cultural activities

We operate the *EDION Club*, an exclusive club for our card members, at the EDION Hiroshima Main store (Hiroshima) and the EDION Nagoya Main store (Aichi), to help our customers use home electrical appliances practically and comfortably.

The Club holds various events including hobby and educational classes, in which participants use home electrical appliances. These gatherings provide our customers with opportunities to learn how to use appliances efficiently and get to know each other better.

EDION Club

Corporate Governance

Outline of our corporate governance system

We have set up a board of directors, which meets twice monthly in principle and serves as a management decision-making body; the *Executive Committee*, which is held prior to a board of directors' meeting to discuss how to address important Group-wide management issues and conducts communication and coordination concerning the execution of operations; the Compliance Committee, which serves as crisis management headquarters in charge of ensuring compliance with our corporate ethics code; and the Risk Management Committee, which collectively manages risks surrounding the Group companies. In addition, a board of corporate auditors and the Internal Audit Department share information through liaison conferences to enhance our corporate governance system of the EDION Group as a whole.

Reasons for introducing a corporate governance system

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

To continue growing in a competitive and rapidly changing business environment and to win recognition and receive support from local communities as a quality service retailer, we recognize that ensuring appropriate exercise of governance in the EDION Group is an important management issue. Therefore, we have been continuously making efforts to create a system that enables our top management to promptly and precisely make decisions and execute what is decided without hesitation and improve communications within the Group, to have the opinions and requests of each stakeholder reach our decision making body in a timely manner. We also understand that building and maintaining a good relationship between our Group and our stakeholders is another key management issue. To that end, we will endeavor to create a system under which our top management makes decisions through processes that are transparent, objective, and reasonable from the viewpoint of all of our stakeholders (especially shareholders), and perform business activities with corporate social responsibility in mind. Moreover, it is indispensable for us to make group-wide efforts to foster and maintain a sense of compliance among all officers and employees so that we can obtain and maintain the trust of our customers. The EDION Group regards all these matters as issues of corporate governance.

In the EDION Group, directors and executive officers concurrently serve as chief officers or general managers. This system enables us to strengthen our management function, promptly ensure that all employees in our stores understand management decisions, and thoroughly implement group management with the EDION Corporation in a central position. It also functions as a key for mutual control among subsidiaries.

EDION Group Corporate Ethics

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

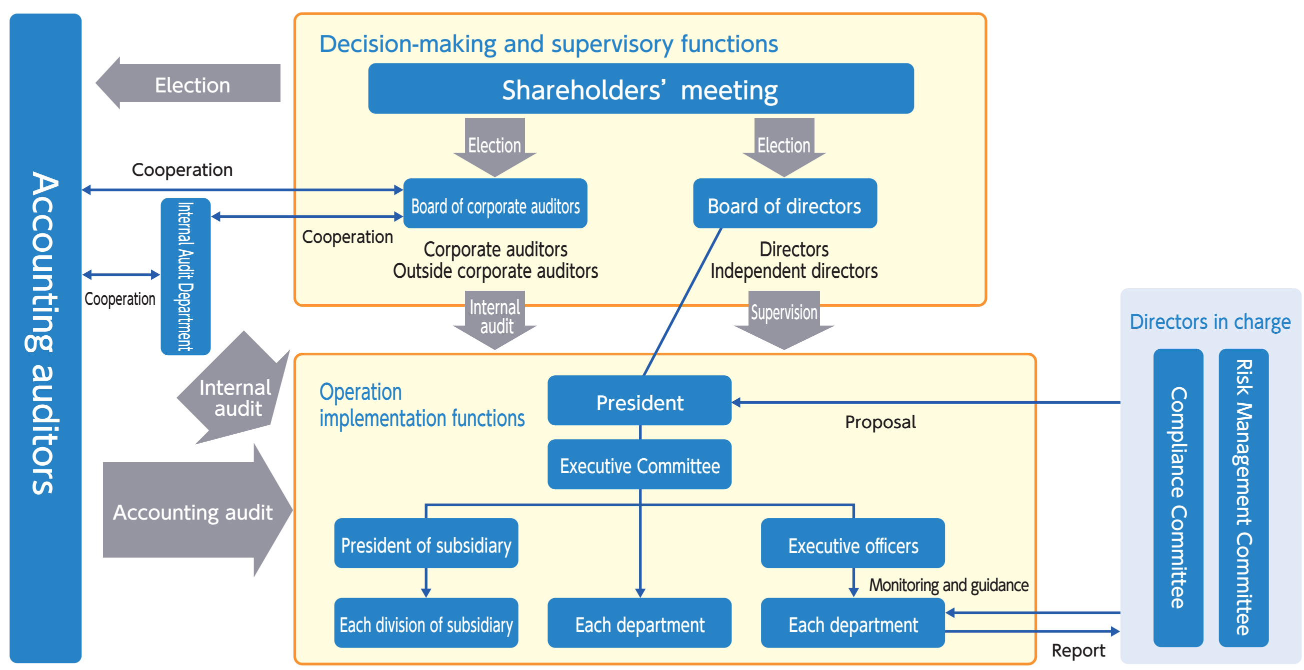
* ES is an abbreviation for employee satisfaction.

Current situation of our internal control system and risk management system

1. The board of directors, consisting of nine members (11 members at the date of submission), meets twice monthly in principle.
2. In the EDION Group, directors and executive officers concurrently serve as chief officers or general managers. This system enables us to strengthen our management function, promptly ensure that all employees in our stores understand management decisions, and thoroughly implement group management with EDION Corporation in a central position; It also functions as a key for mutual control among subsidiaries.
3. We have set up the *Executive Committee*, which is held prior to a board of directors' meeting to discuss how to address important Group-wide management issues and conduct communication and coordination concerning the execution of operations. The Executive Committee chaired by the President, consisting of directors and general managers of the relevant departments of EDION Corporation, meets weekly.
4. As part of our efforts to enhance corporate governance, we established a corporate ethics code, the *EDION Group Corporate Ethics*, in December 2004. From fiscal 2006, we distributed the *Group's Ethics and Compliance Manual* and portable *Code of Ethics Cards* to all directors and employees, and reinforced our compliance training and education system, including the training program for new employees. We have also established the *Compliance Committee*, which serves as crisis management headquarters in charge of ensuring compliance with our corporate ethics code. The Compliance Committee, consisting of a supervisory manager (the President of EDION Corporation), a chairperson (a director responsible for compliance) and members (General Affairs Dept. staff, Human Resource Dept. staff, Internal Audit Dept. staff, and corporate auditors), meets as necessary. In addition, we have set up a *Risk Management Committee*, which collectively manages risks surrounding the Group companies. The Risk Management Committee, consisting of a supervisory manager (the President of EDION Corporation), a chairperson (a director responsible for risk management) and members (General Affairs Dept. staff, Human Resource Dept. staff, Internal Audit Dept. staff and corporate auditors), meets as necessary. Furthermore, we have concluded an advisory contract with a law office to receive legal professional judgment concerning our management decisions and daily store operations, and expert advice concerning compliance with our ethical code by our directors and employees. Meanwhile, we have established our Personal Information Protection Policy and Administrative Regulations for Protecting Personal Information to comply with the Personal Information Protection Law that took effect in April 2005, and have also created a personal information protection and management system that is managed by the Administrative Headquarters of EDION Corporation.

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

●Corporate governance structure



Consolidated Balance Sheet

EDION Corporation and Consolidated Subsidiaries   March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Assets			
Current assets:			
Cash and cash equivalents *(Note 10)*	¥ 20,294	¥ 9,967	$ 197,181
Notes and accounts receivable:			
Trade *(Note 10)*	46,377	28,166	450,614
Other	12,827	11,878	124,631
Allowance for doubtful receivables	(38)	(35)	(368)
	59,166	40,009	574,877
Inventories:			
Merchandise and products	84,467	99,780	820,708
Supplies	251	281	2,441
	84,718	100,061	823,149
Deferred income taxes *(Note 9)*	9,409	7,999	91,425
Other current assets	4,211	4,410	40,903
Total current assets	177,798	162,446	1,727,535
Property and equipment, at cost *(Note 15)*:			
Land *(Notes 4, 6, and 7)*	77,299	76,199	751,063
Buildings and structures *(Notes 6 and 7)*	165,539	161,949	1,608,427
Tools, furniture and fixtures	23,827	23,956	231,509
Leased assets	1,935	1,206	18,801
Construction in progress	1,925	4,139	18,703
Other	592	667	5,741
	271,117	268,116	2,634,244
Accumulated depreciation	(116,517)	(114,114)	(1,132,109)
Property and equipment, net	154,600	154,002	1,502,135
Investments and other assets:			
Investments in securities *(Notes 3 and 10)*	2,776	3,971	26,974
Investments in affiliates *(Note 10)*	688	623	6,685
Leasehold deposits *(Note 10)*	29,304	30,860	284,730
Deferred income taxes *(Note 9)*	10,058	12,673	97,724
Other *(Note 15)*	10,576	13,512	102,757
Total investments and other assets	53,402	61,639	518,870
Total assets	¥ 385,800	¥ 378,087	$ 3,748,540

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Liabilities and net assets			
Current liabilities:			
Short-term bank loans *(Notes 7 and 10)*	¥ 4,000	¥ 36,000	$ 38,865
Current portion of long-term debt *(Notes 7 and 10)*	22,646	13,769	220,033
Notes and accounts payable:			
Trade *(Note 10)*	50,552	45,048	491,176
Other	13,909	14,259	135,144
	64,461	59,307	626,320
Lease obligations *(Notes 7 and 10)*	154	159	1,492
Accrued income taxes *(Note 9)*	2,605	365	25,308
Allowance for employees' bonuses	5,724	4,029	55,621
Reserve for point service program	9,378	8,420	91,121
Other current liabilities	24,012	10,556	233,313
Total current liabilities	132,980	132,605	1,292,073
Long-term liabilities:			
Long-term debt *(Notes 7 and 10)*	73,707	75,630	716,162
Accrued retirement benefits *(Note 8)*	–	8,913	–
Liability for retirement benefits *(Note 8)*	8,068	–	78,388
Lease obligations *(Notes 7 and 10)*	1,057	718	10,269
Negative goodwill *(Note 20)*	–	569	–
Deferred income taxes *(Note 9)*	51	–	493
Deferred income taxes for land revaluation *(Note 4)*	2,079	2,177	20,196
Allowance for merchandise warranties	7,487	6,478	72,748
Asset retirement obligations *(Note 5)*	5,934	5,119	57,655
Other long-term liabilities	7,680	7,389	74,626
Total long-term liabilities	106,063	106,993	1,030,537
Contingent liabilities *(Note 12)*			
Net assets			
Shareholders' equity *(Note 13)*:			
Common stock	11,940	10,175	116,016
Capital surplus	84,168	82,334	817,796
Retained earnings	59,220	56,914	575,400
Treasury stock, at cost	(802)	(2,192)	(7,789)
Total shareholders' equity	154,526	147,231	1,501,423
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities	192	264	1,866
Land revaluation difference *(Note 4)*	(8,559)	(9,283)	(83,161)
Retirement benefit liability adjustments *(Note 8)*	280	–	2,718
Accumulated other comprehensive loss, net	(8,087)	(9,019)	(78,577)
Stock acquisition rights *(Note 13)*	239	243	2,320
Minority interests	79	34	764
Total net assets	146,757	138,489	1,425,930
Total liabilities and net assets	¥ 385,800	¥ 378,087	$ 3,748,540

Consolidated Financial Statements

Consolidated Statement of Operations

EDION Corporation and Consolidated Subsidiaries   Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	**2014**
Net sales	**¥ 766,700**	¥ 685,145	**$ 7,449,475**
Cost of sales *(Note 14)*	**564,199**	511,528	**5,481,919**
Gross profit	**202,501**	173,617	**1,967,556**
Selling, general and administrative expenses	**188,780**	176,094	**1,834,240**
Operating income (loss)	**13,721**	(2,477)	**133,316**
Non-operating income (expenses):			
Interest and dividend income	**202**	363	**1,964**
Interest expenses	**(922)**	(984)	**(8,957)**
Purchase discounts	**520**	2,292	**5,051**
Loss on disposal of merchandise and products	**(212)**	(48)	**(2,064)**
Amortization of negative goodwill *(Note 20)*	**569**	1,139	**5,531**
Loss on sales or disposal of property and equipment	**(444)**	(1,601)	**(4,312)**
Loss on impairment of property and equipment *(Notes 6, 15 and 20)*	**(5,461)**	(4,540)	**(53,064)**
Gain on sales of investments in securities	**335**	11	**3,253**
Additional retirement benefits *(Note 8)*	**–**	(1,319)	**–**
Other, net	**587**	1,522	**5,704**
	(4,826)	(3,165)	**(46,894)**
Income (loss) before income taxes and minority interests	**8,895**	(5,642)	**86,422**
Income taxes *(Note 9)*:			
Current	**2,641**	709	**25,663**
Deferred	**1,059**	(3,699)	**10,288**
Total income taxes	**3,700**	(2,990)	**35,951**
Income (loss) before minority interests	**5,195**	(2,652)	**50,471**
Minority interests	**45**	(11)	**433**
Net income (loss)	**¥ 5,150**	¥ (2,641)	**$ 50,038**
	Yen		*U.S. dollars*
Amounts per share:			
Net income (loss)			
– Basic	**¥ 48.42**	¥ (25.80)	**$ 0.47**
– Diluted	**48.33**	–	**0.47**
Cash dividends	**22.00**	20.00	**0.21**

Consolidated Statement of Comprehensive Income

EDION Corporation and Consolidated Subsidiaries   Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	**2014**
Income (loss) before minority interests	**¥ 5,195**	¥ (2,652)	**$ 50,471**
Other comprehensive income :			
Net unrealized (loss) gain on other securities	**(72)**	256	**(701)**
Other comprehensive (loss) income, net *(Note 16)*	**(72)**	256	**(701)**
Comprehensive income (loss)	**¥ 5,123**	¥ (2,396)	**$ 49,770**
Comprehensive income (loss) attributable to:			
Shareholders of EDION Corporation	**¥ 5,078**	¥ (2,385)	**$ 49,337**
Minority interests	**45**	(11)	**433**

Consolidated Statement of Changes in Net Assets

EDION Corporation and Consolidated Subsidiaries   Year ended March 31, 2014

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2012	¥ 10,175	¥ 82,334	¥ 65,447	¥ (1,477)	¥ 156,479	¥ 8	¥ (13,118)	¥ –	¥ (13,110)	¥ 246	¥ 614	¥ 144,229
Cash dividends	–	–	(2,051)	–	(2,051)	–	–	–	–	–	–	(2,051)
Reversal of land revaluation difference	–	–	(3,841)	–	(3,841)	–	–	–	–	–	–	(3,841)
Net loss	–	–	(2,641)	–	(2,641)	–	–	–	–	–	–	(2,641)
Purchases of treasury stock	–	–	–	(715)	(715)	–	–	–	–	–	–	(715)
Disposition of treasury stock	–	(0)	–	0	0	–	–	–	–	–	–	0
Other changes	–	–	–	–	–	256	3,835	–	4,091	(3)	(580)	3,508
Balance at April 1, 2013	10,175	82,334	56,914	(2,192)	147,231	264	(9,283)	–	(9,019)	243	34	138,489
Issuance of new shares	**1,765**	**1,765**	–	–	**3,530**	–	–	–	–	–	–	**3,530**
Cash dividends	–	–	**(2,120)**	–	**(2,120)**	–	–	–	–	–	–	**(2,120)**
Reversal of land revaluation difference	–	–	**(724)**	–	**(724)**	–	–	–	–	–	–	**(724)**
Net income	–	–	**5,150**	–	**5,150**	–	–	–	–	–	–	**5,150**
Purchases of treasury stock	–	–	–	**(2)**	**(2)**	–	–	–	–	–	–	**(2)**
Disposition of treasury stock	–	**69**	–	**1,392**	**1,461**	–	–	–	–	–	–	**1,461**
Other changes	–	–	–	–	–	**(72)**	**724**	**280**	**932**	**(4)**	**45**	**973**
Balance at March 31, 2014	**¥ 11,940**	**¥ 84,168**	**¥ 59,220**	**¥ (802)**	**¥ 154,526**	**¥ 192**	**¥ (8,559)**	**¥ 280**	**¥ (8,087)**	**¥ 239**	**¥ 79**	**¥ 146,757**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2013	$ 98,860	$ 799,981	$ 552,998	$ (21,301)	$ 1,430,538	$ 2,567	$ (90,195)	$ –	$ (87,628)	$ 2,360	$ 332	$ 1,345,602
Issuance of new shares	**17,156**	**17,156**	–	–	**34,312**	–	–	–	–	–	–	**34,312**
Cash dividends	–	–	**(20,602)**	–	**(20,602)**	–	–	–	–	–	–	**(20,602)**
Reversal of land revaluation difference	–	–	**(7,034)**	–	**(7,034)**	–	–	–	–	–	–	**(7,034)**
Net income	–	–	**50,038**	–	**50,038**	–	–	–	–	–	–	**50,038**
Purchases of treasury stock	–	–	–	**(13)**	**(13)**	–	–	–	–	–	–	**(13)**
Disposition of treasury stock	–	**659**	–	**13,525**	**14,184**	–	–	–	–	–	–	**14,184**
Other changes	–	–	–	–	–	**(701)**	**7,034**	**2,718**	**9,051**	**(40)**	**432**	**9,443**
Balance at March 31, 2014	**$ 116,016**	**$ 817,796**	**$ 575,400**	**$ (7,789)**	**$ 1,501,423**	**$ 1,866**	**$ (83,161)**	**$ 2,718**	**$ (78,577)**	**$ 2,320**	**$ 764**	**$ 1,425,930**

Consolidated Statement of Cash Flows

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	**2014**
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	**¥ 8,895**	¥ (5,642)	**$ 86,422**
Adjustments for:			
Depreciation and amortization	**12,399**	13,123	**120,471**
Loss on impairment of property and equipment	**5,461**	4,540	**53,064**
Interest and dividend income	**(202)**	(363)	**(1,964)**
Interest expense	**922**	984	**8,957**
Amortization of negative goodwill, net	**(569)**	(1,126)	**(5,531)**
Increase (decrease) in allowance for employees' bonuses	**1,695**	(1,366)	**16,474**
Increase (decrease) in reserve for point service program	**958**	(270)	**9,312**
Decrease in accrued retirement benefits	**(8,913)**	(463)	**(86,602)**
Increase in liability for retirement benefits	**8,068**	–	**78,388**
Loss on sales or disposal of property and equipment	**444**	1,601	**4,312**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**(19,160)**	2,174	**(186,162)**
Decrease (increase) in inventories	**15,323**	(19,121)	**148,886**
Increase in notes and accounts payable	**5,267**	3,677	**51,180**
Other, net	**15,908**	1,582	**154,561**
Subtotal	**46,496**	(670)	**451,768**
Interest and dividends received	**118**	148	**1,144**
Interest paid	**(885)**	(964)	**(8,600)**
Surcharge paid	**–**	(4,048)	**–**
Proceeds from compensation for expropriation	**–**	552	**–**
Income taxes refunded	**427**	2,033	**4,155**
Income taxes paid	**(415)**	(1,695)	**(4,034)**
Net cash provided by (used in) operating activities	**45,741**	(4,644)	**444,433**
Cash flows from investing activities			
Proceeds from redemption of investments in securities	**1,000**	–	**9,716**
Purchases of property and equipment	**(17,307)**	(11,985)	**(168,156)**
Proceeds from sales of property and equipment	**3,598**	459	**34,962**
Purchases of intangible assets	**(1,020)**	(1,275)	**(9,910)**
Payments of long-term prepaid expenses	**(39)**	(60)	**(379)**
Purchases of investments in securities	**(170)**	(0)	**(1,650)**
Proceeds from sales of investments in securities	**932**	709	**9,052**
Increase in leasehold deposits, net	**(418)**	(1,689)	**(4,066)**
Increase (decrease) in leasehold deposits received from tenants, net	**433**	(52)	**4,204**
Other, net	**(164)**	492	**(1,590)**
Net cash used in investing activities	**¥ (13,155)**	¥ (13,401)	**$ (127,817)**
Cash flows from financing activities			
(Decrease) increase in short-term bank loans, net	**¥ (32,000)**	¥ 13,000	**$ (310,921)**
Proceeds from long-term loans	**20,723**	27,427	**201,351**
Repayments of long-term loans	**(11,900)**	(19,107)	**(115,624)**
Redemption of bonds	**–**	(500)	**–**
Redemption of convertible bonds	**(1,765)**	–	**(17,149)**
Proceeds from issuance of new shares	**3,530**	–	**34,312**
Cash dividends paid	**(2,119)**	(2,050)	**(20,590)**
Cash dividends paid to minority shareholders	**–**	(20)	**–**
Purchase of treasury stock	**(2)**	(718)	**(13)**
Proceeds from sales of treasury stock	**1,461**	0	**14,184**
Payment to minority shareholder due to liquidation of a subsidiary	**–**	(600)	**–**
Other, net	**(187)**	(106)	**(1,828)**
Net cash (used in) provided by financing activities	**(22,259)**	17,326	**(216,278)**
Effect of exchange rate changes on cash and cash equivalents	**0**	0	**0**
Net increase (decrease) in cash and cash equivalents	**10,327**	(719)	**100,338**
Cash and cash equivalents at beginning of the year	**9,967**	10,686	**96,843**
Cash and cash equivalents at end of the year	**¥ 20,294**	¥ 9,967	**$ 197,181**

Notes to Consolidated Financial Statements March 31, 2014

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of EDION Corporation (the "Company") and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income (loss) and net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥102.92 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2014. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company. The number of consolidated subsidiaries was 5 as of March 31, 2014 and 2013.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The Company has applied the equity method to investments in 3 affiliates as of March 31, 2014 and 2013.

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

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

The fiscal year end of consolidated subsidiaries is the same as that of the Company.

(b) Cash and cash equivalents

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

(c) Investments in securities

Securities have been classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited and charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

The Group recognizes impairment loss on securities in cases where the fair value of a security declines by more than 50% of carrying value. The Group also recognizes impairment loss of a necessary amount by considering the significance of the amount of decline in fair value, the recoverability of fair value and so forth when the fair value declines by 30% to 50%.

(d) Inventories

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

(e) Property and equipment (other than leased assets)

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

(f) Leased assets

Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

Finance lease transactions which do not transfer ownership to the lessee and commenced prior to April 1, 2008 were accounted for as operating leases.

(g) Goodwill and negative goodwill

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

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

(h) Allowance for doubtful receivables

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

(i) Allowance for employees' bonuses

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

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(j) Retirement benefits

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees.
Liability for retirement benefits is provided based on the amount of the projected benefit obligation after deducting the pension plan assets at fair value at the year end. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.
Prior service cost is amortized by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.
(Accounting Change)
The Company adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, issued on May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Section 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefit liability adjustments through accumulated other comprehensive income. As a result of this change, a liability for retirement benefits was recognized in the amount of ¥8,068 million ($78,388 thousand) and accumulated other comprehensive income increased by ¥280 million ($2,718 thousand) as of March 31, 2014. In addition, net assets per share increased by ¥2.53 ($0.02).

(k) Reserve for point service program

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

(l) Allowance for merchandise warranties

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

(m) Income taxes

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

(n) Derivatives and hedging activities

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

(o) Per share information

Basic net income (loss) per share is computed based on the net income (loss) attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price, and stock acquisition rights were exercised into common stock at the time of issue at the average stock price. Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of such years.
The average number of shares of common stock used to compute basic net income (loss) per share for the years ended March 31, 2014 and 2013 were 106,361 thousand and 102,353 thousand, respectively. The dilutive potential of shares of common stock for the year ended March 31, 2014 was 203 thousand. The dilutive potential of shares of common stock for the year ended March 31, 2013 has not been presented because loss before income taxes and minority interests was recorded.
Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end. Amounts per share of net assets at March 31, 2014 and 2013 were ¥1,325.29 ($12.88) and ¥1,361.19, respectively.

(p) Distribution of retained earnings

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

(q) Accounting standards issued but not yet effective

Accounting standards for retirement benefits

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.
(1) Overview
The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.
(2) Scheduled date of adoption
The Company has adopted the revised accounting standard effective March 31, 2014 as mentioned in "2. (j) Retirement benefits (Accounting Change)". However, the amendment of the calculation method for the present value of projected benefit obligations and current service costs will be adopted effective the beginning of the year ending March 31, 2015.
(3) Impact of adopting revised accounting standard and guidance
The Company expects no material impacts as a result of adopting the accounting standard and guidance on operating income and income before taxes and minority interests for the fiscal year ending March 31, 2015.

3. Investments in Securities

(1) Information regarding investments in securities classified as other securities inclusive of marketable securities at March 31, 2014 and 2013 were summarized as follows:

Millions of yen

	2014			2013		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 2,019	¥ 1,683	¥ 336	¥ 2,081	¥ 1,571	¥ 510
Other (*1)	–	–	–	677	560	117
Subtotal	¥ 2,019	¥ 1,683	¥ 336	¥ 2,758	¥ 2,131	¥ 627
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	¥ 532	¥ 576	¥ (44)	¥ 542	¥ 726	¥ (184)
Other (*2)	–	–	–	796	900	(104)
Subtotal	¥ 532	¥ 576	¥ (44)	¥ 1,338	¥ 1,626	¥ (288)
Total (*3)	¥ 2,551	¥ 2,259	¥ 292	¥ 4,096	¥ 3,757	¥ 339

Thousands of U.S. dollars

	March 31, 2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$19,618	$16,351	$ 3,267
Subtotal	$19,618	$16,351	$ 3,267
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	$ 5,170	$ 5,595	$ (425)
Subtotal	$ 5,170	$ 5,595	$ (425)
Total (*3)	$24,788	$21,946	$ 2,842

Notes:
(*1) Hybrid financial instruments containing embedded derivatives were included in "Other" at March 31, 2013 securities whose carrying value exceeds their acquisition costs in the above table at March 31, 2013. Aggregate gains on valuation of these hybrid financial instruments for the year ended March 31, 2013 were recognized in the amount of ¥37 million, consisting of gains on valuation in the amount of ¥96 million for the current year and losses on devaluation in the amount of ¥59 million for prior years.
(*2) Hybrid financial instruments containing embedded derivatives were included in "Other" of securities whose carrying value does not exceed their acquisition costs in the above table at March 31, 2013. Aggregate losses on devaluation of these hybrid financial instruments for the year ended March 31, 2013 were recognized in the amount of ¥104 million, consisting of gains on valuation in the amount of ¥175 million for the current year and losses on devaluation in the amount of ¥279 million for the prior years.
(*3) Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted equity securities are not included in the above table. The carrying values of such unlisted equity securities amounted to ¥225 million ($2,186 thousand) and ¥350 million as of March 31, 2014 and 2013, respectively.

(2) The proceeds from sales of and gross realized gain and loss on, other securities aggregate gain (loss) for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds from sales	¥ 932	¥ 709	$ 9,052
Gross realized gain	335	11	3,253
Gross realized loss	(2)	(1)	(19)

(3) Losses on devaluation of investments in securities of ¥115 million ($1,121 thousand) and ¥0 million were recognized in the consolidated statements of operations for the years ended March 31, 2014 and 2013, respectively.

4. Land Revaluation

The Company revaluated land held for business use, in accordance with the "Law on Land Revaluation" at March 28 and March 31, 2002. Differences on land revaluation have been accounted for as "land revaluation difference" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluations was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its fair value by ¥11,622 million ($112,922 thousand) and ¥10,433 million at March 31, 2014 and 2013, respectively, of which a certain portion of this land, in the amount of ¥3,185 million ($30,948 thousand) and ¥2,818 million, corresponded to real estate for lease at March 31, 2014 and 2013, respectively.

5. Asset Retirement Obligations

Asset retirement obligations mainly consist of restoration costs related to lease contracts for stores and rental property.
The amount of asset retirement obligations is calculated by the estimated useful life according to the terms of the agreement or mostly 15 years (in the case of agreements under the former Act on Land and Building Leases) using mainly a discount rate of 1.74%.
Changes in asset retirement obligations during the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance at beginning of the year	¥ 5,119	¥ 4,823	$ 49,741
Liabilities incurred due to the acquisition of property and equipment	853	279	8,287
Accretion expense	89	84	865
Liabilities settled	(127)	(67)	(1,238)
Balance at end of the year	¥ 5,934	¥ 5,119	$ 57,655

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own store properties, including buildings and land, for rent mainly in the main cities of Osaka, Aichi and other prefectures. Net rental revenue for these properties was recognized in the amount of ¥422 million ($4,104 thousand) and ¥261 million for the years ended March 31, 2014 and 2013, respectively. Rental revenue was included in net sales and rental expenses were mainly included in selling, general and administrative expenses. Impairment of rental property of ¥130 million ($1,259 thousand) and ¥340 million was recognized in the loss on impairment of property and equipment for the years ended March 31, 2014 and 2013, respectively.

Notes to Consolidated Financial Statements (continued)

6. Investment and Rental Property (continued)

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

Millions of yen

2014			
Carrying Value			Fair Value
March 31, 2013	Net change	March 31, 2014	March 31, 2014
¥ 24,698	¥ 878	¥ 25,576	¥ 24,088

Millions of yen

2013			
Carrying Value			Fair Value
March 31, 2012	Net change	March 31, 2013	March 31, 2013
¥ 25,916	¥ (1,218)	¥ 24,698	¥ 23,149

Thousands of U.S. dollars

2014			
Carrying Value			Fair Value
March 31, 2013	Net change	March 31, 2014	March 31, 2014
$ 239,970	$ 8,534	$ 248,504	$ 234,046

Notes:
1.The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2.The main component of net change in the carrying value are the increases due to the reclassification from other properties related to the change in the holding purpose in the amount of ¥2,613 million ($25,389 thousand) and decreases due to sales of ¥1,105 million ($10,732 thousand) for the year ended March 31, 2014. The main component of net change in the carrying value are the increase due to acquisition of properties of ¥21 million and decreases due to depreciation expenses of ¥607 million and impairment loss of ¥340 million for the year ended March 31, 2013.
3.The fair value was based on the real estate appraisals issued by the third party professional appraisers for main properties and internal computations including the adjustment by an index and others in accordance with appraisal standards for other properties.

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

Short-term bank loans at March 31, 2014 and 2013 consisted of bank overdrafts. The annual average interest rate applicable to the short-term bank loans was 0.34% and 0.46% at March 31, 2014 and 2013, respectively.
Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Zero coupon unsecured convertible bonds (with stock acquisition rights) due May 10, 2013	¥ –	¥ 1,765	$ –
Unsecured loans principally from banks and insurance companies with an average interest rate of 0.81%	94,950	86,127	922,561
Long-term loans interest rate of 2.05%	1,403	1,507	13,634
	96,353	89,399	936,195
Less: current portion of long-term debt	(22,646)	(13,769)	(220,033)
	¥ 73,707	¥ 75,630	$ 716,162

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on May 9, 2008 were convertible at ¥1,353 ($13) per share in the period from May 23, 2008 to April 26, 2013 subject to adjustment in certain circumstances. On May 10, 2013, the Company redeemed the total amount of the zero coupon unsecured convertible bonds because the stock acquisition rights were not exercised as of April 26, 2013.
The aggregate annual maturities of long-term debt subsequent to March 31, 2014 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 22,646	$ 220,033
2016	16,208	157,481
2017	20,097	195,270
2018	20,712	201,248
2019	15,115	146,859
2020 and thereafter	1,575	15,304
Total	¥ 96,353	$ 936,195

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 3.12% and 2.87% at March 31, 2014 and 2013, respectively.
The aggregate annual maturities of lease obligations subsequent to March 31, 2014 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 154	$ 1,492
2016	100	970
2017	98	951
2018	99	966
2019	73	711
2020 and thereafter	687	6,671
Total	¥ 1,211	$ 11,761

The assets pledged as collateral for long-term loan and the current portion of long-term loan of ¥1,403 million ($13,634 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,070 million ($10,393 thousand) was as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,265	$ 12,294
Buildings and structures – net of accumulated depreciation	3,110	30,222
Total	¥ 4,375	$ 42,516

In order to achieve more efficient and flexible financing, the Group has concluded bank overdraft and line-of-credit agreements with 17 banks. Total committed lines of credit under such agreements amounted to ¥103,000 million ($1,000,777 thousand), of which ¥99,000 million ($961,912 thousand) was available as of March 31, 2014.

8. Retirement Benefit Plans

For the year ended March 31, 2014

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum payment from the Company and the consolidated subsidiaries and annuity payments from a trustee. In addition to the retirement benefit plans described above, the Company and certain consolidated subsidiaries pay additional retirement benefits under certain conditions.
The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Retirement benefit obligation at April 1, 2013	¥ 15,732	$ 152,855
Service cost	507	4,922
Interest cost	172	1,671
Actuarial gain	(107)	(1,041)
Retirement benefit paid	(1,271)	(12,345)
Retirement benefit obligation at March 31, 2014	¥ 15,033	$ 146,062

The changes in plan assets at fair value during the year ended March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Plan assets at fair value at April 1, 2013	¥ 7,179	$ 69,746
Expected return on plan assets	57	558
Actuarial gain	244	2,375
Contribution by the Group	374	3,629
Retirement benefit paid	(889)	(8,634)
Plan assets at fair value at March 31, 2014	¥ 6,965	$ 67,674

The balance of retirement benefit obligation and plan assets at fair value and liabilities recognized in the consolidated balance sheet at March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Funded retirement benefit obligation	¥ 7,790	$ 75,692
Plan assets at fair value	(6,965)	(67,674)
	825	8,018
Unfunded retirement benefit obligation	7,243	70,370
Net liability for retirement benefits in the consolidated balance sheet	¥ 8,068	$ 78,388

The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Service cost	¥ 507	$ 4,922
Interest cost	172	1,671
Expected return on plan assets	(57)	(558)
Amortization of actuarial loss	113	1,102
Amortization of prior service cost	(405)	(3,937)
Retirement benefit expense	¥ 330	$ 3,200

Retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Prior service cost	¥ 2,103	$ 20,438
Actuarial loss	(1,684)	(16,364)
Total	¥ 419	$ 4,074

The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

	2014
Bonds	21%
Stocks	14
General accounts	63
Other	2
Total	100%

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

	2014
Discount rates	1.0% - 1.1%
Expected rate of return on plan assets	2.2%

Notes:
In addition to the above, the Company and certain consolidated subsidiaries charged contributions of ¥1,820 million ($17,685 thousand) to the defined contribution pension plans to income during the year ended March 31, 2014.

For the year ended March 31, 2013

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum payment from the Company and the consolidated subsidiaries and annuity payments from a trustee. In addition to the retirement benefit plans described above, the Company and certain consolidated subsidiaries pay additional retirement benefits under certain conditions.
The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2013 for the Group's defined benefit plans:

	2013
Retirement benefit obligation	¥ (15,732)
Plan assets at fair value	7,179
Unfunded retirement benefit obligation	(8,553)
Unrecognized actuarial loss	2,149
Unrecognized prior service cost	(2,509)
Accrued retirement benefits	¥ (8,913)

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The component of retirement benefit expense for the year ended March 31, 2013 is as follows:

	2013
Service cost	¥ 420
Interest cost	274
Expected return on plan assets	(56)
Amortization of actuarial loss	34
Amortization of prior service cost	(405)
Retirement benefit expense	267
Other (*)	3,305
Total	¥ 3,572

Notes:
(*)"Other" in the above table represented contributions to defined contribution pension plans and additional retirement benefits.
The assumptions used in accounting for the above plans were as follows:

	2013
Discount rates	1.0% - 1.1%
Expected rate of return on plan assets	0.8%

9. Income Taxes

Income taxes applicable to the Group comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in the statutory tax rate of 38.0% for the years ended March 31, 2014 and 2013.
The reconciliation of the difference between the corresponding statutory tax rate and the effective tax rate for the year ended March 31, 2013 has been omitted because the Company recorded in a net loss for the year. The effective tax rate for the year ended March 31, 2014 differed from the corresponding statutory tax rate for the following reasons:

	2014
Statutory tax rate:	38.0%
Expenses not deductible for income tax purposes	0.6
Dividends not taxable for income tax purposes	(3.5)
Inhabitants' per capita taxes	4.4
Amortization of negative goodwill, net	(2.4)
Change in valuation allowance	(6.3)
Elimination of intercompany dividends	3.4
Effect of change in statutory tax rate	10.8
Effect of land evaluation difference	(1.1)
Other, net	(2.3)
Effective tax rate	41.6%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Group at March 31, 2014 and 2013 were summarized as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Deferred tax assets:			
Depreciation	¥ 1,658	¥ 1,611	$ 16,113
Allowance for employees' bonuses	2,043	1,534	19,849
Loss on impairment of property and equipment	10,977	9,835	106,653
Accrued retirement benefits	–	3,220	–
Liability for retirement benefits	2,887	–	28,050
Reserve for point service program	3,359	3,211	32,634
Allowance for merchandise warranties	2,690	2,454	26,136
Unrealized loss on revaluation of land acquired by merger	1,801	3,351	17,501
Asset retirement obligations	2,114	1,828	20,536
Net operating tax loss carry forwards	475	3,406	4,616
Other	4,966	4,178	48,262
Less valuation allowance	(12,388)	(12,960)	(120,367)
Total deferred tax assets	20,582	21,668	199,983
Deferred tax liabilities:			
Asset retirement obligations	(800)	(650)	(7,773)
Unrealized holding gain on other securities	(115)	(158)	(1,113)
Other	(251)	(188)	(2,441)
Total deferred tax liabilities	(1,166)	(996)	(11,327)
Net deferred tax assets	¥ 19,416	¥ 20,672	$ 188,656

The "Act for Partial Amendment for the Income Tax Act, etc. " (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company and its domestic subsidiaries is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In addition, the "Act for Partial Amendment of the Local Tax Act, etc" (Act No.4 of 2014) and the "Act for Partial Amendment of the Local Corporate Tax Act, etc" (Act No.11 of 2014) were promulgated on March 31, 2014, and the Company is subject to the amended Local Corporate Tax effective for fiscal years beginning on or after April 1, 2015.
As a result, the effective statutory tax rate used to measure the Company and its domestic subsidiaries deferred assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥957 million ($9,298 thousand) March 31, 2014.

10. Financial Instruments – Fair Value

Overview

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

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

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

(d) Estimated fair value of financial instruments
Carrying value, estimated fair value and the difference between them of financial instruments on the consolidated balance sheets as of March 31, 2014 and 2013 were shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

Millions of yen

	2014			2013		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash and cash equivalents	¥ 20,294	¥ 20,294	¥ -	¥ 9,967	¥ 9,967	¥ -
Notes and accounts receivable-trade	46,377	46,377	-	28,166	28,166	-
Marketable securities and investments in securities: Other securities (*1)	2,551	2,551	-	4,096	4,096	-
Total assets	¥ 69,222	¥ 69,222	¥ -	¥ 42,229	¥ 42,229	¥ -
Liabilities:						
Notes and accounts payable-trade	¥ 50,552	¥ 50,552	¥ -	¥ 45,048	¥ 45,048	¥ -
Short-term bank loans	4,000	4,000	-	36,000	36,000	-
Current portion of convertible bonds with stock acquisition rights	-	-	-	1,765	1,763	(2)
Long-term debt:						
Long-term loans (*2)	96,353	96,756	403	87,634	88,622	988
Lease obligations (*2)	1,211	1,356	145	877	942	65
Total liabilities	¥152,116	¥152,664	¥ 548	¥171,324	¥172,375	¥ 1,051

Notes:
(*1)Marketable securities in the amount of ¥475 million with a maturity date within a year were included in "Other securities" at March 31, 2013 in the above table.
(*2)Long-term loans and lease obligations include the current portion.

Thousands of U.S. dollars

	2014		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and cash equivalents	$ 197,181	$ 197,181	$ -
Notes and accounts receivable-trade	450,614	450,614	-
Marketable securities and investments in securities: Other securities (*)	24,788	24,788	-
Total assets	$ 672,583	$ 672,583	$ -
Liabilities:			
Notes and accounts payable-trade	$ 491,176	$ 491,176	$ -
Short-term bank loans	38,865	38,865	-
Current portion of convertible bonds with stock acquisition rights	-	-	-
Long-term debt:			
Long-term loans	936,195	940,114	3,919
Lease obligations	11,761	13,173	1,412
Total liabilities	$1,477,997	$1,483,328	$ 5,331

Note:
(*)Marketable securities in the amount of ¥475 million with a maturity date within a year of March 31, 2013 were included in "Other securities" at March 31, 2013 in the above table.

10. Financial Instruments – Fair Value (continued)

(d) Estimated fair value of financial instruments (continued)

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

Assets

Cash and cash equivalents and notes and accounts receivable-trade:

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

Investments in securities:

The fair values of stocks are based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by financial institutions. Refer to Note 3."Investments in Securities" for further information on securities by holding purpose.

Liabilities

Short-term bank loans and notes and accounts payable-trade:

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

Long-term loans:

The fair value of long-term loan is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming that new loans under similar conditions to existing loans are made.

Certain long-term loan with floating interest rates were hedged by interest rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loan hedged by the swap agreements is based on the present value of the total principal, interest and net cash flows of the swap agreements discounted by the interest rates to be applied assuming that new loans under similar conditions to the existing loans are made.

Lease obligations:

The fair value of lease obligations is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new lease agreements are made.

Derivative transactions:

Refer to Note 11. "Derivatives."

(2) Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2014 and 2013

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Unlisted stocks	¥ 225	¥ 350	$ 2,186
Investments in affiliates	688	623	6,685
Leasehold deposits	29,304	30,860	284,730

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

(3) Redemption schedules for cash and cash equivalents, notes and accounts receivable – trade with maturity dates at March 31, 2014 and 2013 were as follows:

Millions of yen

2014	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 15,417	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	46,377	–	–	–
	¥ 61,794	¥ –	¥ –	¥ –

Millions of yen

2013	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 3,527	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	28,166	–	–	–
	¥ 31,693	¥ –	¥ –	¥ –

Thousands of U.S. dollars

2014	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$ 149,791	$ –	$ –	$ –
Notes and accounts receivable-trade	450,614	–	–	–
	$ 600,405	$ –	$ –	$ –

Cash and cash equivalents in the table above do not include cash on hand of ¥4,877 million ($47,390 thousand) and ¥6,440 million at March 31, 2014 and 2013, respectively.

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

11. Derivatives

Derivative transactions to which hedge accounting is applied

Interest rate-related transactions

Millions of yen

Method of hedge accounting	Transaction	Hedged item	2014 Notional amount	2014 Notional amount maturing in more than one year	2014 Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 83,000	¥ 63,100	(*)

Millions of yen

Method of hedge accounting	Transaction	Hedged item	2013 Notional amount	2013 Notional amount maturing in more than one year	2013 Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 72,000	¥ 68,000	(*)

Thousands of U.S. dollars

Method of hedge accounting	Transaction	Hedged item	2014 Notional amount	2014 Notional amount maturing in more than one year	2014 Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	$ 806,452	$ 613,098	(*)

Notes:

(*) Because interest rate swap agreements are accounted for as if the contract rate applied to the swap agreement had originally applied to the underlying long-term loans, their fair values is included in those of long-term.

There are no derivative transactions to which hedge accounting is not applied for the years ended March 31, 2014 and 2013.

12. Contingent Liabilities

The Group was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥224 million ($2,179 thousand) at March 31, 2014.

13. Shareholders' Equity

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

The legal reserve of the Company was nil at March 31, 2014 and 2013.

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

According to the 2009 plan, on August 6, 2009, the Company granted 1,570,000 stock options for common stock to 9 board directors and 3 employees of the Company and 12 board directors, 21 managing officers and 647 employees of certain subsidiaries. The service period for grantees is from August 6, 2009 to August 6, 2011 and the exercisable period is August 7, 2011 to August 6, 2014. No stock option expense was incurred for the years ended March 31, 2014 and 2013. Gain on reversal of stock options of ¥4 million ($40 thousand) and ¥3 million was included in other, net in the consolidated statements of operations for the years ended March 31, 2014 and 2013, respectively.

Movement in the number of vested stock options for the stock option plan of the Company during the year ended March 31, 2014 was summarized as follows:

2014	Outstanding as of April 1, 2013	Vested	Exercised	Forfeited	Outstanding as of March 31, 2014
The 2009 plan	1,490,000	—	—	25,000	1,465,000

The unit price of the stock options under the 2009 plan of the Company during the year ended March 31, 2014 was summarized as follows:

	the 2009 plan Yen	the 2009 plan U.S. dollars
Unit price of stock options:		
Exercise price at March 31, 2014	¥ 597	$ 5.80
Average market price per share upon exercise	–	–
Estimated fair value of unit price at grant date	163	1.58

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

Movements in common stock and treasury stock for the years ended March 31, 2014 and 2013 were summarized as follows:

Number of shares

2014	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	105,665,636	6,340,000	–	112,005,636
Treasury stock	4,127,763	2,430	2,621,000	1,509,193

Number of shares

2013	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	105,665,636	–	–	105,665,636
Treasury stock	2,126,650	2,001,359	246	4,127,763

Notes:

The increase in treasury stock of 2,430 shares for the year ended March 31, 2014 was due to the purchase from shareholders of 2,430 fractional shares at their request.

The decrease of treasury stock of 2,621,000 shares for the year ended March 31, 2014 was due to disposition of shares related to the capital alliance agreement with LIXIL Group.

The increase in treasury stock of 2,001,359 shares for the year ended March 31, 2013 was due to the purchase of 2,000,000 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on August 3, 2012 and the purchase of 1,359 fractional shares.

The decrease of treasury stock of 246 shares for the year ended March 31, 2013 was due to the sales to shareholders of 246 fractional shares at their request.

Movements in stock acquisition rights during the years ended March 31, 2014 and 2013 were summarized as follows:

Thousands of shares

2014	April 1, 2013	Increase	Decrease	March 31, 2014
Stock acquisition rights attached to convertible bonds due May 10, 2013	1,304	–	1,304	–
Stock acquisition rights as stock options	–	–	–	–
	1,304	–	1,304	–

Thousands of shares

2013	April 1, 2012	Increase	Decrease	March 31, 2013
Stock acquisition rights attached to convertible bonds due May 10, 2013	1,304	–	–	1,304
Stock acquisition rights as stock options	–	–	–	–
	1,304	–	–	1,304

14. Cost of Sales

Losses on inventory valuation included in cost of sales for the years ended March 31, 2014 and 2013 were ¥36 million ($353 thousand) and ¥64 million, respectively.

Notes to Consolidated Financial Statements (continued)

15. Loss on Impairment of Property and Equipment

The Group recognized losses on impairment of property and equipment of ¥5,461 million ($53,064 thousand) and ¥4,540 million for the years ended March 31, 2014 and 2013, respectively, as follows:

March 31, 2014		
Use	Classification	Location
Store	Buildings, structures and other	Osaka Prefecture and other
Rental property	Land, buildings, structures and other	Hokkaido Prefecture and other

March 31, 2013		
Use	Classification	Location
Store	Buildings, structures and other	Mie Prefecture and other
Rental property	Land, buildings, structures and other	Hiroshima Prefecture and other
Idle property	Land	Okayama Prefecture and other

The Group groups its property and equipment based on management control units. It also groups assets which are not currently utilized for its operations and are not anticipated to be utilized in the future as idle assets individually.
Losses on impairment of property and equipment were recorded for the years ended March 31, 2014 and 2013 as the assets and asset groups listed above recorded consecutive years of negative operating cash flows and because their utilization in the future was not determinable.
For the year ended March 31, 2014 and 2013, the Group reduced the book value of the assets and asset groups listed above and rental property to their respective recoverable amounts and a loss on impairment was recognized in the amount of ¥5,461 million ($53,064 thousand) and ¥4,508 million for the year ended March 31, 2014 and 2013, respectively.
For the years ended March 31, 2014 and 2013, the principal components of loss on impairment by asset classification were buildings and structures of ¥4,824 million ($46,867 thousand) and ¥2,631 million, tools, furniture and fixtures of ¥211 million ($2,047 thousand) and ¥157 million, land of ¥381 million ($3,698 thousand) and ¥350 million, leased assets of nil and ¥1,378 million, respectively.
The recoverable amounts of asset groups are measured at the higher of their net selling value or value in use. The net selling value for significant assets is based on professional appraisals. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 3.32% and 3.40% for the years ended March 31, 2014 and 2013, respectively.

16. Other Comprehensive (Loss) Income

Reclassification adjustments and tax effects for each component of other comprehensive (loss) income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Net unrealized gain on other securities:			
Amount arising during the year	¥ 150	¥ 427	$ 1,452
Reclassification adjustments	(263)	0	(2,553)
Before tax effect	(113)	427	(1,101)
Tax effect	41	(171)	400
Total	(72)	256	(701)
Total other comprehensive (loss) income	¥ (72)	¥ 256	$ (701)

17. Leases

The Group utilizes finance leases for store equipment. Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.
The Group continues to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating lease transactions.
The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2014 and 2013 which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

Millions of yen

	2014			2013		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 3,924	¥ 2,257	¥ 1,667	¥ 3,924	¥ 2,060	¥ 1,864
Tools, furniture and fixtures	–	–	–	92	85	7
	¥ 3,924	¥ 2,257	¥ 1,667	¥ 4,016	¥ 2,145	¥ 1,871

Thousands of U.S. dollars

	2014		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	$ 38,130	$ 21,925	$ 16,205
Tools, furniture and fixtures	–	–	–
	$ 38,130	$ 21,925	$ 16,205

Lease payments relating to finance leases accounted for as operating leases, the corresponding depreciation computed by the straight-line method for the respective lease periods assuming a nil residual value, interest expense computed by the interest method, and reversal of loss on impairment of finance leases accounted for as operating leases for the years ended March 31, 2014 and 2013 were summarized as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Lease payments	¥ 223	¥ 594	$ 2,165
Reversal of loss on impairment of finance leased assets	–	0	–
Depreciation	203	551	1,968
Interest expense	19	26	189

Future minimum lease payments subsequent to March 31, 2014 for finance leases accounted for as operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 199	$ 1,930
2016 and thereafter	1,592	15,471
Total	¥ 1,791	$ 17,401

Future minimum lease payments subsequent to March 31, 2014 for non-cancelable operating leases as a lessee were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 3,224	$ 31,323
2016 and thereafter	28,613	278,014
Total	¥ 31,837	$ 309,337

Future minimum receipts subsequent to March 31, 2014 for non-cancelable operating leases as a lessor were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 261	$ 2,538
2016 and thereafter	4,268	41,466
Total	¥ 4,529	$ 44,004

18. Supplementary Information on the Consolidated Statement of Cash Flows

Information on significant non-cash transaction:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Increase in asset retirement obligations	¥ 942	¥ 363	$ 9,151
Capitalized lease	¥ 259	¥ –	$ 2,519

19. Related Party Transactions

Principal transactions between the Company and a company which is majority owned by a director and the director's relatives during the years ended March 31, 2014 and 2013 were summarized as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
SHOEI Co., Ltd.:			
Insurance expense	¥ 134	¥ 141	$ 1,297

The outstanding balance of prepaid expenses and accounts payable related to insurance expense outlined above at March 31, 2014 amounted to ¥17 million ($167 thousand) and ¥13 million, and ¥0 million ($3 thousand) and ¥5 million at March 31, 2014 and 2013, respectively.
SHOEI Co., Ltd. ("SHOEI") is a majority owned company by a director and the director's relatives, located in Nisshin City, Aichi and it is engaged in the insurance business. The capital amount of SHOEI was ¥90 million ($874 thousand) at March 31, 2014 and 2013.
Insurance premiums are determined in the same manner as general insurance offered by insurance companies.

20. Segment Information

Reportable segments of the Group are "Sales of home electric appliances," "Home center stores" and "Others." As the "Home center stores" and "Others" segments are immaterial to the segment total, the disclosure of segment information for the years ended March 31, 2014 and 2013 has been omitted.
Loss on impairment of property and equipment for all segments was recorded in the amounts of ¥5,461 million ($53,064 thousand) and ¥4,540 million for the years ended March 31, 2014 and 2013, respectively. Amortization of goodwill for all segments was recorded in the amounts of nil and ¥0 million for the years ended March 31, 2014 and 2013, respectively. There are no remaining balance of goodwill for all segments as of March 31, 2014 and 2013. Amortization of negative goodwill for all segments was recorded in the amounts of ¥569 million ($5,531 thousand) and ¥1,139 million for the years ended March 31, 2014 and 2013, respectively. Remaining balance of negative goodwill for all segments was recorded in the amounts of nil and ¥569 million as of the March 31, 2014 and 2013, respectively.
There was no gain on recognition of negative goodwill for the years ended March 31, 2014 and 2013.
As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statements of operations, the disclosure of the segment information by product and service for the years ended March 31, 2014 and 2013 has been omitted.
As there were no overseas sales of products and services to external customers, the disclosure of net sales by geographical region for the years ended March 31, 2014 and 2013 has been omitted.
As there was no property and equipment located overseas, the disclosure of property and equipment by geographical region as of March 31, 2014 and 2013 has been omitted.
As sales of products and services to specific customers account for less than 10% of net sales in the consolidated statements of operations, the disclosure of information by major customers for the years ended March 31, 2014 and 2013 has been omitted.

21. Subsequent Event

Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2014 was approved at the Company's annual general meeting of shareholders held on June 27, 2014:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥12.00 ($0.12) per share	¥ 1,326	$ 12,883

Independent Auditor's Report

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
EDION Corporation

We have audited the accompanying consolidated financial statements of EDION Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EDION Corporation and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

Osaka, Japan
June 30, 2014

A member firm of Ernst & Young Global Limited

Company Profile

Company Information

(As of March 31, 2014)

- Company name: EDION Corporation
- Main business: Sales of home electrical appliances, etc.
- Foundation: March 29, 2002
- Capital stock: 11,940 million yen
- Registered office address: 2-1-8 Kamiya-cho, Naka-ku, Hiroshima
- Head office address: 1-5-17 Dojima, Kita-ku, Osaka
- Number of full-time employees: 7,775 (on a non-consolidated basis), 9,109 (on a consolidated basis)

Stock Information

(As of March 31, 2014)

- Fiscal year: April 1 to March 31 of the following year
- Number of shares authorized: 300,000,000 shares
- Number of shares issued: 112,005,636 shares
- Number of shareholders: 39,823 persons
- Stock listing: First section of the Tokyo and Nagoya Stock Exchanges
- Ticker code: 2730

Directors and Corporate Auditors

(As of June 27, 2014)

- Board of Directors

Masataka Kubo:	President, Chairman, Representative Director
Shoichi Okajima:	Deputy Chairman, Representative Director, President, Representative Director of EDION COMMUNICATIONS Corporation Chairman, Representative Director of 3Q Co., Ltd.
Hirohisa Kato:	Senior Executive Vice President, Chief Marketing Officer
Seiichi Funamori:	Senior Executive Vice President, Chief Store Development Officer
Norio Yamasaki:	Senior Executive Vice President, Chief Corporate Planning Officer
Masayuki Umehara:	Executive Vice President, Chief Administrative Officer
Ryuji Yuyama:	Senior Vice President, Chief Logistics Service Officer
Kazumasa Doho:	Senior Vice President, Chief Franchise Officer
Takahiro Kato:	Senior Vice President, General Manager of Marketing Division Merchandizing Department
Yuji Ikehata:	Senior Vice President, General Manager of Marketing Division Marketing Department
Shozo Ishibashi:	Independent Director

- Board of Corporate Auditors

Makoto Fujikawa:	Standing Statutory Auditor
Takenori Isou:	Outside Statutory Auditor
Takashi Okinaka:	Outside Statutory Auditor
Soumitsu Takehara:	Outside Statutory Auditor