Financial Report 2012

Fiscal year ended March 31, 2012

YAMADA DENKI CO., LTD.

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TABLE OF CONTENTS

OVERVIEW OF OPERATIONS
Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2012

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 3)*
	As of and year ended March 31					
	2008	2009	2010	2011	2012	2012
Net sales (Note 1)	1,767,819	1,871,828	2,016,140	2,153,259	1,835,454	22,331,843
Ordinary income	81,653	64,605	101,587	137,848	102,226	1,243,775
Net income	49,174	33,207	55,947	70,755	58,265	708,911
Comprehensive income	-	-	-	71,192	58,305	709,390
Net assets	326,937	356,452	406,381	470,850	526,743	6,408,847
Total assets	750,700	778,489	899,613	929,010	937,841	11,410,650
Net assets per share (yen)	3,443.63	3,757.06	4,297.29	4,978	5,516.15	67.11 *(dollars)*
Net income per share (yen)	511.83	353.32	594.26	751.03	618.46	7.52 *(dollars)*
Diluted net income per share (yen) (Note 2)	509.90	352.47	593.84	-	-	- *(dollars)*
Equity ratio (%)	43.1	45.4	45.0	50.50	55.4	
Return on equity (%)	15.9	9.8	14.8	16.20	11.8	
Price earnings ratio (times)	16.80	10.92	11.61	7.47	8.36	
Cash flows from operating activities	26,934	50,499	133,718	93,072	34,259	416,829
Cash flows from investing activities	(123,305)	(67,347)	(108,218)	(25,238)	(38,063)	(463,111)
Cash flows from financing activities	120,570	(307)	8,556	(45,941)	(24,361)	(296,401)
Cash and cash equivalents at end of year	65,030	47,957	83,045	104,815	76,344	928,877
Employees (persons)	10,102	11,127	12,280	12,439	14,006	
[Average number of temporary employees not included in the above number (persons)]	[8,482]	[9,986]	[10,294]	[10,775]	[10,762]	

Notes: 1. Net sales do not include consumption taxes.
2. Diluted net income per share for the fiscal years ended March 31, 2011 and 2012 is not presented because the Company and its consolidated subsidiaries had no securities with dilutive effects.
3. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen at the rate of ¥82.19 to U.S. $1, using the prevailing exchange rate at March 31, 2012.

2. OVERVIEW OF PERFORMANCE

In the Japanese economy during the fiscal year under review, the extensive damage from the Great East Japan Earthquake and the slowness of recovery from its effects, as well as the serious, nationwide power crunch resulting from the Fukushima Daiichi Nuclear Power Plant incident, had a large impact on not only corporate activities but also personal consumption. In addition, Japan's economic outlook continued to be uncertain due to the prolonged strengthening of the yen against the background of Europe's debt problems, the impact from flooding in Thailand, and the effect of falling stock prices.

In the consumer electrical appliance retail industry, temporary boosts were experienced for some products from the migration toward digital terrestrial television on July 24, 2011, and from heightened consciousness towards saving electricity due to the electric power situation. However, the market entered a relatively quiet period after the television migration rush. In addition, there were other lulls in reaction to events of the previous fiscal year such as the long and hot summer season and the fierce demand that occurred in October and November 2010 accompanying criteria changes to the "Eco-points" program, the Japanese government's economic stimulus program to encourage consumers' purchase of energy-saving home appliances, and again in March 2011, the final period before the program ended. Consequently, the consumer electrical appliance market continued to slump considerably from the second quarter onwards.

Operating in these circumstances and committed to the corporate philosophies of "Creation and Challenge" and "Appreciation and Trust," the Yamada Denki Group led the industry in making smart-house proposals with the viewpoint of customers in mind. Such proposals included products associated with "Energy Saving," "Energy Creation," and "Energy Storage," including electric vehicles (EV) and rechargeable batteries to store excess electricity for later use.

Furthermore, the addition of SxL Corporation, a house builder with a 60-year history, which is acclaimed for the quality of its SxL technique of wooden panel construction, as a consolidated subsidiary on October 12, 2011 has enabled our Group to provide a total service for entire households as an electrical appliance store. As a leading company in the electrical appliance retailing industry, our Group took flexible approaches in actively presenting proposals for retail-end solutions to the energy problems that Japan faces. These included enabling reciprocal customer attraction via the "SxL by YAMADA Home Display Area," setting up information panel displays inside Yamada Denki stores, offering "YAMADA Smart House Loan (Flat 35)," holding various events, and actively conducting joint advertising campaigns with commercials and printed materials.

From a product perspective, although sales of televisions, digital recorders, tuners and the like grew substantially until July 24, 2011 as a result of the digitalization of terrestrial television, sales later weakened due to a substantial reactive lull in demand and drop in unit prices. Sales of energy-saving white goods such as air conditioners, refrigerators, and washing machines were firm on the back of heightened consciousness towards saving electricity. Other strong sellers were products associated with smart house proposals such as solar power systems, as well as LED lighting, LED light bulbs, and water- and energy-saving washing machines. Mobile phone sales fared well due to the ongoing smartphone boom, while sales of tablet PCs and the like also grew.

In addition, our Group proactively proposed businesses and expanded into new markets as a one-stop shop utilizing the group's infrastructure network to the fullest extent such as by leading the industry in starting sales of rechargeable lithium batteries for household and corporate use, by making proposals aimed at corporations, such as "LED light rental" and "air conditioner equipment promoting energy conservation," and by providing services from sales to consulting related to residences for the elderly that provide medical and nursing care services.

A characteristic of our Group is that it creates profit through the proactive operation of solution businesses such as services, re-use, internet, points, corporate, information systems, logistics, smart house proposals, and environment. Approximately 40% of our ordinary income was derived from these solution businesses in the fiscal year under review.

Regarding the Great East Japan Earthquake on March 11, 2011, we carried out support activities for the afflicted areas. In addition to raising relief money and transporting relief goods, relief money-raising events such as fairs to support restoration were held in each region, and a portion of sales was allocated for donation. Like many companies in Japan, we did not escape loss from the Great East Japan Earthquake, which caused damage to many of our stores. With the awareness that it was our mission as a retailer to recommence business as early as possible, all of our employees came together to work to repair and reopen our stores. By the end of August, we had recommenced business at all stores affected by the disaster.

As part of our CSR activities, we became the first Japanese company to participate in the Global Social Compliance Program (GSCP), an international initiative involving various industry sectors whereby global companies work together to appropriately manage compliance systems related to the environmental and social impacts of supply chains. Additionally, details of our CSR activities are published in our CSR REPORT as well as Monthly CSR Activities, which are posted on our website (http://www.yamada-denki.jp/csr/index.html). Please note that these documents are published in Japanese only.

With regard to store development, we opened 97 stores including the Tecc Land Iwata store and LABI Nagoya, the first LABI store in the Chukyo region, and closed 5 stores, in line with our scrap-and-build policy. As a result, the number of consolidated retail stores at the end of the fiscal year under review was 698 (comprising 522 stores directly managed by Yamada Denki and 176 stores operated by consolidated subsidiaries). The total number of stores of our Group in Japan, including the stores managed by non-consolidated subsidiaries and franchise stores, stood at 3,583.

In addition, following the opening of the “Yamada Denki Shenyang store” in Shenyang, Liaoning Province, China on December 10, 2010, the “Yamada Denki Tianjin store,” our second overseas store, was opened in Tianjin, China, on June 10, 2011 and the “Yamada Denki Nanjing store” was opened in Nanjing, China, on March 22, 2012. The stores are receiving positive reviews, with an abundant selection of the newest and most advanced household electronic appliances in the world in a bright and clean Japanese-style marketplace, friendly and respectful employee service, a point system, and quality after-service.

As a result of the above, consolidated net sales decreased 14.8% year on year to ¥1,835,454 million, operating income decreased 27.5% to ¥88,979 million and net income decreased 17.7% to ¥58,265 million.

The Group has been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, the disclosure related to segment information is omitted.

3. SALES PERFORMANCE

(1) Sales Results

The Group has been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, the table below shows sales for the segment by item category.

Items	Year ended March 31, 2012 Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances			
Color televisions	268,651	14.6	(47.2)
Video/DVD players	113,930	6.2	(16.0)
Audio equipment	41,860	2.3	(23.5)
Refrigerators	111,585	6.1	(11.4)
Washing machines	85,665	4.7	3.5
Cooking appliances	71,418	3.9	(3.1)
Air conditioners	105,106	5.7	(15.0)
Other home cooling and heating equipment	37,891	2.1	7.6
Others	326,058	17.7	(5.5)
	1,162,164	63.3	(21.8)
Home information appliances			
Personal computers	220,027	12.0	(2.7)
PC peripheral equipment	114,174	6.2	(8.4)
PC software	10,958	0.6	(9.9)
Telephones/fax machines	8,154	0.4	(13.2)
Mobile phones	119,859	6.5	28.3
Others	51,807	2.9	(7.4)
	524,979	28.6	0.6
Other products			
Audio and visual software and books	96,060	5.2	(9.5)
Housing-related products	15,151	0.8	—
Others	37,100	2.1	(7.2)
	148,311	8.1	1.5
	1,835,454	100.0	(14.8)

Notes: 1. “Others” in “Home electrical appliances” includes luminaries, hairdressing and beauty supplies and tapes; “Others” in “Home information appliances” includes ink cartridges; “Others” in “Other products” includes jewelry, clothing and sundries.
2. The figures shown above do not include consumption taxes.

(2) Sales Per Unit

	Year ended March 31, 2012	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,835,454	(14.8)
Sales floor space (average) - m²	1,998,777	10.9
Sales per square meter - thousands of yen	918	(23.1)
Employees (average) - persons	24,806	7.2
Sales per employee - millions of yen	74	(20.5)

Notes: 1. "Sales floor space" is the store area based on the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment (or, depending on when the data was submitted, the Large-Scale Retail Store Law prior to revision).
2. The figures shown above do not include consumption taxes.
3. "Employees" includes temporary employees.

4. ISSUES THE GROUP WILL BE ADDRESSING

Factors affecting the economic environment surrounding the Group include a prolongation of falling stock prices and strengthening yen, instability in the employment environment, and delays in the earthquake-disaster restoration efforts. In this environment, we expect the future outlook to remain uncertain and the difficult business environment to continue due to weak consumer confidence and lulls following special demand for electrical appliances.

In order to break free of the sluggish electrical appliance market that is predicted, not only must the Company actively open new stores, it also must strengthen its alliance with new subsidiary SxL Corporation (First Section of the Tokyo Stock Exchange; securities code 1919) to aggressively make proposals for "Smart Housing made possible by Yamada Denki and SxL" for entire households, from solar power systems, all-electric home appliances, electric vehicles (EV), and rechargeable batteries to energy-saving electrical appliances, thereby as retailers actively popularizing and promoting renewable energy use, which is an issue for Japan.

As an ongoing response to the nationwide electric power shortage, we are also actively proposing the use of energy-saving electrical appliances to match needs of customers from individuals to corporations. In addition, we will create new markets through aggressive efforts aimed at the sales expansion of next-generation products such as smart-televisions, smartphones, and tablet devices.

Under our management slogan of "Create and Take on the Challenge of the New Stage!" we aim to break free of the current slump in the electrical appliance market and move on to the next stage by continuing with management reform, and creating differentiation between us and our competitors by active development of the solutions business while carrying out various measures to achieve true customer satisfaction.

With respect to store development, we will actively open stores in areas that we are yet to have a presence in proportion to the market size, focusing on our urban retail store LABI and our suburban retail store Tecc Land. We also aim to enhance our service network through the development of a nationwide chain with potential that is unrivalled anywhere else in the world.

By actively carrying out these management measures, we shall undertake new business and develop new markets for the electrical appliance retailing industry while placing utmost attention on low-cost operations, improving cash flows, enhancing profitability and strengthening our management culture.

5. RISK FACTORS

Of the items relating to the status of the business and accounting as described in the Annual Securities Report, those that may materially affect the decisions of investors are provided below.

Items in the text that concern the future were determined by the Group as of the end of the fiscal year under review.

(1) Expansion of the Interstore Network

The Group currently has stores in all the 47 prefectures of Japan. With respect to overseas operations, the Group has three stores in China as of March 31, 2012: one in Shenyang, Liaoning Province, one in Tianjin, and one in Nanjing. The Group continues to plan retail store openings overseas, in addition to the continued development of a nationwide chain of stores appropriate to the size of the Japanese market, in urban centers, suburbs, small-scale trading areas and community-based retail areas. However, in order to engage in such extreme expansion efforts, the Group will have to secure for itself adequately priced land in favorable locations making it susceptible to competition with competitor companies. We expect competition with competitors already established in the area of our store locations to be fierce and outlays for labor and equipment costs to increase in connection with an increase in the number of new stores and the expansion of retail floor space and territories. It is also possible that the profitability of existing stores will be affected by new store openings depending on the region due to saturated store count and area conditions. In addition, there is the possibility that stores closed due to a revision of store development policy could not be subleased or sold off. The Group will generally weigh conditions such as rent expenses and guarantee deposits for store openings as well as competition, trading area population and various laws and regulations in order to make careful decisions, however, there is always the possibility that changes or delays occur in planning since property preparations do not proceed. Conditions such as those described above may obstruct effective store development efforts and ultimately have a negative impact on the Group’s performance and financial position. Another consideration is the large amounts of capital necessary for expanding stores. At present, it is covered by retained earnings and loans, however, in the future, any circumstance that thwarts capital procurement efforts could block the execution of business plans.

(2) Competition

The consumer electrical appliance retail industry is encompassed in an environment of fierce competition and we are faced with competitor companies in the form of not only large-scale consumer electronics retailers but also businesses that handle household electronics such as supermarkets, mail-order companies and internet shopping companies. Although we recognize our leading position in the industry, we are confronted with variegated forms of competition such as with respect to pricing, new store openings and customer and human resource acquisition. Until now, the Group has concentrated its openings in suburban areas, however, it has been recently opening stores in large cities and has, as a result, exacerbated the level of competition with companies whose store development policy is urban centric. We believe that the future holds the possibility of aggravated competition from the appearance of new companies on the market as well as an intensified competition in the area of purchasing as a result of M&As and alliances between companies vying to compete against the Group. If, for instance, the Group was not able to successfully adapt to these changes, its performance and financial position would most likely suffer. It is also likely that the slashing of sale prices due to the need to compete against other companies which have started offering products at prices lower than the Group would result in decreased profits further worsening performance and the financial position.

(3) Risks Related to M&As and Alliances

The Company may execute organizational restructurings, M&As, alliances and sales of business in order to strengthen its business foundation. We will carefully study and examine conditions before acting in order to alleviate risk, however, there is the possibility of contingency liabilities arising after such actions take place or some other unforeseeable problems. We also believe there exists the possibility that initially expected effects would not materialize or that investments would not be recovered. Depending on the circumstances, extraordinary loss or extraordinary income may occur detrimentally affecting the performance and financial position of the Group.

(4) Regulations

Similarly to other retailers, the Group is subject to the laws and regulations such as the “Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment,”, the “Designation of Specific Unfair Trade Practices by Large-Scale Retailers Relating to Trade with Suppliers” based on the “Act on Prohibition of Private Monopolization and Maintenance of Fair Trade” (Antimonopoly Act), the “Act against Unjustifiable Premiums and Misleading Representations” (Premiums Law), the “Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors” (Subcontract Act) and the “Act on Recycling of Specified Kinds of Home Appliances,” (Home Appliance Recycling Act) upon application of such. Newly established laws or regulations, or revisions to existing rules, or stricter interpretations of laws and regulations by the regulating authorities may lead to a decrease in demand for the products and services offered by the Group or an increase in the cost of doing business thus negatively affecting the performance and financial position of the Group.

Pertaining to the opening of new stores with store area exceeding 1,000 square meters, or the expansion in existing stores beyond that size, local governments enact and enforce regulations, in accordance with the provisions of the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment, on the opening of stores from certain perspectives such as preservation of the living environment of the surrounding region. The Group is aware that its new store openings and expansion in existing stores are subject to regulations as per that Act and it shall observe that Act for the consideration of the living environment of the surrounding region etc. Depending on the time required for the examination process under that Act, delays etc. in the opening of new stores or the expansion planning for existing stores may affect the store opening policy of the Group.

Transactions between large-scale retailers and suppliers are subject to regulations as per the Designation of Specific Unfair Trade Practices by Large-Scale Retailers Relating to Trade with Suppliers, and being a large-scale retailer, the Group is subject to those regulations. The Group shall observe that Designation, but those regulations may affect conventional trading practices as well as the operating results of the Group.

Furthermore, strengthening of legal restraints in the Construction Business Act, the Building Standards Act, the Building Lots and Buildings Transaction Business Act or other related laws and regulations applicable to the Group’s housing business may negatively affect the performance of the Group.

(5) Economic Trends

The Group is dependent on the Japanese market for most of its sales and domestic consumer trends impact its performance. Each revision in laws and regulations or change in economic factors such as interest rates, fuel prices, the number of housing starts or the unemployed, and increases in tax rates, etc. may not only push up the cost of sales and business expenses but also reduce disposable incomes and drive down demand for our products. Regarding the Japanese economy, in addition to the massive damage caused by the Great East Japan Earthquake and the delayed recovery from it, the serious, nationwide power crunch resulting from the Fukushima Daiichi Nuclear Power Plant incident had a large impact, primarily on corporate activities but also on personal consumption. Adding to these difficulties, the economic outlook continues to be uncertain, mainly due to the prolonged strengthening of the yen against the background of Europe’s debt problems, the impact from flooding in Thailand, and the effect of falling stock prices. The consumer electrical appliance retail industry felt the effects of advance demand driven by the “Eco-points” program for electrical appliances, which ended on March 31, 2011, and the migration toward digital terrestrial television on July 24, 2011, and the consequent lulls in demand in reaction to these events. As a result, the slump in the market continued. The fall in disposable incomes and consumer spending in Japan may especially result in lower prices and sales of high-priced, high-function electric appliances, some of the products handled by the Group. Under current conditions, with the Europe's debt problems continuing, economic prospects are clouded with uncertainty, particularly in the financial markets. In view of these factors, there is absolutely no guarantee that the Japanese economy will continue growing, or stop receding. The Group's business, performance and financial position may be negatively affected by the decrease in domestic consumer spending.

Furthermore, the Group's housing business is strongly affected by employment conditions, trends in land prices and interest rates, and trends in personal consumption driven by policies relating to housing and the housing tax system. Depending on such conditions or trends, the performance of the Group may be negatively affected if there is a substantial decline in orders for houses resulting from an unforeseen deterioration in the market climate.

(6) Demand Associated with Seasonal and Weather Factors or Events, etc.

As with other retailers, sales and revenue fluctuate monthly. Generally, we see increases during bonus season, at the end of the fiscal year and during months with many holidays. There are also increases when sales of seasonal products fare well. Meanwhile, sales of air conditioners, heaters, drying machines, etc. fluctuate greatly with the weather. Sales are known to drop during cool summers, warm winters and dry rainy seasons. Also, there are products such as televisions that tend to go up whenever there is a special event such as the Olympics or the World Cup. Sadly, it is difficult to accurately predict irregular demand springing up due to seasonal changes, weather conditions or events, etc., not to mention demand for our products in general. Any significant deviation from such predictions may negatively impact the Group's business, performance and financial position.

(7) Changes in Consumer Wants and Preferences

In order to maintain and increase the Group's net sales and income, it is necessary to predict which products consumers will want or prefer, assure that sufficient quantities are in stock and supply them. It is considered important to spur demand by regularly introducing new products and technologies to consumers. If these activities fail to bare fruit, the Group's performance and financial position may be negatively affected. This can be exemplified as a lack of a certain product due to competition with other retailers or a change in our relationship with manufacturers or the new product or technology on which a manufacturer is focusing on is inconsistent with consumer needs, etc. Also, the introduction of a new product may result in a decrease in the sales of existing products.

(8) Product Purchasing

For favorable Group performance, it is essential to always have in place a system under which the necessary products are purchased in the necessary quantity and at the appropriate price. Unfortunately, if maintaining regular product supplies becomes difficult due to a change in the relationship with business partners or fragmentation in the distribution network caused by a natural disaster or a traffic accident, among other possible changes, product purchasing according to a preconceived plan may become unfeasible. Such circumstances may negatively affect the Group's performance and financial position.

(9) Risks Regarding Quality Assurance for Housing

The Group thoroughly manages the quality of housing with unique, high-quality techniques it has developed as a maker of housing. Even so, the performance and financial position of the Group may be negatively affected if a serious problem with quality arises due to unforeseen circumstances.

(10) Impairment of Long-Lived Assets

The Group possesses a large number of long-lived assets including property and equipment and goodwill, and carries out impairment accounting regarding these assets. However, further recognition of impairment losses may become necessary in such cases as a deterioration in the profitability of the Group's stores, or a dramatic fall in the market price of the assets possessed by the Group. Such circumstances may negatively affect the Group's performance and financial position.

(11) Managing Franchises

The Group is increasing the number of franchises managed as small, community-based retail stores. However, we cannot guarantee that we will be able to continually open franchises in favorable locations or renew existing franchise agreements. If the number of franchises does not increase as planned or decreases, royalties may decline thus negatively affecting the Group's performance and financial position. Also, because franchises are not completely under the control of the Group, they may be managed in a manner that is inconsistent with Group standards. This may not only negatively affect the Group's performance and financial position, but also its reputation.

(12) Handling Personal and Other Secret Information

The Group handles a significant amount of customers' personal information in relation to the issue of point card certificates, gathering registrations for the Group's service for 24-hour shopping through mobile phones, the processing of credit card applications, and pay service subscription of the several long-term product warranties, etc. This information is handled under an internal control system by which awareness with respect to information management is heightened and ample caution is taken to prevent leaks. Any such leak may damage the reputation of the Group and negatively affect its performance and financial position.

(13) Natural Disasters

In cases where our operations are interrupted by damage to our store facilities or blackouts as a result of natural disasters from typhoons or earthquakes, or an obstruction arises to our procurement of products and we are required to close stores in accordance with evacuation advice due to the effects of radioactive materials from an accident at a nuclear power station, or operations at our stores are partially impeded due to the occurrence of a disaster from an infectious disease, such as a new strain of influenza, there may be a significant decrease in our sales, which may have a significant impact on the Group's performance.

6. IMPORTANT AGREEMENTS

Credit Sales Franchise Agreements

The Company has executed franchise agreements with consumer credit companies regarding credit sales. Under these agreements, consumer credit companies would effectuate credit checks on the customers of the Company and, based on results, pay the Company the amount owed by approved customers for purchases in lieu of those customers. The consumer credit companies would then be responsible for collecting these advances. Major agreements are as follows.

Name of consumer credit companies	Execution date	Contractual period
JCB Co., Ltd.	April 2005	Up to a request for cancellation by one of the parties with a three-month notification period
Orient Corporation	November 1991	Same as above
Mitsubishi UFJ NICOS Co., Ltd.	August 1990	Same as above
UC Card Co., Ltd.	July 1990	Same as above

7. RESEARCH AND DEVELOPMENT

The research and development activities of the Group in the fiscal year consisted of activities by the consolidated subsidiary SxL Corporation in the housing business. Total research and development costs in the fiscal year amounted to ¥125 million.

8. ANALYSIS OF FINANCIAL POSITION, RESULTS OF OPERATIONS AND CASH FLOWS

Items in the text that concern the future were determined by the Group as of the end of the fiscal year under review.

(1) Important Accounting Policies and Estimates

The consolidated financial statements of the Group are prepared based on the generally accepted accounting standards of Japan.

In their preparation, important accounting policies are as stated in "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

When calculating provisions and valuing assets etc., the Group makes estimates and judgments effectuated based on variegated factors considered reasonable as per past results and conditions of such transactions, and its results are reflected in the preparation of the consolidated financial statements.

(2) Analysis of Financial Position

Total assets at the end of the fiscal year under review amounted to ¥937,841 million, up ¥8,831 million (1.0%) from the end of the previous fiscal year. This was mainly due to increases in merchandise and finished goods, buildings and structures, and land, despite a decrease in cash and time deposits.

Total liabilities amounted to ¥411,098 million, down ¥47,062 million (10.3%) from the end of the previous fiscal year. This was mainly due to decreases in income taxes payable and long-term loans payable, despite an increase in provision for point card certificates.

Net assets amounted to ¥526,743 million, up ¥55,893 million (11.9%) from the end of the previous fiscal year, reflecting the recording of net income, in particular. As a result, the equity ratio was 55.4% (up 4.9 point compared with the end of the previous fiscal year).

(3) Analysis of Operating Results

(i) Net sales and gross profit

Net sales during the fiscal year under review decreased ¥317,805 million (14.8%) to ¥1,835,454 million, compared with the previous fiscal year.

This decrease was a result of a considerable slump in the electrical appliance market, which was caused by a variety of factors. Although there were temporary boosts for visual related products such as televisions and digital recorders from the migration toward digital terrestrial television on July 24, 2011, as well as for energy-saving products including white goods and seasonal items, from heightened consciousness towards saving electricity due to the electric power situation, the market entered a relatively quiet period after the migration rush. In addition, there were other lulls in reaction to events of the previous fiscal year such as the long and hot summer season and the fierce demand that occurred in October and November 2010 accompanying criteria changes to the "Eco-points" program, and again in March 2011, the final period before the program ended.

Reflecting the decline in net sales, gross profit decreased 8.5% compared with the previous fiscal year to ¥463,851 million.

(ii) Selling, general and administrative expenses, other income (expense) and income before income taxes and minority interests

Selling, general and administrative expenses for the fiscal year under review decreased ¥9,093 million (2.4%) to ¥374,872 million, compared with the previous fiscal year. This was the result of various cost reductions thanks to continued operational reforms and a reduction in point-related costs due to control of sales promotions, as well as a decline in variable costs in connection with the decrease in net sales.

As a result, operating income decreased ¥33,786 million (27.5%) to ¥88,979 million, compared with the previous fiscal year.

Other income for the fiscal year under review was ¥11,658 million, although other expenses amounted to ¥39 million in the previous fiscal year. This was due mainly to decreases in impairment loss and the disaster related losses, despite a decrease in purchase discounts.

As a result of the above, income before income taxes and minority interests decreased ¥22,089 million (18.0%) to ¥100,637 million, compared with the previous fiscal year.

(iii) Income taxes-current, income taxes-prior periods adjustment, income taxes-deferred, income before minority interests, minority interests in income and net income

The amount of income taxes during the fiscal year under review was ¥42,335 million, income before minority interests was ¥58,302 million and minority interests in income amounted to ¥37 million.

As a result of the above, net income decreased ¥12,490 million (17.7%) to ¥58,265 million, compared with the previous fiscal year.

(4) Cash Flows

As of the end of the fiscal year under review, cash and cash equivalents on a consolidated basis stood at ¥76,344 million, down ¥28,471 million (27.2%) compared with the end of the previous fiscal year.

Cash flows during the fiscal year under review are as follows:

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥34,259 million.

This was mainly due to posting of income before income taxes and minority interests and a decrease in notes and accounts receivable, despite increases in income taxes paid and inventories.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥38,063 million.

This was mainly due to purchase of property and equipment associated with store openings, and payments of loans receivable of subsidiaries and affiliated companies.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥24,361 million.

This was mainly due to repayment expenditures of long-term loans and short-term loans exceeding proceeds from long-term loans and short-term loans.

9. CORPORATE GOVERNANCE

(1) Corporate Governance Structures

1) Summary of the corporate governance structures, reasons for adopting this structure and the status of internal control system development and operation

The Company adopts the Board of Corporate Auditors system, and it conducts supervision and monitoring of the execution of operations through the Board of Directors and the Board of Corporate Auditors. Also, as part of efforts to facilitate rapid responses to changes in the business environment, the Company has adopted a corporate executive officer system that establishes clear separation between the execution of operations and the business decision-making and management oversight functions. The senior executives who serve on management committees are the Chairman & CEO and the President & COO (both with representative authority) and two Executive Vice-Presidents (with the roles of CIO and General Counsel of CSR Promotion Office). Operating under these senior executives, the executive officers assume responsibility for the management of specified functions. The Company established the CSR Committee, in addition to the existing Compliance Committee and Internal Audit Office, to oversee formulation of specific CSR-related policies and standards covering areas such as business ethics. This committee conducts ongoing activities aimed at enhancing internal and external awareness of CSR-related issues.

The reason the Company adopted these structures was to implement concrete corporate governance structures that can realize the basic ideals of "improving management transparency, conducting fair corporate activities and continuing to maintain and increase corporate and shareholder value."

The status of corporate governance structures and internal control systems of the Company are as follows.

(i) General Meeting of Shareholders

The General Meeting of Shareholders, the Company's top decision-making body, provides a forum for shareholders to obtain and exchange information as well as to exercise their rights. The Company has an active IR program, and it is intent on disclosing information in a timely manner to ensure its shareholders' opportunity to exercise their rights appropriately. Because foreigners make up a large percentage of the shareholders, the Company strives to meet their needs by preparing notices of General Meeting of Shareholders in English and mailing them out early.

(ii) Board of Directors

The Yamada Denki Board of Directors, which comprises 17 directors, convenes regularly once a month. Extraordinary Board meetings are also convened when necessary. The Board of Directors reviews any important issues related to the Company's business, discusses the Company's performance and takes prompt action as required. Directors and executive officers also attend weekly business strategy meetings at which senior management reviews progress in executing business strategies.

Please note that the Company has appointed no external directors.

(iii) Executive Committee

The Executive Committee convenes weekly, as a rule, to enable executive officers to report on the progress of operations and take prompt action as required. In addition, all executive officers attend an expanded Executive Committee meeting that is held once a month.

(iv) Board of Corporate Auditors

The Company' Board of Corporate Auditors system relies on one standing corporate auditor, and two non-standing (external) corporate auditors. These auditors participate in the Board of Directors meetings and other important business meetings to monitor the performance of duties.

(v) Internal auditing

The Company has established the Internal Audit Office to strengthen its internal auditing functions. Reporting directly to the President and employing four full-time staff, this department engages in the auditing of daily business activities, including observation of inventory count, as well as in performing internal auditing functions related to the Company's internal control. Functioning in cooperation with the corporate auditors and the auditing firm such as by exchanging information as necessary, the department provides an auditing perspective to ensure that the Company's business activities are conducted properly and efficiently.

(vi) Auditing firm

The Company's independent auditor, KPMG AZSA LLC, audits the financial statements.

(vii) Number of directors and election rules

The Company's Articles of Incorporation limit the maximum number of directors to 17. Approval of resolutions to elect directors requires a simple majority vote in favor of a resolution at a General Meeting of Shareholders attended by shareholders representing at least one-third of the total voting rights. Directors may not be elected by cumulative voting.

(viii) Others

The Company contracts with a law firm for legal advice, as needed.

2) Status of the development and operation of risk management structures

Regulations on risk of loss and other systems are as follows.

(i) With respect to risk management, the Company has established a Compliance Committee; under its direction, the compliance officers in each division work for thorough implementation of the risk management system.

(ii) To address risk that arises in the case of a major accident, disaster, or other event, the Company has prepared an "Emergency Response Manual"; and the responsible director will set up an emergency response center and promptly take action if a disaster or other untoward event occurs.

(iii) The Company has established an Internal Audit Office and In-house Legal Counseling Office independent from the operating divisions, to audit the business processes of each division, to discover and prevent sources of risk, and to improve business processes.

(2) Status of Internal Auditing and Audits by Corporate Auditors

The organizations of the Company's internal auditing and corporate auditors and the cooperation between the two is described in (iv) Board of Corporate Auditors and (v) Internal auditing of (1) Corporate Governance Structures.

(3) External Directors and External Corporate Auditors

The Company has two external corporate auditors. External corporate auditor Yutaka Nakamura concurrently serves as Senior Managing Director of JIN CO., LTD. The Company has a trading relationship with JIN CO., LTD. related to product purchasing etc. Mr. Yutaka Nakamura has been elected as external corporate auditor mainly based on his wealth of business management experience. External corporate auditor Masamitsu Takahashi concurrently serves as Representative Partner of Hikari Certified Public Tax Accountants Corporation. The Company does not have personal relationships, capital relationships or trading relationships with Hikari Certified Public Tax Accountants Corporation. Mr. Masamitsu Takahashi has been elected as external corporate auditor mainly based on his capacity as a tax accountant, which will be of value with respect to the Company's accounting system and internal auditing and which will ensure the suitability and appropriateness of decision-making by the Board of Directors. The above-mentioned external corporate auditors can be present at meetings of the Board of Directors and Board of Corporate Auditors, and can work with the Internal Audit Office and the accounting auditor in carrying out audits, and during which, may state opinions or demand explanations.

External directors have not been appointed in the Company. The Company is strengthening the function of monitoring of the Company's management with respect to the Board of Directors, which holds the decision-making function of management and the function of management and supervision of the execution of operations by executive officers, by making two of the three corporate auditors external corporate auditors. In corporate governance, it is important for the function of management monitoring to be based on objective and neutral monitoring from an external position. In the Company's current corporate governance structures, the function of monitoring management from an external position is fully satisfied by having two external corporate auditors conduct auditing.

Although the Company has not established criteria or policies regarding the independence of external directors and external corporate auditors from the filing company for use in appointing such persons, the Company refers to information including securities exchanges' criteria for assessing the independence of independent director/auditor when making appointments.

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
ASSETS			
Current assets:			
Cash and time deposits (Notes 4 and 6)	¥ 77,145	¥ 113,269	$ 938,615
Notes and accounts receivable (Notes 6 and 15):			
- Trade	27,486	46,004	334,423
- Non-consolidated subsidiaries and affiliated companies	1,133	2,461	13,779
Sub-total	28,619	48,465	348,202
Inventories (Note 12)	190,045	152,514	2,312,265
Deferred tax assets (Note 14)	13,749	18,299	167,283
Other current assets (Notes 6 and 25)	44,475	44,666	541,131
Allowance for doubtful accounts	(300)	(190)	(3,648)
Total current assets	353,733	377,023	4,303,848
Property and equipment:			
Buildings and structures, net (Notes 9, 10, 12 and 17)	193,982	178,579	2,360,164
Land (Notes 10 and 12)	168,037	152,344	2,044,497
Lease assets, net (Notes 9, 10 and 11)	4,890	8,313	59,496
Other, net (Notes 9 and 10)	11,772	18,673	143,225
Total property and equipment, net	378,681	357,909	4,607,382
Intangible assets (Note 10)	34,597	32,129	420,947
Investments and other assets:			
Investment securities (Notes 6 and 7)	15,840	20,592	192,719
Long-term loans receivable	15,301	4,474	186,161
Guarantee deposits (Notes 6 and 25)	111,162	111,066	1,352,495
Deferred tax assets (Note 14)	15,978	17,263	194,404
Other assets (Note 10)	13,768	13,098	167,521
Allowance for loss on investments in subsidiaries	(41)	(4,405)	(499)
Allowance for doubtful accounts	(1,178)	(139)	(14,328)
Total investments and other assets	170,830	161,949	2,078,473
Total assets	¥ 937,841	¥ 929,010	$ 11,410,650

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2012 and 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 6 and 25)	¥ 65,580	¥ 58,466	$ 797,902
Short-term loans payable (Notes 6 and 12)	25,000	1,550	304,173
Current portion of bonds (Notes 6 and 13)	70,064	-	852,466
Lease obligations (Notes 11 and 12)	2,973	4,544	36,175
Income taxes payable (Note 6)	6,282	43,432	76,431
Provision for bonuses	5,057	4,986	61,530
Provision for directors' bonuses	136	135	1,652
Provision for point card certificates	21,482	17,528	261,366
Provision for warranties for completed construction	233	-	2,831
Provision for loss on disaster	-	1,664	-
Other current liabilities (Note 12)	72,422	85,021	881,165
Total current liabilities	269,229	217,326	3,275,691
Long-term liabilities:			
Bonds (Notes 6 and 13)	59,000	129,134	717,849
Long-term loans payable (Notes 6 and 12)	35,359	66,475	430,208
Lease obligations (Notes 11 and 12)	2,701	5,064	32,859
Provision for retirement benefits (Note 16)	11,087	9,028	134,890
Provision for directors' retirement benefits	3,363	3,115	40,922
Provision for product warranties	14,378	13,994	174,936
Other long-term liabilities (Notes 14 and 17)	15,981	14,024	194,448
Total long-term liabilities	141,869	240,834	1,726,112
Total liabilities	411,098	458,160	5,001,803
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 18):			
Common stock:			
Authorized – 200,000,000 shares			
Issued – 96,648,974 shares in 2012 and 2011	71,059	71,059	864,568
Capital surplus	70,977	70,977	863,576
Retained earnings	401,729	351,050	4,887,815
Treasury stock, at cost – 2,438,797 shares in 2012 and 2011	(23,046)	(23,046)	(280,398)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes (Note 7)	(1,058)	(1,026)	(12,886)
Deferred gains on derivatives under hedge accounting, net of taxes (Note 8)	17	-	208
Subscription rights to shares	4	-	51
Minority interests	7,061	1,836	85,913
Total net assets	526,743	470,850	6,408,847
Total liabilities and net assets	¥ 937,841	¥ 929,010	$ 11,410,650

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

CONSOLIDATED STATEMENTS OF INCOME

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Net sales (Notes 24 and 25):			
- Trade	¥ 1,820,325	¥ 2,114,816	$ 22,147,765
- Non-consolidated subsidiaries and affiliated companies	15,129	38,443	184,078
Sub-total	1,835,454	2,153,259	22,331,843
Operating expenses:			
Cost of sales (Notes 20 and 25)	1,371,603	1,646,529	16,688,197
Selling, general and administrative expenses (Notes 16, 21 and 25)	374,872	383,965	4,561,048
Operating income	88,979	122,765	1,082,598
Other income (expenses):			
Interest income (Note 25)	1,277	1,367	15,534
Interest expenses	(1,346)	(1,818)	(16,378)
Purchase discounts	7,075	10,999	86,086
Impairment loss (Note 10)	(1,476)	(6,173)	(17,955)
Other – net (Notes 22 and 25)	6,128	(4,414)	74,556
	11,658	(39)	141,843
Income before income taxes and minority interests	100,637	122,726	1,224,441
Income taxes (Note 14):			
Current	36,658	63,706	446,015
Prior periods adjustment	-	0	-
Deferred	5,677	(12,046)	69,064
	42,335	51,660	515,079
Income before minority interests	58,302	71,066	709,362
Minority interests in income	37	311	451
Net income	¥ 58,265	¥ 70,755	$ 708,911

	Yen		*U.S. dollars (Note 1)*
Amounts per share of common stock:			
Basic net income	¥ 618.46	¥ 751.03	$ 7.52
Cash dividends applicable to the year	76.00	76.00	0.92

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Income before minority interests	¥ 58,302	¥ 71,066	$ 709,362
Other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities, net of taxes	(31)	126	(383)
Deferred gains on derivatives under hedge accounting, net of taxes	34	-	411
Total other comprehensive income	3	126	28
Comprehensive income	¥ 58,305	¥ 71,192	$ 709,390
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥ 58,250	¥ 70,881	$ 708,724
Comprehensive income attributable to minority interests	55	311	666

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

Millions of yen

	Number of shares of common stock (Thousands)	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income: Valuation difference on available-for-sale securities, net of taxes (Note 7)	Deferred gains on derivatives under hedge accounting, net of taxes (Note 8)	Subscription rights to shares (Note 19)	Minority interests	Total net assets
Balance at April 1, 2010	96,649	¥ 71,059	¥ 70,977	¥ 287,011	¥ (23,046)	¥ (1,152)	¥ -	¥ -	¥ 1,532	¥ 406,381
Cash dividends				(3,768)						(3,768)
Net income				70,755						70,755
Purchase of treasury stock					(0)					(0)
Change by merger of a consolidated subsidiary with non-consolidated subsidiaries				(2,948)						(2,948)
Other changes in the year, net						126			304	430
Balance at April 1, 2011	96,649	71,059	70,977	351,050	(23,046)	(1,026)	-	-	1,836	470,850
Cash dividends				(7,160)						(7,160)
Net income				58,265						58,265
Changes in scope of consolidation				(426)						(426)
Other changes in the year, net						(32)	17	4	5,225	5,214
Balance at March 31, 2012	96,649	¥ 71,059	¥ 70,977	¥ 401,729	¥ (23,046)	¥ (1,058)	¥ 17	¥ 4	¥ 7,061	¥ 526,743

Thousands of U.S. dollars (Note 1)

	Shareholders' equity: Common stock	*Capital surplus*	*Retained earnings*	*Treasury stock, at cost*	*Accumulated other comprehensive income: Valuation difference on available-for-sale securities, net of taxes (Note 7)*	*Deferred gains on derivatives under hedge accounting net of taxes (Note 8)*	*Subscription rights to shares (Note 19)*	*Minority interests*	*Total net assets*
Balance at April 1, 2011	$ 864,568	$ 863,576	$4,271,207	$ (280,398)	$ (12,492)	$ -	$ -	$ 22,337	$5,728,798
Cash dividends			(87,115)						(87,115)
Net income			708,911						708,911
Changes in scope of consolidation			(5,188)						(5,188)
Other changes in the year, net					(394)	208	51	63,576	63,441
Balance at March 31, 2012	$ 864,568	$ 863,576	$4,887,815	$(280,398)	$ (12,886)	$ 208	$ 51	$ 85,913	$6,408,847

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012 and 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 100,637	¥ 122,726	$ 1,224,441
Depreciation	20,246	21,657	246,332
Increase in provision for retirement benefits	1,930	1,448	23,485
Increase in provision for directors' retirement benefits	239	285	2,909
Increase (decrease) in provision for point card certificates	3,873	(1,072)	47,128
Increase in provision for product warranties	384	5,963	4,667
Increase (decrease) in provision for loss on disaster	(1,664)	1,664	(20,243)
Interest and dividend income	(1,320)	(1,402)	(16,062)
Interest expenses	1,346	1,818	16,378
Foreign currency exchange (gains) losses	(122)	457	(1,479)
Loss on valuation of investments in non-consolidated subsidiaries and affiliated companies	480	-	5,840
Loss on sale and disposal of property and equipment, net	84	133	1,027
Impairment loss	1,476	6,173	17,955
Decrease (increase) in notes and accounts receivable	23,981	(7,673)	291,778
Increase (decrease) in advances received	(8,017)	1,741	(97,546)
Decrease (increase) in inventories	(33,829)	18,704	(411,597)
Increase (decrease) in notes and accounts payable	665	(26,528)	8,093
Increase (decrease) in consumption taxes payable	(5,512)	774	(67,067)
Decrease (increase) in other current assets	3,890	(6,366)	47,325
Decrease in other current liabilities	(501)	(754)	(6,093)
Other, net	882	4,535	10,724
Sub-total	109,148	144,283	1,327,995
Interest and dividend income received	294	264	3,582
Interest expenses paid	(1,380)	(1,873)	(16,786)
Income taxes paid	(73,803)	(49,602)	(897,962)
Net cash provided by operating activities	¥ 34,259	¥ 93,072	$ 416,829

(Continued)

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Cash flows from investing activities:			
Payments into time deposits	¥ (12,792)	¥ (13,917)	$ (155,640)
Proceeds from withdrawal of time deposits	20,446	10,676	248,763
Purchase of investments in subsidiaries and affiliated companies	(26)	(2,495)	(322)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	415	-	5,045
Payment of loans receivable	(16,143)	(6,365)	(196,414)
Collection of loans receivable	181	2,396	2,204
Purchase of property and equipment	(30,687)	(16,740)	(373,368)
Purchase of intangible assets	(585)	(1,768)	(7,124)
Payment for guarantee deposits	(5,429)	(5,625)	(66,055)
Proceeds from collection of guarantee deposits	7,476	8,114	90,956
Other , net	(919)	486	(11,156)
Net cash used in investing activities	(38,063)	(25,238)	(463,111)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	19,888	(800)	241,970
Proceeds from long-term loans payable	1,200	500	14,600
Repayment of long-term loans payable	(33,647)	(36,043)	(409,379)
Repayments of lease obligations	(4,647)	(5,822)	(56,535)
Cash dividends paid	(7,161)	(3,770)	(87,133)
Other, net	6	(6)	76
Net cash used in financing activities	(24,361)	(45,941)	(296,401)
Effect of exchange rate change on cash and cash equivalents	(385)	(220)	(4,685)
Net increase (decrease) in cash and cash equivalents	(28,550)	21,673	(347,368)
Cash and cash equivalents at beginning of year	104,815	83,045	1,275,272
Increase in cash and cash equivalents from newly consolidated subsidiaries	79	-	973
Increase by merger of a consolidated subsidiary with non-consolidated subsidiaries	-	97	-
Cash and cash equivalents at end of year (Note 4)	¥ 76,344	¥ 104,815	$ 928,877

Supplemental cash flow information (Note 5)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Yamada Denki Co., Ltd. and Consolidated Subsidiaries
March 31, 2012 and 2011

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Yamada Denki Co., Ltd. (the "Company"), and its consolidated subsidiaries, have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. In addition, certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012. These reclassifications had no impact on previously reported results of operations or retained earnings.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.19 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 21 (14 in 2011) significant subsidiaries. Effective from the year ended March 31, 2012, Project White Co. is included in the scope of consolidation due to its increased materiality. In addition, effective from October 1, 2011, SxL Corporation and its five subsidiaries are included in the scope of consolidation as a result of the acquisition of SxL Corporation shares.

All significant inter-company accounts, transactions and unrealized profits have been eliminated in consolidation.

All the Company's non-consolidated subsidiaries are insignificant in aggregated amount of assets, net sales, net income and retained earnings, thus affecting immaterial impact on the consolidated financial statements.

Investments in the non-consolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements and therefore carried at cost.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries. Goodwill (including negative goodwill recognized before April 1, 2010) is amortized using the straight-line method over three to six years.

The fiscal year-end of all consolidated subsidiaries, except for SxL Okinawa Corporation ("SxL Okinawa"), is the end of February. SxL Okinawa, whose fiscal year-end is March 31, prepares the financial statements as of the end of February for the purpose of consolidation. The financial statements of these subsidiaries, including SxL Okinawa, as of and for the years ended February 29, 2012 and February 28, 2011 are used in preparing the consolidated financial statements. All material transactions during the period from March 1 to March 31 are adjusted for in the consolidation process.

The accompanying consolidated financial statements reflect the financial results of SxL Corporation and its five subsidiaries for five months from October 1, 2011 to February 29, 2012.

(b) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily-available bank deposits and short-term highly liquid investments with minimum risk of value fluctuation with maturities not exceeding three months at the time of purchase.

(c) Securities

Under Japanese GAAP, companies are required to examine the intent of holding each security and classify those securities as (i) securities held for trading purposes ("trading securities"), (ii) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (iii) equity securities issued by non-consolidated subsidiaries and affiliated companies, and (iv) for all other securities that are not classified in any of the above categories ("available-for-sale securities").

Equity securities issued by non-consolidated subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gain and loss on sale of such securities is computed using the moving-average cost. Other available-for-sale securities with no fair market values are stated principally at the moving-average cost. The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities.

Investments in Limited Partnership ("LPS") and similar ventures (considered as securities under the Japanese Financial Instruments and Exchange Act) are stated at the amounts of corresponding equity portion using the most recent financials available based on the reporting date stipulated in the contracts of the LPS and the ventures.

(d) Derivative Transactions and Hedge Accounting

Derivative financial instruments are stated at fair value and changes in fair value are recognized as gains or losses unless derivative transactions are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in their fair value is deferred until the related losses or gains on the hedged items are recognized.

Forward foreign exchange contracts which meet specific matching criteria are translated at the foreign exchange rate stipulated in the contracts.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contact was executed.

Certain consolidated subsidiaries utilize forward foreign exchange contracts and currency swaps for the purpose of hedging their exposure to adverse fluctuation in interest rates and managing uncertainty on interest rates. These contracts are used to limit foreign currency exchange risk attributable to future transactions denominated in foreign currencies. The Company utilizes interest rate swaps to hedge its exposure to adverse fluctuation in exchange rates. These contracts are used for its long-term borrowings. The Company and these consolidated subsidiaries do not enter into such transactions for speculative trading purposes.

Effectiveness of hedge is assessed by the ratio of accumulated fluctuations in market value or cash-flows of hedging instruments to those in market value or cash-flows of hedged items. Assessment of effectiveness of hedge on certain derivatives which meet specific criteria, however, are omitted as allowed under Japanese

GAAP.

(e) Inventories

Inventories are primarily stated at the lower of moving-average cost or market.

(f) Property and Equipment (except for lease assets)

Property and equipment are stated at cost. Depreciation is mainly computed using the declining-balance method at rates based on the estimated useful lives of respective assets, except for the buildings (excluding building facilities) acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

The estimated useful lives of significant assets are summarized as follows:

Buildings and structures ··· 3-47 years

(g) Intangible Assets (except for lease assets)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over an estimated useful life of five years.

(h) Impairment

The Company and its consolidated subsidiaries review their property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized using the straight-line method.

(j) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible account with respect to certain identified doubtful receivables and the amount calculated based on the historical rate of losses.

(k) Provision for Bonuses

Provision for bonuses is provided at the estimated amounts accrued during the current fiscal year, to provide for the future payment to employees.

(l) Provision for Directors' Bonuses

Provision for bonuses to directors and corporate auditors is provided at the estimated amounts accrued during the current fiscal year, to provide for the future payment to directors and corporate auditors.

(m) Provision for Point Card Certificates

The Company and its consolidated subsidiaries which conduct similar businesses provide their customers with credit points ("Yamada Points") when they make purchases at their stores. The Company and some of its consolidated subsidiaries provide provision for the estimated future costs of Yamada Points based on the historical rate of point usage.

(n) Provision for Warranties for Completed Construction

Some of the consolidated subsidiaries provide for losses on guarantee and after-service expenses due to defects for completed construction. The amount is calculated by multiplying related sales by the historical rate of these expenses.

(o) Provision for Retirement Benefits

The Company has an unfunded lump-sum payment plan and a defined benefit pension plan, and the subsidiaries have unfunded lump-sum payment plans and defined contribution pension plans, and participate in the retirement benefit plan established by the government.

Provision for retirement benefits is provided based on the estimated amounts of projected benefit obligations and the fair value of plan assets at the balance sheet date.

Prior service costs are amortized from the fiscal year incurred using the straight-line method over a certain period of time (five years) not exceeding the average remaining service period of the eligible employees.

Actuarial gains or losses incurred during the year are amortized from the succeeding fiscal year using the straight-line method over a certain period of time (five years) not exceeding the average remaining service period of the eligible employees.

Effective on June 1, 2011, the Company applied the "Guidance on Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No. 1), because of a transition from a qualified pension plan to a defined benefit plan. The effect of this transfer was immaterial.

(p) Provision for Directors' Retirement Benefits

Provision for directors' and corporate auditors' retirement benefits of the Company and some of its consolidated subsidiaries is provided based on their pertinent rules and is calculated at the estimated amount which would be payable if all officers were to retire at the balance sheet date. The payments are subject to approval at the shareholders' meeting.

(q) Provision for Product Warranties

The Company and its consolidated subsidiaries which conduct similar businesses provide provision for five-year warranty for future repair expenses at the estimated amount calculated based on repair expense in the past.

(r) Allowance for Loss on Investments in Subsidiaries

Allowance for loss on investments in subsidiaries is provided at an amount sufficient to cover possible losses, taking into account financial condition, recoverability of the investments and other relevant factors.

(s) Leases

Assets of finance leases are depreciated over the lease term using the straight-line method with zero residual value.

(t) Recognition of Revenue and Costs

Recognition criteria for construction contract revenue and costs are as follows:

i) Construction contracts, outcome of the portion of which completed by the end of the current fiscal year is estimated reliably: Percentage-of-completion method (The estimation for the degree of completion is based on the percentage of the cost incurred to the estimated total cost)

ii) Other construction contracts: Completed-contract method

(u) Income Taxes

The provision for income taxes is computed based on the income before income taxes and minority interests included in the statements of income for the Company and each of its consolidated subsidiaries. The assets and liabilities approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statements' carrying amounts and the tax basis of assets and liabilities.

(v) Per Share Information

Basic net income per share of common stock is computed based upon the weighted-average number of shares outstanding during each year. For diluted net income per share, both net income and shares outstanding were adjusted to assume the conversion of the convertible bonds and the exercise of the stock options (subscription rights to shares). However, dilutive effect of euro yen convertible bonds due in 2013 and in 2015 and SxL Corporation stock options were not reflected because they are anti-dilutive. For the years ended March 31, 2012 and 2011, diluted net income per share is not disclosed because the Company and its consolidated subsidiaries have no securities with dilutive effect.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(w) Additional Information

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies

When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provision, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

The Company applied this accounting standard and the guidance effective on April 1, 2011.

(5) Accounting Standard for Presentation of Comprehensive Income

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets. In addition, effective from the year ended March 31, 2012, information with respect to reclassification adjustments and related tax effect on other comprehensive income is required to be presented in the financial statements and accordingly, is disclosed in "OTHER COMPREHENSIVE INCOME."

3. BUSINESS COMBINATION

Business combination through stock purchase for the year ended March 31, 2012 was as follows:

On October 12, 2011, the Company acquired the common stock of SxL Corporation, whose principal business is housing, home renovation, real estate rental, and others (leasing, etc.).

1) Outline of the business combination:
   a) Primary reason for the business combination: In order to accelerate the development of the smart-house solutions business promoted by the Yamada Denki Group
   b) Legal form of business combination: Acquisition of shares by tender offer and by subscription to private placement
   c) Name of company after combination: No change of the company's name
   d) Percentage of voting rights acquired: 50.43%
   e) Principal basis for determination of acquiring company: The acquisition was paid in cash by the Company.

2) Period during which financial results of the acquired company is reflected in the consolidated financial statements for the fiscal year ended March 31, 2012: From October 1, 2011 to February 29, 2012

3) Acquisition cost and its breakdown is as follows:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Consideration for the acquisition:		
Cash paid	¥ 6,349	$ 77,245
Expenses directly related to the acquisition:		
Advisory costs, etc.	95	1,163
Total	¥ 6,444	$ 78,408

4) Goodwill arising in the business combination:
   a) Amount of goodwill: ¥1,245 million ($15,152 thousand)
   b) Reason for occurrence of goodwill: The acquisition cost exceeded the net value of the assets acquired and liabilities assumed.
   c) Amortization of goodwill: Using the straight-line method over six years.

5) The assets and liabilities recognized at the date of the business combination are as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
Current assets	¥	13,832	$	168,288
Non-current assets		11,325		137,791
Total assets	¥	25,157	$	306,079
Current liabilities	¥	(12,705)	$	(154,584)
Long-term liabilities		(2,083)		(25,346)
Total liabilities	¥	(14,788)	$	(179,930)

6) Pro forma information on consolidated statement of income for the fiscal year ended March 31, 2012 if the business combination had been completed on April 1, 2011: Since the estimated impact, which has not been audited, is minimal, disclosure is omitted.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2012 and 2011 in the consolidated statements of cash flows consisted of the following:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2012		2011		*2012*	
Cash and time deposits	¥	77,145	¥	113,269	$	938,615
Time deposits with maturities exceeding three months		(801)		(8,454)		(9,738)
Cash and cash equivalents	¥	76,344	¥	104,815	$	928,877

5. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2012 were ¥628 million ($7,645 thousand) and ¥661 million ($8,040 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2011 were ¥1,045 million and ¥1,111 million, respectively.

Asset retirement obligations for the year ended March 31, 2012 and 2011 were ¥1,399 million ($17,019 thousand) and ¥7,656 million, respectively.

Assets and liabilities of newly consolidated subsidiaries by acquisition of shares are as follows:

Increase in assets and liabilities due to a newly consolidated subsidiary, SxL Corporation, and net proceeds from the stock acquisition:	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2012		2011		*2012*	
Current assets	¥	13,832	¥	-	$	168,288
Non-current assets		11,325		-		137,791
Goodwill		1,245		-		15,152
Current liabilities		(12,705)		-		(154,584)
Long-term liabilities		(2,083)		-		(25,346)
Minority interests		(5,162)		-		(62,800)
Stock acquisition rights		(8)		-		(93)
Acquisition cost		6,444		-		78,408
Cash and cash equivalents from the acquisition		(6,859)		-		(83,453)
Net proceeds	¥	415	¥	-	$	5,045

6. FINANCIAL INSTRUMENTS

I. Qualitative Information on Financial Instruments

(a) Policies for Using Financial Instruments

The Company and its consolidated subsidiaries raise necessary funds based on capital budgeting, mainly through loans from banks and issuance of bonds. Temporary surplus funds are invested in highly liquid instruments, and working capital is financed by bank loans. The Company and its consolidated subsidiaries utilize derivative financial instruments only to manage risks described later and do not enter into such transactions for speculative trading purposes.

(b) Details of Financial Instruments and Related Risk

Trade notes and accounts receivable are exposed to credit risk of customers.

Investment securities, which are mainly composed of equity securities issued by those who have business relationships with the Company and its consolidated subsidiaries, are exposed to market risk.

Guarantee deposits, which are mostly related to rental of stores, are exposed to credit risk of lessors.

Most notes and accounts payable are due within two months.

Bank loans and bonds are obtained mainly for capital expenditures and redemption dates of bonds are a maximum of three years and four years after the balance sheet date for the years ended March 31, 2012 and 2011, respectively.

Most income taxes payable, which consist of unpaid corporate income taxes, inhabitant taxes and enterprise taxes, are payable within two months after the balance sheet date.

For certain loans payable, the Company utilizes interest rate (floating for fixed rate) swaps in order to manage interest rate risk. Some of its consolidated subsidiaries utilize currency swaps and currency options in order to reduce the foreign currency risk of foreign-currency-denominated monetary assets and liabilities. The Company also uses derivatives as hedging instruments, which is described in "Derivative Transactions and Hedge Accounting" in "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES." Interest rate swap transactions entered into by the Company involve interest rate risk and currency swap and currency option transactions entered into by some of its consolidated subsidiaries contain foreign currency risk. Since the counterparties of derivative transactions are limited to highly credible domestic banks, the credit risk that arises from contractual default by counterparty is considered to be fairly low.

(c) Policies and Process of Risk Management

- **Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligation. In accordance with the Company's sales management policy, each operating department of the Company periodically monitors each counterparty and manages the due dates and balances of trade notes and accounts receivable in order to reduce credit risk by early identification of a possible default caused by financial trouble of the counterparty. Its consolidated subsidiaries also manage credit risk in the same manner as the Company.

The Company believes that the credit risk under derivative transactions is fairly low because counterparties of derivative transactions are limited to financial institutions with a high credit rating.

- **Market risk management**

Market risk is the risk that movements in market variables, such as foreign currency exchange rates, interest rates and market price, result in financial loss to the Company and its consolidated subsidiaries. For certain loans payable, the Company utilizes interest rate (floating for fixed rate) swaps in order to manage interest rate risk. Moreover, some of its consolidated subsidiaries utilize currency swaps and currency options in order to reduce the foreign currency risk of foreign-currency-denominated monetary assets and liabilities.

The Company continuously reviews portfolios of securities by periodically monitoring fair values of each security and financial condition of the issuer as well as market condition and the relationship with the issuer.

The basic policy, authority and maximum amount of derivative transactions are determined at Board of Directors' meetings, and the execution and management of derivative transactions are performed by the Financial Division. The results of transactions are reported at the Board of Directors' meetings on a regular basis.

- **Management of liquidity risk related to fund raising**

Liquidity risk is the risk of being unable to meet obligations as they come due. The Company manages liquidity risk by keeping liquidity on hand and by formulating and renewing the fund management plan based on reports from each department.

(d) Supplemental Information on Fair Value

Fair value of financial instruments is estimated based on quoted market prices, if available, or based on management estimates and assumptions. Changes in such estimates and assumptions could result in different value since these estimates and assumptions contain fluctuating factors. Additionally, notional amounts of derivative transactions, which are presented in "DERIVATIVE FINANCIAL INSTRUMENTS," do not indicate market risk of derivative transactions.

II. Fair Value of Financial Instruments

The following is a summary of book value and estimated fair value of financial instruments as of March 31, 2012 and 2011:

	Book value	Fair value	Valuation gains/(losses)
	Millions of yen		
	2012		
Financial assets:			
(1) Cash and time deposits	¥ 77,145	¥ 77,145	¥ -
(2) Notes and accounts receivable	28,619	28,619	-
(3) Investment securities:			
Available-for-sale securities	8,800	8,800	-
(4) Guarantee deposits (*1)			
(including current portion)	106,170	103,558	(2,612)
	¥ 220,734	¥ 218,122	¥ (2,612)
Financial liabilities:			
(1) Notes and accounts payable	¥ 65,580	¥ 65,580	¥ -
(2) Short-term loans payable	25,000	25,000	-
(3) Income taxes payable	6,282	6,282	-
(4) Bonds			
(including current portion)	129,064	127,033	2,031
(5) Long-term loans payable			
(including current portion)	67,610	67,727	(117)
	¥ 293,536	¥ 291,622	¥ 1,914
Derivative transactions (*2)	¥ (360)	¥ (360)	¥ -

	Book value	Fair value	Valuation gains/(losses)
	Thousands of U.S. dollars (Note 1)		
	2012		
Financial assets:			
(1) Cash and time deposits	$ 938,615	$ 938,615	$ -
(2) Notes and accounts receivable	348,202	348,202	-
(3) Investment securities:			
Available-for-sale securities	107,072	107,072	-
(4) Guarantee deposits (*1)			
(including current portion)	1,291,760	1,259,986	(31,774)
	$ 2,685,649	$ 2,653,875	$ (31,774)
Financial liabilities:			
(1) Notes and accounts payable	$ 797,902	$ 797,902	$ -
(2) Short-term loans payable	304,173	304,173	-
(3) Income taxes payable	76,431	76,431	-
(4) Bonds			
(including current portion)	1,570,315	1,545,607	24,708
(5) Long-term loans payable			
(including current portion)	822,604	824,025	(1,421)
	$ 3,571,425	$ 3,548,138	$ 23,287
Derivative transactions (*2)	$ (4,379)	$ (4,379)	$ -

(*1) Government bonds pledged by a consolidated subsidiary as a security deposit are included.
(*2) Debt and credit attributed to derivative transactions are indicated by net base, and net debt is described as ( ).

	Book value	Fair value	Valuation gains/(losses)
	Millions of yen		
	2011		
Financial assets:			
(1) Cash and time deposits	¥ 113,269	¥ 113,269	¥ -
(2) Notes and accounts receivable	48,465	48,465	-
(3) Investment securities:			
Available-for-sale securities	8,692	8,692	-
(4) Guarantee deposits			
(including current portion)	107,943	102,297	(5,646)
	¥ 278,369	¥ 272,723	¥ (5,646)
Financial liabilities:			
(1) Notes and accounts payable	¥ 58,466	¥ 58,466	¥ -
(2) Short-term loans payable	1,550	1,550	-
(3) Income taxes payable	43,432	43,432	-
(4) Bonds	129,134	125,370	3,764
(5) Long-term loans payable			
(including current portion)	99,619	99,739	(120)
	¥ 332,201	¥ 328,557	¥ 3,644
Derivative transactions (*)	¥ (990)	¥ (990)	¥ -

(*) Debt and credit attributed to derivative transactions are indicated by net base, and net debt is described as ( ).

Explanatory Notes on Fair Value of Financial Instruments

(i) Details of the Methodologies and Assumptions Used to Estimate Fair Value of Financial Instruments, and Securities and Derivative Transactions

(a) Financial Assets

- **(1) Cash and Time Deposits and (2) Notes and Accounts Receivable**

Because these assets are settled in the short term, fair value approximates book value and the amounts indicated in above table are based on book value.

- **(3) Investment Securities**

Fair value of equity securities is based on quoted market prices, and fair value of debt securities is based on quoted market prices or quotes obtained from financial institutions. Additional information on securities classified by holding purpose is presented in “SECURITIES INFORMATION.”

- **(4) Guarantee Deposits**

Fair value of guarantee deposits is based on the present value discounted by the rate which reflects due date and credit risk. Fair value of the government bonds pledged as a security deposit are quoted based on the price information from the contracted financial institution. Additional information on securities classified by holding purpose is presented in “SECURITIES INFORMATION”

(b) Financial Liabilities

- **(1) Notes and Accounts Payable, (2) Short-term Loans Payable and (3) Income Taxes Payable**

Since these liabilities are payable in the short term, fair value approximates book value and the amounts indicated in above table are based on book value.

- **(4) Bonds**

Fair value of bonds is based on the present value of principal discounted by the rate which reflects remaining period and credit risk.

- **(5) Long-term Loans Payable**

Fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the rate applicable to similar new borrowings.

For long-term loans payable with floating interest rates and hedged by interest rate swaps which meet certain criteria, fair value is based on the present value of the total of principal and interest, as adjusted and described in "Derivative Transactions and Hedge Accounting" in "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," discounted by the rate applicable to similar new borrowings.

(c) Derivative Transactions

Details of derivative transactions are described in "DERIVATIVE FINANCIAL INSTRUMENTS."

(ii) Securities for Which Fair Value is Virtually Impossible to Estimate

The following securities are excluded from the above table because management of the Company and its consolidated subsidiaries conclude that their fair value is virtually impossible to estimate:

	Book value		
	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 6,600	¥ 11,432	$ 80,287
Affiliated companies	12	32	146
(2) Available-for-sale securities			
Unlisted equity securities	143	68	1,745
Investment in LPS (*2)	285	368	3,469
Guarantee deposits (*3)	11,702	10,030	142,379

(*1) Unlisted equity securities are excluded from "(3) Investment Securities" because they are not traded in a market and it is virtually impossible to estimate their fair value.
(*2) Investment in LPS is excluded from the disclosure of fair value because fair value of LPS's assets, such as unlisted equity securities, is virtually impossible to estimate.
(*3) Guarantee deposits whose redemption schedule is unable to be reasonably estimated and whose fair value is virtually impossible to estimate are excluded from "(4) Guarantee Deposits."

(iii) Contractual Maturity of Financial Instruments

Redemptions schedule of monetary claims and securities with fixed maturities are as follows:

	Millions of yen			
	2012			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 77,145	¥ -	¥ -	¥ -
Notes and accounts receivable	28,619	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	200	-	7,400
(2) Others	50	235	-	-
Guarantee deposits (*)	6,710	25,226	27,023	47,211
Total	¥ 112,524	¥ 25,661	¥ 27,023	¥ 54,611

	Thousands of U.S. dollars (Note 1)			
	2012			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 938,615	$ -	$ -	$ -
Notes and accounts receivable	348,202	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	2,433	-	90,035
(2) Others	607	2,862	-	-
Guarantee deposits (*)	81,644	306,921	328,789	574,406
Total	$ 1,369,068	$ 312,216	$ 328,789	$ 664,441

(*) Government bonds pledged by a consolidated subsidiary as a security deposit are included.

	Millions of yen			
	2011			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 113,269	¥ -	¥ -	¥ -
Notes and accounts receivable	48,465	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	-	200	7,400
(2) Others	-	368	-	-
Guarantee deposits	6,907	25,235	27,486	48,315
Total	¥ 168,641	¥ 25,603	¥ 27,686	¥ 55,715

Contractual maturities of short-term and long-term loans payable and bonds are described in "SHORT-TERM AND LONG-TERM LOANS PAYABLE" and "CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES," respectively.

7. SECURITIES INFORMATION

Acquisition cost and book value of available-for-sale securities with available fair value as of March 31, 2012 and 2011 were as follows:

	Millions of yen		
	2012		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥ 783	¥ 344	¥ 439
Debt securities:			
Government bonds and others (*)	307	293	14
Sub-total	1,090	637	453
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	1,861	2,438	(577)
Debt securities:			
Government bonds and others (*)	18	18	(0)
Corporate bonds	6,149	7,600	(1,451)
Others	7	8	(1)
Sub-total	8,035	10,064	(2,029)
Total	¥ 9,125	¥ 10,701	¥ (1,576)

	Thousands of U.S. dollars (Note 1)		
	2012		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	$ 9,532	$ 4,186	$ 5,346
Debt securities:			
Government bonds and others (*)	3,739	3,570	169
Sub-total	13,271	7,756	5,515
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	22,644	29,666	(7,022)
Debt securities:			
Government bonds and others (*)	216	217	(1)
Corporate bonds	74,816	92,469	(17,653)
Others	80	94	(14)
Sub-total	97,756	122,446	(24,690)
Total	$ 111,027	$ 130,202	$ (19,175)

(*) Included in guarantee deposits in the consolidated balance sheets, which are pledged by a consolidated subsidiary as a security deposit.

Unlisted equity securities of ¥143 million ($1,745 thousand) and investment in LPS of ¥285 million ($3,469 thousand) are excluded from above table because they do not have readily determinable market value and it is virtually impossible to estimate their fair value.

	Millions of yen		
	2011		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥ 726	¥ 337	¥ 389
Debt securities:			
Corporate bonds	203	200	3
Sub-total	929	537	392
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	2,051	2,451	(400)
Debt securities:			
Corporate bonds	5,705	7,400	(1,695)
Others	7	7	(0)
Sub-total	7,763	9,858	(2,095)
Total	¥ 8,692	¥ 10,395	¥ (1,703)

Unlisted equity securities of ¥68 million and investment in LPS of ¥368 million are excluded from above table because they do not have readily determinable market value and it is virtually impossible to estimate their fair value.

Securities sold during the years ended March 31, 2012 and 2011 are as follow:

	Millions of yen		
	2012		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 39	¥ 28	¥ —

	Thousands of U.S. dollars (Note 1)		
	2012		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 475	$ 336	$ —

	Millions of yen		
	2011		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 176	¥ 10	¥ —

If the market value of securities as of the fiscal year-end declines more than 50% compared with those acquisition costs, the difference between fair market value and the carrying amount is recognized as loss on valuation in the period of the decline.

In addition, if the market value of securities as of the fiscal year-end declines 30% to 50% compared with those acquisition costs and if such decline is considered to be material and unrecoverable, the difference between fair market value and the carrying amount is recognized as loss on valuation in the period of the decline.

Loss on valuation of marketable securities available-for-sale for the years ended March 31, 2012 and 2011 were ¥4 million ($44 thousand) and ¥515 million, respectively.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The aggregate amounts contracted to be paid or received and the fair value and the unrealized gains (losses) of currency-related derivative transactions other than market trades as of March 31, 2012 and 2011 (excluding hedging transactions) were as follows:

	Millions of U.S. dollars		Millions of yen		*Thousands of U.S. dollars (Note 1)*	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains (losses)	*Fair value*	*Unrealized gains (losses)*
At March 31, 2012:						
Currency swap contracts:						
Pay yen, receive U.S. dollars	$ 4	$ -	¥ (65)	¥ (65)	$ (785)	$ (785)
Currency option contracts:						
Buy, call	$ 6	$ -	-	(32)	-	(384)
Sell, put	$ 13	$ -	(284)	(143)	(3,461)	(1,756)
Total			¥ (349)	¥ (240)	$ (4,246)	$ (2,925)

	Millions of U.S. dollars		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains (losses)
At March 31, 2011:				
Currency swaps contracts:				
Pay yen, receive U.S. dollars	$ 6	$ 1	¥ (258)	¥ (258)
Currency option contracts:				
Buy, call	$ 19	$ 6	3	(84)
Buy, put	$ 1	$ -	15	15
Sell, call	$ 1	$ -	(0)	(0)
Sell, put	$ 35	$ 13	(750)	(389)
Total			¥ (990)	¥ (716)

Fair value is quoted based on the price information from the contracted financial institution.

Derivative instruments which qualify as hedging instruments as of March 31, 2012 and 2011 are summarized as follows:

	Notional amount		
	Total	Over one year	Fair value
	Millions of yen		
At March 31, 2012:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 53,276	¥ 27,352	¥ (*1)
Currency swap contracts:			
Buy—U.S. dollars	59	-	(11) (*2)
	Thousands of U.S. dollars (Note 1)		
At March 31, 2012:			
Interest rate swap contracts:			
Pay fixed, receive floating	$ 648,205	$ 332,790	$ (*1)
Currency swap contracts:			
Buy—U.S. dollars	718	-	(133) (*2)

	Notional amount		
	Total	Over one year	Fair value
	Millions of yen		
At March 31, 2011:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 77,504	¥ 53,276	¥ (*1)

(*1) Fair value of interest rate swap contracts is included in the fair value of the hedged long-term loans payable in "FINANCIAL INSTRUMENTS" since the derivative is accounted for as components of the hedged long-term loans payable.

(*2) Fair value is quoted based on the price information from the contracted financial institution.

9. ACCUMULATED DEPRECIATION ON PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Accumulated depreciation	¥ 152,277	¥ 135,270	$ 1,852,746

10. IMPAIRMENT LOSS

As a minimum unit for generating cash flows, each retail store or branch office is grouped and assessed. The book value of the cash-generating units which would incur operating losses continuously was written down to the recoverable amount. The investment and rental property and idle assets are individually considered, and impairment loss is recognized if the fair value of the investment and rental property is significantly lower their carrying amount or if the idle assets have no prospect for future use.

An impairment loss was recorded at the amount by which the carrying amount of each group of assets exceeded its recoverable value. The recoverable amounts from those asset groups are based on the net selling price, for which the value assessed for property tax purposes is the basis. Therefore, the net selling price of intangible assets, lease assets and long-term prepaid expenses are zero.

Summary of impairment loss recorded for the fiscal years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Buildings and structures	¥ 891	¥ 3,991	$ 10,842
Land	40	386	482
Lease assets	111	1,029	1,347
Other tangible assets	295	674	3,589
Intangible assets	72	83	877
Long-term prepaid expenses	67	10	818
Total	¥ 1,476	¥ 6,173	$ 17,955

An impairment loss for the year ended March 31, 2012 mainly relates to retail stores and investment and rental property located in Kanagawa Prefecture. An impairment loss for the year ended March 31, 2011 mainly relates to retail stores and idle assets located in Tokyo and Hyogo Prefectures.

11. LEASE INFORMATION

As Lessee

(i) Finance lease transactions without title transfer

The Company and its consolidated subsidiaries lease certain buildings and equipment for retail stores, such as computer equipment and other assets.

(ii) Operating lease transactions

Future minimum lease payments under non-cancelable operating leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Due within one year	¥ 11,685	¥ 11,665	$ 142,165
Due after one year	91,200	95,813	1,109,623
Total	¥ 102,885	¥ 107,478	$ 1,251,788

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Due within one year	¥ 246	¥ 246	$ 2,993
Due after one year	1,735	1,981	21,110
Total	¥ 1,981	¥ 2,227	$ 24,103

12. SHORT-TERM AND LONG-TERM LOANS PAYABLE

The weighted-average rate of interest for short-term loans payable was approximately 1.13% and 1.07% as of March 31, 2012 and 2011, respectively.

The weighted-average rate of interest for current portion of long-term loans payable was approximately 1.33% and 1.36% as of March 31, 2012 and 2011, respectively.

The weighted-average rate of interest for long-term loans payable (excluding current portion) was approximately 1.35% and 1.36% as of March 31, 2012 and 2011, respectively, and long-term loans payable is due in 2013 through 2019 and 2012 through 2019 as of March 31, 2012 and 2011, respectively.

The weighted-average rate of interest for finance lease obligations is not disclosed since related interest charges are allocated using the straight-line method over the lease terms.

Short-term and long-term loans payable as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Short-term loans payable	¥ 25,000	¥ 1,550	$ 304,173
Long-term loans payable (due within one year)	32,251	33,144	392,396
Lease obligations (due within one year)	2,973	4,544	36,175
Sub-total	60,224	39,238	732,744
Long-term loans payable (excluding amounts due within one year)	35,359	66,475	430,208
Lease obligations (excluding amounts due within one year)	2,701	5,064	32,859
Sub-total	38,060	71,539	463,067
Total	¥ 98,284	¥ 110,777	$ 1,195,811

The following assets were pledged as collateral for long-term loans payable (including current portion) of ¥4,286 million ($52,151 thousand) and ¥4,343 million as of March 31, 2012 and 2011, respectively:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Inventories (*1)	¥ 84	¥ -	$ 1,020
Buildings and structures	1,468	1,555	17,865
Land (*2)	3,557	3,405	43,280
Total	¥ 5,109	¥ 4,960	$ 62,165

(*1) Of which, ¥84 million ($1,020 thousand) is pledged as collateral for bank loans of ¥395 million ($4,806 thousand) by the designated buyers of the inventories as of March 31, 2012.

(*2) Of which, ¥152 million ($1,846 thousand) is pledged as collateral for housing loans of ¥101 million ($1,234 thousand) by customers as of March 31, 2012.

The aggregate annual maturities of long-term loans payable as of March 31, 2012 are summarized as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2013	¥ 32,251	$ 392,396
2014	21,014	255,681
2015	12,790	155,616
2016	1,291	15,704
Thereafter	264	3,207
Total	¥ 67,610	$ 822,604

The aggregate annual maturities of finance lease obligations as of March 31, 2012 are summarized as follows:

Fiscal year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2013	¥ 2,973	$ 36,175
2014	1,623	19,747
2015	683	8,313
2016	255	3,101
Thereafter	140	1,698
Total	¥ 5,674	$ 69,034

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($608,347 thousand) with seven financial institutions. There is no amount executed under these credit facilities as of March 31, 2012.

13. CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES

Outstanding balance of the convertible bond-type bonds of the Company and the current conversion prices into common stock as of March 31, 2012 and 2011 were as follows:

	Conversion price per share	Outstanding balance			Conversion period
	Yen	Millions of yen		Thousands of U.S. dollars (Note 1)	
		2012	2011	2012	
Euro yen zero coupon convertible bonds due 2013	¥ 14,137.50	¥ 70,064 (70,064)	¥ 70,134	$ 852,466 (852,466)	March 28, 2008 – March 14, 2013
Euro yen zero coupon convertible bonds due 2015	¥ 13,760.50	59,000	59,000	717,849	March 28, 2008 – March 17, 2015
Total		¥ 129,064 (70,064)	¥ 129,134	$ 1,570,315 (852,466)	

No subscription rights were exercised for the year ended March 31, 2012 and 2011.
The amounts in parentheses are due within 1 year.

14. INCOME TAXESS

Taxes on income consist of corporate income taxes, inhabitant taxes and enterprise taxes. The aggregate statutory tax rate on income before income taxes and minority interests was approximately 40.4% for the years ended March 31, 2012 and 2011.

For the years ended March 31, 2012 and 2011, the difference between the statutory tax rate and the effective tax rate reflected in the accompanying Consolidated Statements of Income was not disclosed since the difference was immaterial.

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Deferred tax assets:			
Loss on valuation of inventories	¥ 4,365	¥ 7,592	$ 53,105
Asset retirement obligations	3,204	3,064	38,987
Impairment loss	3,507	3,885	42,665
Loss on valuation of investment securities	3,156	1,595	38,403
Allowance for loss on investments	281	1,803	3,423
Accrued enterprise taxes	542	3,135	6,600
Provision for bonuses	1,939	2,015	23,594
Provision for point card certificates	8,170	7,082	99,407
Provision for retirement benefits	3,929	3,647	47,807
Provision for directors' retirement benefits	1,195	1,258	14,539
Provision for product warranties	5,221	5,654	63,529
Consolidated subsidiaries' tax loss carry-forward	19,577	6,322	238,195
Others	3,398	1,563	41,317
Sub-total	58,484	48,615	711,571
Valuation allowance	(26,742)	(10,973)	(325,370)
Total deferred tax assets	31,742	37,642	386,201
Deferred tax liabilities:			
Unrealized gains on valuation of land	(1,117)	(1,051)	(13,585)
Loss recognized corresponding to asset retirement obligations	(2,015)	(2,084)	(24,514)
Others	(218)	(220)	(2,655)
Total deferred tax liabilities	(3,350)	(3,355)	(40,754)
Net deferred tax assets	¥ 28,392	¥ 34,287	$ 345,447

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2012 and 2011:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Current assets – Deferred tax assets	¥ 13,749	¥ 18,299	$ 167,283
Investments and other assets – Deferred tax assets	15,978	17,263	194,404
Long-term liabilities – Other long-term liabilities	(1,335)	(1,275)	(16,240)

- Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

Following the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012. In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.4% to 37.75% for temporary differences which are expected to reverse during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.4% to 35.38% for temporary differences which are expected to reverse from the fiscal years beginning on or after April 1, 2015.

As a result of this change, the net amount of deferred tax assets decreased by ¥3,125 million ($38,020 thousand) and deferred income taxes increased by ¥2,927 million ($35,613 thousand) for the fiscal year ended March 31, 2012.

15. CONTINGENT LIABILITIES

The Company was contingently liable for transferred accounts receivables of ¥15,159 million ($184,434 thousand) to credit card companies as of March 31, 2012.

The Company was contingently liable for guarantees of loans of YAMADA DENKI (CHINA) CO., LTD. which is a non-consolidated subsidiary, denominated in renminbi (RMB) (RMB 200 million) as of March 31, 2012 (amounting to ¥2,621 million or $31,889 thousand, respectively).

16. RETIREMENT BENEFITS

Provision for retirement benefits as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2012		2011		*2012*	
Projected benefit obligation	¥	14,806	¥	13,002	$	180,144
Fair value of pension assets		(2,402)		(1,941)		(29,224)
Unrecognized actuarial gains and losses		(1,625)		(2,033)		(19,774)
Unrecognized prior service costs		308		-		3,744
Net provision for retirement benefits	¥	11,087	¥	9,028	$	134,890

Retirement benefit costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2012		2011		*2012*	
Service costs	¥	1,900	¥	1,588	$	23,120
Interest cost		258		200		3,143
Expected return on plan assets		(39)		(33)		(472)
Amortization of actuarial differences		489		240		5,949
Amortization of prior service costs		(61)		-		(749)
Other (contributions to defined contribution pension plans)		70		-		853
Net periodic retirement benefit costs	¥	2,617	¥	1,995	$	31,844

The discount rate and the rate of expected return on plan assets used by the Company are mainly 2.0% for the years ended March 31, 2012 and 2011. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized as income or expense in equal amounts over five years commencing from the succeeding period. Prior service costs are amortized over five years from the fiscal year incurred using the straight-line method.

Newly consolidated subsidiary, SxL Corporation, participates in multi-employer plans for which the required contribution amounts were expensed as incurred. Detailed information on the plans such as funded status and the ratio of pension premiums expensed by SxL Corporation is omitted because the latest information after the acquisition of SxL Corporation is not yet available as of March 31, 2012.

17. ASSET RETIREMENT OBLIGATIONS

Asset Retirement Obligations Included in the Consolidated Balance Sheets

Asset retirement obligations included in the consolidated balance sheets primarily represent contractual obligations for restoration related to term leasehold interests in retail stores etc.

The Company and its consolidated subsidiaries mainly estimate asset retirement obligations by using discount rates ranging from 0.7% to 2.29% with the term of 6 to 34 years.

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

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2012	2011	*2012*
Beginning balance (*)	¥ 7,656	¥ 7,019	$ 93,145
Increase due to purchase of property and equipment	967	470	11,771
Adjustments due to passage of time	183	167	2,227
Decrease due to implementation of asset retirement obligations	(6)	-	(78)
Other increases (decreases)	248	-	3,022
Ending balance	¥ 9,048	¥ 7,656	$ 110,087

(*) The beginning balance for the year ended March 31, 2011 is the effect of adoption of ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations," issued by the ASBJ on March 31, 2008.

Asset Retirement Obligations Not Included in the Consolidated Balance Sheets

Certain other asset retirement obligations for leasehold contracts, for which the related amount could not be reasonably estimated due to uncertainty about the disbursement schedule and/or the incurrence of expense, are not included in the consolidated balance sheets.

18. NET ASSETS

Net assets comprise three subsections, which are the shareholders' equity, accumulated other comprehensive income and minority interests, as applicable.

Japanese companies are subject to the Companies Act of Japan (the "Companies Act") and related regulations.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Companies Act, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Companies Act, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit, and also can be capitalized by a resolution of the shareholders' meeting. Under the Companies Act, all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Ordinary General Meeting of Shareholders held on June 28, 2012, the shareholders approved cash dividends amounting to ¥7,160 million ($87,115 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2012. Such appropriations are recognized in the period in which they are approved by the shareholders.

19. STOCK OPTIONS

No stock option expense was recognized for the year ended March 31, 2012.

The stock options issued by SxL Corporation and outstanding as of March 31, 2012 were as follows:

	2009 stock option
Persons granted	4 directors and 71 employees
Number of options granted expressed in number of common stock	597,000 shares
Date of grant	December 14, 2009
Vesting condition	Continued employment from the date of grant to the end of vesting period (September 30, 2011)
Service period covered	From December 14, 2009 to September 30, 2011
Exercise period	From December 15, 2011 to September 30, 2013

The stock option activity expressed in number of common stock for the year ended March 31, 2012 was as follows:

	2009 stock option
Number of stock options expressed in number of common stock	
March 31, 2011 – Outstanding (*)	509,000
Vested	-
Exercised	(230,000)
Forfeited	-
March 31, 2012 - Outstanding	279,000

Price information:	Yen	*U.S. dollars (Note 1)*
Exercise price	¥ 46	$ 0.56
Average price at exercise	¥ 178	$ 2.17
Fair value at the grant date	¥ 15	$ 0.18

(*) Since SxL Corporation became a wholly-owned subsidiary of the Company on October 1, 2011, the number of stock options above was the number as of October 1, 2011. As of September 30, 2011, all of the above stock options were vested.

The assumptions used to measure fair value of 2009 stock options were as follows:

	2009 stock option
Estimate Method	Black-Scholes adjusted model
Volatility of stock price (*1)	58.9%
Estimated remaining outstanding period (*2)	2.9 years
Estimated dividend yield (*3)	0.00%
Interest rate with risk free (*4)	0.25%

(*1) Calculated based on stock prices for 2.9 years (from January 15, 2007 to December 7, 2009)
(*2) Because of difficulty in reasonably estimating due to insufficient data accumulation, expected remaining period is estimated on the assumption that stock option would be exercised at a mid-point of exercising period.
(*3) Based on actual dividend for the year ended March 31, 2009
(*4) A yield of government bond corresponds to expected remaining period

20. COST OF SALES

The ending balance of inventories was measured at the lower of cost or market, and loss on valuation of inventories included in the cost of sales for the years ended March 31, 2012 and 2011 were ¥5,443 million ($66,219 thousand) and ¥17,985 million, respectively.

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of "Selling, general and administrative expenses" for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	*2012*
Advertising	¥ 29,339	¥ 28,370	$ 356,963
Salaries	90,351	88,158	1,099,295
Rent expenses	56,189	54,220	683,647
Depreciation	19,755	21,800	240,358
Point card related promotion	80,833	85,825	983,493
Other	98,405	105,592	1,197,292
Total	¥ 374,872	¥ 383,965	$ 4,561,048

22. OTHER INCOME (EXPENSES)

"Other-net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	*2012*
Surrender value of insurance	¥ 77	¥ 10	$ 938
Penalty income from breach of leasehold contracts	36	29	434
Gain on sales of investment securities	28	10	336
Compensation income	-	98	-
Loss on valuation of stocks of subsidiaries	(480)	-	(5,840)
Loss on disposal of non-current assets	(147)	(190)	(1,793)
Loss on disaster	(20)	(2,242)	(238)
Provision of allowance for loss on investments in subsidiaries	(6)	(2,305)	(73)
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	(1,932)	-
Provision for loss on disaster	-	(1,664)	-
Foreign exchange losses	-	(457)	-
Other-net	6,640	4,229	80,792
Total	¥ 6,128	¥ (4,414)	$ 74,556

23. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
	2012	*2012*
Valuation difference on available-for-sale securities:		
Other comprehensive income arising during the year	¥ 102	$ 1,247
Reclassification adjustments	(18)	(229)
Valuation difference on available-for-sale securities before related tax effect	84	1,018
Related tax effect	(115)	(1,401)
Valuation difference on available-for-sale securities, net of taxes	(31)	(383)
Deferred gains on derivatives under hedge accounting:		
Other comprehensive income arising during the year	34	411
Reclassification adjustments	-	
Deferred gains on derivatives under hedge accounting before related tax effect	34	411
Related tax effect	-	
Deferred gains on derivatives under hedge accounting, net of taxes	34	411
Total other comprehensive income	¥ 3	$ 28

24. SEGMENT INFORMATION

Segment Information for the Year Ended March 31, 2012

- **Segment Information**

The Company and its consolidated subsidiaries have been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, the disclosure related to segment information is omitted.

- **Supplemental Information on Reportable Segment**

Information about products and services for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen			
	2012			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	¥ 1,162,164	¥ 524,979	¥ 148,311	¥ 1,835,454

	Thousands of U.S. dollars (Note 1)			
	2012			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	$ 14,139,967	$ 6,387,389	$ 1,804,487	$ 22,331,843

	Millions of yen			
	2011			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	¥ 1,485,278	¥ 521,831	¥ 146,150	¥ 2,153,259

Information about geographic area is not disclosed because there were no sales to external customers in overseas market and no overseas property or equipment.

Information on major customers is not disclosed since no single customer accounts for more than 10% of consolidated sales.

- **Information about Impairment Loss on Long-Lived Assets in Reportable Segment**

The Company and its consolidated subsidiaries have been primarily engaged in a single segment of sales of home electrical appliances and home information appliances. Therefore, this information is omitted.

- **Information about Amortization and Unamortized Balances of Goodwill by Reportable Segment**

For the years ended and as of March 31, 2012 and 2011, amortization and unamortized balance of goodwill as a result of the business combination were as follows:

	Sales of home electrical appliances and home information appliances retail business					
	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2012		2011		2012	
Amortization of goodwill	¥	231	¥	-	$	2,815
Ending balance	¥	1,397	¥	-	$	16,995

For the years ended and as of March 31, 2012 and 2011, amortization and unamortized balance of negative goodwill as a result of the business combination occurring before April 1, 2010 were as follows:

	Sales of home electrical appliances and home information appliances retail business					
	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2012		2011		2012	
Amortization of negative goodwill	¥	225	¥	701	$	2,738
Ending balance	¥	142	¥	367	$	1,723

25. RELATED PARTIES

Significant balances with related parties as of March 31, 2012 and 2011, and related transactions for the years ended March 31, 2012 and 2011 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	*2012*
Balances of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director, chairman, and his relatives:			
Prepaid expense (prepaid rent)	¥ 77	¥ 77	$ 943
Guarantee deposits (due within one year)	146	146	1,782
Guarantee deposits	3,060	3,206	37,228
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Short-term loans receivable	-	350	-
Accounts payable	2	-	28
Principal transactions of the Company:			
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director, chairman, and his relatives:			
Payment of company house rent and lease and guarantee deposit	887	901	10,789
Sales of inventories	16	-	191
Purchase of land	-	415	-
Sales of stocks	-	51	-
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:			
Interest income on short-term loans receivable	-	4	-
Sales of inventories	15	-	184
Purchase of inventories	11	-	132

26. SUBSEQUENT EVENTS

I. Stock Purchases

(1) Azuma Metal Co., Ltd.

The Company resolved to make Azuma Metal Co., Ltd. ("Azuma Metal") its wholly owned subsidiary, as described below, at the meeting of the Board of Directors held on April 16, 2012.

Following the finalization of approval of Azuma Metal's civil rehabilitation plan on April 24, 2012, the Company made Azuma Metal a wholly owned subsidiary by acquiring all of its shares on May 1, 2012.

(a) Reason for the share acquisition

As part of its active promotion of CSR (Corporate Social Responsibility) operations, by making Azuma Metal its wholly owned subsidiary, the Company is working to realize total service solutions with the aim of considering the global environment, being environmentally friendly, and establishing a highly recycling-oriented society through the provision of a "one-stop shop" that provides recycling as well as sales.

(b) Details of equity stake

Based on the civil rehabilitation plan, the Company will receive all shares issued by Azuma Metal by private placement following a 100% share capital reduction carried out by Azuma Metal.

(i) Outline of Azuma Metal

a. Name	Azuma Metal Co., Ltd.
b. Location	1-22-14 Matsue, Edogawa-ku, Tokyo, Japan
c. Name and title of representative	Chairman and Representative Director: Katsumi Ota President and Representative Director: Noboru Nagamine
d. Major lines of business	General recycling
e. Share capital	¥50 million ($608 thousand)

(ii) Number of shares acquired, acquisition price and percentage of shares held after acquisition

Date of acquisition	May 1, 2012
Acquisition cost	¥50 million ($608 thousand)
Number of shares	1,000 shares
Percentage of shares held after acquisition	100%

(2) Housetec Holdings Inc.

The Company resolved to make Housetec Holdings Inc. ("Housetec") its wholly owned subsidiary, as described below, at the meeting of the Board of Directors held on May 10, 2012. The Company made Housetec a wholly owned subsidiary by acquiring all of its shares on June 15, 2012.

(a) Reason for share acquisition

Housetec is engaged in manufacture and sales of housing equipment such as bathrooms and kitchens, electric hot water supply equipment, waste water treatment tanks, and other products. By making Housetec its wholly owned subsidiary, the Company aims to further enhance its "Smart House Business" project.

(b) Name of the seller

HT Investment Partnership

(c) Details of equity stake

(i) Outline of Housetec

a. Name	Housetec Holdings Inc.
b. Location	3-9-7 Itabashi, Itabashi-ku, Tokyo, Japan
c. Name and title of representative	President: Shintaro Hoshida
d. Major lines of business	Manufacture and sales of housing equipment and environmental equipment
e. Share capital	¥100 million ($1,217 thousand)

(ii) Number of shares acquired, acquisition price and percentage of shares held after acquisition

Date of acquisition	June 15, 2012
Acquisition cost	¥9,713 million ($118,182 thousand)
Number of shares	13,860 shares
Percentage of shares held after acquisition	100%

(3) Best Denki Co., Ltd.

The Company resolved at the meeting of the Board of Directors held on July 13, 2012 to form a capital and business alliance with Best Denki Co., Ltd. ("Best Denki") and subscribe for all of the Best Denki's shares to be newly issued through a private placement, and made a capital and business alliance agreement with Best Denki on the same day.

As for this private placement of shares, the second examination of business combination is in progress as of August 14, 2012. This private placement of shares will be implemented provided that Best Denki receives a notice from the Japan Fair Trade Commission that they will not issue a cease and desist order under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade ("Antimonopoly Act").

The Company plans to acquire the shares of Best Denki in exchange of payment for the private placement subscription scheduled on any day during the period from August 20, 2012 to December 31, 2012, and to make Best Denki a subsidiary of the Company on the same day.

(a) Purpose of acquisition of shares

It is expected that bringing Yamada Denki's various infrastructures and operational know-how to Best Denki's community-based store development centering on the Kyushu region and personnel training know-how, which have been built up over many years, will result in a quantum leap in the advantages gained from having a large business scale for the whole Yamada Denki Group, including Best Denki. It is also expected to realize store development that gives full consideration to the common area strategies in Japan and overseas, as well as a more efficient infrastructure network. With this move, we aim to improve our competitiveness and management efficiency across our Group while at the same time improving customer satisfaction and corporate value.

(b) Overview of a company conducting this private placement of shares

a. Name	Best Denki Co., Ltd.
b. Location	6-2-33 Chiyo, Hakata, Fukuoka-shi, Fukuoka Prefecture
c. Name and title of representative	President and CEO: Koji Ono
d. Major lines of business	Sales of consumer electrical appliance
e. Share capital	¥31,832 million (as of February 29, 2012)
f. Date of incorporation	September 3, 1953

(c) Overview of this private placement of shares

Number of shares to be subscribed	80,265,500 shares
Subscription price	¥151 per common share
Payment amount	¥12,120 million
Planned share acquisition date	August 20, 2012 to December 31, 2012

Note: The planned share acquisition date is put during the period from August 20, 2012 to December 31, 2012 by considering the period needed for the second examination of business combination. The Company intends to make the payment on the date five business days after the date on which a notice from the Japan Fair Trade Commission that they will not issue a cease and desist order under the Antimonopoly Act is issued.

(d) Best Denki's shares owned by the Company before and after this private placement of shares

	Number of voting rights (number of shares owned)	Share of voting rights
Before private placement of shares	13,461 units (6,730,500 shares)	7.50%
Number of shares to be acquired	160,531 units (80,265,500 shares)	47.21%
After private placement of shares	173,992 units (86,996,000 shares)	51.16%

Notes: 1. The denominator used when calculating the "Share of voting rights" for the "Before private placement of shares" was 179,536 units. This number was obtained by subtracting the sum of 270,500 treasury shares and 276,330 less-than-one-unit shares, including 464 less-than-one-unit treasury shares (as of February 29, 2012 as stated in the 59th Annual Securities Report (Yukashoken Hokokusho), filed by Best Denki on May 25, 2012) from 90,314,830 shares as the total number of issued shares (as of February 29, 2012 as stated in said report) to obtain 89,768,000 outstanding shares. The above-mentioned 179,536 units is the number of voting rights attached to the said outstanding shares.

2. The denominator used when calculating the "Share of voting rights" for the "Number of shares to be acquired" and the "After private placement of shares" was 340,067 units. This number was

obtained by adding 160,531 units, which is the number of voting rights attached to the private placement of shares, to the above-mentioned 179,536 units.

3. The “Share of voting rights” is rounded to the nearest 100th of a percentage point.

II. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 28, 2012:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Year-end cash dividends, ¥76 ($0.92) per share	¥ 7,160	$ 87,115

* * * * * *

Independent Auditor's Report

To the Board of Directors of YAMADA DENKI Co., Ltd.:

We have audited the accompanying consolidated financial statements of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of YAMADA DENKI Co., Ltd. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 26 to the consolidated financial statements,

1. YAMADA DENKI Co., Ltd. made Housetec Holdings Inc. a wholly owned subsidiary by acquiring all of its shares on June 15, 2012.
2. YAMADA DENKI Co., Ltd. made a capital and business alliance agreement with Best Denki Co., Ltd. on July 13, 2012.

Our opinion is not qualified in respect of these matters.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

September 14, 2012
Tokyo, Japan