ANNUAL REPORT 2013

Fiscal Year Ended March 31, 2013

Management Principle

Realizing “Customers First” by offering “Provision of Value” and “Long Lasting Services”

“Provision of Value”

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

“Long Lasting Services”

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

Corporate Message

Reassuring Feelings and Lasting Satisfaction

Long Lasting Customer Satisfaction

To plainly convey our management principle - Realizing “Customers First” by offering “Provision of Value” and “Long Lasting Services” - to customers, we will send our corporate message of “Reassuring Feelings and Lasting Satisfaction,” and strive to enhance our brand value so that all our stakeholders, not to mention customers, will recognize, understand and feel sympathy with us.

Contents

Disclaimer Regarding Forward-Looking Statements

The present document contains forward-looking statements based on currently available information that EDION Corporation and the EDION Group consider to be reasonable.

Actual results may differ materially from those projected, due to various risks and uncertainties, including, but not limited to, economic fluctuations, unstable product demand, changes in domestic and/ or overseas regulations, as well as changes in accounting standards/ practices.

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

Group History

March	2002	DEODEO Corporation based in Chugoku, Shikoku and Kyushu regions, and EIDEN Co., Ltd. based in Chubu region established EDION Corporation through the equity transfer method.
April	2005	Acquired 100% shares of MIDORI DENKA Co., Ltd., based in Kinki region, through a stock swap.
May	2005	Operations of nine stores of NINOMIYA Co., Ltd. transferred to EDION Group.
June	2005	Initiated development of EIDEN Family Shop (EFS), small-scale franchise stores based in Chubu region.
July	2006	Acquired 33.4% shares of Ishimaru Denki Co., Ltd. based in Kanto region.
February	2007	EIDEN Co., Ltd., acquired 100% of shares of Mitsuishi Denka Center Co., Ltd., converting it into a wholly owned subsidiary.
March	2007	Acquired additional shares, a total of 40%, of Ishimaru Denki Co., Ltd. and converted the company into a consolidated subsidiary.
June	2007	Acquired 40% of shares of 3Q Co., Ltd., which based in Hokkaido and Hokuriku regions, and converted the company into a consolidated subsidiary.
October	2007	Established wholly owned subsidiary TOKYO EDION Corporation to strengthen the business in Kanto region.
October	2008	TOKYO EDION Corporation acquired the remaining shares of Ishimaru Denki Co., Ltd.
February	2009	EIDEN Co., Ltd. merged with TOKYO EDION Corporation, Ishimaru Denki Co., Ltd. and Mitsuishi Denka Center Co., Ltd.
May	2009	Initiated home remodeling business operations.
October	2009	DEODEO Corporation merged with MIDORI DENKA Co., Ltd. and changed its corporate name to EDION WEST Corporation.
October	2009	EIDEN Co., Ltd. changed its corporate name to EDION EAST Corporation.
October	2009	Began offering WiMax (Worldwide Interoperability for Microwave Access) internet access service, named “EDION KuaL net”.
November	2009	Integrated operational management system of EDION Group commenced function.
March	2010	Initiated development of MIDORI Family Shop (MFS), small-scale franchise store in Kinki region.
March	2010	Established EDION Product Performance Testing Laboratory.
October	2010	EDION Corporation merged with EDION WEST Corporation and EDION EAST Corporation.
October	2010	EIDEN COMMUNICATIONS Co., Ltd., a consolidated subsidiary, changed its corporate name to EDION COMMUNICATIONS Corporation, and the mobile phone business operations of the EDION Group was integrated into EDION COMMUNICATIONS Corporation.
April	2011	EDION Corporation merged with COMNET Co., Ltd.
October	2011	Acquired the remaining shares of 3Q Co., Ltd. Acquired the shares of 3Q House System Co., Ltd. and Mr. Consent Co., Ltd. and converted the companies into consolidated subsidiaries.
April	2012	3Q House System Co., Ltd., a subsidiary, changed its corporate name to EDION House System Corporation, and construct a framework to strengthen the housing equipment business, which includes home renovation, solar power generation systems and all-electric homes.
April	2012	E.R. JAPAN Corporation was established as a subsidiary to engage in recycling business through joint capital investment.
April	2012	3Q Co., Ltd. merged with Mr. Consent Co., Ltd.
October	2012	Store brands “Ishimaru”, “Eiden”, “Midori” and“Deodeo” unified to “EDION”.

Outline of Group

Net Sales

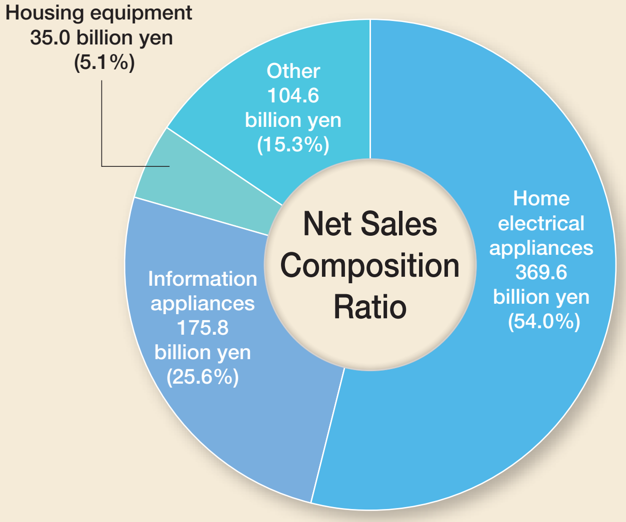
685.1 billion yen (Consolidated Fiscal Year Ended March 31, 2013)

Number of employees

9,602 employees (Consolidated As of March 31, 2013)

Number of stores

1,177 stores (Consolidated As of March 31, 2013)



Number of stores by prefectures

Directly-operated electronics stores/ Directly-operated non-electronics stores/ Franchised stores (Stores)

as of March 31, 2013

Kanto, Chubu, Kinki, Chugoku, Shikoku and Kyushu regions

Hokkaido	6/1/0
Aomori	—
Akita	—
Iwate	—
Yamagata	—
Miyagi	—
Ishikawa	4/0/0
Toyama	4/2/0
Niigata	—
Gunma	—
Fukushima	—
Yamaguchi	13/0/58
Shimane	9/0/36
Tottori	6/0/11
Kyoto	15/0/16
Fukui	7/5/0
Gifu	16/11/21
Nagano	10/0/2
Saitama	3/0/0
Tochigi	—
Hiroshima	33/2/127
Okayama	21/0/42
Hyogo	32/1/14
Osaka	28/0/23
Shiga	9/0/4
Aichi	48/34/69
Yamanashi	—
Tokyo	2/1/0
Ibaraki	1/0/0
Nara	6/0/1
Mie	13/5/5
Shizuoka	12/5/11
Kanagawa	3/2/0
Chiba	5/0/0
Nagasaki	2/0/37
Fukuoka	16/0/55
Ehime	10/0/48
Kagawa	4/0/23
Wakayama	2/0/2
Saga	1/0/39
Oita	5/0/22
Kochi	0/0/5
Tokushima	2/0/18
Kumamoto	2/0/23
Miyazaki	4/1/6
Kagoshima	1/0/23
Okinawa	0/0/11

Hokuriku and Hokkaido regions

The EDION Group boasts of a network of over 1,100 home electrical appliance mass retailing stores within Japan, with a top share of stores in the regions of Western Japan.

Nationwide single unified store brand of EDION エディオン adopted

EDION Corporation was established in March 2002 as a joint holding company of DEODEO Corporation, which operated stores under the brand name of “DEODEO” mainly in the Chugoku, Shikoku and Kyushu regions, and EIDEN Co., Ltd., which operated “EIDEN” stores primarily in the Chubu region.

In April 2005, we acquired 100% shares of MIDORI DENKA Co. Ltd., which operates stores under the brand name of “MIDORI” mainly in the Kinki region, through a stock swap. In 2007, we also acquired the shares of 3Q Co., Ltd, which operates “100 Man (One Million) Volt,” stores primarily in the Hokkaido and Hokuriku regions, and Ishimaru Denki Co., Ltd., which operates “Ishimaru” stores in the Kanto region, and converted them into subsidiaries.

We had leveraged our strong store brand recognition accumulated in each of our respective businesses, but we began using a single brand for all of our stores beginning in October 2012 in commemoration of our 10th year of operations.

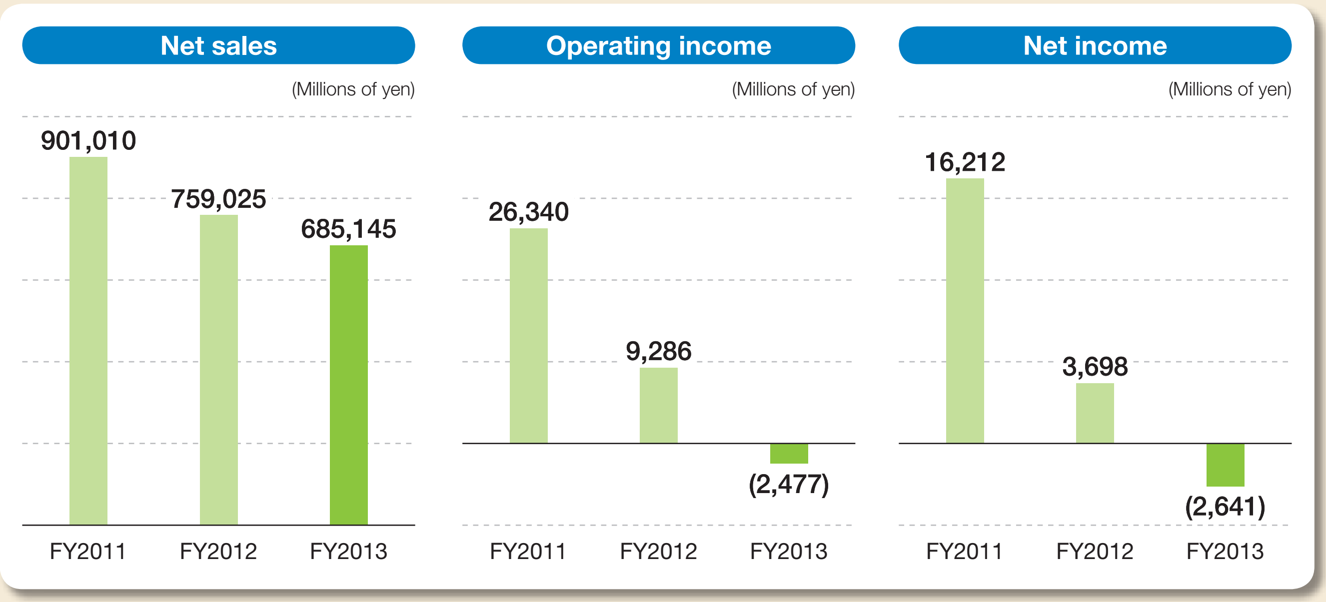
Through the use of the single unified store brand, while convenience offered to customers is expected to increase and a sense of unity is expected to be created among employees, we will strive to further raise our operating efficiency by eliminating various duplicate costs associated with our existing multiple brand strategy and taking other measures.

As a result of the unification of the store brand, the EDION Group has become a corporate group comprising EDION Corporation, which operates “EDION” stores that mainly sell home electrical appliances, 3Q Co., Ltd., which operates “100 Man (One Million) Volt” stores, EDION COMMUNICATIONS Corporation, which markets mobile phones, etc., NWORK Co., Ltd., which engages in system development, E.R. Japan Corporation, which engages in the reuse and recycling businesses, and three affiliated companies.

Financial Highlights

(Millions of yen)

	FY2009	FY2010	FY2011	FY2012	FY2013
Period	From April 1, 2008 to March 31, 2009	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012	From April 1, 2012 to March 31, 2013
Net sales	803,004	820,031	901,010	759,025	**685,145**
Operating income (loss)	1,233	10,510	26,340	9,286	**(2,477)**
Net income (loss)	(13,506)	9,323	16,212	3,698	**(2,641)**
Comprehensive income	–	–	17,371	6,009	**(2,396)**
Net assets	135,583	141,642	155,948	144,229	**138,489**
Total assets	387,137	403,180	403,400	362,654	**378,087**
Book-value per share (yen)	1,149.25	1,237.96	1,376.18	1,384.69	**1,361.19**
Earnings (loss) per share (yen)	(127.90)	89.60	157.76	35.87	**(25.80)**
Equity ratio (%)	31.35	31.67	34.97	39.53	**36.56**
Return on equity (%)	(10.48)	7.49	12.06	2.60	**(1.88)**
Price earnings ratio (%)	–	10.75	4.48	16.17	**–**
Cash flows from operating activities	26,323	35,576	41,833	15,134	**(4,644)**
Cash flows from investing activities	(31,399)	(23,010)	(16,539)	(10,232)	**(13,401)**
Cash flows from financing activities	(5,040)	(11,713)	(23,169)	(14,211)	**(17,326)**
Cash and cash equivalents	17,012	17,864	19,990	10,686	**9,967**
Number of stores	1,078	1,101	1,130	1,176	**1,177**
Capital expenditure	32,124	25,854	20,242	9,163	**15,670**
Number of employees [Average temporary workers]	10,664 [5,938]	10,640 [6,371]	10,022 [7,095]	9,759 [6,502]	**9,602 [6,450]**



Business Performance

In the fiscal year under review, exports were sluggish due to the lingering European sovereign debt crisis and the economic slowdown in emerging countries, while there were some signs of an economic recovery, supported by the progress of the yen depreciation and a recovery of stock prices due to an economic policy shift after the change of government. Consumer spending remained weak, because employees' income grew at a sluggish pace due to a delay in the recovery of corporate profits.

In the home electrical appliance retail sector, sales of television sets and Blu-ray disc recorders remained weak due to a decline in demand after the full transition to digital terrestrial broadcasting, and sales of personal computers were also slow due to sluggish sales of Windows8 installed products. Meanwhile, sales of home appliances, such as air conditioners and refrigerators, grew steadily due to a hot summer.

In this environment, EDION Group completed unification of its directly operated store brands, including "Deodeo," "Eiden," "Midori" and "Ishimaru," to "EDION" in October 2012, with the aim of enhancing customer convenience and business efficiency. In preparation for unification, it ran a massive advertising campaign to broaden recognition of "EDION" and expand sales, increasing sales in August and September 2012 from the previous year.

Meanwhile, the Group saw expenses grow because it intensively ran TV commercials, distributed flyers and remade stores, which included replacing store signs and renovating store exteriors. In addition, EDION Group continued increasing the number of stores and employees that engage in the "eco-living & solar power business" on which it had been focusing, such as home renovation, solar power generation systems and all-electric homes, to further expand sales.

In the fiscal year under review, the EDION Group newly opened six directly-operated electronics retail stores including "EDION Sotokan-Daito store (Osaka Prefecture)" and "EDION Matsuyama-Hirata store (Ehime Prefecture)." It also celebrated the grand opening of "EDION Hiroshima Main store (Hiroshima Prefecture)," the store with the largest sales floor in the Group. In addition, the Group relocated nine stores and closed three stores, while opening one new directly-operated non-electronics retail store, and closed four. EDION Group opened 24 franchise stores and closed 23. As a result, the number of stores at the end of the fiscal year totaled 1,177, including 752 franchise stores.

Consequently, the EDION Group saw net sales and profits decrease in the fiscal year under review: net sales of 685,145 million yen (90.3% of the previous year), operating loss of 2,476 million yen (operating income of 9,286 million yen in the previous year), and net loss of 2,640 million yen (net income of 3,697 million yen in the previous year).

Interview with the President

● We are focusing on structural reform aimed at recovery of earnings.

Chairman and President

Q Please tell us about business performance during the fiscal year 2012.

A Earnings decreased due to the reaction after the special demands related to digital terrestrial broadcasting and increased expenses attendant upon the unification of store brands.

Sales declined by 9.7% year-over-year to ¥685.1 billion, mainly because reactionary fall in replacement demand for televisions and video recording equipment following the switch to digital terrestrial broadcasting exceeded our expectations by a large margin and sales of digital equipment, including personal computers and audio equipment, were sluggish due to economic slowdown.

Meanwhile, selling, general and administrative expenses increased by 0.1% year-over-year to ¥176.0 billion, since renovation cost and advertising expenses temporarily occurred due to the unification of “Ishimaru,” “EIDEN,” “MIDORI” and “DEODEO” store brands, which had been operated in respective regions, to “EDION” in October 2012.

As a result, we recorded operating loss of ¥2.4 billion and net loss of ¥2.6 billion.

Q Please tell us about the effects of unification of stores under one brand name.

A Awareness of employees has changed, and initiatives for structural reform are under way.

EDION has pushed forward with integration in stages since its founding in 2002, and general integration completed with the integration of logistics and personnel systems in fiscal year 2012. We have focused on efforts to raise the overall levels of services to customers and operations by integrating methods of operations that differed by regions into a method that is optimum for customers. Now that 10 years have passed since our founding and business integration has completed, we will focus on new services and improvement of operations from now on. As a result of the unification of our stores under one brand name, awareness of employees has been changing, and we started some projects toward structural reform. We would like to steadily produce results from these projects.

Q Please tell us about projections for fiscal year 2013.

A For the recovery of earnings, we will promote efforts for sales growth and cost reduction.

The home electrical appliance market has contracted in the past two years due to sluggish sales of television sets. However, sales of television sets have finally hit the bottom. Therefore, the overall home electrical appliance market is expected to level off.

Against this backdrop, we will enhance our initiatives for sales growth in order to recover decreased sales. With regard to the eco-friendly living and solar power business, including home remodeling and solar power generation systems, on which we have focused particularly in recent years, we are steadily producing results, boasting the largest domestic sales among retailers. Since housing builders and regional engineering firms still have large market shares in this field, we will do our utmost to further increase our sales. In addition, we will proactively open stores mainly in Western Japan to expand our share in the region.

Meanwhile, we would like to recover earnings generation capability promptly. We will push forward with closure of unprofitable stores and building of a proper personnel structure. At present, we are controlling new employment, and striving to establish a proper personnel structure by obtaining staffers necessary for new stores through transfer of personnel from existing stores. Furthermore, we launched a project in fiscal year 2012 and have been endeavoring to reduce all kinds of expenses within the company.

Through these efforts, we would like to realize recovery of sales and profits at an early stage.

Pursuit of Growth Fortify

- New Store Openings
- Efforts for Growing Markets
- Business Development

Fortify New Store Openings

In the main operating area of EDION in the regions to the west of the Chubu area, we boast of a high market share. But because there are still numerous areas within our current operating territory where we can open new stores, we expect to continue to focus our new store openings within these regions, where EDION is widely recognized and current logistics networks, etc. can be utilized. Through such new store openings, logistics efficiency and advertising efficiency will increase, and we will strive to realize sales growth and improvement of earnings ratio at the same time.

Efforts for Growing Markets

● Home Remodeling and Solar Power Generation Systems

The housing equipment-related market, including home remolding and solar power generation systems, is a large market which compares with that of home electrical appliances. As it has significantly large room for development, we will enhance “eco-friendly living and solar power business,” including home remolding, solar power generation systems, and all-electric home.

Home Remodeling selling section

● Mobile Phones

Mobile phones are one of the mainstay products of home electrical appliance mass retailing stores. However, stores specializing in mobile phones, centering on shops operated by carriers, currently account for a large part of the mobile phone market. We seek to expand our share of the mobile phone market, where demand for smartphones is expanding, by leveraging our extensive product lineup that covers mobile phones of all carriers.

Mobile Phones selling section

● Sales via the Internet

The online sales market is expanding every year also in the home electrical appliance market. Against this backdrop, we will endeavor to expand our share of the Internet sale market by making the most of our scale of purchase and merchandise procurement capability as a mass retail store of home electrical appliances.

http://www.edion.com/ec/

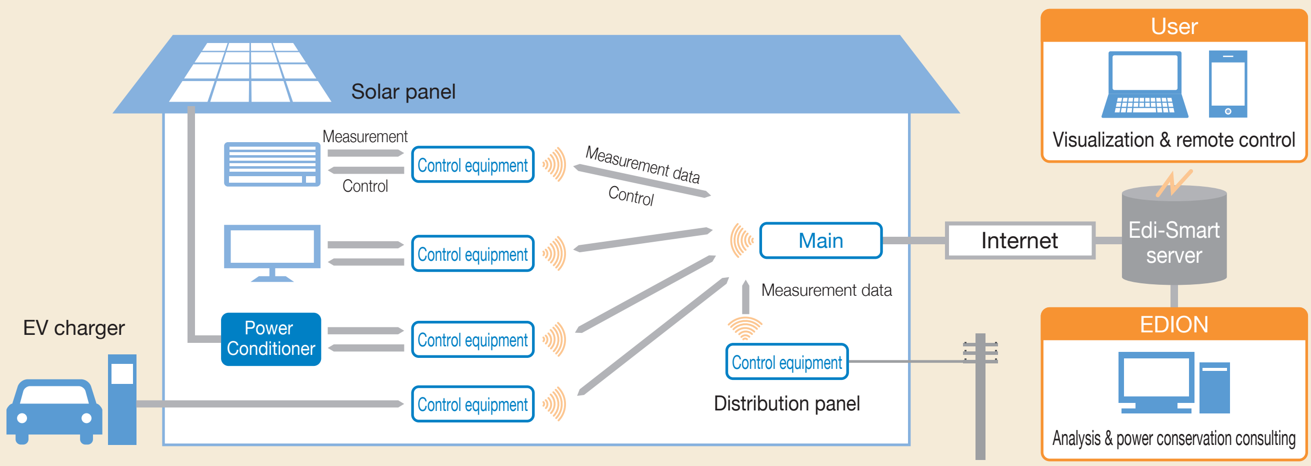
Business Development

● Energy Management & Support Service Business

EDION became a pioneer by entering the electric power and energy conservation market in 2012. Control equipment we sell realizes visualization of electric power consumption and ON / OFF control of each electrical appliance when installed in homes and office buildings.

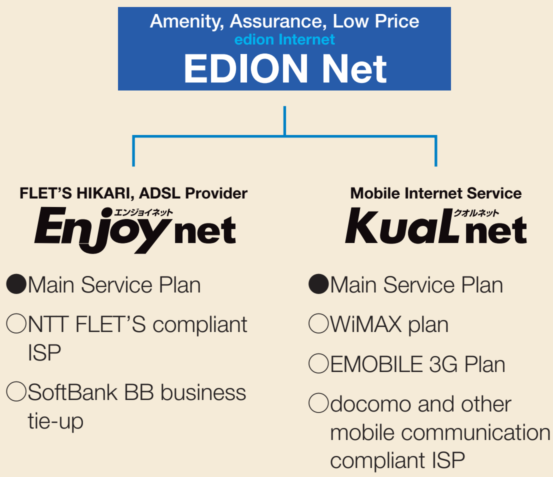
The Edi-Smart Energy Management System realizes energy conservation at homes and offices with no effort, since it can manage electric power consumption in real time through personal computers and smartphones. It has been authorized as subject of the fiscal 2011 subsidy for the projects to promote introduction of the energy management systems of Sustainable open Innovation Initiative (SII).

Edi-Smart Energy Management System



● Internet Connectivity Service

EDION also operates Internet connectivity service called "EDION Net." In our Internet connectivity business we provide a high-speed mobile connectivity service called "KuaL.Net," which uses WiMAX of UQ Communications Inc. and LTE of eAccess Ltd., and fixed line connectively service called "Enjoy.Net," which uses optical fibers and Asymmetric Digital Subscriber Line (ADSL). The number of subscribers to our service is increasing year by year thanks to our strong service structure supported by operation of brick-and-mortar stores and to various service menus. It stood at approximately 430,000 (as of the end of March 2013).



Store Strategy

Directly-operated Stores

425

(as of March 31, 2013)

● Directly-operated Store Sales Strategy

EDION seeks to raise its operating efficiency and satisfy its customers' needs by facilitating stores that respond to various regional markets.

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

● Conditions During the Year

During fiscal year 2012, regarding directory-operated electronics stores, EDION opened the "EDION Sotokan-Daito Store (Osaka Prefecture)," the "EDION Matsuyama-Hirata Store (Ehime Prefecture) and four other stores, for a total of six stores, and opened the "EDION Hiroshima Main Store (Hiroshima Prefecture)" which features one of the largest sales-floor spaces among our stores, on a full scale. We also moved and reopened nine stores and closed three stores. With regard to directory-operated non-electronics stores, we opened one new store and closed four stores.

Consequently, the total number of directly-operated stores at the end of March 2013 stood at 425.

● New Store Openings

Classification	Store name	Opening date	Location	Floor space
Relocated	Viva-City Hikone Store	Apr. 6, 2012	Hikone City, Shiga	2,764m²
Newly opened	AEON-Mall Fukutsu Store	Apr. 26, 2012	Fukutsu City, Fukuoka	2,306m²
Relocated	AIPlaza Joyo Store	Apr. 27, 2012	Joyo City, Kyoto	1,858m²
Newly opened	Ito Store	June 15, 2012	Ito City, Shizuoka	1,396m²
Relocated	AEON-TOWN Kariya Store	Oct. 5, 2012	Kariya City, Aichi	2,453m²
Relocated	Obihironishi Store (Hyakuman Volt)	Oct. 20 2012	Obihiro City, Hokkaido	3,763m²
Relocated	SUNLIVE Moritsune Store	Oct. 26, 2012	Kokuraminamiku, Kitakyushu City, Fukuoka	1,523m²
Relocated	Owariasahi Store	Oct. 26, 2012	Owariasahi City, Aichi	4,127m²
Newly opened	Takaoka Store (Hyakuman Volt)	Nov. 2, 2012	Takaoka City, Toyama	1,993m²
Newly opened	Hamamatsu-Wada Store	Nov. 23, 2012	Higashi-ku, Hamamatsu City, Shizuoka	3,569m²
Newly opened	Matsuyama-Hirata Store	Dec. 7, 2012	Matsuyama City, Ehime	1,443m²
Relocated	Asahikawa-Nagayama Store (Hyakuman Volt)	Dec. 8, 2012	Asahikawa City, Hokkaido	3,036m²
Newly opened	Sotokan-Daito Store	Mar. 1, 2013	Daito City, Osaka	2,958m²
Relocated	Yokohama Store	Mar. 1, 2013	Naka-ku, Yokohama City, Kanagawa	1,670m²
Newly opened	AIPlaza Omihachiman Store	Mar. 8, 2013	Omihachiman City, Shiga	1,290m²

Franchise Store

752

(as of March 31, 2013)

Franchise Store Sales Strategy

EDION is promoting an aggressive small franchise store opening strategy.

This is a strategy unique to the EDION Group and entails a system of turning existing small electronics retail stores operating in local markets into franchised stores.

While the trend in the home electrical appliance market is to open large mass retail stores, there are still a large number of customers who frequent smaller shops located closer to their homes. To service these customers, we operate “EDION Family Shop.” We will continue to meet diversified and segmentalized needs of the aging society as enhancing cooperation between franchise stores and directly-operated stores.

Conditions in the Current Term

During fiscal year 2012 we opened 24 new franchise stores and closed 23.
Consequently, at the end of March 2013, the total number of franchise stores stood at 752.

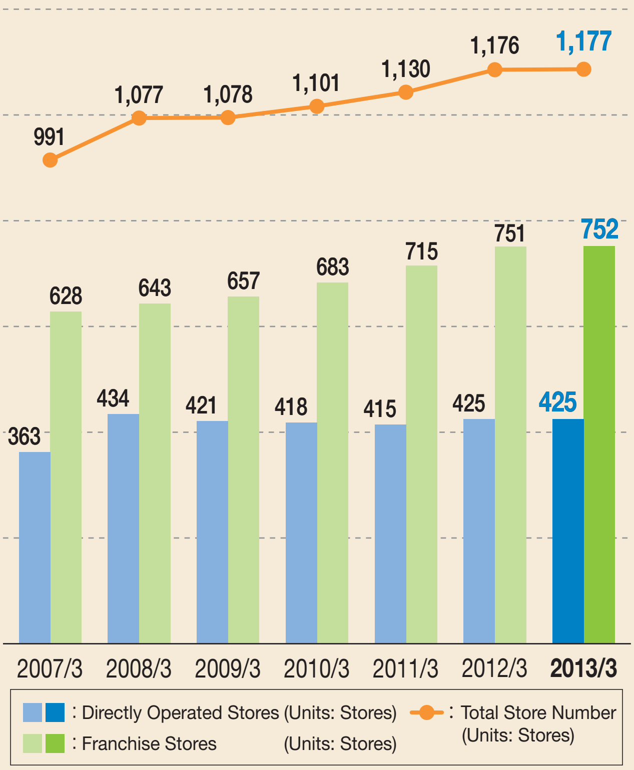
Directly-operated, Franchise Store Numbers

(Units: Stores)

	Directly operated stores		Franchise stores	Total
	Electronics stores	Non-electronics stores		
Hokkaido	6	1	0	7
Kanto	14	3	0	17
Hokuriku	15	7	0	22
Chubu	99	55	108	262
Kinki	92	1	60	153
Chugoku	82	2	274	358
Shikoku	16	0	94	110
Kyushu / Okinawa	31	1	216	248
Total	355	70	752	1,177

(as of March 31, 2013)

Store Number Trend



After-sales Service Systems

Enhanced After-sales Service System

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

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

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

Repair service counter

Repair service at customer's home

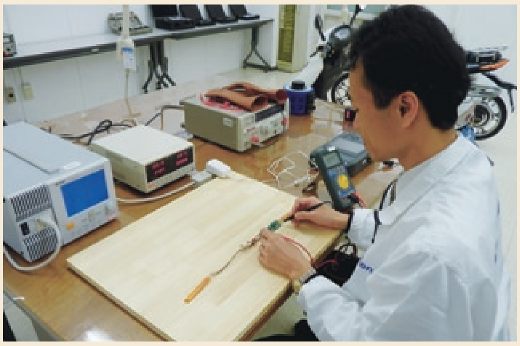
Detailed Services for Customers

To suggest optimum products to customers, we are putting stress on personnel education. In addition to training given when employees enter the company, we conduct stratified training in accordance with the year when they joined the company and their positions.

In addition, in order to help employees acquire product information, etc., we are promoting their acquisition of qualifications, including electric home appliance advisor and electric home appliance engineer certified by the Association for Electric Home Appliances. A total of 5,912 employees of EDION are qualified as electric home appliance advisor (as of the end of March 2013) and strive to suggest optimum products to customers based on their rich knowledge.

Testing of Product's Reliability

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



Product Performance Testing Laboratory

Membership Card that Offers Great Assurance

The EDION card, the unique membership card of the EDION Group, was introduced with the aim of providing our customers with great assurance. By paying an annual fee of ¥1,029, customers can enjoy a five-year extended repair warranty for designated home electrical appliances (excepting certain products) purchased at our stores at a price of ¥5,250 or more, with no limit to the number of appliances which are subject to repair warranty. Moreover, EDION Card holders can earn points, not just by shopping at EDION Group stores, but also by using the card when shopping on credit at stores both in and outside Japan.

As of end of March 2013, EDION card holders totaled 4.4 million, showing that the Card is one of Japan's major membership cards.

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

EDION Card

Anshin Hosho Card (Safety Warranty Card)

Responses to Customers' Needs

As a means of providing more detailed responses to our customers' needs, we are jointly developing original products with manufacturers. Some examples of our original products include external air conditioner units with rust proof coating, microwave ovens with original menu settings, and other original home electrical appliances with unique functions called "KuaL." EDION offers another line of products called "keyword" that features sizes and functions suited to live-alone customers and consumable products called "MY&OUR." We have such our original products more than 2,000 items.

Our business operations are not limited just to the sales of home electrical appliances. To satisfy our customers' diverse needs and requests regarding home electrical appliances, we also offer a wide variety of customer services. Such services include cleaning of our customers' home air-conditioners to remove musty odor and ensure proper functioning of the air conditioner, and digital support, including setting of personal computers.

Original home electrical appliances "KuaL."

"Ouchi-marugoto Support"

Special Feature

EDION's “Eco-Friendly Living and Solar Power Business”

Eco-friendly living and solar power business entails the sales of home remodeling related fixtures, solar power generation systems, all-electric home appliances, and other products and services. Since entering the business in earnest in fiscal 2009, our sales have expanded steadily and have achieved top sales in the retailing industry (*)

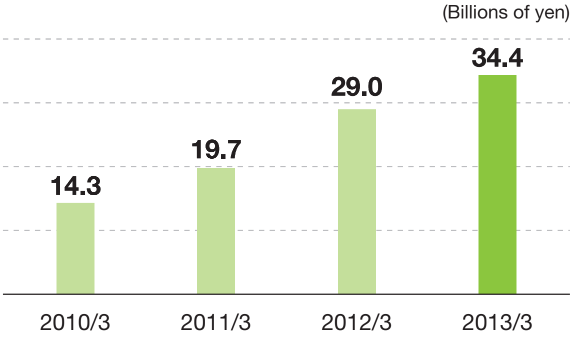
(*) In fiscal 2011 (according to The Japan Journal of Remodeling)

Construction results

Approximately 53,000 cases a year

(2012)

Net sales



● Home Remodeling

We provide various solutions in the areas of kitchen, bathroom, and toilet in our home remodeling business. Our remodeling plans include not only products, but packaged solutions which include the construction work associated with dismantling and installation of various fixtures, as well as renewal of flooring cloth. This service is extremely popular because of its price transparency and the convenience of checking various products and fixtures at our stores that can offer customers a feel of ease.

We have so far provided home remodeling plans only at our midsize and large stores as taking demand and other factors into consideration. Now that know-how on sales and construction work, etc. has been accumulated through the operation of the home remodeling business, we will work on further expansion of the business, including provision of the service at small stores.

Kitchen remodeling

Home use solar power generation system

Industrial use solar power generation system

● Solar Power Generation System

Solar power generation systems are growing rapidly on the back of the increased conscious of energy conservation and because of the government’s subsidies on home power generation system installations and price increases on excess electricity sold by homeowners to electric power companies. In particular, solar power generation systems for industrial use are rapidly installed on the roofs of buildings and condominiums, greatly supported by the government’s policies, including the full amount purchase system and tax cuts on green investing.

To keep pace with the rapidly growing demand, EDION has established training facilities at four locations within Japan to promote training of staff.

● All-electric Home System

All-electric home system helps to reduce utility costs of households through replacement of gas ranges and hot-water supply systems with induction heating (IH) cooking heaters and EcoCute, an energy efficient electric heat pump, water heating and supply system. It can reduce utility expenses by taking advantage of cheaper night time electric power rates. It is favorably accepted also in terms of safety, since there is little anxiety about fire, etc.

All-electric home system

Endeavors to Take in Latent Needs

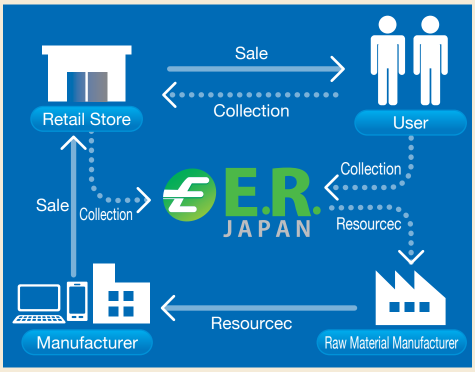
In the home remodeling market, customers have few opportunities for seeking advice and prices are hard to understand. As for latent needs among people who have not actually had their houses remodeled although they feel inconvenience and / or have discontent in their daily lives, we have developed remodeling products featuring low prices and short construction period and will provide them under the name of “Petit DE Refo.”

We started offering the new products in March 2013, first for toilets. We will expand them to range hoods in May and to entrance doors and washstands in fall this year. We will strive to meet latent needs among customers who have felt hesitant about home remodeling.

Environmental Activities

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

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., aimed at engaging in the recycling business.

The joint venture not only purchases and sells used information and telecommunications equipment, including personal computers and portable phones, but also will engage in the resource recycling business to collect and sell reusable metals, such as rare metals, in used small consumer electronic products at a plant planned to be constructed in Fukuyama, Hiroshima Prefecture.

Participation in Tree-planting and Forestation Programs

We have been active in various tree-planting and forestation programs, as part of our environmental contribution to local communities.

We have participated in the “Hiroshima Forest Planting Activity in Takehara” every year since the first event was held in 2004. In addition, we have also participated in the “Yoshino Forestation Activity” reforestation activities on Mt. Yoshino in Nara Prefecture, which is registered as a World Heritage Cultural Site, and the “Planting in Nagoya Nishi-no Mori Forest” program in Nagoya City since 2008.

We will continue working together with local residents and participating in various environmental initiatives, to contribute all the more to local environment.

Tree planting activities (Takehara City, Hiroshima)

Promoting the Installation of Energy Efficient Equipment

We have been promoting the installation of various types of energy-efficient equipment in our stores to give care to the global environment and reduce utility costs.

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

Solar Power Generation System installed on roof of EDION Hiroshima Main Store

Community Activities

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

Sports Promotion

● Sanfrecce Hiroshima FC

We serve as the main sponsor of Sanfrecce Hiroshima FC, a member team of the Japan Professional Football League (J. League). Sanfrecce Hiroshima FC won the 2012 J. League Division 1 championship and won the J. League title at the Fuji Xerox Super Cup in 2013, substantially contributing to the regional development of Hiroshima.

Sanfrecce Hiroshima FC.

● EDION Athletic Club for Women

Since its establishment in 1989, EDION Athletic Club for Women has participated 23 times in the All-Japan Corporate Women's Ekiden Championships, and has produced excellent athletes who were selected as national contestants for international athletic meets, including the London 2012 Olympic Games. The Club has contributed substantially to the development of athletic sports in Japan and overseas.

EDION Athletic Club for Women

● EDION Archery Club

Since its establishment in 1990, EDION Archery Club has produced outstanding archers, as proven by the fact that some club members were selected as national contestants for the London 2012 Olympic Games and the world championship in 2009 contributing greatly to the development of archery in Japan and overseas.

EDION Archery Club

Cultural Activities

EDION has been operating a member club called "EDION Club" exclusively for its card holders at the EDION Hiroshima Main Store (Hiroshima Prefecture) since 2009 as a means of enabling customers to use consumer electronic appliances pleasantly and conveniently. We also started operating the club at the EDION Nagoya Main Store (Aichi Prefecture) in June 2013.

The Club holds various events including hobby and educational classes using various consumer electronic products. In addition to showing club members how to enjoy their consumer electronic products, these events act as opportunities for club members to communicate with each other.

EDION Club

Outline of our corporate governance system

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

Reasons for introducing the corporate governance system

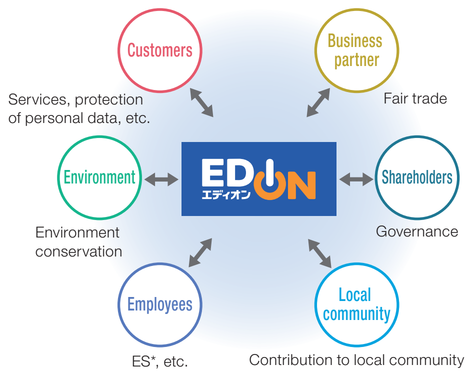
The EDION Group's concept of "quality service retailing" is based on our philosophy that our retail business activities are closely linked to the local communities and made possible by the relationship of trust formed with our various stakeholders, including shareholders, customers, business partners, and local communities.
In order to maintain growth amidst the rapid changes and severe competition within our operating environment, we need to be accepted and receive the support of local communities as a "quality service retail business," while at the same time maintaining our recognition of the importance of governance within our Group as an important management issue. Therefore, we need to create an upper management structure that is able to implement an accurate and quick decision making process and quickly execute decisions made. At the same time, we also need to constantly exert efforts to improve communications with our various stakeholders in order to reflect their opinions and needs in our decision making process in a timely fashion.

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

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

EDION Group Corporate Ethics

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

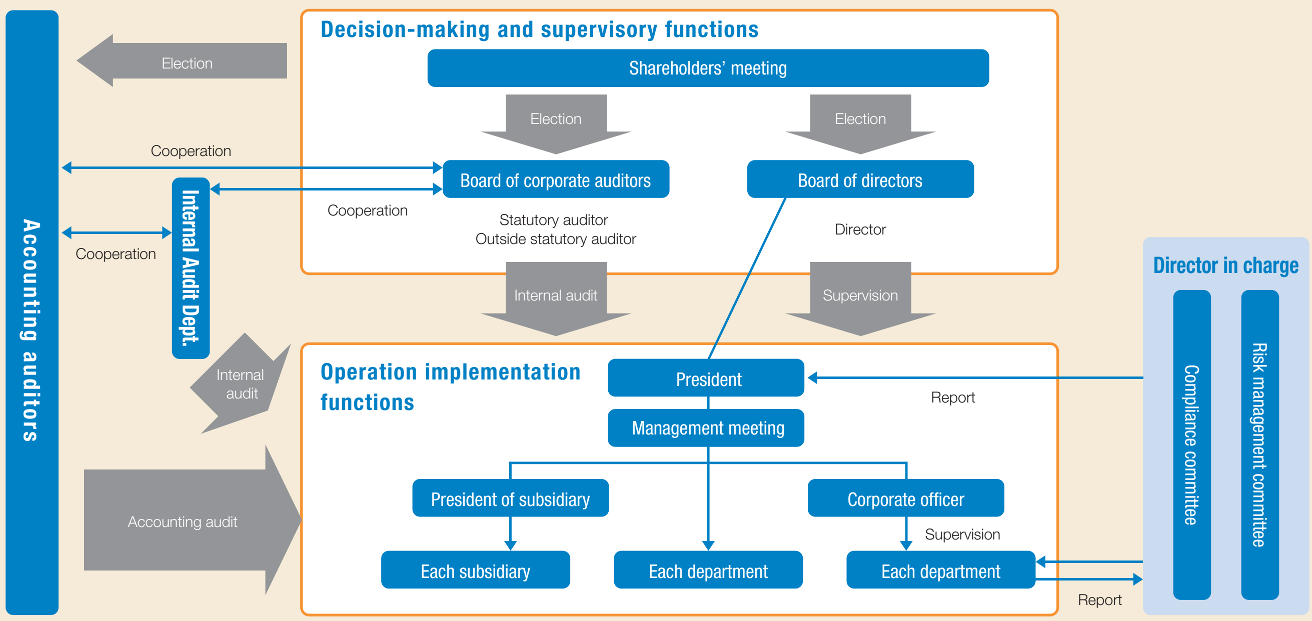


*ES is an abbreviation for employee satisfaction.

Current situation of our internal control system and risk management system

1. The Board of Directors, consisting of 9 members (as of June 27, 2013), meets twice monthly.
2. At EDION Corporation, the President / Vice-Presidents or Directors concurrently serve as general manager of one headquarters or of one department, seeking to enhance the thorough Group-wide management system with EDION Corporation at its core. EDION Corporation also pays key roles in the coordination between EDION Corporation and subsidiaries, as well as among the Group's subsidiary companies.
3. We have established a management meeting that serves as a liaison meeting for operational adjustments. It is held prior to the board of directors meeting, to discuss how to address Group-wide important management issues. The weekly management meeting, chaired by the President, consists of Directors and general managers of relevant departments of EDION Corporation.
4. As part of our efforts to enhance corporate governance, in December 2004 the EDION Group established a corporate ethics code, the "EDION" Group Corporate Ethics." Since 2005, the EDION Group has also reinforced its compliance training and education system for new employees, distributing the Group's "Ethics and Compliance Manual" and "Code of Ethics" cards to employees, to carry around with them. The Group has also established a compliance committee that serves as risk management headquarters in charge of ensuring compliance with the ethics code. The compliance committee, which meets as necessary, consists of the head (President of EDION Corporation), chairperson (director in charge of compliance-related matters) and other members (General Affairs Dept. staff, Human Resource Dept. staff, Internal Control Dept. staff and corporate auditors). A risk management committee, which conducts overall management if risks to companies within the Group, also meets as necessary, and is comprised of the head (President of EDION Corporation), chairperson (director in charge of risk management affairs) and other members (General Affairs Dept. staff, Human Resources Dept, staff, Internal Control Dept. staff and corporate auditors). Furthermore, based on an advisory contract with a law office, EDION Corporation has been consulting an expert regarding legal judgments on its management decisions and daily store operations, as well as executive and employee compliance with its ethical code. Concerning the Personal Information Protection Law that took effect in April 2005, the EDION Group has instituted a "Personal Information Protection Policy" and an "Administrative Regulation for Protecting Personal Information," establishing an appropriate personal information protection and management system that is managed by Administrative HQ. of EDION Corporation.

Corporate governance structure



Financial Report

Consolidated Balance Sheet

EDION Corporation and Consolidated Subsidiaries
March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Assets			
Current assets:			
Cash and cash equivalents *(Note 10)*	¥ 9,967	¥ 10,686	$ 105,976
Notes and accounts receivable:			
Trade *(Note 10)*	28,166	29,492	299,479
Other	11,878	12,726	126,294
Allowance for doubtful receivables	(35)	(69)	(372)
	40,009	42,149	425,401
Inventories:			
Merchandise and products	99,780	80,578	1,060,925
Supplies	281	362	2,988
	100,061	80,940	1,063,913
Deferred income taxes *(Note 9)*	7,999	8,723	85,051
Other current assets	4,410	4,646	46,889
Total current assets	162,446	147,144	1,727,230
Property and equipment, at cost *(Note 6)*:			
Land *(Notes 4 and 7)*	76,199	76,039	810,197
Buildings and structures *(Note 7)*	161,949	159,176	1,721,946
Tools, furniture and fixtures	23,956	24,806	254,716
Leased assets	1,206	2,583	12,823
Construction in progress	4,139	1,714	44,009
Other	667	3,202	7,090
	268,116	267,520	2,850,781
Accumulated depreciation	(114,114)	(113,045)	(1,213,333)
Net property and equipment	154,002	154,475	1,637,448
Investments and other assets:			
Investments in securities *(Notes 3 and 10)*	3,971	4,445	42,222
Investments in an unconsolidated subsidiary and affiliates *(Note 10)*	623	424	6,624
Goodwill *(Note 21)*	–	0	–
Leasehold deposits *(Note 10)*	30,860	30,542	328,123
Deferred income taxes *(Note 9)*	12,673	8,429	134,747
Other *(Note 15)*	13,512	17,195	143,670
Total investments and other assets	61,639	61,035	655,386
Total assets	¥ 378,087	¥ 362,654	$ 4,020,064

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Liabilities and net assets			
Current liabilities:			
Short-term bank loans *(Notes 7 and 10)*	¥ 36,000	¥ 23,000	$ 382,775
Current portion of long-term debt *(Notes 7 and 10)*	13,769	19,607	146,401
Notes and accounts payable:			
Trade *(Note 10)*	45,048	39,544	478,979
Other	14,259	15,304	151,611
	59,307	54,848	630,590
Lease obligations *(Notes 7 and 10)*	159	152	1,691
Accrued income taxes *(Note 9)*	365	500	3,881
Allowance for employees' bonuses	4,029	5,395	42,839
Reserve for point service program	8,420	8,690	89,527
Other current liabilities *(Note 8)*	10,556	11,571	112,238
Total current liabilities	132,605	123,763	1,409,942
Long-term liabilities:			
Long-term debt *(Notes 7 and 10)*	75,630	61,971	804,147
Accrued retirement benefits *(Note 8)*	8,913	9,376	94,769
Lease obligations *(Notes 7 and 10)*	718	878	7,634
Negative goodwill *(Note 21)*	569	1,708	6,050
Deferred income taxes for land revaluation *(Note 9)*	2,177	2,181	23,147
Allowance for merchandise warranties	6,478	5,992	68,878
Asset retirement obligations *(Note 5)*	5,119	4,823	54,428
Other long-term liabilities	7,389	7,733	78,565
Total long-term liabilities	106,993	94,662	1,137,618
Contingent liabilities *(Note 12)*			
Net assets:			
Shareholders' equity *(Note 13)*:			
Common stock	10,175	10,175	108,187
Capital surplus	82,334	82,334	875,428
Retained earnings	56,914	65,447	605,147
Treasury stock, at cost	(2,192)	(1,477)	(23,307)
Total shareholders' equity	147,231	156,479	1,565,455
Accumulated other comprehensive income *(loss)*:			
Net unrealized gain on other securities	264	8	2,807
Land revaluation difference *(Note 4)*	(9,283)	(13,118)	(98,703)
Accumulated other comprehensive loss, net	(9,019)	(13,110)	(95,896)
Stock acquisition rights *(Note 13)*	243	246	2,584
Minority interests	34	614	361
Total net assets	138,489	144,229	1,472,504
Total liabilities and net assets	¥ 378,087	¥ 362,654	$ 4,020,064

See accompanying notes to consolidated financial statements.

Financial Report

Consolidated Statement of Operations

EDION Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales	¥ 685,145	¥ 759,025	$ 7,284,902
Cost of sales *(Note 14)*	511,528	573,809	5,438,895
Gross profit	173,617	185,216	1,846,007
Selling, general and administrative expenses	176,094	175,930	1,872,344
Operating (loss) income	(2,477)	9,286	(26,337)
Non-operating income (expenses):			
Interest and dividend income	363	417	3,860
Interest expenses	(984)	(1,054)	(10,463)
Purchase discounts	2,292	5,203	24,370
Amortization of negative goodwill *(Note 21)*	1,139	1,926	12,111
Gain on recognition of negative goodwill *(Notes 19 and 21)*	–	1,860	–
Loss on disposal of property and equipment	(1,570)	(255)	(16,693)
Loss on impairment of fixed assets *(Notes 15 and 21)*	(4,540)	(3,991)	(48,272)
Additional retirement benefits *(Notes 8 and 21)*	(1,319)	–	(14,024)
Surcharge *(Note 16)*	–	(4,048)	–
Other, net *(Note 13)*	1,454	603	15,459
	(3,165)	661	(33,652)
(Loss) income before income taxes and minority interests	(5,642)	9,947	(59,989)
Income taxes *(Note 9)*:			
Current	709	2,758	7,539
Deferred	(3,699)	1,626	(39,330)
Total income taxes	(2,990)	4,384	(31,791)
(Loss) income before minority interests	(2,652)	5,563	(28,198)
Minority interests	(11)	1,865	(117)
Net (loss) income	¥ (2,641)	¥ 3,698	$ (28,081)

Amounts per share:	Yen		U.S. dollars
Net (loss) income			
– Basic	¥ (25.80)	¥ 35.87	$ (0.27)
– Diluted	–	34.88	–
Cash dividends	20.00	20.00	0.21

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Loss

EDION Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
(Loss) income before minority interests	¥ (2,652)	¥ 5,563	$ (28,198)
Other comprehensive income *(Note 17)*:			
Net unrealized gain on other securities	256	133	2,722
Land revaluation difference	–	313	–
Other comprehensive income, net	256	446	2,722
Comprehensive (loss) income	¥ (2,396)	¥ 6,009	$ (25,476)
Comprehensive (loss) income attributable to:			
Shareholders of EDION Corporation	¥ (2,385)	¥ 4,154	$ (25,359)
Minority interests	(11)	1,855	(117)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

EDION Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized (loss) gain on other securities	Land revaluation difference	Accumulated other comprehensive loss, net	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2011	10,175	82,347	64,419	(2,184)	154,757	(136)	(13,533)	(13,669)	209	14,651	155,948
Cash dividends	–	–	(2,568)	–	(2,568)	–	–	–	–	–	(2,568)
Reversal of land revaluation difference	–	–	(102)	–	(102)	–	–	–	–	–	(102)
Net income	–	–	3,698	–	3,698	–	–	–	–	–	3,698
Purchases of treasury stock	–	–	–	(1)	(1)	–	–	–	–	–	(1)
Disposition of treasury stock	–	(13)	–	708	695	–	–	–	–	–	695
Other changes	–	–	–	–	–	144	415	559	37	(14,037)	(13,441)
Balance at 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 March 31, 2013	**¥ 10,175**	**¥ 82,334**	**¥ 56,914**	**¥ (2,192)**	**¥ 147,231**	**¥ 264**	**¥ (9,283)**	**¥ (9,019)**	**¥ 243**	**¥ 34**	**¥ 138,489**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized (loss) gain on other securities	Land revaluation difference	Accumulated other comprehensive loss, net	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2012	$ 108,187	$ 875,428	$ 695,875	$ (15,704)	$1,663,786	$ 85	$ (139,479)	$ (139,394)	$ 2,616	$ 6,528	$1,533,536
Cash dividends	**–**	**–**	**(21,808)**	**–**	**(21,808)**	**–**	**–**	**–**	**–**	**–**	**(21,808)**
Reversal of land revaluation difference	**–**	**–**	**(40,839)**	**–**	**(40,839)**	**–**	**–**	**–**	**–**	**–**	**(40,839)**
Net loss	**–**	**–**	**(28,081)**	**–**	**(28,081)**	**–**	**–**	**–**	**–**	**–**	**(28,081)**
Purchases of treasury stock	**–**	**–**	**–**	**(7,603)**	**(7,603)**	**–**	**–**	**–**	**–**	**–**	**(7,603)**
Disposition of treasury stock	**–**	**(0)**	**–**	**0**	**0**	**–**	**–**	**–**	**–**	**–**	**0**
Other changes	**–**	**–**	**–**	**–**	**–**	**2,722**	**40,776**	**43,498**	**(32)**	**(6,167)**	**37,299**
Balance at March 31, 2013	**$ 108,187**	**$ 875,428**	**$ 605,147**	**$ (23,307)**	**$ 1,565,455**	**$ 2,807**	**$ (98,703)**	**$ (95,896)**	**$ 2,584**	**$ 361**	**$ 1,472,504**

See accompanying notes to consolidated financial statements.

Financial Report

Consolidated Statement of Cash Flows

EDION Corporation and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities			
(Loss) income before income taxes and minority interests	¥ (5,642)	¥ 9,947	$ (59,989)
Adjustments for:			
Depreciation and amortization	13,123	13,945	139,532
Loss on impairment of fixed assets	4,540	3,991	48,272
Interest and dividend income	(363)	(417)	(3,860)
Interest expense	984	1,054	10,463
Amortization of negative goodwill, net	(1,126)	(1,558)	(11,972)
Gain on recognition of negative goodwill	–	(1,860)	–
Surcharge	–	4,048	–
Decrease in allowance for employees' bonuses	(1,366)	(1,390)	(14,524)
Decrease in reserve for point service program	(270)	(75)	(2,871)
Decrease in accrued retirement benefits	(463)	(410)	(4,923)
Loss on disposal of property and equipment	1,606	255	17,076
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	2,174	6,153	23,115
(Increase) decrease in inventories	(19,121)	8,623	(203,307)
Increase (decrease) in notes and accounts payable	3,677	(14,091)	39,096
Other, net	1,577	(6,021)	16,768
	(670)	22,194	(7,124)
Interest and dividends received	148	230	1,574
Interest paid	(964)	(959)	(10,250)
Surcharge paid	(4,048)	–	(43,041)
Proceeds from compensation for expropriation	552	–	5,869
Income taxes refunded	2,033	1,131	21,616
Income taxes paid	(1,695)	(7,462)	(18,022)
Net cash (used in) provided by operating activities	(4,644)	15,134	(49,378)
Cash flows from investing activities			
Investments in time deposits	–	(502)	–
Proceeds from time deposits	–	2,107	–
Purchases of property and equipment	(11,985)	(6,701)	(127,432)
Proceeds from sales of property and equipment	459	415	4,880
Purchases of intangible assets	(1,275)	(996)	(13,557)
Payments of long-term prepaid expenses	(60)	(18)	(638)
Purchases of investments in securities	(0)	(25)	(0)
Proceeds from sales of investments in securities	709	40	7,539
Purchases of investments in subsidiaries	–	(4,824)	–
Purchases of investments in subsidiaries resulting in change in scope of consolidation	–	(425)	–
(Increase) decrease in leasehold deposits, net	(1,689)	36	(17,959)
(Decrease) increase in leasehold deposits received from tenants, net	(52)	70	(553)
Other, net	492	591	5,232
Net cash used in investing activities	(13,401)	(10,232)	(142,488)
Cash flows from financing activities			
Increase in short-term bank loans, net	13,000	2,036	138,224
Proceeds from long-term loans	27,427	31,500	291,621
Repayments of long-term loans	(19,107)	(23,134)	(203,158)
Redemption of bonds	(500)	(13,235)	(5,316)
Cash dividends paid	(2,050)	(2,564)	(21,797)
Cash dividends paid to minority shareholders	(20)	(804)	(213)
Purchase of treasury stock	(718)	(0)	(7,634)
Purchase of treasury stock held by an subsidiary	–	(8,490)	–
Repayments to minority shareholders	(600)	–	(6,380)
Other, net	(106)	480	(1,126)
Net cash provided by (used in) financing activities	17,326	(14,211)	184,221
Effect of exchange rate changes on cash and cash equivalents	0	0	0
Net decrease in cash and cash equivalents	(719)	(9,309)	(7,645)
Cash and cash equivalents at beginning of year	10,686	19,990	113,621
Increase in cash and cash equivalents from newly consolidated subsidiaries	–	5	–
Cash and cash equivalents at end of year	¥ 9,967	¥ 10,686	$ 105,976

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (March 31, 2013)

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, 2012 to the 2013 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥94.05 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2013. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2.Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. The numbers of consolidated subsidiaries were 5 and 6 as of March 31, 2013 and 2012, respectively.

Mr. Consent Co., Ltd., (“Mr. Consent”) a wholly-owned subsidiary in the previous year, was excluded from the scope of consolidation from current fiscal year because it was merged into 3Q Co., Ltd., (“3Q”), a consolidated subsidiary, on April 1, 2012. E.R. JAPAN Corporation, which was established as a subsidiary on April 17, 2012, was included in the scope of consolidation from the current fiscal year. In addition, MET Special Purpose Company, a wholly-owned subsidiary in the previous year, was excluded from the scope of consolidation from the current fiscal year because its liquidation process was completed on January 31, 2013. Furthermore, 3Q House System Co., Ltd. changed its name to EDION House System Corporation on April 1, 2012.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The Company has applied the equity method to investments in 3 affiliates for the years ended March 31, 2013 and 2012.

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

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

The fiscal year end of 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) Marketable securities and investments in securities

Securities have been classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited and charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive 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 or the last purchase price method. Inventories of home-center appliance merchandise are stated at the lower of cost or net selling value, cost determined by the retail method. Supplies are stated at cost determined by the last purchase price method.

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

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

(Changes in the method of depreciation)

In accordance with an amendment to the Corporation Tax Law of Japan effective April 1, 2012, the Company and its consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012 to reflect the methods prescribed in the amended Corporation Tax Law. The previously applied 250% declining-balance method was changed to the 200% declining-balance method. As a result of this change, depreciation for the year ended March 31, 2013 decreased by ¥274 million ($2,913 thousand) compared to that under the previous method. Operating loss and loss before income taxes and minority interests decreased by ¥274 million ($2,913 thousand), respectively.

(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.

Notes to Consolidated Financial Statements (continued)

2.Summary of Significant Accounting Policies (continued)

(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.

(j) Retirement benefits

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees.

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

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.

(k) Reserve for point service program

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

(l) Allowance for merchandise warranties

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

(m) Income taxes

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

(n) Derivatives and hedging activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred.

If interest-rate swap contracts are used as hedges and meet certain hedging criteria, the net amounts to be paid or received under the interest-rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contracts are executed.

(o) Per share information

Basic net (loss) income per share is computed based on the net (loss) income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price, and stock acquisition rights were exercised into common stock at the time of issue at the average stock price. Cash dividends per share presented in the accompanying consolidated statement 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 (loss) income per share for the years ended March 31, 2013 and 2012 were 102,353 thousand and 103,077 thousand, respectively. The dilutive potential of shares of common stock for the year ended March 31, 2012 was 2,935 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, 2013 and 2012 were ¥1,361.19 ($14.47) and ¥1,384.69, 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 22. "Subsequent Event").

(q) Standards issued but not yet effective

On May 17, 2012, the Accounting Standards Board of Japan ("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. The major changes are as follows:

(1) Treatment in the balance sheet – Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income (loss)), after adjusting for tax effects, and the deficit or surplus shall be recognized as liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the statement of operations and the statement of comprehensive loss – Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior years and then recognized in profit or loss in the current year shall be treated as reclassification adjustment.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The standard and guidance will not be applied retrospectively to the financial statements in prior years. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

3. Marketable Securities and Investments in Securities

Information regarding marketable securities and investments in securities classified as other securities at March 31, 2013 and 2012 were summarized as follows:

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Carrying value
March 31, 2013				
Equity securities	**¥ 2,297**	**¥ 510**	**¥ 184**	**¥ 2,623**
Other	**1,460**	**117**	**104**	**1,473**
Total	**¥ 3,757**	**¥ 627**	**¥ 288**	**¥ 4,096**

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

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Carrying value
March 31, 2013				
Equity securities	**$ 24,423**	**$ 5,423**	**$ 1,957**	**$ 27,889**
Other	**15,524**	**1,244**	**1,106**	**15,662**
Total	**$ 39,947**	**$ 6,667**	**$ 3,063**	**$ 43,551**

Marketable securities in the amount of ¥475 million ($5,051 thousand) with a maturity date within one year of March 31, 2013 were included in "Other" in the above table.

Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted equity securities are not included in the preceding table. The carrying values of such unlisted equity securities amounted to ¥350 million ($3,721 thousand) and ¥350 million as of March 31, 2013 and 2012, respectively.

Hybrid financial instruments containing embedded derivatives were included in "Other" in the above table at March 31, 2013 and 2012. Aggregate gains on valuation of these hybrid financial instruments for the year ended March 31, 2013 were recognized in the amount of ¥37 million ($393 thousand), consisting of gains on valuation in the amount of ¥96 million ($1,020 thousand) for the current year and losses on devaluation in the amount of ¥59 million ($627 thousand) for prior years. Aggregate losses on devaluation of these hybrid financial instruments for the year ended March 31, 2013 were recognized in the amount of ¥104 million ($1,106 thousand), consisting of gains on valuation in the amount of ¥175 million ($1,861 thousand) for the current year and losses on devaluation in the amount of ¥279 million ($2,967 thousand) for the prior years.

Aggregate losses on devaluation of these hybrid financial instruments for the year ended March 31, 2012 were recognized in the amount of ¥491 million, consisting of gains on valuation in the amount of ¥92 million for the current year and losses on devaluation in the amount of ¥583 million for prior years.

Proceeds from sales of other securities for the years ended March 31, 2013 and 2012 were ¥709 million ($7,539 thousand) and ¥41 million, respectively. Gross realized gains on these sales were ¥11 million ($117 thousand) and ¥0 million for the years ended March 31, 2013 and 2012, respectively. Gross realized losses on these sales were ¥1 million ($11 thousand) and ¥12 million for the years ended March 31, 2013 and 2012, respectively.

Losses on devaluation of investments in securities of ¥0 million ($0 thousand) and ¥124 million were recognized for the years ended March 31, 2013 and 2012, 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 ¥10,433 million ($110,930 thousand) and ¥10,172 million at March 31, 2013 and 2012, respectively, of which a certain portion of this land, in the amount of ¥2,818 million ($29,963 thousand) and ¥2,894 million, corresponded to real estate for lease at March 31, 2013 and 2012, 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 for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Asset retirement obligations at the beginning of the year	**¥ 4,823**	¥ 4,604	**$ 51,281**
Liabilities incurred due to the acquisition of property and equipment	**279**	197	**2,967**
Accretion expense	**84**	81	**893**
Liabilities settled	**(67)**	(59)	**(713)**
Asset retirement obligations at the end of the year	**¥ 5,119**	¥ 4,823	**$ 54,428**

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own store properties including buildings and land for rent mainly in the main cities of Osaka, Aichi and other prefectures. Net rental income for these properties was recognized in the amount of ¥261 million ($2,775 thousand) and ¥723 million for the years ended March 31, 2013 and 2012, respectively. Rental income was included in net sales and rental expenses were mainly included in selling, general and administrative expenses. Impairment of rental property of ¥340 million ($3,615 thousand) and ¥396 million was recognized in the loss on impairment of fixed assets for the years ended March 31, 2013 and 2012, respectively.

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

Notes to Consolidated Financial Statements (continued)

6. Investment and Rental Property (continued)

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**

Millions of yen

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

Thousands of U.S. dollars

2013			
Carrying Value			**Fair Value**
March 31, 2012	**Net change**	**March 31, 2013**	**March 31, 2013**
$ 275,556	**$ (12,951)**	**$ 262,605**	**$ 246,135**

Notes:
(a) The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
(b) The components of net change in the carrying value included increases mainly due to acquisition of properties of ¥21 million ($223 thousand) and decreases mainly due to depreciation expenses of ¥607 million ($6,454 thousand) and impairment loss of ¥340 million ($3,615 thousand) for the year ended March 31, 2013. The components of net change in the carrying value included increases mainly due to the change in the holding purpose in the amount of ¥144 million and decreases mainly due to depreciation expenses of ¥590 million and impairment loss of ¥396 million for the year ended March 31, 2012.
(c) The fair value was based on the real estate appraisals issued by third party professional appraisers for main properties and internal computations including the adjustment by an index and others in accordance with appraisal standards for other properties.

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

Short-term bank loans at March 31, 2013 and 2012 consisted of bank overdrafts. The annual average interest rate applicable to the short-term bank loans was 0.46% at March 31, 2013 and 2012.

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen 2013	*Millions of yen* 2012	*Thousands of U.S. dollars* 2013
1.49% secured bonds due April 26, 2012 issued by MET Special Purpose Company	¥ –	¥ 500	$ –
Zero coupon unsecured convertible bonds (with stock acquisition rights) due May 10, 2013	**1,765**	1,765	**18,767**
Loans principally from banks and insurance companies with an average interest rate of 0.90%:			
– Collateralized	**–**	700	**–**
– Unsecured	**86,127**	77,005	**915,758**
Long-term loans due to a tenant for store construction, interest rate of 2.05%	**1,507**	1,608	**16,023**
	89,399	81,578	**950,548**
Less: current portion of long-term debt	**(13,769)**	(19,607)	**(146,401)**
	¥ 75,630	¥ 61,971	**$ 804,147**

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on May 9, 2008 were convertible at ¥1,353 ($14) 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. As a result, the amounts of the zero coupon unsecured convertible bonds is nil at the filing date.

The aggregate annual maturities of long-term debt subsequent to March 31, 2013 were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2014	**¥ 13,769**	**$ 146,401**
2015	**22,646**	**240,787**
2016	**15,208**	**161,701**
2017	**16,097**	**171,154**
2018	**20,712**	**220,223**
2019 and thereafter	**967**	**10,282**
Total	**¥ 89,399**	**$ 950,548**

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 2.87% and 3.10% at March 31, 2013 and 2012, respectively.

The aggregate annual maturities of lease obligations subsequent to March 31, 2013 were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2014	**¥ 159**	**$ 1,691**
2015	**118**	**1,255**
2016	**52**	**553**
2017	**54**	**574**
2018	**54**	**574**
2019 and thereafter	**440**	**4,678**
Total	**¥ 877**	**$ 9,325**

The assets pledged as collateral for long-term loans and the current portion of long-term loans of ¥1,507 million ($16,023 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,106 million ($11,760 thousand) was as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,245	$ 13,238
Buildings and structures – net of accumulated depreciation	5,147	54,726
Total	¥ 6,392	$ 67,964

In order to achieve more efficient and flexible financing, the Group has concluded line-of-credit agreements with 16 banks. Total committed lines of credit under such agreements amounted to ¥50,000 million ($531,632 thousand), of which ¥30,000 million ($318,979 thousand) was available as of March 31, 2013.

8. Retirement Benefits

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

Accrued retirement benefits for employees at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Retirement benefit obligation	¥ (15,732)	¥ (13,666)	$ (167,273)
Plan assets at fair value	7,179	6,961	76,332
Unfunded retirement benefit obligation	(8,553)	(6,705)	(90,941)
Unrecognized actuarial loss	2,149	186	22,850
Unrecognized prior service cost	(2,509)	(2,857)	(26,678)
Accrued retirement benefits	¥ (8,913)	¥ (9,376)	$ (94,769)

At March 31, 2013, additional retirement benefits expected to be paid in the following fiscal year in the amount of ¥1,306 million ($13,886 thousand) were recorded as other current liabilities and were not included in accrued retirement benefits.

The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 420	¥ 357	$ 4,466
Interest cost	274	265	2,913
Expected return on plan assets	(56)	(55)	(595)
Recognized actuarial loss	34	68	362
Amortization of prior service cost	(405)	(450)	(4,306)
Other	3,305	1,872	35,140
Retirement benefit expenses	¥ 3,572	¥ 2,057	$ 37,980

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

"Other" in the above table represented contributions to defined contribution pension plans and additional retirement benefits.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were summarized as follows:

	2013	2012
Discount rate	1.0%-1.1%	2.0%
Expected rate of return on plan assets	0.8%	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 rates of 38.0% and 40.6% for the years ended March 31, 2013 and 2012, respectively.

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, 2012 differed from the corresponding statutory tax rate for the following reasons:

	2012
Statutory tax rate:	40.6%
Expenses not deductible for income tax purposes	1.3
Dividends not taxable for income tax purposes	(3.3)
Inhabitants' per capita taxes	4.1
Lower income tax rates applicable to a certain subsidiary	(1.7)
Amortization of negative goodwill, net	(6.5)
Change in valuation allowance	(18.6)
Elimination of intercompany dividends	4.8
Gain on recognition of negative goodwill	(7.6)
Effect of change in statutory tax rates	14.4
Surcharge	16.5
Other, net	0.1
Effective tax rates	44.1%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Depreciation	¥ 1,611	¥ 1,505	$ 17,129
Allowance for employees' bonuses	1,534	2,053	16,310
Loss on impairment of fixed assets	9,835	6,868	104,572
Accrued retirement benefits	3,220	3,421	34,237
Reserve for point service program	3,211	3,325	34,141
Allowance for merchandise warranties	2,454	2,273	26,093
Unrealized loss on revaluation of land acquired by merger	3,351	3,351	35,630
Asset retirement obligations	1,828	1,722	19,436
Net operating tax loss carryforwards	3,406	1,305	36,215
Other	4,178	3,988	44,424
Less valuation allowance	(12,960)	(11,747)	(137,799)
Total deferred tax assets	21,668	18,064	230,388
Deferred tax liabilities:			
Asset retirement obligations	(650)	(670)	(6,911)
Unrealized holding loss on other securities	(158)	(34)	(1,680)
Other	(188)	(208)	(1,999)
Total deferred tax liabilities	(996)	(912)	(10,590)
Net deferred tax assets	¥ 20,672	¥ 17,152	$ 219,798

Notes to Consolidated Financial Statements (continued)

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 Director if the Group identifies significant fluctuations.

Trade payables, notes and accounts payable, are all due within one year.

Short-term bank loans are mainly utilized for business operations of the Group and long-term loans are mainly utilized for capital investments. Loans with floating rates are exposed to the risk of fluctuation of interest rates. Certain long-term loans are hedged by utilizing derivative transactions, such as interest rate swap agreements, to avoid the risk of fluctuation of interest rates and fix the interest rates. Effectiveness testing for hedging instruments and hedged items is omitted because the conditions are satisfied which allow the Group to account for them as if the interest rates applied to the interest-rate swap agreements had originally applied to the underlying loans.

The execution and control of derivative transactions of the Group are made in accordance with internal policy including the authorization process. In addition, to mitigate the risk of counterparty nonperformance, the Group enters into transactions only with the financial institutions with high credit ratings.

In addition, trade payables and loans are exposed to liquidity risk. This risk is managed by the adoption of a cash management system in the Group.

(c) Supplementary explanation of fair value of financial instruments

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

(d) Estimated fair value of financial instruments

Carrying value, estimated fair value and the difference between them of financial instruments on the consolidated balance sheet as of March 31, 2013 and 2012 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

	2013			2012		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash and cash equivalents	¥ 9,967	¥ 9,967	¥ -	¥ 10,686	¥ 10,686	¥ -
Notes and accounts receivable-trade	28,166	28,166	-	29,492	29,492	-
Marketable securities and investments in securities:						
Held-to-maturity debt securities	-	-	-	6	6	-
Other securities (*)	4,096	4,096	-	4,096	4,096	-
Total assets	¥ 42,229	¥ 42,229	¥ -	¥ 44,280	¥ 44,280	¥ -
Liabilities:						
Notes and accounts payable-trade	¥ 45,048	¥ 45,048	¥ -	¥ 39,544	¥ 39,544	¥ -
Short-term bank loans	36,000	36,000	-	23,000	23,000	-
Current portion of bonds	-	-	-	500	500	0
Current portion of convertible bonds with stock acquisition rights	1,765	1,763	(2)	-	-	-
Long-term debt:						
Convertible bonds with stock acquisition rights	-	-	-	1,765	1,750	(15)
Long-term loans, including current portion	87,634	88,622	988	79,313	78,144	(1,169)
Lease obligations	877	942	65	1,030	1,093	63
Total liabilities	¥ 171,324	¥ 172,375	¥ 1,051	¥ 145,152	¥ 144,031	¥ (1,121)

Thousands of U.S. dollars

	2013		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and cash equivalents	$ 105,976	$ 105,976	$ -
Notes and accounts receivable-trade	299,479	299,479	-
Marketable securities and investments in securities:			
Held-to-maturity debt securities	-	-	-
Other securities (*)	43,551	43,551	-
Total assets	$ 449,006	$ 449,006	$ -
Liabilities:			
Notes and accounts payable-trade	$ 478,979	$ 478,979	$ -
Short-term bank loans	382,775	382,775	-
Current portion of bonds	-	-	-
Current portion of convertible bonds with stock acquisition rights	18,767	18,745	(22)
Long-term debt:			
Convertible bonds with stock acquisition rights	-	-	-
Long-term loans, including current portion	931,781	942,286	10,505
Lease obligations	9,325	10,016	691
Total liabilities	$1,821,627	$1,832,801	$ 11,174

(*) Marketable securities in the amount of ¥475 million ($5,051 thousand) with a maturity date within one year of March 31, 2013 were included in "Other securities" in the above table.

(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.

Marketable securities and investments in securities:

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

Liabilities

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

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

Bonds and convertible bonds with stock acquisition rights:

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

Long-term loans:

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

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

Lease obligations:

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

Derivative transactions

Refer to Note 11. "Derivatives."

(2) Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted stocks	¥ 350	¥ 350	$ 3,721
Investments in an unconsolidated subsidiary and affiliates	623	424	6,624
Leasehold deposits	30,860	30,542	328,123

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, 2013 and 2012 were as follows:

	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	¥ –	¥ –	¥ –

	Millions of yen			
	2012			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 5,231	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	29,492	–	–	–
	¥ 34,723	¥ –	¥ –	¥ –

	Thousands of U.S. dollars			
	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	$ 37,501	$ –	$ –	$ –
Notes and accounts receivable-trade	299,479	–	–	–
	$ 336,980	$ –	$ –	$ –

Cash and cash equivalents in the table above do not include cash on hand of ¥6,440 million ($68,475 thousand) and ¥5,455 million at March 31, 2013 and 2012, 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		
			2013		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Swap rate applied to underlying debt	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 72,000	¥ 68,000	(*1)

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

			Thousands of U.S. dollars		
			2013		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Swap rate applied to underlying debt	Interest rate swap Receive / floating and pay / fixed	Long-term loans	$765,550	$723,020	(*1)

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

Notes to Consolidated Financial Statements (continued)

12. Contingent Liabilities

The Group was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥285 million ($3,030 thousand) at March 31, 2013.

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, 2013 and 2012.

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

According to the 2009 plan, on August 6, 2009, the Company granted 1,570,000 stock options for common stock to 9 board directors and 3 employees of the Company and 12 board directors, 21 managing directors and 647 employees of certain subsidiaries. The service period for grantees is from August 6, 2009 to August 6, 2011 and the exercisable period is August 7, 2011 to August 6, 2014. Stock option expense of nil and ¥42 million was included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012, respectively. Gain on reversal of stock options of ¥3 million ($32 thousand) and ¥0 million was included in other, net for the years ended March 31, 2013 and 2012, respectively.

Movement in the number of vested stock options for the stock option plan of the Company during the year ended March 31, 2013 was summarized as follows:

	2013				
	Outstanding as of April 1, 2012	Vested	Exercised	Forfeited	Outstanding as of March 31, 2013
The 2009 plan	1,511,000	–	–	21,000	1,490,000

The unit price of the stock options under the 2009 plan of the Company during the year ended March 31, 2013 was summarized as follows:

	the 2009 plan	
	Yen	*U.S. dollars*
Unit price of stock options:		
Exercise price at March 31, 2013	¥ 597	$ 6.35
Average market price per share upon exercise	–	–
Estimated fair value of unit price at grant date	163	1.73

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, 2013 and 2012 were summarized as follows:

Number of shares

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

Number of shares

		2012			
	Note	April 1, 2011	Increase	Decrease	March 31, 2012
Common stock		105,665,636	–	–	105,665,636
Treasury stock	(c) and (d)	3,144,516	788	1,018,654	2,126,650

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

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

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

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

There were no sales of treasury stock of the Company to Trust Account for the year ended March 31, 2013 and the Trust Account did not hold any Company shares at March 31, 2012.

(a) The increase in treasury stock (2,001,359 common 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.

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

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

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

Movements in stock acquisition rights during the years ended March 31, 2013 and 2012 were summarized as follows:

	Thousands of shares				Millions of yen	Thousands of U.S. dollars
	2013					
	April 1, 2012	Increase	Decrease	March 31, 2013	March 31, 2013	March 31, 2013
Stock acquisition rights attached to convertible bonds due May 10, 2013	**1,304**	**–**	**–**	**1,304**	**¥ –**	**$ –**
Stock acquisition rights as stock options	**–**	**–**	**–**	**–**	**243**	**2,584**
	1,304	**–**	**–**	**1,304**	**¥ 243**	**$2,584**

	Thousands of shares				Millions of yen
	2012				
	April 1, 2011	Increase	Decrease	March 31, 2012	March 31, 2012
Stock acquisition rights attached to convertible bonds due May 10, 2013	11,086	–	9,782	1,304	¥ –
Stock acquisition rights as stock options	–	–	–	–	246
	11,086	–	9,782	1,304	¥ 246

14. Cost of Sales

Losses on inventory valuation included in cost of sales for the years ended March 31, 2013 and 2012 were ¥64 million ($680 thousand) and ¥192 million, respectively.

15. Loss on Impairment of Fixed Assets

The Group recognized losses on impairment of fixed assets of ¥4,540 million ($48,272 thousand) and ¥3,991 million for the years ended March 31, 2013 and 2012, respectively, as follows:

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

March 31, 2012		
Use	Classification	Location
Store	Buildings, structures and other	Kagawa Prefecture and other
Rental property	Land, buildings, structures and other	Aichi Prefecture and other
System	Software included in other assets	Osaka Prefecture and other
Idle property	Land, buildings, structures and other	Nagano Prefecture and other

The Group groups its fixed assets based on management control units. It also groups assets which are not currently utilized for its operations and are not anticipated to be utilized in the future as idle assets individually.

Losses on impairment of fixed assets were recorded for the years ended March 31, 2013 and 2012 as the assets and asset groups listed above recorded consecutive years of negative operating cash flows and because their utilization in the future was not determinable. In addition, loss on impairment of systems and related assets was recorded for the years ended March 31, 2012 because they were not expected to be utilized in the future due to the reorganization of the Group.

As a result, for the year ended March 31, 2013, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store and rental property was recognized in the amount of ¥4,508 million ($47,932 thousand). In addition, a loss on impairment of idle property was ¥32 million ($340 thousand).

For the year ended March 31, 2012, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store and rental property was recognized in the amount of ¥3,866 million. In addition, losses on impairment were recognized for systems of ¥17 million, and idle property of ¥108 million.

For the years ended March 31, 2013 and 2012, the principal components of loss on impairment by asset classification were buildings and structures of ¥2,631 million ($27,974 thousand) and ¥3,143 million, tools, furniture and fixtures of ¥157 million ($1,669 thousand) and ¥158 million, land of ¥350 million ($3,721 thousand) and ¥179 million, leased assets of ¥1,378 million ($14,652 thousand) and nil, respectively.

The recoverable amounts of asset groups are measured at the higher of their net realizable value or value in use. The net realizable value for significant assets is based on professional appraisals. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 3.40% and 3.51% for the years ended March 31, 2013 and 2012, respectively.

16. Surcharge

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

Furthermore, in accordance with the provisions set out in Article 49, Paragraph 6 and Article 50, Paragraph 4 of the Anti-Monopoly Act, the Company decided to request the JFTC to initiate a hearing regarding said orders. The decision to initiate the hearing was made on April 24, 2012, and the hearing is still ongoing.

17. Other Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized gain on other securities:			
Amount arising during the year	**¥ 427**	¥ 43	**$ 4,540**
Reclassification adjustments	**0**	136	**0**
Before tax effect	**427**	179	**4,540**
Tax effect	**(171)**	(46)	**(1,818)**
Total	**256**	133	**2,722**
Land revaluation difference:			
Tax effect	**–**	313	**–**
Total other comprehensive income	**¥ 256**	¥ 446	**$ 2,722**

18. 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.

Notes to Consolidated Financial Statements (continued)

18. Leases (continued)

The Group continues to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating lease transactions.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation, accumulated impairment loss and net book value of the leased assets at March 31, 2013 and 2012 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

	2013				2012			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥ 3,924	¥ 2,060	¥ -	¥ 1,864	¥ 3,924	¥ 1,864	¥ -	¥ 2,060
Tools, furniture and fixtures	92	85	-	7	1,359	1,123	0	236
Other	-	-	-	-	734	608	-	126
	¥ 4,016	¥ 2,145	¥ -	¥ 1,871	¥ 6,017	¥ 3,595	¥ 0	¥ 2,422

Thousands of U.S. dollars

	2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	$ 41,722	$ 21,903	$ -	$ 19,819
Tools, furniture and fixtures	979	904	-	75
Other	-	-	-	-
	$ 42,701	$ 22,807	$ -	$ 19,894

Lease payments relating to finance leases accounted for as operating leases, the corresponding depreciation computed by the straight-line method for the respective lease periods assuming a nil residual value, interest expense computed by the interest method, and reversal of and recognized loss on impairment of finance leases accounted for as operating leases for the years ended March 31, 2013 and 2012 were summarized as follows:

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Lease payments	¥ 594	¥ 478	$ 6,316
Reversal of loss on impairment of finance leases	0	193	0
Depreciation	551	623	5,859
Interest expense	26	39	276

Future minimum lease payments subsequent to March 31, 2013 for finance leases accounted for as operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 205	$ 2,180
2015 and thereafter	1,790	19,032
Total	¥ 1,995	$ 21,212

Future minimum lease payments subsequent to March 31, 2013 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 3,048	$ 32,408
2015 and thereafter	30,292	322,084
Total	¥ 33,340	$ 354,492

19. Business Combinations

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

3Q and Mr. Consent had previously been wholly owned subsidiaries of the Company. On April 1, 2012, Mr. Consent was merged into 3Q. The purpose of this merger is to accelerate the speed of decision making and establish a system for comprehensively utilizing resources of the Group.

20. 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, 2013 and 2012 were summarized as follows:

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
SHOEI Co., Ltd.: Insurance expense	¥ 141	¥ 130	$ 1,499

The outstanding balance of prepaid expenses and accounts payable at March 31, 2013 amounted to ¥13 million ($138 thousand) and ¥5 million ($53 thousand), respectively. The outstanding balance of prepaid expenses and accounts payable at March 31, 2012 amounted to ¥54 million and ¥7 million, 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 ($957 thousand) and ¥90 million at March 31, 2013 and 2012, respectively.

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

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

	Millions of yen 2012
SS Co., Ltd.:	
Donations	¥ 22
Purchases of shares in subsidiary	3,328
SHIMODA Co., Ltd.:	
Donations	¥ 31
Purchases of shares in subsidiary	499

SS Co., Ltd. (“SS”) was a majority owned company by a director and the director’s relatives, located in Fukui City, Fukui and it is engaged in the management consultant business. The capital amount of SS was ¥3 million at March 31, 2012. The outstanding balance of other current liabilities due to SS at March 31, 2012 was nil.

SHIMODA Co., Ltd. (“SHIMODA”) was a majority owned company by a director and the director’s relatives, located in Fukui City, Fukui and it is engaged in the management consultant business. The capital amount of SHIMODA was ¥3 million at March 31, 2012. The outstanding balance of other current liabilities due to SHIMODA at March 31, 2012 was nil.

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

21. 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, 2013 and 2012 has been omitted.

Loss on impairment of fixed assets for all segments was recorded in the amounts of ¥4,540 million ($48,272 thousand) and ¥3,991 million for the years ended March 31, 2013 and 2012, respectively. In addition, amortization of goodwill for all segments was recorded in the amounts of ¥0 million ($0 thousand) and ¥368 million for the years ended March 31, 2013 and 2012, respectively. Remaining balance of goodwill for all segments was recorded in the amounts of nil and ¥0 million as of March 31, 2013 and 2012, respectively. Amortization of negative goodwill for all segments was recorded in the amounts of ¥1,139 million ($12,111 thousand) and ¥1,926 million for the years ended March 31, 2013 and 2012, respectively. Remaining balance of negative goodwill for all segments was recorded in the amounts of ¥569 million ($6,050 thousand) and ¥1,708 million as of the March 31, 2013 and 2012, respectively.

The Company recognized gain on negative goodwill of ¥1,860 million, resulting from the acquisition of additional shares of 3Q and other consolidated subsidiaries for the year ended March 31, 2012. There was no gain on recognition of negative goodwill for the year ended March 31, 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, 2013 and 2012 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, 2013 and 2012 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, 2013 and 2012 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, 2013 and 2012 has been omitted.

22.Subsequent Event

Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2013 was approved at the Company’s annual general meeting of shareholders held on June 27, 2013:

	Millions of yen	*Thousands of U.S. dollars*
Year-end cash dividends of ¥10.00 ($0.11) per share	¥ 1,015	$ 10,792

Report of Independent Auditors

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
EDION Corporation

We have audited the accompanying consolidated financial statements of EDION Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of operations, comprehensive loss, 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, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Osaka, Japan
June 28, 2013

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Corporate Profile

Corporate Information

(as of March 31, 2013)

Corporate Name	EDION Corporation
Business	Sales of home electrical appliances
Establishment	March 29, 2002
Capital Stock	¥10,174 million
Registered Office Address	2-1-8 Kamiyacho, Naka-ku, Hiroshima
Head Office Address	Dojima Grand Building, 1-5-17, Dojima, Kita-ku, Osaka
Number of Employees	Non-consolidated: 8,156 Consolidated: 9,602

Stock Information

(as of March 31, 2013)

Fiscal Year	April 1 to March 31
Number of Shares Authorized	300,000,000 shares
Number of Shares Issued	105,655,636 shares
Number of Shareholders	36,672
Stock Listing	First sections of Tokyo and Nagoya Stock Exchanges
Stock Code	2730

Directors and Corporate Auditors

(as of June 27, 2013)

- Directors

Chairman and President	Masataka Kubo	
Deputy Chairman	Shoichi Okajima	President of EDION COMMUNICATIONS Corporation and Chairman of 3Q Co., Ltd.
Deputy Chairman	Kazutoshi Tomonori	President of EDION House System Corporation
Executive Vice President	Hirohisa Kato	Chief Marketing Officer
Executive Vice President	Seiichi Funamori	Chief Business Development Officer
Executive Vice President	Yuji Asada	Chief Logistics Service Officer
Executive Vice President	Masayuki Umehara	Chief Administration Officer
Executive Vice President	Norio Yamasaki	Chief Corporate Planning Officer
Senior Vice President	Ryuji Yuyama	General Manager of General Affairs Div.

- Corporate Auditors

Standing Statutory Auditor	Masahiro Sasaki
Outside Statutory Auditor	Takenori Isou
Outside Statutory Auditor	Takashi Okinaka

EDION Corporation

EDION Corporation http://www.edion.com

■Head Office Dojima Grand Bldg., 1-5-17 Dojima, Kita-ku, Osaka City, Osaka 530-0003
TEL: (81) 6-6440-8711 FAX: (81) 6-6440-8740