EDION エディオン

ANNUAL REPORT

Annual Report 2015 Fiscal Year Ended March 31, 2015

EDION Corporation

EDION Corporation Ticker code: 2730 (TYO)

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

Management Principle

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

Provision of high-quality products

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

Reliable service

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

Corporate Message

Reassuring Feelings and Lasting Satisfaction

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

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Disclaimer regarding Forward-Looking Statements

Group History

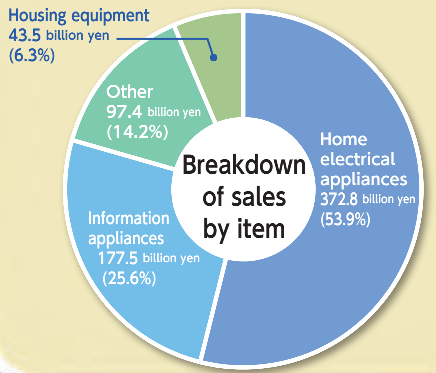
Mar. 2002	DEODEO Corporation based in the Chugoku, Shikoku, and Kyushu regions, and EIDEN Co., Ltd. based in the Chubu region, established EDION Corporation through the equity transfer method.
Apr. 2005	EDION Corporation acquired 100% ownership of MIDORI DENKA Co., Ltd. based in the Kinki region by a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

Outline of the EDION Group

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

Net sales
Fiscal year ended March 2015

691.2 billion yen



Number of full-time employees
(As of March 31, 2015)

8,788 employees

Number of stores
(As of March 31, 2015)

1,212 stores

Number of directly operated stores: 432

Number of FC stores: 780

* FC stores stand for franchise stores.

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

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

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


Hyakuman Volt Kanazawa Main store

Hokuriku region
- Number of directly operated stores: 21
- Number of FC stores: 0


EDION AKIBA

Kanto region
- Number of directly operated stores: 10
- Number of FC stores: 0


EDION Hiroshima Main store

Chugoku region
- Number of directly operated stores: 85
- Number of FC stores: 272

Kyushu and Okinawa region
- Number of directly operated stores: 35
- Number of FC stores: 236

Shikoku region
- Number of directly operated stores: 17
- Number of FC stores: 89

Kinki region
- Number of directly operated stores: 100
- Number of FC stores: 71


EDION Toyonaka store


EDION Toyota Main store

Chubu region
- Number of directly operated stores: 156
- Number of FC stores: 112

Franchise stores

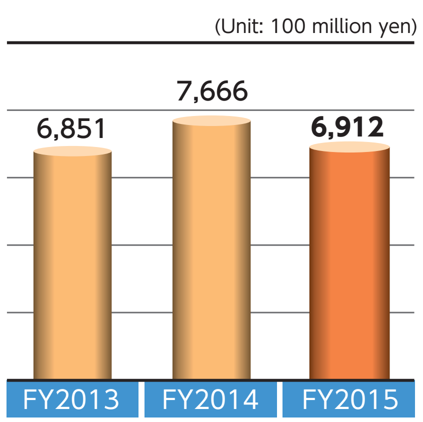
The Group offers meticulous services to customers in each region.

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

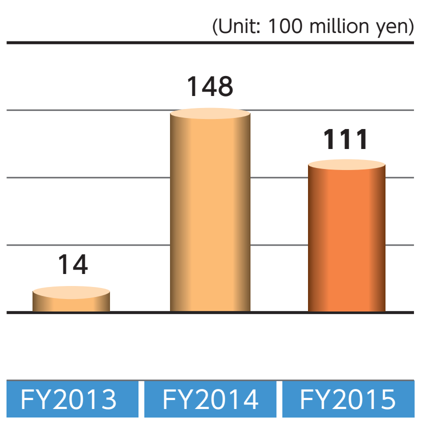
Financial Highlights

Business term	10th	11th	12th	13th	14th
Fiscal year	FY ended March 2011	FY ended March 2012	FY ended March 2013	FY ended March 2014	FY ended March 2015
Net sales (million yen)	901,010	759,025	685,145	766,699	691,216
Ordinary income (loss)(million yen)	34,435	16,384	1,476	14,883	11,118
Net income (loss) (million yen)	16,211	3,697	(2,640)	5,149	4,929
Comprehensive income (loss)(million yen)	17,371	6,009	(2,395)	5,122	5,494
Net assets (million yen)	155,947	144,229	138,489	146,756	145,086
Total assets (million yen)	403,399	362,653	378,087	385,799	367,338
Book-value per share (yen)	1,376.18	1,384.69	1,361.19	1,325.29	1,389.43
Earnings (loss) per share (yen)	157.76	35.87	(25.80)	48.42	45.77
Shareholders' equity ratio (%)	34.97	39.53	36.56	37.96	39.48
Return on equity (%) (ROE)	12.06	2.60	(1.88)	3.62	3.38
Price earnings ratio (times) (PER)	4.48	16.17	–	11.88	19.75
Price book-value ratio (times) (PBR)	0.51	0.42	0.32	0.43	0.65
Cash flows from operating activities (million yen)	41,832	15,133	(4,643)	45,741	(17,215)
Cash flows from investing activities (million yen)	(16,538)	(10,231)	(13,400)	(13,154)	(3,774)
Cash flows from financing activities (million yen)	(23,168)	(14,210)	17,325	(22,259)	9,697
Cash and cash equivalents at the end of the period (million yen)	19,989	10,685	9,967	20,293	9,001
Number of stores	1,130	1,176	1,177	1,212	1,212
Capital expenditure (million yen)	20,242	9,163	15,670	20,068	12,162
Number of employees [Average number of temporary employees not included in the above numbers]	10,022 [7,095]	9,759 [6,502]	9,602 [6,450]	9,109 [6,894]	8,788 [6,749]

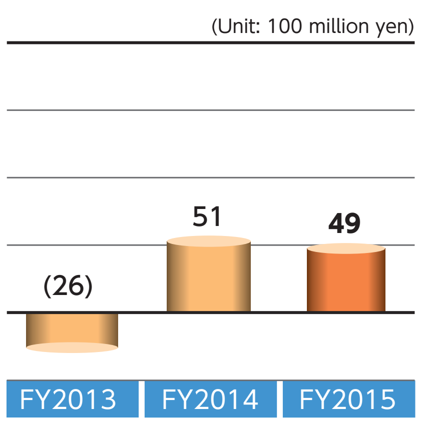
Net sales



Ordinary income



Net income



Business Performance

In the current fiscal year (April 1, 2014 to March 31, 2015), the Japanese economy experienced ups and downs. Corporate earnings continued to improve due to the policies implemented by the government and the Bank of Japan and the continued depreciation of the yen, while there were also some negative factors, such as a backlash from the robust sales induced by last-minute demand prior to the consumption tax rate hike in April 2014 and the slowdown in the overseas economy.

Consumer spending remained sluggish due to stagnant consumption caused by the consumption tax rate hike, a decline in real wages caused by rising prices induced by the depreciation of the yen, and unfavorable weather in the summer.

In the home electrical appliance retail sector, sales of air conditioners and refrigerators were weak due to the reaction to the rise in demand before the consumption tax rate hike and unprecedented bad weather in the summer. Sales of personal computers, which increased in the first half of the current fiscal year due to replacement demand for Windows XP, were sluggish after October 2014 because of a reaction to strong sales related to replacement purchases. Meanwhile, sales of high added value and high-priced goods, such as 4K television sets and cordless stick vacuum cleaners, grew steadily. In addition, the increase in the number of foreign tourists to Japan led to a significant rise in inbound demand, mainly in metropolitan areas.

In this environment, the EDION Group increased the number of stores that handle "*Pack de Refo,*" a home improvements package for remodeling existing domestic plumbing in our *Eco-Living & Solar Power* goods (home improvements, photovoltaic power generation systems, and all-electric homes), on which we have focused for several years. In addition, the Group took steps to create a solid work management system, including the development of human resources at home improvements training centers at four locations in Japan, to meet expanding demand. The Group also set up the Eco-Living & Solar Power Division in October 2014 with the aim of strengthening its internal systems, stepping up support for its branches, and enhancing sales promotion activities specifically for the home improvements business.

The EDION Group opened eight directly-operated home electrical appliance retail stores, including *Matsuyama Main Store* (Ehime), closed four directly-operated home electrical appliance retail stores and relocated three stores, including *Fukuyama Main Store* (Hiroshima). The Group also opened two directly operated non-home electrical appliance retail stores and closed nine directly operated non-home electrical appliance retail stores. Meanwhile, the number of franchise stores increased by three (net). As a result, the number of stores at the end of the current fiscal year totaled 1,212, including 780 franchise stores.

Consequently, the EDION Group posted net sales of 691,216 million yen (90.2% of the previous year), operating income of 10,745 million yen (78.3% of the previous year), ordinary income of 11,118 million yen (74.7% of the previous year), and net income of 4,929 million yen (95.7% of the previous year).

Directors

We continue offering reassurance and satisfaction to our customers, shareholders and the communities.

Independent Director
Shimon Takagi

Independent Director
Shozo Ishibashi

Senior Vice President
Tsuneo Mishima
Chief Eco-Living & Solar-Power Business Officer

Senior Vice President
Yuji Ikehata
General Manager of Marketing Department, Marketing Division

Senior Executive Vice President
Masayuki Umehara
Chief Administrative Officer

Senior Executive Vice President
Seiichi Funamori
Chief Logistics Services Officer

Deputy Chairman, Representative Director
Shoichi Okajima
Chairman, Representative Director of 3Q Co., Ltd.

President, Representative Director of EDION COMMUNICATIONS Corporation

President, Chairman, Representative Director
Masataka Kubo

Senior Executive Vice President
Hirohisa Kato
Chief Marketing Officer

Senior Executive Vice President
Norio Yamasaki
Chief Corporate Planning Officer

Senior Vice President
Kazumasa Doho
Chief Franchise Officer

Senior Vice President
Takahiro Kato
General Manager of Merchandizing Department, Marketing Division

Senior Vice President
Kaoru Koyano
Deputy Chief Corporate Planning Officer

Interview with President

President, Chairman, and Representative Director

In the fiscal year ended March 31, 2015, we saw net sales and profits decrease from the previous fiscal year due to a reaction to the last minute rise in demand ahead of the consumption tax rate hike in April 2014.

In the fiscal year ending March 31, 2016, we will strive to establish a foundation for future business development.

Q Could you tell us about the financial results for the fiscal year ended March 31, 2015?

A

In the fiscal year ended March 31, 2015, personal consumption slowed down in reaction to the last-minute rise in demand ahead of the consumption tax rate hike in April 2014. In addition, in summer, we had unprecedented unfavorable weather, especially in western Japan where most of our stores are located, causing sales of air conditioners and refrigerators to decline substantially. Although we tried hard to reduce expenses accordingly, we were not able to make up for the sharp decrease in sales. Consequently, we saw our net sales and profits decrease from the previous fiscal year, with net sales of 691.2 billion yen (down 9.8%), ordinary income of 11.1 billion yen (down 25.3%), and net income of 4.9 billion yen (down 4.3%).

Q Could you explain the Company's store opening strategy?

A

Store construction costs have increased around 30 to 40% compared to four years ago, since prices of construction materials soared due to strong construction demand associated with reconstruction after the Great East Japan Earthquake and economic recovery in Japan. Therefore, we have restrained the opening of stand-alone stores and mainly located in shopping malls as a tenant, which does not require a huge initial investment. In addition, we will examine concrete ideas to open stores in eastern Japan where we have fewer stores at present, with a view to developing our business there in the future.

Q Could you describe the Group's projection of financial results for the fiscal year ending March 2016?

A

Personal consumption is finally on the upswing after the slump caused by the consumption tax rate hike. We saw sales of high-value added home electrical appliances, such as energy-saving air conditioners and refrigerators, grow from April 2015. Since we have set net sales of 100 billion yen as our medium-term target for the home improvements business on which we have focused, we will completely revamp our systems, including customer service system and work management system. In addition, since Internet shopping has increased in importance to our business, we will strengthen cooperation between our brick-and-mortar stores and Internet store. In the current fiscal year, we will try to achieve our targets steadily and establish a foundation for future business development.

EDION's Activities

Store development

We aim to open more attractive stores.

- Newly opened stores
- Relocated and refurbished stores

Business development

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

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

Service

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

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

Activities

Store development We aim to open more attractive stores.

Newly opened stores

EDION Matsuyama Main store (Ehime)

We have been opening new stores actively with the aim of boosting sales and profits. To improve profitability, we have tried to open stores tailored to the needs of the customers in each region and the size of the market. We have been intensively opening new stores in western Japan, where we have many existing stores, to raise profitability by enhancing the efficiency of our logistics networks and advertising. We opened 27 new stores, mainly in western Japan, in fiscal 2015.

Relocated and refurbished stores

EDION AEON TOWN Konan store (Shiga)

We operate many stores across Japan. With the passage of time, some of them have failed to properly meet the requirements of their market areas, such as location and size. In addition, the advent of new products has sometimes changed demand. To cope with such changes in the market, we have actively relocated and refurbished existing stores. In fiscal 2015, we relocated eight stores and refurbished many existing stores to respond to changes in customers' demand, including the introduction of a sales floor specializing in home improvement, an area that we have been focusing on.

Business Development

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

Eco-living & solar power goods business

We have been focusing on expanding the *eco-living & solar power goods business*, including home improvement, photovoltaic power generation systems, and all-electric homes. After making a full-scale entry into the home improvement business in fiscal 2009, we saw our sales increase steadily and achieved a leading position as a retailer. Above all, as the Japanese government includes promotion of the home improvement market as one of its growth strategies, the home improvement business is expected to expand in the future. Since we also regard the home improvement business as our next growth engine, we have been striving to improve the store environment and develop store managers, while increasing the number of stores that handle home improvement goods. In addition, we established home improvement training centers at four locations in Japan to foster workers and raise their skills and increase the number of improvement work supervisors, so that we can offer customers a home improvement proposal to live a comfortable life and create a solid work management system that meets the demands of customers.

(Sponsored by the Ministry of Economy, Trade and Industry)
EDION was elected and awarded as an advanced remodeling contractor.[*1]
The only company from among retailers of home electrical appliances in Japan

Ranking of remodeling contractors in terms of sales in 2014
EDION achieved a leading position among retailers of home electrical appliances in Japan.
No.1[*2]

The number of orders received for home improvement, photovoltaic power generation, and all-electric home appliance increased further.
Proven track record: 70,000 orders (annual)[*3]
The number of employees who obtained a photovoltaic power generation installation ID : around 2,500 [*4]

Our *innovative home improvement* was highly evaluated.
Japan Productivity Center Service Industry Productivity Council
EDION won High Service Japan 300 Award.[*5]

*1: In fiscal 2015, EDION was elected and awarded as an *advanced remodeling contractor* sponsored by the Ministry of Economy, Trade and Industry. *2: (Source) The Japan Journal of Remodeling September 2014. *3: The number of installations (including photovoltaic power generation systems, EcoCute, IH cooking heaters, and home improvement) by the EDION Group from January 2013 to December 2013. *4: The number was as of the end of January 2014 and included 3Q Co., Ltd. *5: EDION received the award in January 2010 as a company in the home electrical appliance retail industry for the first time because it improved the transparency of its home improvement service by marketing home improvement plan packages including goods prices and installation work charges.

●Home improvement

* Prices in the photo were as of the end of July 2015.

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

●All-electric home

Against the backdrop of increased awareness of energy conservation and saving, many people have recently become interested in highly energy efficient all-electric homes. Demand for energy conservation is expected to increase further in the future. We will upgrade the services offered by our qualified staff members, including proposal of the EcoCute and IH cooking heater that are best suited to a customer' s home and the adequate installation of these appliances.

●Photovoltaic power generation system

Demand for domestic photovoltaic power generation systems is likely to continue growing stably, since the system has advantages such as a high power saving effect and easing of electricity supply/demand imbalance during peak hours. With the feed-in tariff rates having been recently reviewed, the consciousness of electricity self-sufficiency has increased. Consequently, the market for energy-related goods, such as rechargeable batteries and HEMS, is expected to expand. We will propose our customers a more comfortable and better lifestyle through the sale of energy-related combined equipment.

EDION' s home improvement plan includes the cost of interior finishing work.

* Some plans don' t include the costs of appliance disposal and installation work.

Example: improvement of a kitchen

The entire kitchen is transformed into a wonderful space.

The entire kitchen becomes completely new since we not only replace equipment, but also refurbish the interiors (ceiling, floor, and walls).

EDION's standard package includes the following.

Renewal of ceiling and wall paper and placement of floor tiles
(up to six tatami mat size in the kitchen)

Work period: approximately four days
* The period differs depending on the content of work.

Reasons why customers choose EDION

Reason 1 Easy-to-understand pricing
We offer packaged remodeling plans including installation work charges.

Reason 2 A wide selection of products available for comparison
Customers can touch and feel the products at our stores beforehand.

Reason 3 Reliable 10-year support
- ●We offer a 10-year repair warranty for replaced equipment and installation work.
- ●We offer an emergency visit service to fix plumbing and lock problems at home.
- ●Our call center is available 24 hours and 365 days a year.

エディオン リフォーム 10年あんしんサポート
10年 商品・工事保証 | 水まわり・カギ救急 | 24時間365日 故障・水トラブル受付

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

E-commerce business

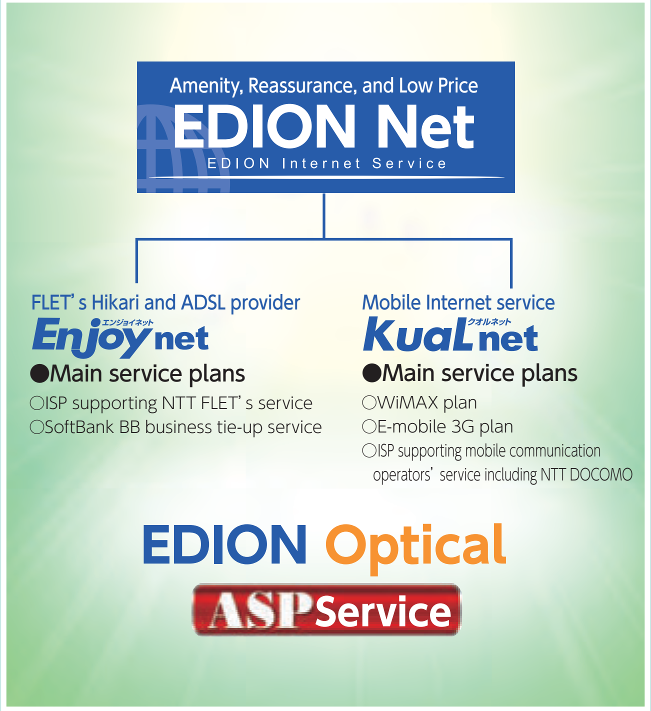
We operate *EDION Net Shop* to cope with the customer preference to shop on the Internet that has been expanding year by year in the home electrical appliance market. To meet the diversified needs of customers who use our Internet shop, we carry a wide selection of goods other than home electrical appliances,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

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

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

* Image of EDION Net Shop as of the end of July 2015

Internet service provider business



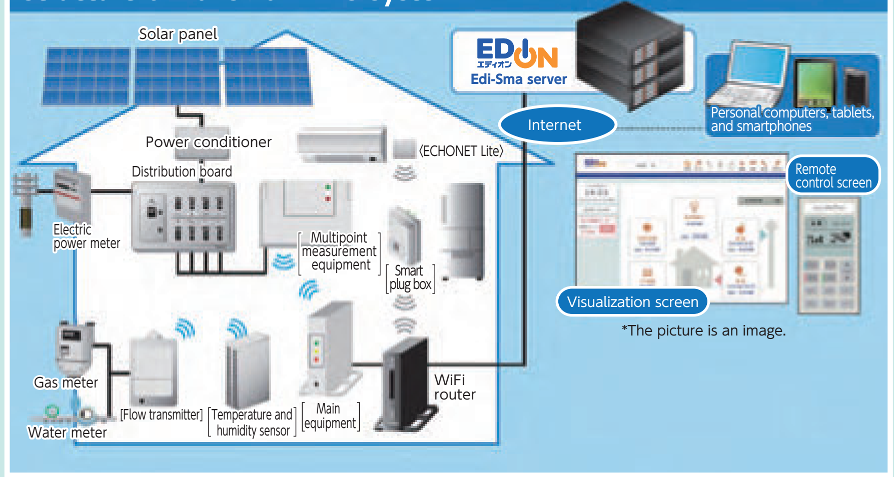
We operate *EDION Net*, an Internet service provider business. Under this business, we run *KuaLnet*, services for customers using mobile equipment, and *Enjoynet*, services for customers using fixed-line Internet, such as optical fiber and Asymmetric Digital Subscriber Line (ADSL). We have also started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

Energy Management & Support Service Business

We have been providing customers with *Edi-Sma Energy Management System Service*, a service that enables residential and business customers to save energy and electricity. In February 2015, we started marketing *Edi-Sma HEMS*, a service for residential customers with the following convenient functions: customers can check the usage of various forms of energy to efficiently reduce energy consumption by monitoring the use of gas and water as well as electricity and measuring temperature and humidity in rooms; and customers can remotely turn on and off home electrical appliances, such as air conditioners, and control room temperature. We also started offering customers *Photovoltaic Power Generation System Maintenance Assurance Service*, a one-stop maintenance service in which we, in place of customers, remotely monitor data on the power generated by a photovoltaic power generation system, which is obtained through Edi-Sma HEMS; and send our staff members from our service base to the site to inspect the system and request the manufacturer to repair the system when a problem occurs.

In *Edi-Sma BEMS*, a service for business customers, we measure the use of electricity in buildings and stores to conduct power demand management with the aim of efficiently controlling the use of electricity during peak hours. In addition, we provide customers with an energy saving support service in which we digitize and graph data to visualize the use of electricity so that customers can find what time of day has a higher electricity consumption or which equipment consumes a lot of electricity to reduce wasteful power consumption.

Structure of Edi-Sma HEMS System



*The picture is an image.

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

Well-established after-sales service

On-site services

We have been devoting ourselves to building a high-quality after-sales service system to ensure that our customers can continue using the goods they have purchased under optimal conditions. In addition to delivery and installation services that meet customers' needs, including same-day delivery and time-specified delivery, we also offer prompt on-site service by our service staff. In fiscal 2015, our service staff visited approximately 860,000 customers to fix their problems.

Furthermore, we have introduced *Himawari-gou*, a vehicle with special equipment, such as various antennas, testers, and tools. We are using the vehicle for advertising on the street when we open a new store and free-of-charge electrical appliance check-up services at sales events. Currently, there are approximately 1,300 employees in our Service Division, one of the most advanced service systems in Japan's home electrical appliance retail industry.

In addition, we also provide *Electrical Appliance Total Support*, a service whereby we respond to various customers' needs (not only repairs of electrical appliances, but also the cleaning of air conditioners and washing machine's tubs, the cleaning and inspection of electrical appliances, and personal computer support services).

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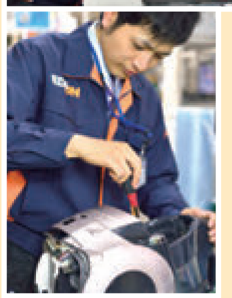
家電トータルサポート
クリーニング テレビ・PC設定 おそうじ・点検 電気工事 リフォーム

Himawari-gou

Service counter

Air conditioner cleaning service



Carry-in service center (repairing a vacuum cleaner)

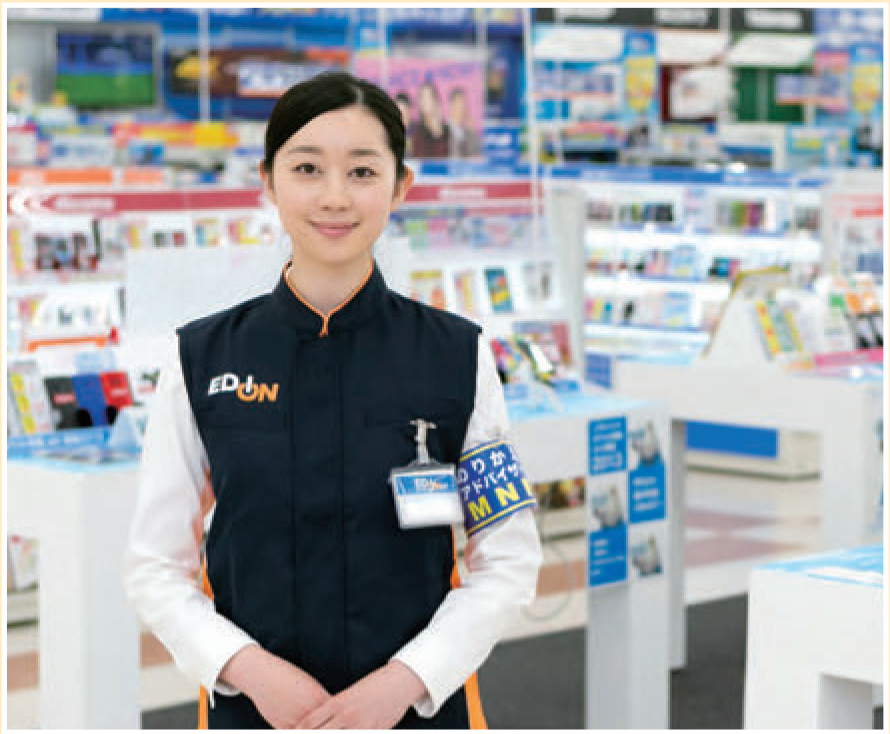
Card strategy

EDION Card

Reassurance Warranty Card

The *EDION Card*, a membership card of the EDION Group, features a five-year (sometimes 10-year) repair warranty for electrical home appliances that are over 5,000 yen/item (excluding consumption tax; with some exceptions) for an annual service fee of only 980 yen (excluding consumption tax). Moreover, using the EDION Card offers additional advantages to customers, since they can earn loyalty points not only every time they shop at EDION Group stores, but also when they purchase goods on credit in Japan or overseas. In addition, we have also introduced the *Reassurance Warranty Card*, a convenient card that charges no annual service fee, but offers customers loyalty points and repair warranty. We will respond to diversified customers' needs and offer reliable service with these two types of cards. Furthermore, we have started a *T Point* service for the convenience of customers and to entice new users to come into our stores.

Meticulously serving customers



To recommend products most suited to customers' needs, we have been paying special attention to staff education. In addition to training given when employees enter the company, we implement our stratified education training for our employees in accordance with the year in which they joined the company and their position. We have also upgraded our education system for temporary employees. In fiscal 2015, we offered our training to a total of approximately 6,000 people to improve the quality of customer services by our employees.

Furthermore, in order to help our employees master product knowledge, we are encouraging our employees to acquire the qualification of qualified electric home appliance advisor certified by the Association for Electric Home Appliances. A total of 4,633 employees are qualified as an electric home appliance advisor (as of the end of December 2014). They are recommending the optimum products to customers using their extensive product knowledge.

Environmental activities

As a corporate citizen, we conduct business while giving due consideration to the environment and have been actively implementing environmental protection measures. In addition to the recycling business and forest conservation activities, we are not only introducing LED lighting in our new stores but also replacing the lights in our existing stores with LED lights in stages to protect the global environment and reduce charges for heat and electricity.

● Promoting the recycling of resources

We established E.R. Japan Corporation in April 2012, jointly with Kimura Metal Industry Co., Ltd. and Mitsui & Co., Ltd., with the aim of starting a reuse and recycling business. In August 2014, E.R. Japan Corporation was accredited as a resources-recycling business operator under the Small Home Appliance Recycling Law. The Company is engaged in the resource recycling business in which it removes, recovers and recycles copper, steel, aluminum, and plastic from end-of-life small home electrical appliances at a plant in Fukuyama, Hiroshima Prefecture.
We will recover end-of-life small home electrical appliances at EDION and Hyakuman Volt stores to enhance the convenience of customers and the quality of services and try to promote recycling for further contribution to the local community and environmental protection.

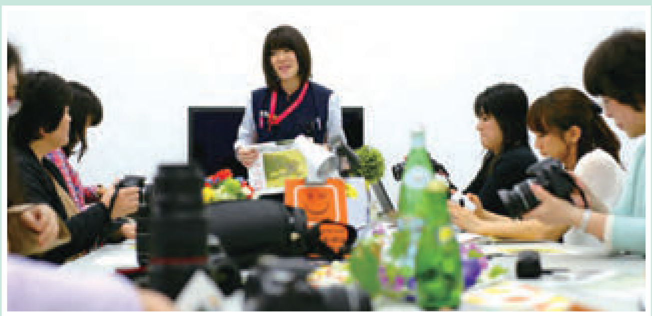
● Forest Development Activities

Hiroshima Forest Planting Activities in Takehara

We have been actively participating in tree-planting projects and forest development activities in each region in which we operate, as part of our activities to contribute to local communities and environmental protection. Every year, we have participated in the *Hiroshima Forest Planting Activities in Takehara*, which Hiroshima Prefecture has implemented as a series of its forest popularization project, since the start of the event. In addition, we have also taken part in the *Yoshino Forestation Activities*, forest thinning on Mt. Yoshino in Nara Prefecture, which is registered as a World Heritage Cultural Site.
We have installed charging stations for EVs and PHVs at our stores to contribute to the promotion of widespread use of electric vehicles (EVs) and plug-in hybrid vehicles (PHVs). We will continue working together with local communities and participating in various environmental protection activities.

Cultural activities

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

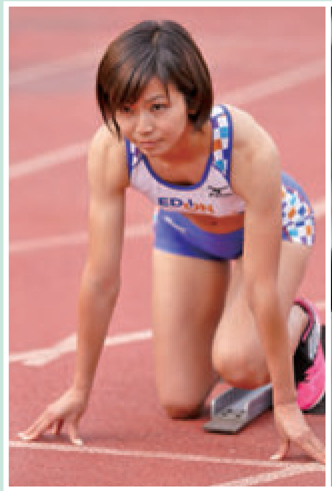


EDION Club

Sports promotion

We have been getting involved in sports promotion to contribute to society as well as the development of regional communities. We operate a women's track and field club and an archery club. In addition, to support various sports activities, we have concluded a sponsorship agreement with a professional baseball team, *Chunichi Dragons*, a non-professional baseball team, *EDION Aikodai OB BLITZ*, and an amateur hockey team, *Nagoya Frater Hockey Team*.

● EDION Women's Track and Field Club



Ayako Kimura

Yuko Watanabe

At *the 17th Asian Games* held in Incheon (South Korea) from September to October 2014, Ms. Ayako Kimura participated in the women's 100 meters hurdles and won the bronze medal. This is the first time in 24 years that a Japanese athlete has won a medal in the event. Meanwhile, Ms. Yuko Watanabe participated in *the Osaka Women's Marathon* held in Osaka, Japan in January 2015 and took fourth place (second place among Japanese athletes). Since its establishment in 1989, the EDION Women's Track and Field Team has been focusing on the Women's Corporate Team Ekiden. The team has participated in the All-Japan Women's Corporate Team Ekiden Championships, which is held every December, a total of 24 times, contributing substantially to the development of athletics in Japan and overseas.

● EDION Archery Club

Hideki Kikuchi

At *the 17th Asian Games* held in Incheon (South Korea) from September to October 2014, Mr. Hideki Kikuchi participated in both the men's recurve individual and team archery competitions (Mr. Hideki Kikuchi, Mr. Shohei Ota, and one other), and took fourth place in both events. At *the 11th Tsumagoi Cup Archery Championships* held in Shizuoka, Japan in September 2014, Mr. Fumiya Kobayashi participated in the men's individual competition and won the championship. Furthermore, *at the first qualifying trial for the 48th World Archery Championships recurve category and a qualifying trial for the national team in 2015* held in November 2014, Mr. Hideki Kikuchi set a new Japan record and won first prize in a men's individual category. Since its establishment in 1990, our team has contributed greatly to the development of archery in Japan and overseas.

● Sanfrecce Hiroshima F.C.

We serve as a uniform sponsor of *Sanfrecce Hiroshima F.C.*, one of our affiliated companies and a member team of the Japan Professional Football League (the J. League). Sanfrecce Hiroshima F.C. was the runner-up in the *J. League Yamazaki Nabisco Cup in 2014* and eighth place in the *J. League Division 1 Championship in 2014*. The team has been substantially contributing to the promotion and development of sports activities in Hiroshima.

Outline of our corporate governance system

In addition to a board of directors, which meets twice a month in principle and serves as the management decision-making body, we have set up conference bodies that are not required to be established by laws and regulations, such as the Executive Committee and Executive Vice President Meeting, to discuss how to address issues flexibly and sufficiently according to importance and urgency. We have also established the *Compliance Committee*, which serves as a crisis management headquarters in charge of ensuring compliance with our corporate ethics code; and the *Risk Management Committee*, which collectively manages risks surrounding the Group companies. In addition, a board of corporate auditors and the Internal Audit Department share information through liaison conferences to enhance the corporate governance system of the EDION Group as a whole.

Reasons for introducing a corporate governance system

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

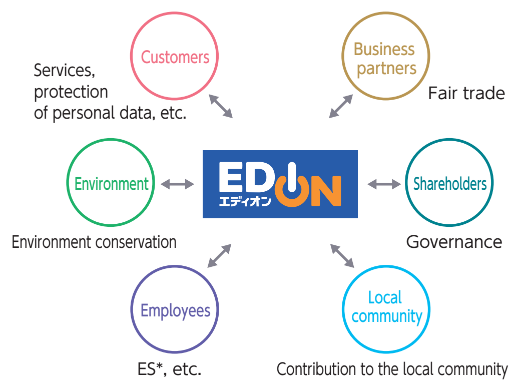
To continue growing in a competitive and rapidly changing business environment and to win recognition and receive support from local communities as a quality service retailer, we recognize that ensuring appropriate exercise of governance in the EDION Group is an important management issue. Therefore,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

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

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.

ON Group Corporate Ethics



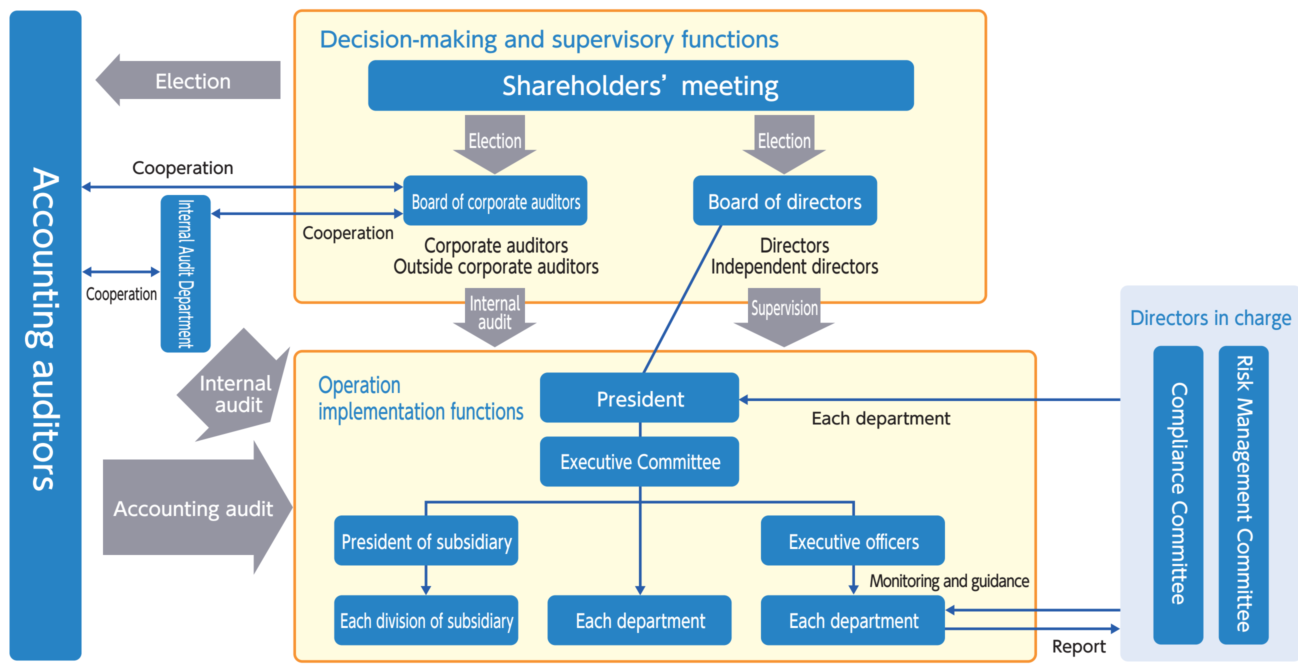
* ES is an abbreviation for employee satisfaction.

Current situation of our internal control system and risk management system

1. The board of directors, consisting of 13 members (as of June 26, 2015), meets twice a month in principle.
2. In the EDION Group, directors serve as chief officers to promptly and accurately grasp issues that may cause substantial losses to the Company and refer or report them to the board of directors.
3. We have prepared and operated systems that enable directors to execute their jobs efficiently. For example, in addition to the holding meetings of the board of directors, we have set up conference bodies that are not required to be established by laws and regulations, such as the Executive Committee and the Executive Vice President Meeting, to discuss how to address issues flexibly and sufficiently according to importance and urgency.
4. As part of our efforts to enhance corporate governance, we established a corporate ethics code, the *EDION Group Corporate Ethics*, in December 2004. From fiscal 2006, we distributed the *Group' s Ethics and Compliance Manual* and portable *Code of Ethics Cards* to all directors and employees, and reinforced our compliance training and education system, including the training program for new employees. We have also established the *Compliance Committee*, which serves as a crisis management headquarters in charge of ensuring compliance with our corporate ethics code. The Compliance Committee, consisting of a chairperson (a director) appointed by the representative director, and members (General Affairs Dept. staff, Human Resource Dept. staff, and Internal Audit Dept. staff) appointed by the chairperson, meets as necessary to upgrade our compliance system. In addition, we have set up the *Risk Management Committee* with a chairperson (a director) appointed by the representative director and meets as necessary. We have also concluded an advisory contract with a law office and other professionals to receive expert advice concerning compliance with our ethical code by our directors and employees.
   Furthermore, we have established our Personal Information Protection Policy and Administrative Regulations for Protecting Personal Information to comply with the Personal Information Protection Law that took effect in April 2005, and have also created a personal information protection and management system that is managed by the Administrative Headquarters of EDION Corporation.

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

●Corporate governance structure



Promotion of active social participation by women

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

We have been expanding schemes to assist female employees who return to work after pregnancy, childbirth and childcare. We offer not only maternity leave for those who are seven months or more pregnant or those who have given birth within one year, but also an irregular pregnancy leave for those who are up to six months pregnant and find it difficult to work due to morning sickness. In addition, we allow employees to extend their maternity leave up to 18 months after childbirth. To support those who return to their workplaces, we have also prepared schemes as follows: *Short-Time Work for Child Care* and *Limitation on Overtime and Midnight Work*, schemes that employees can use up to the time their child enters the 5th grade of elementary school, and *Leave for Nursing a Child*, a scheme that enables employees to look after their child or take their child to receive a vaccination or a medical checkup. In addition, we have been trying hard not only to prepare schemes, but also create a women-friendly work environment where the balancing of parenting and work demands is possible. For example, we hold a get-together for employees who are caring for a child or are pregnant in each region.

● Interview with a store manager

EDION Sojya store (Okayama)
Ms. Sachiko Tokunaga, Store Manager

Ms. Tokunaga was appointed the first female store manager in EDION Corporation after working as the person in charge of audio equipment and assistant store manager. She has served as a store manager for five years and is a role model for female employees.

● What is the thing that you struggled with the most?

I did not think I suffered hardships, because I learnt many things from them.

● What is the thing that made you most happy?

Seeing my subordinates promoted.

● What is your future aspiration?

To do what I can do under any circumstances.

● What is your message to female employees?

When they have difficulty in balancing their job and family, I hope they will never give up and try everything they can.

Hyakuman Volt Kanazawa Higashi store (Kanazawa)
Ms. Erika Araki, Store Manager

Ms. Araki joined 3Q Co., Ltd., a Hokuriku-based company, as a cashier and became a store manager in 2014 after serving as the person in charge of the eco-living & solar power business and as an acting store manager. She works hard as a store manager, using the experience of being commended for her excellent performance when she was in charge of the eco-living & solar power business.

● What is the thing that motivated you to aim to be a store manager?

I wanted to create a women-friendly work environment.

● What is your future aspiration?

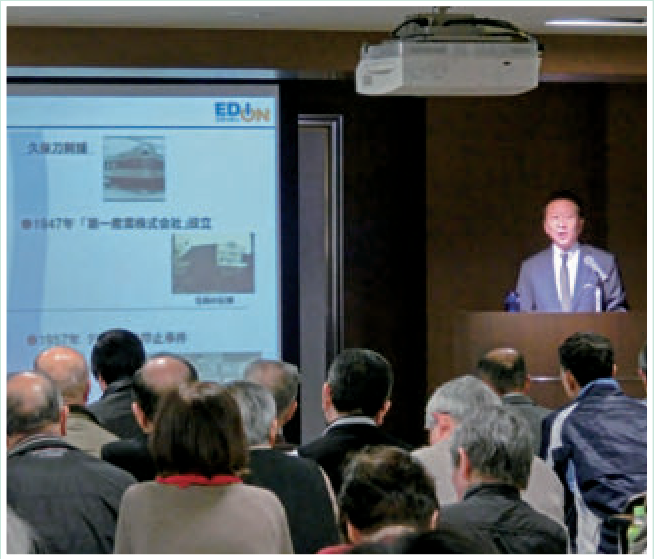
To accomplish satisfactory results.

● What is your message to female employees?

I hope they will believe in their possibilities and try to balance their job and family.

IR Activities

NSE IR EXPO 2014



IR meeting for individual investors in Hiroshima

We have conducted various activities to have better communication with investors. In addition to the issuance of an annual report, we publish an IR newsletter to our shareholders twice a year. We also update our website accordingly with the aim of disclosing information in a timely manner. Furthermore, we hold an analyst meeting twice a year (financial results for the first half and full year) in Tokyo. Every time, more than 60 security analysts and institutional investors attend the meeting.

Meanwhile, we participated in *NSE IR EXPO 2014*, sponsored by the Nagoya Stock Exchange and held in Nagoya in July 2014, to communicate with individual investors. Approximately 8,000 people came to the two-day event, and 270 individual investors visited our booth. At our booth, we talked with investors face-to-face to deepen their understanding of EDION Corporation. In February 2015, we held an IR meeting for individual investors in Hiroshima. More than 100 individual investors attended the meeting. Mr. Masataka Kubo, President, Chairman, Representative Director of EDION Corporation, explained to them the outline of the Company, its activities, its shareholder special benefit system, and trends of its share price and business results. At the Question & Answer session, we received many questions and opinions from participants.

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

IR information website

Issuance of IR newsletter and annual report

Consolidated Balance Sheet

EDION Corporation and Consolidated Subsidiaries March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Assets			
Current assets:			
Cash and cash equivalents *(Notes10)*	¥ 9,001	¥ 20,294	$ 74,903
Notes and accounts receivable:			
Trade *(Note 10)*	29,223	46,377	243,182
Other	10,119	12,827	84,204
Allowance for doubtful receivables	(44)	(38)	(367)
	39,298	59,166	327,019
Inventories:			
Merchandise and products	106,528	84,467	886,480
Supplies	324	251	2,696
	106,852	84,718	889,176
Deferred income taxes *(Note 9)*	8,071	9,409	67,162
Other current assets	3,809	4,211	31,693
Total current assets	167,031	177,798	1,389,953
Property and equipment, at cost *(Notes 6 and 15)*:			
Land *(Notes 4 and 7)*	73,520	77,299	611,800
Buildings and structures *(Note 7)*	165,718	165,539	1,379,030
Tools, furniture and fixtures	24,299	23,827	202,206
Leased assets	1,428	1,935	11,883
Construction in progress	1,515	1,925	12,603
Other	680	592	5,662
	267,160	271,117	2,223,184
Accumulated depreciation	(118,426)	(116,517)	(985,487)
Property and equipment, net	148,734	154,600	1,237,697
Investments and other assets:			
Investments in securities *(Notes 3 and 10)*	3,313	2,776	27,569
Investments in affiliates *(Note 10)*	759	688	6,314
Leasehold deposits *(Note 10)*	28,964	29,304	241,023
Deferred income taxes *(Note 9)*	7,390	10,058	61,497
Other *(Note 15)*	11,148	10,576	92,772
Total investments and other assets	51,574	53,402	429,175
Total assets	¥ 367,339	¥ 385,800	$ 3,056,825

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Liabilities and net assets			
Current liabilities:			
Short-term bank loans *(Notes 7 and 10)*	¥ 27,000	¥ 4,000	$ 224,682
Current portion of long-term debt *(Notes 7 and 10)*	16,376	22,646	136,273
Notes and accounts payable:			
Trade *(Note 10)*	34,253	50,552	285,041
Other	11,729	13,909	97,602
	45,982	64,461	382,643
Lease obligations *(Notes 7 and 10)*	96	154	796
Accrued income taxes *(Note 9)*	559	2,605	4,656
Allowance for employees' bonuses	4,368	5,724	36,348
Reserve for point service program	9,229	9,378	76,803
Other current liabilities	11,967	24,012	99,582
Total current liabilities	115,577	132,980	961,783
Long-term liabilities:			
Long-term debt *(Notes 7 and 10)*	73,831	73,707	614,392
Liability for retirement benefits *(Note 8)*	7,652	8,068	63,679
Lease obligations *(Notes 7 and 10)*	961	1,057	7,999
Deferred income taxes *(Note 9)*	27	51	224
Deferred income taxes for land revaluation *(Note 9)*	1,870	2,079	15,563
Allowance for merchandise warranties	8,416	7,487	70,034
Asset retirement obligations *(Note 5)*	6,581	5,934	54,760
Other long-term liabilities	7,337	7,680	61,049
Total long-term liabilities	106,675	106,063	887,700
Contingent liabilities *(Note 12)*			
Net assets			
Shareholders' equity *(Note 13)*:			
Common stock	11,940	11,940	99,362
Capital surplus	84,310	84,168	701,585
Retained earnings	60,401	59,220	502,631
Treasury stock, at cost	(5,471)	(802)	(45,529)
Total shareholders' equity	151,180	154,526	1,258,049
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities	719	192	5,985
Land revaluation difference *(Note 4)*	(7,011)	(8,559)	(58,343)
Retirement benefit liability adjustments *(Note 8)*	135	280	1,124
Accumulated other comprehensive loss, net	(6,157)	(8,087)	(51,234)
Stock acquisition rights *(Note 13)*	–	239	–
Minority interests	64	79	527
Total net assets	145,087	146,757	1,207,342
Total liabilities and net assets	¥ 367,339	¥ 385,800	$ 3,056,825

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Net sales	**¥ 691,217**	¥ 766,700	**$ 5,751,992**
Cost of sales *(Note 14)*	**500,857**	564,199	**4,167,902**
Gross profit	**190,360**	202,501	**1,584,090**
Selling, general and administrative expenses	**179,615**	188,780	**1,494,674**
Operating income	**10,745**	13,721	**89,416**
Non-operating income (expenses):			
Interest and dividend income	**228**	202	**1,900**
Interest expenses	**(843)**	(922)	**(7,018)**
Purchase discounts	**–**	520	**–**
Subsidy income	**178**	223	**1,484**
Amortization of negative goodwill *(Note 20)*	**–**	569	**–**
Loss on sales or disposal of property and equipment	**(717)**	(444)	**(5,968)**
Loss on impairment of property and equipment *(Notes 15 and 20)*	**(2,791)**	(5,461)	**(23,225)**
Gain on sales of investments in securities *(Note 3)*	**158**	335	**1,314**
Gain on sales of shares of subsidiary	**2,575**	–	**21,426**
Other, net	**582**	152	**4,841**
	(630)	(4,826)	**(5,246)**
Income before income taxes and minority interests	**10,115**	8,895	**84,170**
Income taxes *(Note 9)*:			
Current	**1,362**	2,641	**11,331**
Deferred	**3,838**	1,059	**31,942**
Total income taxes	**5,200**	3,700	**43,273**
Income before minority interests	**4,915**	5,195	**40,897**
Minority interests	**(15)**	45	**(128)**
Net income	**¥ 4,930**	¥ 5,150	**$ 41,025**
	Yen		U.S. dollars
Amounts per share:			
Net income			
– Basic	**¥ 45.77**	¥ 48.42	**$ 0.38**
– Diluted	**42.69**	48.33	**0.36**
Cash dividends	**20.00**	22.00	**0.17**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Income before minority interests	**¥ 4,915**	¥ 5,195	**$ 40,897**
Other comprehensive income *(Note 16)*:			
Net unrealized gain (loss) on other securities	**527**	(72)	**4,387**
Land revaluation difference	**198**	–	**1,643**
Retirement benefit liability adjustments	**(145)**	–	**(1,205)**
Other comprehensive income (loss), net	**580**	(72)	**4,825**
Comprehensive income	**¥ 5,495**	¥ 5,123	**$ 45,722**
Comprehensive income attributable to:			
Shareholders of EDION Corporation	**¥ 5,510**	¥ 5,078	**$ 45,850**
Minority interests	**(15)**	45	**(128)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2015

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2013	¥ 10,175	¥ 82,334	¥ 56,914	¥ (2,192)	¥ 147,231	¥ 264	¥ (9,283)	¥ –	¥ (9,019)	¥ 243	¥ 34	¥ 138,489
Issuance of new shares	1,765	1,765	–	–	3,530	–	–	–	–	–	–	3,530
Cash dividends	–	–	(2,120)	–	(2,120)	–	–	–	–	–	–	(2,120)
Reversal of land revaluation difference	–	–	(724)	–	(724)	–	–	–	–	–	–	(724)
Net income	–	–	5,150	–	5,150	–	–	–	–	–	–	5,150
Purchases of treasury stock	–	–	–	(2)	(2)	–	–	–	–	–	–	(2)
Disposition of treasury stock	–	69	–	1,392	1,461	–	–	–	–	–	–	1,461
Other changes	–	–	–	–	–	(72)	724	280	932	(4)	45	973
Balance at April 1, 2014	11,940	84,168	59,220	(802)	154,526	192	(8,559)	280	(8,087)	239	79	146,757
Cumulative effect of changes in accounting policy	–	–	22	–	22	–	–	–	–	–	–	22
Restated balance	**11,940**	**84,168**	**59,242**	**(802)**	**154,548**	**192**	**(8,559)**	**280**	**(8,087)**	**239**	**79**	**146,779**
Cash dividends	**–**	**–**	**(2,421)**	**–**	**(2,421)**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,421)**
Reversal of land revaluation difference	**–**	**–**	**(1,350)**	**–**	**(1,350)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,350)**
Net income	**–**	**–**	**4,930**	**–**	**4,930**	**–**	**–**	**–**	**–**	**–**	**–**	**4,930**
Purchases of treasury stock	**–**	**–**	**–**	**(4,999)**	**(4,999)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,999)**
Disposition of treasury stock	**–**	**142**	**–**	**330**	**472**	**–**	**–**	**–**	**–**	**–**	**–**	**472**
Other changes	**–**	**–**	**–**	**–**	**–**	**527**	**1,548**	**(145)**	**1,930**	**(239)**	**(15)**	**1,676**
Balance at March 31, 2015	**¥ 11,940**	**¥ 84,310**	**¥ 60,401**	**¥ (5,471)**	**¥ 151,180**	**¥ 719**	**¥ (7,011)**	**¥ 135**	**¥ (6,157)**	**¥ –**	**¥ 64**	**¥ 145,087**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2014	$ 99,362	$ 700,404	$ 492,803	$ (6,671))	$ 1,285,898	$ 1,598	$ (71,224)	$ 2,329	$ (67,297)	$ 1,987	$ 655	$ 1,221,243
Cumulative effect of changes in accounting policy	–	–	181	–	181	–	–	–	–	–	–	181
Restated balance	**99,362**	**700,404**	**492,984**	**(6,671)**	**1,286,079**	**1,598**	**(71,224)**	**2,329**	**(67,297)**	**1,987**	**655**	**1,221,424**
Cash dividends	**–**	**–**	**(20,140)**	**–**	**(20,140)**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,140)**
Reversal of land revaluation difference	**–**	**–**	**(11,238)**	**–**	**(11,238)**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,238)**
Net income	**–**	**–**	**41,025**	**–**	**41,025**	**–**	**–**	**–**	**–**	**–**	**–**	**41,025**
Purchases of treasury stock	**–**	**–**	**–**	**(41,600)**	**(41,600)**	**–**	**–**	**–**	**–**	**–**	**–**	**(41,600)**
Disposition of treasury stock	**–**	**1,181**	**–**	**2,742**	**3,923**	**–**	**–**	**–**	**–**	**–**	**–**	**3,923**
Other changes	**–**	**–**	**–**	**–**	**–**	**4,387**	**12,881**	**(1,205)**	**16,063**	**(1,987)**	**(128)**	**13,948**
Balance at March 31, 2015	**$ 99,362**	**$ 701,585**	**$ 502,631**	**$ (45,529)**	**$ 1,258,049**	**$ 5,985**	**$ (58,343)**	**$ 1,124**	**$ (51,234)**	**$ –**	**$ 527**	**$ 1,207,342**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

EDION Corporation and Consolidated Subsidiaries Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 10,115	¥ 8,895	$ 84,170
Adjustments for:			
Depreciation and amortization	10,364	12,399	86,243
Loss on impairment of property and equipment	2,791	5,461	23,225
Interest and dividend income	(228)	(202)	(1,900)
Interest expense	843	922	7,018
Amortization of negative goodwill	–	(569)	–
(Decrease) increase in allowance for employees' bonuses	(1,333)	1,695	(11,092)
(Decrease) increase in reserve for point service program	(109)	958	(910)
Decrease in accrued retirement benefits	–	(8,913)	–
(Decrease) increase in liability for retirement benefits	(416)	8,068	(3,457)
Loss on sales or disposal of property and equipment	717	444	5,968
Gain on sales of shares of subsidiary	(2,575)	–	(21,426)
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	19,850	(19,160)	165,183
(Increase) decrease in inventories	(23,016)	15,323	(191,528)
(Decrease) increase in notes and accounts payable	(17,914)	5,267	(149,068)
(Decrease) increase in advances received	(9,565)	10,416	(79,596)
Other, net	(2,709)	5,475	(22,552)
Subtotal	(13,185)	46,479	(109,722)
Interest and dividends received	61	118	509
Interest paid	(803)	(885)	(6,680)
Subsidies received	384	17	3,197
Income taxes refunded	2	427	15
Income taxes paid	(3,674)	(415)	(30,578)
Net cash (used in) provided by operating activities	(17,215)	45,741	(143,259)
Cash flows from investing activities			
Proceeds from redemption of investments in securities	–	1,000	–
Purchases of property and equipment	(9,227)	(17,307)	(76,779)
Proceeds from sales of property and equipment	3,791	3,598	31,550
Purchases of intangible assets	(1,296)	(1,020)	(10,786)
Payments of long-term prepaid expenses	(119)	(39)	(993)
Purchases of investments in securities	(65)	(170)	(541)
Proceeds from sales of investments in securities	437	932	3,635
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	4,048	–	33,683
Increase in leasehold deposits, net	(1,158)	(418)	(9,635)
Increase in leasehold deposits received from tenants, net	137	433	1,138
Other, net	(323)	(164)	(2,685)
Net cash used in investing activities	(3,775)	(13,155)	(31,413)
Cash flows from financing activities			
Increase (decrease) in short-term bank loans, net	23,000	(32,000)	191,396
Proceeds from long-term loans	1,500	20,723	12,482
Repayments of long-term loans	(22,540)	(11,900)	(187,568)
Proceeds from issuance of convertible bonds	14,942	–	124,342
Redemption of convertible bonds	–	(1,765)	–
Proceeds from issuance of new shares	–	3,530	–
Cash dividends paid	(2,421)	(2,119)	(20,143)
Purchase of treasury stock	(4,999)	(2)	(41,600)
Proceeds from sales of treasury stock	–	1,461	–
Proceeds from exercise of stock options	370	–	3,083
Other, net	(155)	(187)	(1,293)
Net cash provided by (used in) financing activities	9,697	(22,259)	80,699
Effect of exchange rate changes on cash and cash equivalents	0	0	0
Net (decrease) increase in cash and cash equivalents	(11,293)	10,327	(93,973)
Cash and cash equivalents at beginning of the year	20,294	9,967	168,876
Cash and cash equivalents at end of the year	¥ 9,001	¥ 20,294	$ 74,903

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements March 31, 2015

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 fiscal year ended March 31, 2014 to the 2015 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 ¥120.17 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2015. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. The number of consolidated subsidiaries was 5 as of March 31, 2015 and 2014.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The Company has applied the equity method to investments in 3 affiliates as of March 31, 2015 and 2014.

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) Investments in securities

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

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

(d) Inventories

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

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

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

(f) Leased assets

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

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

(g) Goodwill and negative goodwill

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

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

(h) Allowance for doubtful receivables

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

(i) Allowance for employees' bonuses

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

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(j) Retirement benefits

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

Liability for retirement benefits is provided based on the amount of the projected benefit obligation after deducting the pension plan assets at fair value at the year end. The retirement benefit obligation is attributed to each period by the benefit-formula basis over the estimated remaining years of service of the eligible employees.

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

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

(Accounting Change)

The Company and certain consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, revised on March 20, 2015) in line with certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance from the fiscal year ended March 31, 2015. The methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for determining the discount rate has been changed from discount rates based on the estimated average remaining years of service of the eligible employees to a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and the method for attributing benefits to accounting periods has been changed from a straight-line basis to a benefit formula basis.

Based on the provisional treatment set out in Section 37 of the standard, the effect of the changes in accounting policies arising from the amendments relating to the methods for calculating the retirement benefit obligation and service cost was recognized as an adjustment to retained earnings as of April 1, 2014.

As a result of adopting the accounting standard and guidance, liability for retirement benefits decreased by ¥36 million ($303 thousand) and retained earnings increased by ¥22 million ($181 thousand) as of April 1, 2014. In addition, operating income and income before income taxes and minority interests increased by ¥20 million ($162 thousand), respectively. Moreover, net assets per share, basic net income per share and diluted net income per share increased by ¥0.33 ($0.00), ¥0.12 ($0.00) and ¥0.11 ($0.00), respectively as of and for the fiscal year ended March 31, 2015.

(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 at the balance sheet date during the warranty period based on the historical data for repair expenses.

(m) Income taxes

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

(n) Derivatives and hedging activities

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

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

(o) Per share information

Basic net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price, and stock acquisition rights were exercised into common stock at the time of issue at the average stock price. Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of such years.

The average number of shares of common stock used to compute basic net income per share for the years ended March 31, 2015 and 2014 were 107,721 thousand and 106,361 thousand, respectively. The dilutive potential of shares of common stock for the year ended March 31, 2015 and 2014 were 7,760 thousand and 203 thousand, respectively.

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end. Amounts per share of net assets at March 31, 2015 and 2014 were ¥1,389.43 ($11.56) and ¥1,325.29, 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 Events").

(q) Accounting standards issued but not yet effective

Accounting Standard for Business Combinations and Related Standards and Implementation Guidance

On September 13, 2013, ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standards for Business Combination and Business Divestitures" (ASBJ Guidance No.10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4)

(1) Outline

Under these revised accounting standards, the following items were mainly revised:

a) The accounting treatment for changes in a parent' s ownership interest in a subsidiary when the parent retains control over the subsidiary in the additional acquisition of shares in a subsidiary.

b) The accounting treatment of acquisition related costs.

c) Change in presentation of net income and changes in presentation to "non-controlling interests" from minority interests.

d) Provisional accounting treatment.

(2) Scheduled date of adoption

These accounting standards and guidance will be adopted effective the beginning of the fiscal year ending March 31, 2016. These accounting standards and guidance for "provisional accounting treatment for business combinations" are effective for business combinations occurring from the beginning of the fiscal year ending March 31, 2016.

(3) Impact of adopting these accounting standards and guidance

The Company is currently evaluating the impact as a result of adopting these accounting standards and guidance on its consolidated financial statements.

3. Investments in Securities

(1) Information regarding investments in securities classified as other securities inclusive of marketable securities at March 31, 2015 and 2014 were summarized as follows:

Millions of yen

	2015			2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 3,084	¥ 2,029	¥ 1,055	¥ 2,019	¥ 1,683	¥ 336
Subtotal	¥ 3,084	¥ 2,029	¥ 1,055	¥ 2,019	¥ 1,683	¥ 336
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	¥ 139	¥ 151	¥ (12)	¥ 532	¥ 576	¥ (44)
Subtotal	¥ 139	¥ 151	¥ (12)	¥ 532	¥ 576	¥ (44)
Total (*a)	¥ 3,223	¥ 2,180	¥ 1,043	¥ 2,551	¥ 2,259	¥ 292

Thousands of U.S. dollars

	March 31, 2015		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$25,665	$16,885	$ 8,780
Subtotal	$25,665	$16,885	$ 8,780
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	$ 1,155	$ 1,253	$ (98)
Subtotal	$ 1,155	$ 1,253	$ (98)
Total (*a)	$26,820	$18,138	$ 8,682

Notes:

(*a) Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted equity securities are not included in the above table. The carrying values of such unlisted equity securities amounted to ¥90 million ($749 thousand) and ¥225 million as of March 31, 2015 and 2014, respectively.

(2) Proceeds from sales of and gross realized gain and loss on other securities for the fiscal years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Proceeds from sales	¥ 437	¥ 932	$ 3,635
Gross realized gain	158	335	1,314
Gross realized loss	0	(2)	1

(3) Losses on devaluation of investments in securities of nil and ¥115 million were recognized in the consolidated statements of income for the fiscal years ended March 31, 2015 and 2014, respectively.

4. Land Revaluation

The Company revaluated land held for business use, in accordance with the "Law on Land Revaluation" at March 28 and March 31, 2002. Differences on land revaluation have been accounted for as "land revaluation difference" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluations was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its fair value by ¥11,596 million ($96,499 thousand) and ¥11,622 million at March 31, 2015 and 2014, respectively, of which a certain portion of this land, in the amount of ¥3,135 million ($26,087 thousand) and ¥3,185 million, corresponded to real estate for lease at March 31, 2015 and 2014, 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 1.65%.

Changes in asset retirement obligations during the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of the year	¥ 5,934	¥ 5,119	$ 49,378
Liabilities incurred due to the acquisition of property and equipment	757	853	6,294
Accretion expense	98	89	817
Liabilities settled	(208)	(127)	(1,729)
Balance at end of the year	¥ 6,581	¥ 5,934	$ 54,760

Notes to Consolidated Financial Statements (continued)

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own store properties including buildings and land for rent mainly in the main cities of Osaka, Aichi and other prefectures. Net rental revenue for these properties was recognized in the amount of ¥390 million ($3,245 thousand) and ¥422 million for the years ended March 31, 2015 and 2014, respectively. Rental revenue was included in net sales and rental expenses were mainly included in selling, general and administrative expenses. Impairment of rental property of ¥271 million ($2,253 thousand) and ¥130 million was recognized in the loss on impairment of property and equipment for the years ended March 31, 2015 and 2014, 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:

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

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

Thousands of U.S. dollars			
2015			
Carrying Value			Fair Value
March 31, 2014	Net change	March 31, 2015	March 31, 2015
$ 212,832	$ (17,070)	$ 195,762	$ 198,595

Notes:
1. The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2. The main component of net change in the carrying value are the increases due to the reclassification from other properties related to the change in the holding purpose in the amount of ¥1,151 million ($9,582 thousand) and decreases due to sales of ¥2,488 million ($20,706 thousand) for the year ended March 31, 2015. The main component of net change in the carrying value are the increases due to the reclassification from other properties related to the change in the holding purpose in the amount of ¥2,613 million and decreases mainly due to sales of ¥1,105 million for the year ended March 31, 2014.
3. The fair value was based on the real estate appraisals issued by the third party professional appraisers for main properties and internal computations including the adjustment by an index and others in accordance with appraisal standards for other properties.

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

Short-term bank loans at March 31, 2015 and 2014 consisted of bank overdrafts. The annual average interest rates applicable to the short-term bank loans were 0.39% and 0.34% at March 31, 2015 and 2014, respectively.
Long-term debt at March 31, 2015 and 2014 consisted of the following:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Zero coupon unsecured convertible bonds (with stock acquisition rights) due October 1, 2021	¥ 15,000	¥ –	$ 124,823
Unsecured loans principally from banks and insurance companies with an average interest rate of 0.74%:	73,910	94,950	615,045
Long-term loans with an interest rate of 2.05%	1,297	1,403	10,797
	90,207	96,353	750,665
Less: current portion of long-term debt	(16,376)	(22,646)	(136,273)
	¥ 73,831	¥ 73,707	$ 614,392

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 16,376	$ 136,273
2017	20,263	168,621
2018	20,878	173,741
2019	15,115	125,778
2020	1,117	9,296
2021 and thereafter	16,458	136,956
Total	¥ 90,207	$ 750,665

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 3.00% and 3.12% at March 31, 2015 and 2014, respectively.
The aggregate annual maturities of lease obligations subsequent to March 31, 2015 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 96	$ 796
2017	99	822
2018	100	835
2019	75	628
2020	66	547
2021 and thereafter	621	5,167
Total	¥ 1,057	$ 8,795

The assets pledged as collateral for long-term loans and the current portion of long-term loans of ¥1,297 million ($10,797 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,012 million ($8,424 thousand) was as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,265	$ 10,530
Buildings and structures – net of accumulated depreciation	2,895	24,087
Total	¥ 4,160	$ 34,617

In order to achieve more efficient and flexible financing, the Group has concluded bank overdraft agreements with 20 banks and line-of-credit agreements with 11 banks. Total committed lines of credit under such agreements amounted to ¥110,600 million ($920,363 thousand), of which ¥83,600 million ($695,681 thousand) was available as of March 31, 2015.

8. Retirement Benefit Plans

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum payment from the Company and the consolidated subsidiaries and annuity payments from a trustee. In addition to the retirement benefit plans described above, the Company and certain consolidated subsidiaries pay additional retirement benefits under certain conditions.
The changes in the retirement benefit obligation during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Retirement benefit obligation at the beginning of the year	¥ 15,033	¥ 15,732	$ 125,096
Cumulative effect of changes in accounting policy	(36)	–	(303)
Restated balance	14,997	15,732	124,793
Service cost	462	507	3,848
Interest cost	164	172	1,364
Actuarial gain	225	(107)	1,875
Retirement benefit paid	(1,082)	(1,271)	(9,004)
Retirement benefit obligation at the end of the year	¥ 14,766	¥ 15,033	$ 122,876

The changes in plan assets at fair value during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Plan assets at fair value at the beginning of the year	¥ 6,965	¥ 7,179	$ 57,961
Expected return on plan assets	153	57	1,275
Actuarial gain	279	244	2,321
Contribution by the Company	377	374	3,133
Retirement benefit paid	(660)	(889)	(5,493)
Plan assets at fair value at the end of the year	¥ 7,114	¥ 6,965	$ 59,197

The balance of retirement benefit obligation and plan assets at fair value and liabilities recognized in the consolidated balance sheet at March 31, 2015 and 2014 is as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Funded retirement benefit obligation	¥ 7,625	¥ 7,790	$ 63,448
Plan assets at fair value	(7,114)	(6,965)	(59,197)
	511	825	4,251
Unfunded retirement benefit obligation	7,141	7,243	59,428
Net liability for retirement benefits in the balance sheet	¥ 7,652	¥ 8,068	$ 63,679

The components of retirement benefit expense for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Service cost	¥ 462	¥ 507	$ 3,848
Interest cost	164	172	1,364
Expected return on plan assets	(153)	(57)	(1,275)
Amortization of actuarial loss	87	113	721
Amortization of prior service cost	(390)	(405)	(3,247)
Retirement benefit expense	¥ 170	¥ 330	$ 1,411

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Actuarial gain	¥ 54	¥ –	$ 447

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Unrecognized prior service cost	¥ 1,713	¥ 2,103	$ 14,257
Unrecognized actuarial loss	(1,544)	(1,684)	(12,848)
Total	¥ 169	¥ 419	$ 1,409

The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 are as follows:

	2015	2014
Bonds	21%	21%
Stocks	15	14
General accounts	61	63
Other	3	2
Total	100%	100%

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

	2015	2014
Discount rates	1.0%-1.1%	1.0%-1.1%
Expected rates of return on plan assets	4.1%	2.2%
Expected rates of salary increase	1.2%-3.7%	1.0%-4.1%

Notes:
In addition to the above, the Company and certain consolidated subsidiaries charged contributions of ¥1,875 million ($15,604 thousand) and ¥1,820 million to the defined contribution pension plans to income during the years ended March 31, 2015 and 2014, respectively.

Notes to Consolidated Financial Statements (continued)

9. Income Taxes

Income taxes applicable to the Group comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in the statutory tax rates of 35.6% and 38.0% for the years ended March 31, 2015 and 2014, respectively.
The effective tax rates for the years ended March 31, 2015 and 2014 differed from the corresponding statutory tax rates for the following reasons:

	2015	2014
Statutory tax rates:	35.6%	38.0%
Expenses not deductible for income tax purposes	0.4	0.6
Inhabitants' per capita taxes	4.1	4.4
Amortization of negative goodwill, net	–	(2.4)
Change in valuation allowance	4.0	(6.3)
Effect of change in statutory tax rate	13.1	10.8
Effect of land evaluation difference	(4.0)	(1.1)
Other, net	(1.6)	(2.4)
Effective tax rates	51.6%	41.6%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Group at March 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Depreciation	¥ 1,601	¥ 1,658	$ 13,319
Allowance for employees' bonuses	1,449	2,043	12,056
Loss on impairment of property and equipment	8,507	10,977	70,794
Liability for retirement benefits	2,539	2,887	21,125
Reserve for point service program	3,075	3,359	25,588
Allowance for merchandise warranties	2,824	2,690	23,500
Unrealized loss on revaluation of land acquired by merger	1,638	1,801	13,632
Asset retirement obligations	2,143	2,114	17,832
Net operating tax loss carry forwards	306	475	2,545
Other	4,363	4,966	36,315
Less valuation allowance	(11,618)	(12,388)	(96,682)
Total deferred tax assets	16,827	20,582	140,024
Deferred tax liabilities:			
Asset retirement obligations	(827)	(800)	(6,886)
Unrealized holding gain on other securities	(328)	(115)	(2,729)
Other	(238)	(251)	(1,974)
Total deferred tax liabilities	(1,393)	(1,166)	(11,589)
Net deferred tax assets	¥ 15,434	¥ 19,416	$ 128,435

The "Act for Partial Amendment for the Income Tax Act, etc." (Act No.9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015, and the Company is subject to the amended local tax effective for fiscal years beginning on or after April 1, 2015. The effective statutory tax rate that was used to calculate deferred tax assets and deferred tax liabilities for the fiscal year has been changed from 35.6% to 33.0% for the temporary differences expected to be realized or settled from April 1, 2015 to March 31, 2016, and to 32.2% for those for which taxes are expected to be realized or settled on or after April 1, 2016.

As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by ¥1,241 million ($10,326 thousand), and income taxes-deferred increased by ¥1,303 million ($10,842 thousand). In addition, deferred income taxes for land revaluation decreased by ¥198 million ($1,643 thousand), and land revaluation difference increased by the same amount as of and for the fiscal year ended March 31, 2015.

10. Financial Instruments

Overview

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

(b) Types of financial instruments, related risks and risk management
Trade receivables, notes and accounts receivables, are exposed to credit risk of customers. To respond to this risk, the Group manages settlement due dates and balances of each customer and monitors the financial conditions of customers when appropriate.
Securities and investments in securities inclusive marketable securities are mainly shares of companies with which the Group has business relationships. Securities and investments in securities inclusive marketable securities which have market price are subject to the risk of market price fluctuations. Non-marketable securities are exposed to the risk of impairment due to the decline in the financial results of the issuers. To correspond to this risk, the Group periodically monitors their market values and corporate values and reports information to meetings of the Board of Directors if the Group identifies significant fluctuations.
Trade payables, notes and accounts payable, are all due within one year.
Short-term bank loans are mainly utilized for business operations of the Group and long-term loans are mainly utilized for capital investments. Loans with floating 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, 2015 and 2014 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

	2015			2014		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash and cash equivalents	¥ 9,001	¥ 9,001	¥ -	¥ 20,294	¥ 20,294	¥ -
Notes and accounts receivable-trade	29,223	29,223	-	46,377	46,377	-
Investments in securities, inclusive marketable securities :						
Other securities	3,223	3,223	-	2,551	2,551	-
Total assets	¥ 41,447	¥ 41,447	¥ -	¥ 69,222	¥ 69,222	¥ -
Liabilities:						
Notes and accounts payable-trade	¥ 34,253	¥ 34,253	¥ -	¥ 50,552	¥ 50,552	¥ -
Short-term bank loans	27,000	27,000	-	4,000	4,000	-
Long-term debt:						
Long-term loans (*1)	75,207	75,560	353	96,353	96,756	403
Convertible bonds (with stock acquisition rights)	15,000	17,291	2,291	-	-	-
Lease obligations (*1)	1,057	1,203	146	1,211	1,356	145
Total liabilities	¥ 152,517	¥ 155,307	¥ 2,790	¥ 152,116	¥ 152,664	¥ 548

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

Thousands of U.S. dollars

	2015		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and cash equivalents	$ 74,903	$ 74,903	$ -
Notes and accounts receivable-trade	243,182	243,182	-
Investments in securities, inclusive marketable securities :			
Other securities	26,820	26,820	-
Total assets	$ 344,905	$ 344,905	$ -
Liabilities:			
Notes and accounts payable-trade	$ 285,041	$ 285,041	$ -
Short-term bank loans	224,682	224,682	-
Long-term debt:			
Long-term loans (*1)	625,842	628,780	2,938
Convertible bonds (with stock acquisition rights)	124,823	143,891	19,068
Lease obligations (*1)	8,795	10,010	1,215
Total liabilities	$ 1,269,183	$ 1,292,404	$ 23,221

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

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

(2) Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unlisted stocks	¥ 90	¥ 225	$ 749
Investments in an unconsolidated subsidiary and affiliates	759	688	6,314
Leasehold deposits	28,964	29,304	241,023

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

Notes to Consolidated Financial Statements (continued)

10. Financial Instruments (continued)

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

(3) Redemption schedules for cash and cash equivalents, notes and accounts receivable – trade with maturity dates at March 31, 2015 and 2014 were as follows:

Millions of yen

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

Millions of yen

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

Thousands of U.S. dollars

	2015			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$ 47,338	$ –	$ –	$ –
Notes and accounts receivable-trade	243,182	–	–	–
	$ 290,520	$ –	$ –	$ –

Cash and cash equivalents in the table above do not include cash on hand of ¥3,312 million ($27,565 thousand) and ¥4,877 million at March 31, 2015 and 2014, 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

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

Millions of yen

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

Thousands of U.S. dollars

			2015		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	$ 525,089	$ 419,406	(*)

Notes:
(*) Because interest rate swap agreements are accounted for as if the contract rate applied to the swap agreement had originally applied to the underlying long-term loans, their fair values are included in those of the underlying long-term loans.
There are no derivative transactions to which hedge accounting is not applied for the years ended March 31, 2015 and 2014.

12. Contingent Liabilities

The Group was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥163 million ($1,360 thousand) at March 31, 2015.

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, 2015 and 2014.
In accordance with the Law, stock option plans for certain directors and certain employees of the Company and certain directors and employee of certain subsidiaries were approved at annual general meetings of the shareholders of the Company. The 2009 stock option plan (the 2009 plan) was approved by shareholder meeting of the Company on June 26, 2009.
According to the 2009 plan, on August 6, 2009, the Company granted 1,570,000 stock options for common stock to 9 board directors and 3 employees of the Company and 12 board directors, 21 managing officers and 647 employees of certain subsidiaries. The service period for grantees is from August 6, 2009 to August 6, 2011 and the exercisable period is August 7, 2011 to August 6, 2014. No stock option expense was incurred for the years ended March 31, 2015 and 2014. Gain on reversal of stock options of ¥138 million ($1,146 thousand) and ¥4 million were included in other, net in the consolidated statements of income for the years ended March 31, 2015 and 2014, respectively.
Movement in the number of vested stock options for the stock option plan of the Company during the year ended March 31, 2015 was summarized as follows:

	2015				
	Outstanding as of April 1, 2014	Vested	Exercised	Forfeited	Outstanding as of March 31, 2015
The 2009 plan	1,465,000	—	620,300	844,700	—

The unit price of the stock options under the 2009 plan of the Company during the year ended March 31, 2015 was summarized as follows:

	the 2009 plan	
	Yen	*U.S. dollars*
Unit price of stock options:		
Exercise price at March 31, 2015	¥ 597	$ 4.97
Average market price per share upon exercise	700	5.83
Estimated fair value of unit price at grant date	163	1.36

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, 2015 and 2014 were summarized as follows:

Number of shares

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

Number of shares

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

(a) The increase in treasury stock of 6,740,664 common shares for the year ended March 31, 2015 was due to the purchase of 6,739,000 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on September 17, 2014 and the purchase of 1,664 fractional shares.
(b) The decrease of treasury stock of 620,300 common shares for the year ended March 31, 2015 was due to exercise of stock option rights.
(c) The increase in treasury stock of 2,430 common shares for the year ended March 31, 2014 was due to the purchase from shareholders of 2,430 fractional shares at their request.
(d) The decrease of treasury stock of 2,621,000 common shares for the year ended March 31, 2014 was due to disposition of shares related to the capital alliance agreement with LIXIL Group.
Movements in stock acquisition rights during the years ended March 31, 2015 and 2014 were summarized as follows:

Thousands of shares

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

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

	Thousands of shares				*Millions of yen*
	2014				
	April 1, 2013	Increase	Decrease	March 31, 2014	March 31, 2014
Stock acquisition rights attached to convertible bonds due May 10, 2013	1,304	–	1,304	–	¥ –
Stock acquisition rights as stock options	–	–	–	–	239
	1,304	–	1,304	–	¥ 239

14. Cost of Sales

Losses on inventory valuation included in cost of sales for the years ended March 31, 2015 and 2014 were ¥350 million ($2,911 thousand) and ¥36 million, respectively.

15. Loss on Impairment of Property and Equipment

The Group recognized losses on impairment of property and equipment of ¥2,791 million ($23,225 thousand) and ¥5,461 million for the years ended March 31, 2015 and 2014, respectively, as follows:

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

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

The Group groups its property and equipment based on management control units. It also groups assets which are not currently utilized for its operations and are not anticipated to be utilized in the future as idle assets individually.
Losses on impairment of property and equipment were recorded for the years ended March 31, 2015 and 2014 as the assets and asset groups listed above recorded consecutive years of negative operating cash flows and because their utilization in the future was not determinable.
As a result, for the year ended March 31, 2015, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥2,430 million ($20,218 thousand). In addition, a loss on impairment of rental property was ¥198 million ($1,647 thousand). Moreover, a loss on impairment of other was ¥163 million ($1,360 thousand).
For the year ended March 31, 2014, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥5,331 million. In addition, a loss on impairment of rental property was ¥130 million.
For the years ended March 31, 2015 and 2014, the principal components of loss on impairment by asset classification were buildings and structures of ¥2,149 million ($17,883 thousand) and ¥4,824 million, tools, furniture and fixtures of ¥321 million ($2,672 thousand) and ¥211 million, and land of ¥267 million ($2,219 thousand) and ¥381 million, respectively.
The recoverable amounts of asset groups are measured at the higher of their net selling value or value in use. The net selling value for significant assets is based on professional appraisals. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 3.69% and 3.32% for the years ended March 31, 2015 and 2014, respectively.

Notes to Consolidated Financial Statements (continued)

16. Other Comprehensive Income (Loss)

Reclassification adjustments and tax effects for each component of other comprehensive income (loss) for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized gain on other securities:			
Amount arising during the year	¥ 846	¥ 150	$ 7,042
Reclassification adjustments	(95)	(263)	(794)
Before tax effect	751	(113)	6,248
Tax effect	(224)	41	(1,861)
Total	527	(72)	4,387
Land revaluation difference:			
Tax effect	198	–	1,643
Retirement benefit liability adjustments:			
Amount arising during the year	54	–	447
Reclassification adjustments	(304)	–	(2,527)
Before tax effect	(250)	–	(2,080)
Tax effect	105	–	875
Total	(145)	–	(1,205)
Total other comprehensive income (loss)	¥ 580	¥ (72)	$ 4,825

17. Leases

The Group utilizes finance leases for store equipment. Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.
The Group continues to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating lease transactions.
The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2015 and 2014 which would have been reflected in the accompanying consolidated balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen							
	2015				2014			
	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	¥ 2,453	¥ –	¥ 1,471	¥ 3,924	¥ 2,257	¥ –	¥ 1,667
	¥ 3,924	¥ 2,453	¥ –	¥ 1,471	¥ 3,924	¥ 2,257	¥ –	¥ 1,667

	Thousands of U.S. dollars			
	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	$ 32,657	$ 20,410	$ –	$ 12,247
	$ 32,657	$ 20,410	$ –	$ 12,247

Lease payments relating to finance leases accounted for as operating leases, the corresponding depreciation computed by the straight-line method for the respective lease periods assuming a nil residual value, interest expense computed by the interest method, and accounted for as operating leases for the years ended March 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Lease payments	¥ 216	¥ 223	$ 1,797
Depreciation	196	203	1,633
Interest expense	17	19	144

Future minimum lease payments subsequent to March 31, 2015 for finance leases accounted for as operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 201	$ 1,670
2017 and thereafter	1,391	11,580
Total	¥ 1,592	$ 13,250

Future minimum lease payments subsequent to March 31, 2015 for non-cancelable operating leases as a lessee were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 3,667	$ 30,512
2017 and thereafter	33,953	282,548
Total	¥ 37,620	$ 313,060

Future minimum lease receipts subsequent to March 31, 2015 for non-cancelable operating leases as a lessor were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 261	$ 2,174
2017 and thereafter	4,006	33,339
Total	¥ 4,267	$ 35,513

18. Supplementary Information on the Consolidated Statement of Cash Flows

Information on significant non-cash transaction:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Increase in asset retirement obligations	¥ 855	¥ 942	$ 7,111
Capitalized lease	¥ 5	¥ 259	$ 42

19. Related Party Transactions

Principal transactions between the Company and a company which is majority owned by a director and the director's relatives during the years ended March 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
SHOEI Co., Ltd.:			
Insurance expense	¥ 131	¥ 134	$ 1,093

The outstanding balance of prepaid expenses and accounts payable related to insurance expense outline above amounted to ¥19 million ($159 thousand) and ¥17 million, and ¥0 million ($3 thousand) and ¥0 million at March 31, 2015 and 2014, 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 ($749 thousand) at March 31, 2015 and 2014.
Insurance premiums are determined in the same manner as general insurance offered by insurance companies.

20. Segment Information

Reportable segments of the Group are "Sales of home electric appliances" and "Others." As the "Others" segment is immaterial to the segment total, the disclosure of segment information for the years ended March 31, 2015 and 2014 has been omitted.
Loss on impairment of property and equipment for all segments was recorded in the amounts of ¥2,791 million ($23,225 thousand) and ¥5,461 million for the years ended March 31, 2015 and 2014, respectively. The remaining balance of goodwill for all segments as of March 31, 2015 and 2014 were nil. Amortization of negative goodwill for all segments was recorded in the amounts of nil and ¥569 million for the years ended March 31, 2015 and 2014, respectively. No remaining balance of negative goodwill for all segments was recorded as of the March 31, 2015 and 2014, respectively.
As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statement of operations, the disclosure of the segment information by product and service for the years ended March 31, 2015 and 2014 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, 2015 and 2014 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, 2015 and 2014 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, 2015 and 2014 has been omitted.

21. Business Combination

(Company Split and Transfer of Shares of Newly Incorporated Company)

Effective on October 1, 2014, the Company split off the operations of its home center stores (excluding, its sales of home electric products) into a newly incorporated company, by means of a company split, as follows. In addition, on the same date, the Company transferred all shares of the newly incorporated company to KAHMA Co., Ltd. (renamed, DCM KAHMA Co., Ltd.).

Company Split (under common control)

(1) Outline of the transaction

a) Name and details of business transferred
Operations of home center stores (excluding, sales of home electric products)
b) Date of company split
October 1, 2014
c) Legal form of company split
The method is an Incorporation-Type Company Split in which the Company is the splitting company and the newly incorporated company is the successor company. (Simple Incorporation-Type Company Split)
This company split, pursuant to Article 805 of the Corporation Law (Simple Split), will be executed without the approval of a general meeting of shareholders.
d) Name and overview of newly incorporated company
Company name: Home Expo Co., Ltd.
Address of headquarters: 411, Hidaka 3-chome, Kariya, Aichi, Japan
Representative: President and representative director, Katsuyoshi Ishiguro
Business description: Operations of home center stores
Capital: ¥10 million ($83 thousand)
Personnel: 112
e) Other information
The Company has operated six home center stores called "Home Expo" in Aichi, Japan. Considering the business environment of the home center market being increasingly oligopolistic in recent years and possibilities for the further expansion of "Home Expo", the Company determined that this transaction, the company split and transfer of shares of the newly incorporated company, would enable it to optimize the Group's resource allocation and increase profitability in order to enhance corporate value.

(2) Summary of Accounting Treatment
The Company split is treated as transaction under common control, in light of "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

Notes to Consolidated Financial Statements (continued)

21. Business Combination (continued)

Information on business divestiture

(1) Outline of transfer
a) Name and overview of transferee
Company name: KAHMA Co., Ltd, (renamed, DCM KAHMA CO., Ltd.).
Address of headquarters: 411, Hidaka 3-chome, Kariya, Aichi, Japan
Representative: President, representative director and officers Yoshiyuki Toyoda
Business description: Operations of home center stores
Capital: ¥6,001 million ($49,938 thousand)
Personnel: 1,036 (as of February 28, 2014)
b) Transferred operation
The Company' s operations of home center stores (excluding, sales of home electric product)
c) Objective of business divestiture
The Company has operated six home center stores called "Home Expo" in Aichi, Japan. Considering the business environment of the home center market being increasingly oligopolistic in recent years and possibilities for the further expansion of "Home Expo", the Company determined that this transaction, the company split and transfer of shares of the newly incorporated company, would enable it to optimize the Group' s resource allocation and increase profitability in order to enhance corporate value.
d) Date of the business divestiture
October 1, 2014
e) Other information including legal form
The Company transferred all shares of the newly incorporated company (100% subsidiary owned by the Company) to KAHMA Co., Ltd (renamed, DCM KAHMA Co., Ltd.) in exchange for cash and other as consideration.

(2) Summary of Accounting Treatment
a) Gain on sales of shares of subsidiary
¥2,575 million ($ 21,426 thousand)
b) Assets and liabilities related to transferred operations (As of October 1, 2014)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 986	$ 8,204
Non-current assets	770	6,411
Total assets	¥ 1,756	$ 14,615
Current liabilities	69	571
Long-term liabilities	97	810
Total liabilities	¥ 166	$ 1,381

c) Reporting segment in which the transferred operations were included
Operations of home center stores and other
As a result of this transfer, the Company' s reporting segments were changed to "Sales of home electric appliances" and "Others" from the fiscal year ended March 31, 2015.
d) Estimated amounts of sales and operating income of transferred operations included in the consolidated financial statement of income for the year ended March 31, 2015

	Millions of yen	Thousands of U.S. dollars
Sales	¥ 4,346	$ 36,169
Operating income	107	889

22. Subsequent Events
(Issuance of Convertible Bonds (with Stock Acquisition Rights))

The Board of Directors of the Company resolved the issuance of convertible bonds due 2025 on June 3, 2015. The payments for the convertible bonds were completed on June 19, 2015.

The outline of the issuance is as follows:

(1) Description of convertible bonds
EDION Corporation Euro-Yen denominated convertible bonds with stock acquisition rights due 2025 (the "Convertible Bonds")

(2) Issue price (offer price)
100.5% of the principal amount of the Convertible Bonds
(The Convertible Bonds are issued in the denomination of ¥10 million ($83 thousand) each.)

(3) Issue price (amounts to be offered)
103.0% of the principal amount of the Convertible Bonds

(4) Aggregate principal amount of the Convertible Bonds
¥15,075 million ($125,447 thousand) and an aggregate principal amount of the Convertible Bonds in respect of replacement certificates

(5) Coupon
Zero

(6) Closing date and issuance date of the Convertible Bonds
June 19, 2015 (London time; unless otherwise indicated, hereinafter the same shall apply)

(7) Maturity date
June 19, 2025

(8) Details on Stock Acquisition Rights
a) Class and number of shares issued upon exercise of stock acquisition rights
The class of shares to be acquired by a bondholder exercising the stock acquisition rights shall be the shares of common stock of the Company, and the number of the shares shall be determined by dividing the aggregate principal amount of the Convertible Bonds with respect to the exercised stock acquisition rights by the conversion price of ¥1,240 ($10.32). Fractional shares shall not be issued upon the exercise and no adjustment or cash payment shall be made.
b) Number of Stock Acquisition Rights
1,500 unites and the number of stock acquisition rights determined by dividing the aggregate principal amount of the Convertible Bonds in respect of replacement certificates by ¥10 million ($83 thousand)
c) Items and Amounts to be Paid upon Exercise of Stock Acquisition Rights
The bonds in respect of the relevant stock acquisition rights shall be contributed upon exercising of each stock acquisition rights, and the price of the bonds shall be equal to the principal amount of the bonds. The conversion price is ¥1,240 ($10.32) per share (initial conversion price):
d) Exercise Period of Stock Acquisition Rights
At any time during the period from, and including, July 3, 2015 to, and including, June 5, 2025 (at the local time of the place where the stock acquisition right is to be exercised), but subject to certain provisions in the terms and conditions of the Convertible Bonds
e) Allotment Date of Stock Acquisition Rights
June 19, 2015
f) Increase in Capital Stock and Capital Surplus Due to Exercise of Stock Acquisition Rights
The amount of capital stock increased by the exercise of stock acquisition rights shall be 50% of the maximum capital increase amount calculated in accordance with Article 17 of the "Company Calculation Ordinance", rounding up fraction of amounts. The increase in capital surplus shall be the difference between the maximum capital increase amount and the increase in capital stock.

(9) Collateral and Guarantee
No collateral or guarantee

(10) Use of Proceeds
The net proceeds of approximately ¥15,000 million ($124,823 thousand) from the issuance of the Convertible Bonds due 2025 are expected to be used primarily as follows:
a) Approximately ¥4,500 million ($37,447 thousand) by the end of March 2017 for the Company' s capital expenditure to purchase land and construct a building for the new flagship store which the Company decided to open along with the redevelopment plan of the front of JR Hiroshima station, plus for part of the start-up cost;
b) Approximately ¥2,500 million ($20,804 thousand) by the end of September 2016 for the Company' s capital expenditure associated with opening new stores and relocating stores for the second half period of the fiscal year ending March 31, 2016 (October 2015 through March 2016) and for the Company' s capital expenditure associated with renovating existing stores;
c) Approximately ¥3,000 million ($24,965 thousand) by the end of December 2017 for the new system implementation cost to enable logistics process re-engineering, such as efficient inventory management and shortening the lead time between the placement of an order and the delivery to customers, by way of a more efficient Online-to-Offline business model that connects the e-commerce market and the brick-and-mortar stores aimed at expanding relevant sales in the e-commerce market that will continue to expand in the future; and
d) Approximately ¥5,000 million ($41,607 thousand) by the end of December 2015 as funding for the repurchase of its own shares by the Company with a view to enabling the Company to enhance returns to shareholders by raising capital efficiency and to implement flexible capital policies.

The Company is planning to repurchase its own shares before the closing date of the Convertible Bonds (with stock acquisition rights) and utilize the above funding for the repurchase of its own shares to repay bank loans for which the Company borrowed to repurchase its own shares. As the number of its own shares which the Company is able to repurchase is dependent on, among other things, market conditions, to the extent not the entire amount referred to above in respect of the proceeds of the offering of the Convertible Bonds is applied towards such repurchase, any balance could be applied towards capital expenditure for new stores.

(Distribution of retained earnings of the Company)

The following distribution of retained earnings at March 31, 2015 was approved at the Company' s annual general meeting of shareholders held on June 26, 2015:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥10.00 ($0.08) per share	¥ 1,044	$ 8,686

Independent Auditor's Report

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
EDION Corporation

We have audited the accompanying consolidated financial statements of EDION Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EDION Corporation and its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young Shin Nihon LLC

Osaka, Japan
June 29, 2015

A member firm of Ernst & Young Global Limited

Company Profile

Company Information

(As of March 31, 2015)

Company name:	EDION Corporation
Main business:	Sale of home electrical appliances, etc.
Foundation:	March 29, 2002
Capital stock:	11,940 million yen
Registered office address:	2-1-8 Kamiya-cho, Naka-ku, Hiroshima
Head office address:	1-5-17 Dojima, Kita-ku, Osaka
Number of full-time employees:	7,431 (on a non-consolidated basis), 8,788 (on a consolidated basis)

Stock Information

(As of March 31, 2015)

Fiscal year:	April 1 to March 31 of the following year
Number of shares authorized:	300,000,000 shares
Number of shares issued:	112,005,636 shares
Number of shareholders:	37,842
Stock listing:	First section of the Tokyo and Nagoya Stock Exchanges
Ticker code:	2730

Main subsidiary companies and affiliated companies

(As of March 31, 2015)

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

* Equity method affiliated companies

Directors and Corporate Auditors

(as of June 26, 2015)

■ Board of Directors

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

■ Board of Corporate Auditors

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