Financial Report 2014

Fiscal year ended March 31, 2014

YAMADA DENKI CO., LTD.

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OVERVIEW OF OPERATIONS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

March 31, 2014

1. KEY INFORMATION

	Millions of yen, unless otherwise noted					*Thousands of U.S. dollars, unless otherwise noted (Note 4)*
	As of and year ended March 31					
	2010	2011	2012	2013	2014	2014
Net sales (Note 1)	2,016,140	2,153,259	1,835,454	1,701,489	1,893,972	18,402,369
Ordinary income	101,587	137,848	102,226	47,906	50,187	487,634
Net income	55,947	70,755	58,265	22,204	18,667	181,373
Comprehensive income	-	71,192	58,305	21,240	19,737	191,766
Net assets	406,381	470,850	526,743	555,391	553,354	5,376,546
Total assets	899,613	929,010	937,841	1,138,389	1,196,288	11,623,478
Net assets per share (yen) (Note 3)	4,297.29	4,978.38	5,516.15	565.34	592.17	5.75 *(dollars)*
Net income per share (yen) (Note 3)	594.26	751.03	618.46	23.57	20.22	0.20 *(dollars)*
Diluted net income per share (yen) (Note 2) (Note 3)	593.84	-	-	-	20.21	0.20 *(dollars)*
Equity ratio (%)	45.0	50.5	55.4	46.8	44.2	
Return on equity (%)	14.8	16.2	11.8	4.2	3.5	
Price earnings ratio (times)	11.61	7.47	8.36	18.22	17.01	
Cash flows from operating activities	133,718	93,072	34,259	(12,789)	45,148	438,670
Cash flows from investing activities	(108,218)	(25,238)	(38,063)	(39,232)	(38,607)	(375,117)
Cash flows from financing activities	8,556	(45,941)	(24,361)	47,174	(7,646)	(74,292)
Cash and cash equivalents at end of year	83,045	104,815	76,344	77,906	77,754	755,482
Employees (persons)	12,280	12,439	14,006	21,261	21,138	
[Average number of temporary employees not included in the above number (persons)]	[10,294]	[10,775]	[10,762]	[11,410]	[11,384]	

Notes: 1. Net sales do not include consumption tax.

2. Diluted net income per share for the fiscal years ended March 31, 2011, 2012 or 2013 is not presented because the Company and its consolidated subsidiaries had no securities with dilutive effects.
3. The Company conducted a 10-for-1 stock split on common stock, with an effective date of October 1, 2013. Net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year ended March 31, 2013.
4. For the convenience of readers outside Japan, U.S. dollar amounts have been converted from yen using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. $1.

2. OVERVIEW OF PERFORMANCE

In the Japanese economy during the fiscal year under review, the government's proactive economic measures and other factors resulted in a stock market rally and yen depreciation, and economic activity continued to show a trend of gradual recovery as seen by improved corporate earnings, recovery in capital investment, the return of firm internal demand and improvement in the employment environment. Nevertheless, for parts of the economy, the outlook remains uncertain mainly due to warnings of economic slowdown overseas, notably in Europe, and fears of a temporary economic slowdown following the rise in consumption tax.

In the consumer electrical appliance retail industry, energy-saving models of electrical appliances such as refrigerators and air conditioners sold well mainly due to rising temperatures in the summer and electricity rate hikes. In addition, a decline in sales of visual-related products in comparison to strong sales prior to the fiscal year under review showed signs of bottoming out, partly reflecting price rises associated with customers upgrading to televisions with larger screens and launches of 4K televisions. Moreover, the market grew substantially around the end of the fiscal year in late March, due to the last minute rise in demand before the consumption tax increase and replacement of computers before the termination of Windows XP support.

Operating under these circumstances, the Company has positioned the fiscal year under review as a turning point year in which the Company would reinvent itself for its "third foundation." Accordingly, we made aggressive efforts to tackle various issues as a leading company in the electrical appliance mass-retail sector amid a background of greater-than-expected stagnation in the electrical appliance market and rapidly changing times. Issues we worked to address include combining store networks with an online presence in today's internet-dominated society and market shrinkage resulting from the falling birthrate and the aging population. We also evaluated the effectiveness of our initiatives in these areas.

We made concerted efforts to solve the issues currently faced by the electrical appliance mass-retail sector by translating our network of stores, which gives us a unique strength in this sector as a specialist able to propose services as solutions on a nationwide level in accordance with market needs, and our overwhelming number of members, into other platforms. Specifically, by combining physical and virtual sales channels, we matched internet prices at stores, provided a same-day employee delivery service over the internet, and enhanced and collaborated with the Yamada Denki Multi SNS service.

In our house-related business, we utilized our collaboration inside the Group with subsidiaries YAMADA SXL HOME CO., LTD., Housetec Inc. and Yamada Wood House Co., Ltd. (established in November 2013) and installed "Total Smarnity Life Corner" booths at 168 major stores across Japan. These booths provide a place for proposing concepts downstream in the manufacturing process such as of a wide range of small to large renovations.

Furthermore, we started developing hands-on home exhibition areas installed in store car parks. Such exhibitions serve as a new housing sales channel that is a first for the industry with no precedent among existing housing construction companies. We installed model houses at the Tecc Land New Kobe Tarumi store (Hyogo Prefecture) on March 7, 2014, and at the Tecc Land Kasukabe main store on March 14, 2014. We intend to roll out similar model houses throughout Japan from April 2014 onward, and expanding into new markets by way of these new concepts that can only be achieved by a mass retailer of electrical appliances that is familiar to the customer.

We also worked to construct the foundations necessary to strengthen our operational capabilities to generate profits at all companies that have become our subsidiaries, from supply chain aspects such as sales channels and logistics to personnel, information systems and others.

From a product perspective, sales of white goods and seasonal products were not only strong but also steady, particularly energy-saving, high-function models of refrigerators, washing machines and air conditioners mainly due to rising temperatures in the summer, electricity rate hikes, as well as a last minute rise in demand before the consumption tax increase. After the summer, visual-related products such as televisions and recorders appeared to have bottomed out and price rises were observed, which were associated with customers opting to upgrade to larger televisions and launches of high value-added products such as 4K televisions. Personal computer sales also grew substantially due to the demand for replacement of computers before the termination of Windows XP support.

We worked to counter continuing, dramatic market changes by optimizing and maximizing our point strategy, profit margins and net sales by each area and product while also verifying the effectiveness of these operations. Although a temporary decline in gross profit margin was observed in the course of this process, the fruits of these efforts led to a substantial improvement in the third quarter onward.

Meanwhile, although we focused on efforts to reduce various selling, general and administrative expenses, particularly point-related costs, we also carried out preliminary investments in areas including expenses for solution businesses in the medium- to long-term, principally in the house-related business.

Looking at the overseas business, because of the occurrence of geopolitical risks in China as well as our failure to construct a supply chain therein, we decided to withdraw from some of our businesses in China including at the Nanjing store, the Tianjin store and our Beijing office. As a result, we recorded a provision of ¥9,272 million for doubtful accounts under other expenses. We intend to rebuild our operations in Liaoning Province, China. We will also press ahead with the construction of a supply chain for the overseas business of our subsidiary, Best Denki Co., Ltd.

A characteristic of our Group is that it pursues breadth and depth in its field of business centering on the retail sale of electrical appliances and creates profit through the proactive operation of solution businesses such as in services, internet, points, corporate sales, information systems, logistics and house-related and environment-related matters (creation of a recycling society that implements reuse and recycling). We will continue to rise to the challenge of finding new possibilities in these areas by strengthening cooperation with all our Group companies.

As a leading company in the consumer electrical appliance retail industry, the Group practices ongoing CSR-oriented operations and continues to carry out CSR activities proactively. Details of the Group's CSR activities are continuously published in its CSR REPORT as well as Monthly CSR Activities, which are posted on the Company website (http://www.yamada-denki.jp/csr/index.html). Please note that some of these documents are published in Japanese only.

In order to advance to a new stage of store development, we have pursued a scrap-and-build policy to respond to market changes in addition to carrying out new store openings. The number of consolidated retail stores at the end of the fiscal year under review was 985 (comprising 664 stores directly managed by the Company, 177 stores managed by Best Denki Co., Ltd. and 144 stores operated by other consolidated subsidiaries). The total number of stores of the Group, including the stores managed by non-consolidated subsidiaries and franchise stores, was 4,401.

As a result, consolidated net sales increased by 11.3% year on year to ¥1,893,972 million, operating income increased by 1.0% year on year to ¥34,266 million, and net income decreased by 15.9% year on year to ¥18,667 million.

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

3. SALES PERFORMANCE

(1) Sales Results

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

Items	Year ended March 31, 2014		
	Amount (Millions of yen)	%	Year-on-year comparison (%)
Home electrical appliances			
Color televisions	120,183	6.3	3.1
Video/DVD players	63,310	3.3	(5.0)
Audio equipment	38,197	2.0	(1.5)
Refrigerators	158,934	8.4	32.4
Washing machines	108,980	5.8	21.5
Cooking appliances	81,618	4.3	13.1
Air conditioners	143,804	7.6	31.3
Other home cooling and heating equipment	36,115	1.9	(8.7)
Others	358,256	19.0	10.7
	1,109,397	58.6	13.6
Home information appliances			
Personal computers	240,042	12.7	16.9
PC peripheral equipment	119,449	6.3	6.1
PC software	11,342	0.6	1.5
Telephones/fax machines	7,556	0.4	(2.0)
Mobile phones	123,075	6.5	(1.2)
Others	50,452	2.6	0.8
	551,916	29.1	7.9
Other products			
Audio and visual software and books	91,195	4.8	(4.8)
Housing-related products	106,804	5.6	30.7
Others	34,660	1.9	(3.1)
	232,659	12.3	9.1
	1,893,972	100.0	11.3

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

(2) Sales per Unit

	Year ended March 31, 2014	
	Amount	Year-on-year comparison (%)
Net sales - millions of yen	1,893,972	11.3
Sales floor space (average) - m²	2,594,493	14.3
Sales per square meter - thousands of yen	730	(2.6)
Employees (average) - persons	32,589	0.6
Sales per employee - millions of yen	58	10.7

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 same law prior to its revision).
2. The figures shown above do not include consumption tax.
3. "Employees" include temporary employees.

4. ISSUES TO BE ADDRESSED BY THE GROUP

In the Japanese economy, although a moderate recovery trend is being observed, the consumer electrical appliance distribution industry, in which the Company belongs, is experiencing a temporary contraction in demand following the rise in consumption tax. Moreover, a corrective decline is expected as the replacement of computers and peripheral products runs its course now that Windows XP support has ended, and the increase in consumption tax scheduled for October 2015 is also expected to rein in spending. There are also causes for concern in the global economy such as the slowing of growth in newly emerging economies and political instability in Europe. As a result, the situation remains unpredictable.

Operating under these circumstances, we will strive to maintain and improve market share by improving store strength through the scrap-and-build policy and renovations, and by strengthening store networks and optimizing their efficiency through selective store openings in areas with potential.

The Group has a business characteristic of developing various solutions businesses centered on the retail sale of electrical appliances in which it pursues the breadth and depth of each respective field. The Group will strive to differentiate itself from other companies by pursuing these potentials.

In our house-related business, which is one of these initiatives, we have installed the "Total Smarnity Life Corner" booths in Yamada Denki stores. Through effective collaboration inside the Group with the residential housing construction companies, YAMADA SXL HOME CO., LTD. and Yamada Wood House Co., Ltd., and the housing and facility equipment manufacturer, Housetec Inc., we are creating new markets by way of downstream concepts (flexible, comprehensive approaches to offering proactive proposals).

In addition, searching endlessly for possibilities as a distributor, we carry out personal trainings on an ongoing basis. We strive to improve both sales and customer satisfaction through not only training facility-based group education, study sessions by video conferencing, onsite training (OJT) and e-learning, but also proactive skill accreditation and follow-up courses based on in-house and external systems.

Responding to Japan's aging society and low birthrate, we will proactively promote female employees into management positions, improve the workplace environments and improve business efficiency.

As a leading company in the consumer electrical appliance retail industry, we will continue to develop relationships of trust with a variety of stakeholders such as local communities. We will also continue to promote CSR-oriented operations in which we capitalize on Group synergies.

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 below 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 47 prefectures of Japan as well as overseas. The Group continues to plan retail store openings both in Japan and overseas. In Japan, the Group aims to streamline its store network and maintain and improve its market share by implementing a scrap-and-build policy appropriate to the size of the Japanese market in urban centers, suburbs, small-scale trading areas and community-based retail areas through the development of a nationwide chain of stores, as well as by selective store openings in areas with potential. However, the Group will have to secure for itself adequately priced land in favorable locations, which will make it susceptible to competition from competitor companies. The Group expects competition from competitors in areas where its stores have been already established to be fierce. The Group also expects labor outlays 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 markets and conditions of the area in which such stores are opened. In addition, there is a possibility that stores that are closed due to a revision of the store development policy may 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 carefully thought-out decisions. However, there is always the possibility that changes or delays could occur in the planning due to issues relating to real property. 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, any circumstance that thwarts capital procurement efforts could block the execution of business plans in the future.

(2) Competition

The consumer electrical appliance retail industry exists in an environment of fierce competition. The Group is faced with competitor companies in the form of not only large-scale consumer electronics retailers but also all businesses that handle household electronics including supermarkets, home centers and various mail-order sales, such as internet shopping companies and the like. Although the Group recognizes its leading position in the industry, it is confronted with various forms of competition such as with respect to pricing, new store openings and customer and human resource acquisition. In addition, while the Group carries out store openings in accordance with the needs of a wide range of customers in urban centers, suburbs, small-scale trading areas and community-based retail areas, the consumer electrical appliance retail industry cannot be said to be stable, and it is likely that the Group will continue to face competition from rival companies in all regional areas. The Group believes that there is a possibility of aggravated competition due to the appearance of new companies on the market, as well as intensified competition among stores and 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 is not able to successfully adapt to such situations, 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 and may affect performance and financial position of the Group.

(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. The Company will carefully study and examine the conditions before acting in order to alleviate risk. However, contingency liabilities may arise after such actions take place or due to other unforeseeable issues. The Company also believes that initial expectations may not materialize or that investments may 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

Similar to other retailers, the Group is subject to 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, as an operator engaged in the business of recycling and reuse with the aim of reducing the environmental load and creating a recycling-oriented society, the “Act on Recycling of Specified Kinds of Home Appliances” (Home Appliance Recycling Act), as applicable. Newly established laws and/or regulations, revisions to existing rules or stricter interpretations of laws and regulations by the regulatory 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.

In relation to the opening of new stores with store area exceeding 1,000 square meters, or the expansion of existing stores beyond such size, local governments enact and enforce regulations in accordance with the provisions on store openings under the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment so as to preserve the living environment of the surrounding region. The Group is aware that its new store openings and expansion of existing stores are subject to regulations based on such Act and will observe such Act for the consideration of the living environment of the surrounding region and the like. Depending on the time required for surveys under such Act, delays or the like 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 based on 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 such regulations. The Group will observe such regulations. It is noted that the Group’s operating results may be affected if such regulations are tightened in the future.

Furthermore, increased restrictions under the Construction Business Act, the Building Standards Act, the Building Lots and Buildings Transaction Business Act and/or other related laws and regulations applicable to the Group’s housing business may negatively affect the performance and financial position 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. Various revisions in laws and regulations or changes in domestic and/or overseas economic factors, such as interest rates, fuel prices, the number of housing projects started, unemployment figures, increases in tax rates, changes in demographics, changes in exchange rates or stock prices, a slowdown in the global economy or partial slowdown in emerging markets, may not only push up the cost of sales and business expenses but also reduce disposable incomes and drive down the demands for the Group’s products. Regarding the Japanese economy, the government’s proactive economic measures and other factors resulted in a stock market rally and yen depreciation, and economic activity continued to show a trend of gradual recovery as seen by improved corporate earnings, recovery in capital investment, the return of firm internal demand and improvement in the employment environment. Nevertheless, for parts of the economy, the outlook remains uncertain mainly due to warnings of economic slowdown overseas, notably in Europe, and fears of a temporary economic slowdown following the rise in consumption tax. Furthermore, the consumer electrical appliance retail industry is subject to negative effects from previous demand brought forth by the "eco-points" program for electrical appliances which ended on March 31, 2011, the universal switch to digital televisions on July 24, 2011 and the consequent lulls in demand in reaction to the above, temporary contraction in demand following a surge up to March 31, 2014 in line with the rise in consumption tax, and a corrective decline reflecting the replacement of computers and peripheral products following the end of Windows XP support running its course, while the increase in consumption tax scheduled for October 2015 is also expected to rein in spending. Consequently, the consumption environment for this industry is expected to remain uncertain. If disposable income and consumer spending in Japan weaken, this may have a negative impact on sales of products handled by the Group resulting in a decline in net sales.

There are also many causes for concern in the global economy such as the slowing of growth in newly emerging economies and political instability in Europe. As a result, the situation remains unpredictable. Under current conditions, with overseas political and economic instability 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 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 affected, particularly 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, the Group sees increases during the 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 or the like 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, recorders, and the like, 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 demands springing up due to seasonal changes, weather conditions or other events, not to mention demand for the Group's products in general. Any significant deviation from such predictions may 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 and make sure that sufficient quantities of such products are in stock to meet consumer needs. It is considered important to spur demand by regularly introducing new products and technologies to consumers. If these activities fail to bear fruit, the Group's performance and financial position may be affected. Such failure can be caused by a lack of certain products due to competition from other retailers, change in the Group's relationship with manufacturers or new product or technology on which a manufacturer is focusing being inconsistent with consumer needs. Also, the introduction of a new product may result in a decrease in the sales of existing equivalent products.

(8) Product Purchasing

To have favorable Group performance, it is essential to always have in place a system under which the necessary products are purchased in necessary quantities at appropriate prices. Unfortunately, if maintaining regular product supplies becomes difficult due to, among other matters, a change in the relationship with business partners, product supplies becoming unstable due to global shortages of resources and materials, or fragmentation in the distribution network caused by a natural disaster or a traffic accident, product purchasing according to a preconceived plan may become unfeasible. Such circumstances may 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 producer of housing. Even so, the performance and financial position of the Group may be negatively affected if a serious issue with quality arises due to unforeseen circumstances.

(10) Impairment on 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 if there is deterioration in the profitability of the Group's stores, a dramatic fall in the market price of the assets possessed by the Group or the like. 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, it cannot guarantee that it 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, which will negatively affect 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 the 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 point card certificates, registrations for the Group's service for 24-hour shopping through mobile phones, the processing of credit card applications, paid service subscription of several long-term product warranties, customer information related to distribution, construction or repairs, and a significant amount of customers' personal information. Such information is handled by an internal control system under which awareness with respect to information management is heightened and ample caution is taken to prevent leaks. Any such leaks may damage the reputation of the Group and affect its performance and financial position.

(13) Natural Disasters

In cases where the Group's operations are interrupted by damages to its store facilities or blackouts as a result of natural disasters from typhoons or earthquakes, products cannot be procured due to an obstruction, the Group is required to close its stores in accordance with evacuation advice due to the effects of radioactive materials from an accident at a nuclear power station, operations at the Group's stores are partially impeded due to the occurrence of a disaster from the spread of an infectious disease such as a new strain of influenza or the like, or if it becomes difficult to enter the affected area due to delays in recovery and restoration, there may be a significant decrease in the Group's sales, which may in turn have a significant impact on the Group's performance.

(14) Risks Pertaining to the Housing Equipment Business

The Group works to check the status of its quality control for housing equipment and strives to maintain the quality of such equipment, but in the unlikely event of a problem with product quality occurring, this may negatively affect the Group's performance and financial position.

(15) Overseas Operations

The Group operates an overseas store network centered in Asia, mainly in China, Singapore, Malaysia and Indonesia. Although the Group carries out careful advance studies prior to starting operations overseas, there may be differences in business customs, revisions to laws, tightening of environmental regulations, dramatic economic changes or unanticipated changes in foreign exchange rates in any of the relevant countries after the start of operations, and it may become difficult to secure local human resources in any such countries. Such circumstances may make it difficult for the Group to conduct business operations or secure business revenue as initially expected. Furthermore, the Group pursues development through full ownership of capital and overseas business development through joint ventures with local partners, and it may become difficult to continue such operations for reasons such as a change in the joint venture partner's operating environment, a difference of opinion or a difference in understanding between the Japanese language and the relevant local language. Other than the above, it is conceivable that damage caused by deterioration in orders or deliberate damage to store facilities resulting from changes in the internal political situations of the relevant countries, the occurrence of national disputes, or the occurrence of terrorism or demonstrations in the areas surrounding the stores caused by political or economic problems between Japan and the relevant countries may necessitate suspensions of store operations or make it difficult to continue operations in the relevant areas depending on the circumstances. These factors may negatively affect the Group's performance and financial position.

(16) The Company's Original Brand Products

The Group designs original products under an original brand called "HERB Relax," outsources their manufacturing thereof and sells the finished products. The Group works to check the status of its quality control for these original products and strives to maintain the quality of such products, but in the unlikely event of a problem with product quality occurring, this may result in a shortage of supplies or excess of inventories due to a gap between supply and demand, which may negatively affect the Group's performance and financial position.

6. IMPORTANT AGREEMENTS

Credit Sales Franchise Agreements

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

Name of consumer credit company	Execution date	Contract period
JCB Co., Ltd.	April 2005	Upon request for cancellation by one of the parties with three months advanced notice
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

Since the amount of research and development activities is minimal, R&D disclosures have been omitted. There has been no material change in the research and development activities of the Group in the fiscal year under review.

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

Items in the text below 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 have been prepared based on generally accepted accounting standards of Japan.

In their preparation, important accounting policies that were applied are as stated in Note 2 to the consolidated financial statements, entitled the "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

When calculating provisions and valuating assets or the like, the Group makes estimates and judgments based on various factors considered reasonable given the past results and conditions of applicable transactions, and results of such estimates/judgments 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 ¥1,196,288 million, up ¥57,899 million (5.1%) from the end of the previous fiscal year. This was mainly due to an increase in merchandise and finished goods.

Total liabilities amounted to ¥642,934 million, up ¥59,936 million (10.3%) from the end of the previous fiscal year. This was mainly due to increases in long-term loans payable and income taxes payable.

Net assets amounted to ¥553,354 million, down ¥2,037 million (0.4%) from the end of the previous fiscal year, mainly reflecting an increase in treasury stock, despite an increase in retained earnings. As a result, the equity ratio was 44.2% (down 2.6 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 amounted to ¥1,893,972 million, up 11.3% year on year. This increase was due to the fact that the sales of white goods and seasonal products were not only strong but also steady, particularly energy-saving, high-function models of refrigerators, washing machines and air conditioners mainly due to rising temperatures in the summer, as well as a last minute rise in demand before the consumption tax increase. Also, after the summer, visual-related products such as televisions and recorders appeared to have bottomed out and price rises were observed, which were associated with customers opting to upgrade to larger televisions and launches of high value-added products such as 4K televisions. Personal computer sales also grew substantially due to the demand for replacement of computers before the termination of Windows XP support.

With regard to gross profit, we worked to counter continuing, dramatic market changes by optimizing and maximizing our point strategy, profit margins and net sales by each area and product while also verifying the effectiveness of these operations. Although a temporary decline in gross profit margin was observed in the course of this process, the fruits of these efforts led to a substantial improvement in the third quarter onward. As a result, gross profit amounted to ¥453,127 million, up 8.3% year on year.

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

Selling, general and administrative expenses for the fiscal year under review amounted to ¥418,861 million, up 8.9% year on year. This was due to expenses associated with consolidating Best Denki Co., Ltd. (hereinafter, "Best Denki"; in the previous fiscal year, the three months of the fourth quarter of the fiscal year ended February 28, 2013, were consolidated), as well as increases in various expenses in line with new store openings such as personnel costs and rent. We also carried out preliminary investments in areas including expenses for solution businesses in the medium- to long-term, principally in the house-related business. Meanwhile, we continued implementation of various cost reduction measures and scrupulous efforts to control point-related costs. As a result, operating income amounted to ¥34,266 million, up 1.0% year on year.

Other income for the fiscal year under review was ¥662 million. This was mainly due to increases in both income and expenses associated with consolidating Best Denki, developments including an increase in purchase discounts reflecting growth in purchases in line with a surge in demand prior to the consumption tax rise and the recording of foreign exchange gains reflecting further yen depreciation, and provision of allowance for doubtful accounts associated with our withdrawal from some of our businesses in China including at the Nanjing store, the Tianjin store and our Beijing office, due to the occurrence of geopolitical risks in China as well as our failure to construct a supply chain therein.

As a result of the above, income before income taxes and minority interests decreased by ¥11,237 million to ¥34,928 million (down 24.3%) compared with the previous fiscal year.

(iii) Income taxes-current, 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 ¥14,966 million, income before minority interests was ¥19,962 million and minority interests in income amounted to¥1,295 million.

As a result of the above, net income decreased by ¥3,537 million to ¥18,667 million (down 15.9%) 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 ¥77,754 million, down ¥152 million (0.2%) compared with the end of the previous fiscal year.

Cash flows during the fiscal year under review were as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥45,148 million.

This was mainly due to recording of income before income taxes and minority interests and a decrease in income taxes paid, despite an increase in inventories.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥38,607 million.

This was mainly due to purchases of property and equipment associated with store openings.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥7,646 million.

This was mainly due to repayments of loans payable and purchases of treasury stock, despite proceeds from long-term loans payable.

9. CORPORATE GOVERNANCE

(1) Corporate Governance Structures

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

The Company has adopted the Audit & Supervisory Board system, and it conducts supervision and monitoring of the execution of operations through its Board of Directors and the Audit & Supervisory Board. Also, as part of the efforts to facilitate rapid responses to changes in the business environment, the Company has adopted a system under which the execution of operations is carried out by several executive officers, which establishes a clear separation between the execution of operations and the business decision-making and management oversight functions. The senior executives who serve for eight business departments and on management committees and sectional meetings are the President & CEO and the Executive Vice-President & COO (both with representative authority). Operating under these senior executives, the executive officers concentrate on their execution of operations and assume responsibility for the management of specified functions. The Company has established a CSR Committee, in addition to the existing Compliance Committee and Internal Audit Office, to oversee the formulation of specific CSR-related policies and standards covering areas such as business ethics and the like. The CSR Committee conducts ongoing activities aimed at enhancing internal and external awareness of CSR-related issues.

The Company adopted the above-described structures in order to implement concrete corporate governance structures that would lead to the realization of 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 an important forum for shareholders, as owners of the Company, 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 the opportunity to exercise their rights appropriately. Because foreigners make up a large percentage of the shareholders, the Company strives to figure out ways to meet their needs, in addition to preparing and delivering notices regarding the General Meeting of Shareholders in English in a timely manner.

(ii) Board of Directors

The Company's Board of Directors, which comprises 16 directors, convenes meetings once a month. Extraordinary Board meetings are also convened when necessary. The Company's Board of Directors reviews any important issues related to the Company's business, discusses the status of the Company's performance and takes prompt action as required.

One external director and two external Audit & Supervisory Board members participate in meetings of the Board of Directors.

(iii) Management Meetings

Management meetings are as a rule convened weekly except on weeks when meetings of the Board of Directors are held. At the meetings, participants report on management issues and progress of execution of operations by executive officers, and take prompt action as required.

(iv) Management Strategy Meetings

Relevant directors and managers in the position of executive officer or above attend weekly management strategy meetings, at which senior management checks on the progress made on management strategy themes. Management strategy themes are revised or discontinued as needed and provide a framework to enable flexible planning, drafting and execution of strategies amid a drastically changing operating environment.

(v) Audit & Supervisory Board

The Company's Audit & Supervisory Board system relies on two standing Audit & Supervisory Board members and two non-standing (external) Audit & Supervisory Board members. These auditors participate in the Board of Directors meetings and other important business meetings to monitor the directors' performance of their duties. The Audit & Supervisory Board can work together with the Internal Audit Office and the auditing firm in carrying out audits such as by exchanging information as necessary and the like. The standing Audit & Supervisory Board member, or his or her designee, can be present at meetings of the Board of Directors and other meeting where the execution of operations is discussed, at which such person may state his/her opinions or demand explanations.

(vi) Internal auditing

The Company has established the Internal Audit Office to strengthen its internal auditing functions. Reporting directly to the President and employing six full-time staff, such office engages in the auditing of daily business activities, observation of inventory count or the like, internal checks and internal auditing. Functioning in cooperation with the Audit & Supervisory Board members and the auditing firm, such as by exchanging information as necessary and the like, such office provides an audit perspective to ensure that the Company's business activities are conducted properly and efficiently.

(vii) Auditing firm

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

(viii) Number of directors and election rules

The Company's Articles of Incorporation limit the maximum number of directors to 17. An approval of resolution to elect directors requires a simple majority vote in favor 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.

(ix) 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 risks that arise in the case of a major accident, disaster or other events, the Company has prepared a "Disaster Response Manual." The responsible director will set up an emergency response center and promptly take action if a disaster or other untoward events occur.

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

(2) Status of Internal Auditing and Audits by Audit & Supervisory Board Members

The organizations of the Company's internal auditing and the Audit & Supervisory Board members and cooperation between the two are described in item (v) (Audit & Supervisory Board) and item (vi) (Internal auditing) under (1) Corporate Governance Structures.

(3) External Directors and External Audit & Supervisory Board Members

The Company has one external director. External Director Mr. Tsukasa Tokuhira provides valuable opinions and suggestions to management of the Company as an external director based on his abundant experience as a long-standing leader in the distribution industry. Mr. Tsukasa Tokuhira serves as Representative Director and President of Cross Co., Ltd. and the Company has a trading relationship with Cross Co., Ltd. that includes the provision of outsourced operations. However, because the scale of this relationship is insubstantial and accounts for less than 0.0001% of the Company's consolidated net sales, the Company believes that it is not significant enough to cause a conflict of interests.

The Company has two external Audit & Supervisory Board members. External Audit & Supervisory Board member Mr. 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 and the like. However, because the scale of this relationship is insubstantial and accounts for less than 0.04% of the Company's consolidated net sales, the Company believes that it is not significant enough to cause a conflict of interests. Mr. Yutaka Nakamura has been elected as external Audit & Supervisory Board member mainly based on his wealth of business management experience. External Audit & Supervisory Board member Mr. Masamitsu Takahashi concurrently serves as Representative Partner of Hikari Certified Public Tax Accountants Corporation. The Company does not have a personal relationship, capital relationship, trading relationship or share any other interests with Hikari Certified Public Tax Accountants Corporation. Mr. Masamitsu Takahashi has been elected as external Audit & Supervisory Board member mainly based on his capacity as a tax accountant, which is valuable with respect to the Company's accounting system and internal auditing and will help ensure soundness and appropriateness of decision-making by the Board of Directors. The above-mentioned external Audit & Supervisory Board members may be present at meetings of the Board of Directors and/or Audit & Supervisory Board and may work with the Internal Audit Office and the accounting auditor in carrying out audits, during which such members may state their opinions or demand explanations.

Although the Company has not established its own criteria or policies regarding the independence of external directors and external Audit & Supervisory Board members to be applied when appointing such persons, the Company refers to criteria established by other institutions, such as of the securities exchange and the like, in assessing the independence of independent director/auditor considered for appointment.

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
ASSETS			
Current assets:			
Cash and time deposits (Notes 5 and 7)	¥ 79,009	¥ 79,522	$ 767,674
Notes and accounts receivable (Notes 7 and 16):			
- Trade	57,325	66,305	556,986
- Non-consolidated subsidiaries and affiliated companies	952	1,294	9,252
Sub-total	58,277	67,599	566,238
Inventories	325,950	270,275	3,167,023
Deferred tax assets (Note 15)	14,848	11,643	144,269
Other current assets (Notes 7 and 26)	56,887	53,893	552,727
Allowance for doubtful accounts	(8,695)	(657)	(84,481)
Total current assets	526,276	482,275	5,113,450
Property and equipment:			
Buildings and structures, net (Notes 10, 11 and 18)	232,713	223,303	2,261,102
Land (Notes 11 and 13)	185,856	179,583	1,805,834
Lease assets, net (Notes 10, 11 and 12)	11,060	3,360	107,466
Others, net (Notes 10 and 11)	19,606	25,455	190,493
Total property and equipment, net	449,235	431,701	4,364,895
Intangible assets (Note 10)	41,722	43,078	405,382
Investments and other assets:			
Investment securities (Notes 7 and 8)	10,329	11,449	100,358
Long-term loans receivable	8,418	8,719	81,790
Guarantee deposits (Notes 7 and 26)	120,495	123,123	1,170,767
Net defined benefit asset (Note 17)	2,009	-	19,522
Deferred tax assets (Note 15)	14,446	10,805	140,365
Other assets (Note 11)	28,982	29,752	281,594
Allowance for loss on investments in subsidiaries	-	(35)	-
Allowance for doubtful accounts	(5,624)	(2,478)	(54,645)
Total investments and other assets	179,055	181,335	1,739,751
Total assets	¥ 1,196,288	¥ 1,138,389	$ 11,623,478

CONSOLIDATED BALANCE SHEETS

Yamada Denki Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	*2014*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 7 and 26)	¥ 117,161	¥ 109,214	$ 1,138,365
Short-term loans payable (Notes 7 and 13)	77,605	113,835	754,032
Current portion of bonds (Notes 7 and 14)	59,000	-	573,261
Current portion of long-term loans payable (Note 13)	59,603	43,868	579,116
Lease obligations (Notes 12 and 13)	2,442	1,988	23,723
Income taxes payable (Note 7)	16,069	1,639	156,131
Provision for bonuses	7,582	6,106	73,671
Provision for directors' bonuses	123	144	1,194
Provision for point card certificates	17,612	21,332	171,123
Provision for warranties for completed construction	244	232	2,370
Provision for loss on liquidation of subsidiaries	1,154	557	11,218
Other current liabilities (Note 13)	68,845	53,798	668,923
Total current liabilities	427,440	352,713	4,153,127
Long-term liabilities:			
Bonds (Notes 7 and 14)	-	59,000	-
Long-term loans payable (Notes 7 and 13)	132,860	102,794	1,290,906
Lease obligations (Notes 12 and 13)	9,955	2,374	96,722
Asset retirement obligations (Note 18)	14,733	12,733	143,153
Provision for retirement benefits (Note 17)	-	19,411	-
Provision for directors' retirement benefits	419	3,463	4,066
Provision for product warranties	15,763	13,517	153,155
Provision for loss on interest repayments	641	913	6,230
Net defined benefit liability (Note 17)	24,191	-	235,051
Other long-term liabilities (Notes 13 and 15)	16,932	16,080	164,522
Total long-term liabilities	215,494	230,285	2,093,805
Total liabilities	642,934	582,998	6,246,932
Contingent liabilities (Note 16)			
Net assets (Note 19):			
Common stock:			
authorized – 2,000,000,000 shares			
issued – 966,489,740 shares in 2014, 96,648,974 shares in 2013	71,059	71,059	690,428
Capital surplus	70,977	70,977	689,635
Retained earnings	427,498	414,484	4,153,695
Treasury stock, at cost – 73,115,448 shares in 2014 and 2,438,797 shares in 2013	(38,320)	(23,046)	(372,334)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes (Note 8)	195	(721)	1,898
Foreign currency translation adjustments	(1,357)	(149)	(13,181)
Remeasurements of defined benefit plans (Note 17)	(1,020)	-	(9,911)
Subscription rights to shares (Note 20)	148	2	1,439
Minority interests	24,174	22,785	234,877
Total net assets	553,354	555,391	5,376,546
Total liabilities and net assets	¥ 1,196,288	¥ 1,138,389	$ 11,623,478

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	*2014*
Net sales (Notes 25 and 26):			
- Trade	¥ 1,883,745	¥ 1,687,878	$ 18,303,006
- Non-consolidated subsidiaries and affiliated companies	10,227	13,611	99,363
Sub-total	1,893,972	1,701,489	18,402,369
Cost of sales (Notes 21 and 26)	1,440,845	1,282,969	13,999,662
Gross profit	453,127	418,520	4,402,707
Selling, general and administrative expenses (Notes 17, 22 and 26)	418,861	384,589	4,069,775
Operating income	34,266	33,931	332,932
Other income (expenses):			
Interest income	1,181	1,261	11,472
Interest expenses	(2,057)	(1,618)	(19,988)
Purchase discounts	6,925	4,987	67,284
Impairment loss (Note 11)	(3,458)	(111)	(33,594)
Foreign exchange gains	3,172	3,653	30,825
Gain on negative goodwill	-	3,920	-
Loss on valuation of stocks of subsidiaries	(630)	(2,500)	(6,121)
Provision of allowance for doubtful accounts	(9,272)	(1,244)	(90,094)
Others, net (Notes 23 and 26)	4,801	3,886	46,652
Total other income	662	12,234	6,436
Income before income taxes and minority interests	34,928	46,165	339,368
Income taxes (Note 15):			
Current	22,269	15,712	216,368
Deferred	(7,303)	9,526	(70,955)
Total income taxes	14,966	25,238	145,413
Income before minority interests	19,962	20,927	193,955
Minority interests in income (loss)	1,295	(1,277)	12,582
Net income	¥ 18,667	¥ 22,204	$ 181,373

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Basic net income	¥ 20.22	¥ 23.57	$ 0.20
Diluted net income	20.21	-	0.20
Cash dividends applicable to the year	6.00	60.00	0.06

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, 2014 and 2013

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
Income before minority interests	¥ 19,962	¥ 20,927	$ 193,955
Other comprehensive income , net of taxes (Note 24):			
Valuation difference on available-for-sale securities	919	449	8,925
Deferred losses on derivatives under hedge accounting	-	(34)	-
Foreign currency translation adjustments	(1,149)	(107)	(11,167)
Share of other comprehensive income of associates accounted for using equity method	5	5	53
Total other comprehensive income	(225)	313	(2,189)
Comprehensive income	¥ 19,737	¥ 21,240	$ 191,766
Comprehensive income attributable to:			
Owners of the Company	¥ 18,376	¥ 22,375	$ 178,546
Minority interests	1,361	(1,135)	13,220

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, 2014 and 2013

		Millions of yen										
		Shareholders' equity				Accumulated other comprehensive income (loss)						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities, net of taxes (Note 8)	Deferred gains on derivatives under hedge accounting, net of taxes (Note 9)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 17)	Subscription rights to shares (Note 20)	Minority interests	Total net assets
Balance at April 1, 2012	96,649	¥ 71,059	¥ 70,977	¥ 401,729	¥ (23,046)	¥ (1,058)	¥ 17	¥ -	¥ -	¥ 4	¥ 7,061	¥ 526,743
Cash dividends				(7,160)								(7,160)
Net income				22,204								22,204
Changes in scope of consolidation				(2,289)								(2,289)
Other changes in the year, net						337	(17)	(149)		(2)	15,724	15,893
Balance at March 31, 2013	96,649	71,059	70,977	414,484	(23,046)	(721)	-	(149)	-	2	22,785	555,391
Issuance of new stock	869,841											
Cash dividends				(5,653)								(5,653)
Net income				18,667								18,667
Purchase of treasury stock					(15,274)							(15,274)
Changes in scope of consolidation												
Other changes in the year, net						916	-	(1,208)	(1,020)	146	1,389	223
Balance at March 31, 2014	966,490	¥ 71,059	¥ 70,977	¥ 427,498	¥ (38,320)	¥ 195	¥ -	¥ (1,357)	¥ (1,020)	¥ 148	¥ 24,174	¥ 553,354

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity				*Accumulated other comprehensive income (loss)*						
	Common stock	*Capital surplus*	*Retained earnings*	*Treasury stock, at cost*	*Valuation difference on available -for-sale securities, net of taxes (Note 8)*	*Deferred gains on derivatives under hedge accounting net of taxes (Note 9)*	*Foreign currency translation adjustments*	Remeasurements of defined benefit plans (Note 17)	*Subscription rights to shares (Note 20)*	*Minority interests*	*Total net assets*
Balance at April 1, 2013	$ 690,428	$ 689,635	$ 4,027,244	$ (223,919)	$ (7,005)	$ -	$ (1,451)	$ -	$ 20	$ 221,388	$5,396,340
Cash dividends			(54,922)								(54,922)
Net income			181,373								181,373
Purchase of treasury stock				(148,415)							(148,415)
Changes in scope of consolidation											
Other changes in the year, net					8,903	-	(11,730)	(9,911)	1,419	13,489	2,170
Balance at March 31, 2014	$ 690,428	$ 689,635	$ 4,153,695	$(372,334)	$ 1,898	$ -	$ (13,181)	$ (9,911)	$ 1,439	$ 234,877	$5,376,546

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, 2014 and 2013

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 34,928	¥ 46,165	$ 339,368
Depreciation	23,413	21,718	227,486
Amortization of goodwill	1,169	964	11,361
Increase in provision for retirement benefits	-	2,439	-
Decrease in provision for point card certificates	(3,720)	(555)	(36,140)
Increase (decrease) in provision for product warranties	2,245	(1,749)	21,814
Increase in allowance for doubtful accounts	10,713	747	104,094
Increase in net defined benefit liability	1,261	-	12,252
Interest and dividend income	(1,292)	(1,328)	(12,551)
Interest expenses	2,057	1,618	19,988
Foreign exchange gains	(3,167)	(546)	(30,774)
Gain on negative goodwill	-	(3,920)	-
Loss on valuation of investment securities	24	969	230
Loss on valuation of stocks of subsidiaries	630	2,500	6,121
Loss on sale and disposal of property and equipment, net	577	303	5,611
Impairment loss	3,458	111	33,594
Decrease (increase) in notes and accounts receivable	9,897	(22,897)	96,162
Increase (decrease) in advances received	10,313	(2,763)	100,204
Increase in inventories	(54,276)	(47,018)	(527,359)
Increase in notes and accounts payable	6,076	18,636	59,030
Increase in consumption taxes payable	1,271	344	12,350
Increase in other current assets	(603)	(5,919)	(5,861)
Increase in other current liabilities	4,907	2,999	47,677
Other, net	781	(541)	7,586
Sub-total	50,662	12,277	492,243
Interest and dividend income received	373	662	3,622
Interest expenses paid	(2,140)	(1,678)	(20,790)
Income taxes paid	(3,747)	(24,050)	(36,405)
Net cash provided by (used in) operating activities	¥ 45,148	¥ (12,789)	$ 438,670

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	*2014*
Cash flows from investing activities:			
Payments into time deposits	¥ (1,011)	¥ (15,172)	$ (9,823)
Proceeds from withdrawal of time deposits	1,372	15,445	13,334
Purchase of investments in subsidiaries and affiliated companies	(50)	(989)	(486)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(6,900)	-
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	-	9,724	-
Payment of loans receivable	(3,377)	(3,480)	(32,813)
Collection of loans receivable	1,170	666	11,372
Purchase of property and equipment	(39,547)	(37,629)	(384,249)
Purchase of intangible assets	(729)	(1,311)	(7,083)
Payment for guarantee deposits	(6,338)	(8,124)	(61,584)
Proceeds from collection of guarantee deposits	9,365	7,823	90,992
Other , net	538	715	5,223
Net cash used in investing activities	(38,607)	(39,232)	(375,117)
Cash flows from financing activities:			
Net (decrease) increase in short-term loans payable	(36,230)	88,335	(352,021)
Proceeds from long-term loans payable	100,300	111,457	974,544
Repayments of long-term loans payable	(54,499)	(72,206)	(529,528)
Redemption of bonds	-	(70,000)	-
Purchase of treasury stock	(15,446)	-	(150,081)
Repayments of lease obligations	(2,948)	(3,246)	(28,645)
Proceeds of sales and leasebacks	6,827	-	66,331
Cash dividends paid	(5,652)	(7,162)	(54,916)
Other, net	2	(4)	24
Net cash provided by (used in) financing activities	(7,646)	47,174	(74,292)
Effect of exchange rate change on cash and cash equivalents	953	718	9,262
Net decrease in cash and cash equivalents	(152)	(4,129)	(1,477)
Cash and cash equivalents at beginning of year	77,906	76,344	756,959
Increase in cash and cash equivalents from newly consolidated subsidiaries	-	5,691	-
Cash and cash equivalents at end of year (Note 5)	¥ 77,754	¥ 77,906	$ 755,482

Supplemental cash flow information (Note 6)

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, 2014 and 2013

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 the 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 2013 financial statements to conform to the classifications used in the 2014 financial statements. Such reclassifications had no impact on previously reported results of operations or retained earnings.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. $1. Such 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 33 (38 in 2013) significant subsidiaries (together, the "Group"). For the current fiscal year ended March 31, 2014, Daikuma Co., Ltd. ("Daikuma"), Sato Musen Co., Ltd. ("Sato Musen") and Kouziro Co., Ltd. ("Kouziro") were excluded from the scope of consolidation as a result of an absorption type merger with the Company as the surviving company. Housetec Holdings Inc. ("Housetec Holdings") was also excluded from the scope of consolidation as a result of an absorption type merger with Housetec Co., Ltd. as the surviving company, which has been the consolidated subsidiary of the Company. In addition, B&B Co., Ltd. was excluded from the scope of consolidation as a result of its liquidation on August 30, 2013 although its statement of income up to the date of liquidation has been included.

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

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

Investments in three affiliated companies have been accounted for using the equity method.

Investments in non-consolidated subsidiaries and the remaining affiliated companies were not accounted for using the equity method, but instead carried at cost, because their impact on the consolidated financial statements has been immaterial.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, have been 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 ten years.

The fiscal year-ends of five foreign consolidated subsidiaries and all domestic consolidated subsidiaries are at the end of December and February, respectively. The financial statements of these subsidiaries as of and for the years ended December 31, 2013 and 2012 or February 28, 2014 and 2013, as applicable, were used in preparing the consolidated financial statements. All material transactions which occurred during the periods from their respective fiscal year-ends to March 31 have been accounted for in the consolidation process.

(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 and maturities not exceeding three months at the time of purchase.

(c) Securities

Under Japanese GAAP, companies are required to examine their intent for holding each security and to classify their 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, or (iv) available-for-sale securities 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 such 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 Securities or Held-to-maturity Debt Securities.

Investments in limited partnerships ("LPS") and/or similar ventures (considered as securities under the Japanese Financial Instruments and Exchange Act) are stated at the amounts of the corresponding equity portions using the most recent financials available based on the reporting date stipulated in the contracts relating to such LPS and/or similar 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.

Also, if an interest rate swap contract is used as hedge and meets certain hedging criteria, the net amount to be paid or received under such interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which such swap contact was executed.

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.

The 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. Under Japanese GAAP, however, such assessment is not required for certain derivatives which meet specific criteria.

(e) Inventories

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

(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 the respective assets, except for 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 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 is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from continued use and eventual disposition of such asset or asset group. The impairment loss is measured as the amount by which the carrying amount of an asset exceeds its recoverable amount, which should be the higher of the discounted cash flows from 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

An allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and the amount calculated based on historical loss experience for other doubtful receivables.

(k) Provision for Bonuses

A provision for bonuses is provided at the estimated amount accrued during the current fiscal year to cover future bonus payments to employees.

(l) Provision for Directors' Bonuses

A provision for bonuses to directors and Audit & Supervisory Board members is provided at the estimated amount accrued during the current fiscal year to cover future bonus payments to directors and Audit & Supervisory Board members.

(m) Provision for Point Card Certificates

The Company and its consolidated subsidiaries which conduct similar businesses provide their customers with credit points when they make purchases at their stores. Thus, the Company and some of its consolidated subsidiaries set aside a provision for the estimated future costs of credit points.

(n) Provision for Warranties for Completed Construction

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

(o) Provision for Losses on Interest Repayments

One consolidated subsidiary provides for losses on interest repayments at the estimated amount of future customer claims for a refund on the portion of the loan interest in excess of the maximum rate prescribed under the Interest Rate Restriction Act.

(p) Provision for Directors' Retirement Benefits

The Company and some of its consolidated subsidiaries each sets aside a provision for directors' and Audit & Supervisory Board members' retirement benefits based on internal rules. Such provision is calculated at the estimated payable amount if all officers were to retire at the balance sheet date. The payment of such retirement benefits is subject to approval at a shareholders' meeting.

(q) Provision for Product Warranties

The Company and its consolidated subsidiaries which conduct similar businesses each sets aside a provision for warranty for future repair expenses at the estimated amount calculated based on historical repair expense.

(r) Provision for Loss on Liquidation of Subsidiaries

A consolidated subsidiary provides for losses on liquidation of its subsidiaries at the estimated amount of such losses.

(s) Leases

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

(t) Calculation method of retirement benefits

Retirement benefits are calculated based on the straight-line attribution method.

Prior service costs are amortized from the fiscal year in which such costs are 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 (mainly five years) not exceeding the average remaining service period of the eligible employees.

(u) Recognition of Revenue and Costs

The methods used to recognize revenues and costs under construction contracts are as follows:

i) Construction contracts under which the portion of construction to be completed by the end of the current fiscal year may be estimated reliably: Percentage-of-completion method (The percentage of completion is measured as the ratio of the cost incurred to the estimated total cost); and,
ii) Other construction contracts: Completed-contract method.

(v) Income Taxes

A 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 bases of assets and liabilities.

(w) Per Share Information

The Company conducted a 10-for-1 stock split of its common stock on October 1, 2013. The net income per share has been calculated on the assumption that the stock split was conducted at the beginning of the previous consolidated fiscal year ended March 31, 2013.

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 are adjusted based on the assumptions that convertible bonds would be converted and stock options (subscription rights to shares) exercised. However, the dilutive effect of euro yen convertible bonds due in 2015 and YAMADA SXL HOME CO., LTD.'s (the former SxL Corporation, hereinafter referred to as "SXL Home") stock options were not reflected because they were anti-dilutive. For the year ended March 31, 2013, diluted net income per share was not disclosed because the Company and its consolidated subsidiaries had no securities with dilutive effect.

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

(x) New Accounting Pronouncements

The "Accounting Standard for Retirement Benefits" (Accounting Standard Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012, hereinafter, the "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012, hereinafter, the "Guidance on Retirement Benefits") have been issued (together, the "New Retirement Benefits Standard").

Major changes are as follows:

(a) Summary

Accounting treatment for unrecognized actuarial gains and losses and unrecognized past service costs, calculation methods of retirement benefit obligations and service costs, and their disclosure requirements have been amended.

(b) Effective dates

Amendments relating to the calculation methods of retirement benefit obligations and service costs will become effective from the beginning of annual periods beginning on or after March 31, 2015. However, no retrospective application of the New Retirement Benefits Standard to the consolidated financial statements of prior periods will be required.

(c) Effect of application of the standard

The Group is currently in the process of determining the effects of the New Retirement Benefit Standard on the consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the “Statement No.26”)) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the “Guidance No.25”)), with the exceptions of Article 35 of the Statement No.26 and Article 67 of the Guidance No.25 and, accordingly, actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and pension assets has been recognized as net defined benefit and/or net defined benefit liability.

In accordance with Article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of the application, net defined benefit asset and net defined benefit liability in the amounts of ¥2,009 million ($19,522 thousand) and ¥24,191 million ($235,051 thousand), respectively, have been recognized, accumulated other comprehensive income has decreased by ¥1,020 million ($9,911 thousand) and minority interests has increased by ¥36 million ($352 thousand) at the end of the current fiscal year.

Net assets per share have decreased by ¥1.14 ($0.01).

4. BUSINESS COMBINATIONS

Transactions under common control

On June 1, 2013, the Company, as the surviving company, executed an absorption-type merger with Daikuma Co., Ltd. (Daikuma) and Sato Musen Co., Ltd. (Sato Musen), as the dissolved companies. Daikuma and Sato Musen sell home electrical appliances. This business combination was conducted to improve the efficiency in use of management resources by centralizing various administrative activities.

On July 16, 2013, the Company, as the surviving company, also executed an absorption-type merger with KOUZIRO Co., Ltd. (Kouziro), as the dissolved company. Kouziro manufactures and sells computers and accessories. This business combination was conducted to improve the group management efficiency and strengthen the business foundation.

The Company accounted for these business combinations as transactions under common control in accordance with ASBJ Statement No. 21, entitled the “Accounting Standard for Business Combinations” and ASBJ Guidance No. 10, entitled the “Guidance for Accounting Standard for Business Combinations and Business Divestitures.”

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2014 and 2013 in the consolidated statements of cash flows consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
Cash and time deposits	¥ 79,009	¥ 79,522	$ 767,674
Time deposits with maturities exceeding three months	(1,255)	(1,616)	(12,192)
Cash and cash equivalents	¥ 77,754	¥ 77,906	$ 755,482

6. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities acquired through finance leases for the year ended March 31, 2014 were ¥10,566 million ($102,660 thousand) and ¥11,022 million ($107,093 thousand), respectively. Assets and liabilities acquired through finance leases for the year ended March 31, 2013 were ¥1,153 million and ¥1,205 million, respectively.

Asset retirement obligations for the years ended March 31, 2014 and 2013 were ¥2,062 million ($20,037 thousand) and ¥1,123 million, respectively.

Assets and liabilities of newly consolidated subsidiaries through acquisition of shares for the year ended March 31, 2013 were as follows:

Increase in assets and liabilities due to a newly consolidated subsidiary, Housetec Holdings, and net payments for the stock acquisition:	Millions of yen	
	2013	
Current assets	¥	13,472
Non-current assets		8,198
Goodwill		7,716
Current liabilities		(9,286)
Long-term liabilities		(10,277)
Acquisition cost		9,823
Cash and cash equivalents from the acquisition		(2,923)
Net payments	¥	(6,900)

Increase in assets and liabilities due to a newly consolidated subsidiary, BEST DENKI CO., LTD. and net proceeds from the stock acquisition:	Millions of yen	
	2013	
Current assets	¥	63,356
Non-current assets		48,487
Current liabilities		(37,035)
Long-term liabilities		(40,376)
Gain on negative goodwill		(3,920)
Minority interests		(17,213)
Gain on step acquisition		(47)
Common stock owned before business combination		(969)
Acquisition cost		12,283
Cash and cash equivalents from the acquisition		(21,986)
Net proceeds	¥	9,703

7. FINANCIAL INSTRUMENTS

I. Qualitative Information on Financial Instruments

(a) Policies for Using Financial Instruments

The Group raises 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 through bank loans. The Group utilizes derivative financial instruments only to manage risks described below 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 mainly comprise equity securities issued by those who have business relationships with the Company and/or 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. The redemption dates of bonds were within a maximum period of one to two years after the balance sheet date for the years ended March 31, 2014 and 2013, respectively.

Most income taxes payable comprising 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" under Note 2, entitled the "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 involve foreign currency risk. Since the counterparties of derivative transactions are limited to highly credible domestic banks, 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 counterparty will default on its contractual obligation. In accordance with the Company's sales management policy, each operating department of the Company periodically monitors the Company's counterparties 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 due to financial trouble of any counterparty. The Company's consolidated subsidiaries also manage their credit risk in the above manner.

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

- **Market risk management**

Market risk is the risk that movements in market variables, such as foreign currency exchange rates, interest rates and market prices, result in financial loss to the Company and/or 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 the 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 a Board of Directors' meeting, 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' meeting 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 become due. The Company manages liquidity risk by having liquidity on hand and by formulating and renewing the fund management plan based on reports from each department.

(d) Supplemental Information on Fair Value

The fair values of financial instruments are estimated based on quoted market prices, if available, or management estimates and assumptions. Changes in estimates and assumptions used could result in different values. Additionally, notional amounts of derivative transactions, which are presented in Note 9, entitled the "DERIVATIVE FINANCIAL INSTRUMENTS," do not indicate market risk of derivative transactions.

II. Fair Value of Financial Instruments

The following is a summary of book values and estimated fair values of financial instruments as of March 31, 2014 and 2013:

	Millions of yen		
	2014		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 79,009	¥ 79,009	¥ -
(2) Notes and accounts receivable	58,277		
Allowance for doubtful accounts (*1)	(3,407)		
	54,870	54,870	-
(3) Investment securities (*2)	9,314	9,829	515
(4) Guarantee deposits (*3) (including current portion)	115,567		
Allowance for doubtful accounts (*1)	(25)		
	115,542	113,617	(1,925)
	¥ 258,735	¥ 257,325	¥ (1,410)
Financial liabilities:			
(1) Notes and accounts payable	¥ 117,161	¥ 117,161	¥ -
(2) Short-term loans payable	77,605	77,605	-
(3) Bonds	59,000	58,655	(345)
(4) Long-term loans payable (including current portion)	192,463	186,370	(6,093)
	¥ 446,229	¥ 439,791	¥ (6,438)
Derivative transactions (*4)	¥ 7	¥ 7	¥ -

	Thousands of U.S. dollars (Note 1)		
	2014		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	$ 767,674	$ 767,674	$ -
(2) Notes and accounts receivable	566,238		
Allowance for doubtful accounts (*1)	(33,107)		
	533,131	533,131	-
(3) Investment securities (*2)	90,489	95,499	5,010
(4) Guarantee deposits (*3)			
(including current portion)	1,122,880		
Allowance for doubtful accounts (*1)	(239)		
	1,122,641	1,103,934	(18,707)
	$ 2,513,935	$ 2,500,238	$ (13,697)
Financial liabilities:			
(1) Notes and accounts payable	$ 1,138,365	$ 1,138,365	$ -
(2) Short-term loans payable	754,032	754,032	-
(3) Bonds	573,261	569,913	(3,348)
(4) Long-term loans payable			
(including current portion)	1,870,022	1,810,824	(59,198)
	$ 4,335,680	$ 4,273,134	$ (62,546)
Derivative transactions (*4)	$ 66	$ 66	$ -

	Millions of yen		
	2013		
	Book value	Fair value	Valuation gains/(losses)
Financial assets:			
(1) Cash and time deposits	¥ 79,522	¥ 79,522	¥ -
(2) Notes and accounts receivable	67,599		
Allowance for doubtful accounts (*1)	(21)		
	67,578	67,578	-
(3) Investment securities (*2)	9,877	10,400	523
(4) Guarantee deposits (*3)			
(including current portion)	114,692		
Allowance for doubtful accounts (*1)	(35)		
	114,657	115,633	976
	¥ 271,634	¥ 273,133	¥ 1,499
Financial liabilities:			
(1) Notes and accounts payable	¥ 109,214	¥ 109,214	¥ -
(2) Short-term loans payable	113,835	113,835	-
(3) Bonds	59,000	58,215	(785)
(4) Long-term loans payable			
(including current portion)	146,662	146,549	(113)
(5) Income taxes payable	1,639	1,639	-
	¥ 430,350	¥ 429,452	¥ (898)
Derivative transactions (*4)	¥ (2)	¥ (2)	¥ -

Notes:

(*1) An allowance for doubtful accounts estimated and provided with respect to certain identifiable items was deducted from each of notes and accounts receivable and guarantee deposits.

(*2) Investment securities include investments in listed affiliated companies accounted for using the equity method. Valuation gains (losses) represent gains (losses) on valuation of such investments.

(*3) Government bonds pledged by a certain consolidated subsidiary as security deposit were included.

(*4) Debt and credit attributed to derivative transactions are indicated as net amounts, and net debt is in parenthesis.

Explanatory Notes on Fair Value of Financial Instruments

(i) Details of 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, their fair values approximate their book values. Thus, the amounts indicated in the above table were based on their book values.

- **(3) Investment Securities**

The fair values of equity securities are based on quoted market prices, and the fair values of debt securities are based on quoted market prices or quotes obtained from financial institutions. Additional information on securities classified by holding purpose is presented in Note 8, entitled the "SECURITIES INFORMATION."

- **(4) Guarantee Deposits**

The fair values of guarantee deposits are based on the present value discounted by the rate which reflects the applicable due date and credit risk. The fair value of government bonds pledged as security deposit is quoted based on the price information from the contracted financial institution. Additional information on securities classified by holding purpose is presented in Note 8, entitled the "SECURITIES INFORMATION."

(b) Financial Liabilities

- **(1) Notes and Accounts Payable, (2) Short-term Loans Payable and (5) Income Taxes Payable**

Since these liabilities are payable in the short term, their fair values approximate their book values. Thus, the amounts indicated in the above table were based on their book values.

- **(3) Bonds**

The fair values of bonds are each based on the present value of principal discounted by the rate which reflects the remaining maturity period and credit risk.

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

The fair values of long-term loans payable are each based on the present value of the total of principal and interest discounted by the rate applicable to similar new loans.

For long-term loans payable with floating interest rates and hedged by interest rate swaps which meet certain criteria, their fair values are each based on the present value of the total of principal and interest, as adjusted and described in "Derivative Transactions and Hedge Accounting" under Note 2, entitled the "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," and discounted by the rate applicable to similar new loans.

(c) Derivative Transactions

Details of derivative transactions are described in Note 9, entitled the "DERIVATIVE FINANCIAL INSTRUMENTS."

(ii) Securities of which Fair Value is Virtually Impossible to Estimate

The following securities were excluded from the above table because management of the Group concludes that their fair values are virtually impossible to estimate:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
	Book value		
Investment securities (*1)			
(1) Equity securities of subsidiaries and affiliated companies			
Subsidiaries	¥ 357	¥ 974	$ 3,471
Affiliated companies	42	44	412
(2) Available-for-sale securities			
Unlisted equity securities	299	325	2,903
Investment in LPS (*2)	317	229	3,083
Guarantee deposits (*3)	11,338	14,996	110,169

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

(iii) Contractual Maturity of Financial Instruments

The redemptions schedule of monetary claims and securities with fixed maturities were as follows:

	Millions of yen			
	2014			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 79,009	¥ -	¥ -	¥ -
Notes and accounts receivable	58,277	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities (Corporate bonds)	-	200	-	6,000
(2) Others	160	158	-	-
Guarantee deposits (*)	6,410	24,583	24,536	60,038
Total	¥ 143,856	¥ 24,941	¥ 24,536	¥ 66,038

	Thousands of U.S. dollars (Note 1)			
	2014			
	Within one year	*Over one year within five years*	*Over five years within ten years*	*Over ten years*
Cash and time deposits	$ 767,674	$ -	$ -	$ -
Notes and accounts receivable	566,238	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	1,943	-	58,298
(2) Others	1,552	1,531	-	-
Guarantee deposits (*)	62,282	238,856	238,393	583,349
Total	$ 1,397,746	$ 242,330	$ 238,393	$ 641,647

	Millions of yen			
	2013			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 79,522	¥ -	¥ -	¥ -
Notes and accounts receivable	67,599	-	-	-
Investment securities				
Available-for-sale securities with fixed maturities				
(1) Debt securities				
(Corporate bonds)	-	200	-	7,400
(2) Others	32	197	-	-
Guarantee deposits (*)	6,565	29,622	26,362	52,143
Total	¥ 153,718	¥ 30,019	¥ 26,362	¥ 59,543

Note:
(*) Government bonds pledged by a certain consolidated subsidiary as security deposits were included.

Contractual maturities of short-term and long-term loans payable and bonds are described in Note 13, entitled the “SHORT-TERM AND LONG-TERM DEBT,” and Note 14, entitled the “CONVERTIBLE BOND-TYPE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES,” respectively.

8. SECURITIES INFORMATION

The acquisition costs and book values of Available-for-sale Securities with available fair values as of March 31, 2014 and 2013 were as follows:

	Millions of yen		
	2014		
	Book value	Acquisition cost	Difference
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 3,837	¥ 2,116	¥ 1,721
Debt securities:			
Government bonds and others (*)	410	389	21
Corporate bonds	202	200	2
Others	9	8	1
Sub-total	4,458	2,713	1,745
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	178	207	(29)
Debt securities:			
Government bonds and others (*)	20	20	(0)
Corporate bonds	4,865	6,000	(1,135)
Sub-total	5,063	6,227	(1,164)
Total	¥ 9,521	¥ 8,940	¥ 581

	Thousands of U.S. dollars (Note 1)		
	2014		
	Book value	*Acquisition cost*	*Difference*
Securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 37,282	$ 20,557	$ 16,725
Debt securities:			
Government bonds and others (*)	3,981	3,783	198
Corporate bonds	1,967	1,943	24
Others	88	76	12
Sub-total	43,318	26,359	16,959
Securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	1,731	2,016	(285)
Debt securities:			
Government bonds and others (*)	191	191	(0)
Corporate bonds	47,268	58,298	(11,030)
Sub-total	49,190	60,505	(11,315)
Total	$ 92,508	$ 86,864	$ 5,644

Note:

(*) Government bonds pledged by a certain subsidiary as security deposits were included in guarantee deposits under the consolidated balance sheets.

Unlisted equity securities of ¥299 million ($2,903 thousand) and investments in LPS of ¥317 million ($3,083 thousand) were excluded from the above table because they do not have readily determinable market values and their fair values are virtually impossible to estimate.

	Millions of yen		
	2013		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥ 3,682	¥ 2,093	¥ 1,589
Debt securities:			
Government bonds and others (*)	375	355	20
Others	6	6	0
Sub-total	4,063	2,454	1,609
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	198	230	(32)
Debt securities:			
Government bonds and others (*)	9	9	(0)
Corporate bonds	5,884	7,600	(1,716)
Others	2	2	(0)
Sub-total	6,093	7,841	(1,748)
Total	¥ 10,156	¥ 10,295	¥ (139)

Note:
(*) Government bonds pledged by a certain subsidiary as security deposits were included in guarantee deposits under the consolidated balance sheets.

Unlisted equity securities of ¥325 million and investments in LPS of ¥229 million were excluded from the above table because they do not have readily determinable market values and their fair values are virtually impossible to estimate.

Securities sold during the years ended March 31, 2014 and 2013 were as follow:

	Millions of yen		
	2014		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 6	¥ 1	¥ -

	Thousands of U.S. dollars (Note 1)		
	2014		
	Sales amounts	*Gain on sale*	*Loss on sale*
Equity securities	$ 54	$ 7	$ -

	Millions of yen		
	2013		
	Sales amounts	Gain on sale	Loss on sale
Equity securities	¥ 5	¥ -	¥ —

If the market value of a security as of the fiscal year-end declines more than 50% compared with the acquisition cost of such security, the difference between such security’s fair market value and carrying amount is recognized as loss on valuation in the period of such decline.

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

Loss on valuation of marketable Available-for-sale Securities and investments in non-consolidated subsidiaries and affiliated companies were ¥24 million ($230 thousand) and ¥630 million ($6,121 thousand), respectively, for the year ended March 31, 2014 and ¥969 million and ¥2,500 million, respectively, for the year ended March 31, 2013.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The aggregate amounts contracted to be paid or received under, and the fair values and unrealized gains (losses) of, currency-related derivative transactions, other than market trades (and excluding hedging transactions) as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Millions of yen		*Thousands of U.S. dollars (Note 1)*	
	Notional Amount Total	Due after one year	Fair value	Unrealized gains	*Fair value*	*Unrealized gains*
At March 31, 2014:						
Foreign currency forward contracts:						
Buy, call	¥ 1,666	¥ -	¥ 7	¥ 7	$ 66	$ 66
Total			¥ 7	¥ 7	$ 66	$ 66

	Millions of yen		Millions of yen	
	Notional Amount Total	Due after one year	Fair value	Unrealized losses
At March 31, 2013:				
Foreign currency forward contracts:				
Buy, call	¥ 741	¥ -	¥ (2)	¥ (2)
Total			¥ (2)	¥ (2)

The fair value has been quoted based on the price information from the contracted financial institution.

Derivative instruments which qualified as hedging instruments as of March 31, 2014 and 2013 were as follows:

	Millions of yen		
	Notional amount		
	Total	Over one year	Fair value
At March 31, 2014:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 110,850	¥ 77,020	¥ (*1)

	Thousands of U.S. dollars (Note 1)		
	Notional amount		
	Total	*Over one year*	*Fair value*
At March 31, 2014:			
Interest rate swap contracts:			
Pay fixed, receive floating	$ 1,077,050	$ 748,348	$ (*1)

	Millions of yen		
	Notional amount		
	Total	Over one year	Fair value
At March 31, 2013:			
Interest rate swap contracts:			
Pay fixed, receive floating	¥ 105,352	¥ 72,850	¥ (*1)

(*1) The fair value of an interest rate swap contract is included in the fair value of the corresponding hedged long-term loan payable described under Note 7, entitled the “FINANCIAL INSTRUMENTS,” since such derivative contract is accounted for as component of the corresponding hedged long-term loans payable.

10. ACCUMULATED DEPRECIATION ON PROPERTY AND EQUIPMENT

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
Accumulated depreciation	¥ 248,912	¥ 215,828	$ 2,418,499

11. IMPAIRMENT LOSS

As a minimum unit for generating cash flows, each retail store or branch office is grouped and assessed. The book values of cash-generating units which may incur operating losses continuously are written down to such units’ respective recoverable amounts. Investment/rental properties and idle assets are individually considered, and an impairment loss is recognized if, with respect to an investment/rental property, the fair value becomes significantly lower than the carrying amount, or with respect to an idle asset, there is no prospect for future use.

An impairment loss is recorded at the amount by which the carrying amount of each group of assets exceeds its recoverable value. The recoverable amounts from such asset groups are mainly based on the net selling price, which in turn is based on the value assessed for property tax purposes. The net selling prices of intangible assets, lease assets and long-term prepaid expenses are set at zero.

The summary of impairment losses recorded for the fiscal years ended March 31, 2014 and 2013 is as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2014		2013		*2014*	
Buildings and structures	¥	1,846	¥	50	$	17,932
Land		385		-		3,745
Lease assets		335		28		3,250
Other tangible assets		578		17		5,619
Intangible assets		222		2		2,159
Long-term prepaid expenses		92		14		889
Total	¥	3,458	¥	111	$	33,594

Impairment losses for the year ended March 31, 2014 mainly relates to retail stores and a property for the Group's own business use located in Gunma Prefecture and stores and a property for rent located in Nagano Prefecture. Impairment losses for the year ended March 31, 2013 mainly relates to retail stores and a property for the Group's own business use located in Akita Prefecture.

12. LEASE INFORMATION

As Lessee

(i) Finance lease transactions without title transfer

The Group leases mainly retail buildings and equipment and a set of computer equipment.

(ii) Operating lease transactions

Future minimum lease payments under non-cancelable operating leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2014		2013		*2014*	
Due within one year	¥	10,040	¥	12,258	$	97,555
Due after one year		79,714		87,483		774,520
Total	¥	89,754	¥	99,741	$	872,075

As Lessor

(i) Operating lease transactions

Future minimum lease receivables under non-cancelable operating leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2014		2013		*2014*	
Due within one year	¥	246	¥	286	$	2,390
Due after one year		1,243		1,489		12,078
Total	¥	1,489	¥	1,775	$	14,468

13. SHORT-TERM AND LONG-TERM DEBT

The weighted-average rates of interest for short-term loans payable were approximately 0.55% and 0.55% as of March 31, 2014 and 2013, respectively.

The weighted-average rates of interest for current portion of long-term loans payable were approximately 0.80% and 1.08% as of March 31, 2014 and 2013, respectively.

The weighted-average rates of interest for long-term loans payable (excluding current portion thereof) were approximately 0.72% and 0.86% as of March 31, 2014 and 2013, respectively, and long-term loans payable were due in 2015 through 2019 and 2014 through 2019 as of March 31, 2014 and 2013, respectively.

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

The weighted-average rates of interest for current portion of other interest bearing liabilities (current portion of long-term other payable) were approximately 0.98% and 1.59% as of March 31, 2014 and 2013, respectively.

The weighted-average rates of interest for other interest bearing liabilities (long-term other payable) excluding current portion thereof were approximately 1.75% and 2.65% as of March 31, 2014 and 2013, respectively, and long-term accounts payable were due in 2015 through 2019 and 2014 through 2018 as of March 31, 2014 and 2013, respectively.

Short-term and long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
Short-term loans payable	¥ 77,605	¥ 113,835	$ 754,032
Long-term loans payable (due within one year)	59,603	43,868	579,116
Lease obligations (due within one year)	2,442	1,988	23,723
Other interest bearing liabilities			
—Long-term other payable (due within one year)	476	163	4,629
Sub-total	140,126	159,854	1,361,500
Long-term loans payable (excluding amounts due within one year)	132,860	102,794	1,290,906
Lease obligations (excluding amounts due within one year)	9,955	2,374	96,722
Other interest bearing liabilities			
—Long-term other payable (excluding amounts due within one year)	2,207	1,272	21,451
Sub-total	145,022	106,440	1,409,079
Total	¥ 285,148	¥ 266,294	$ 2,770,579

The following assets were pledged as collateral for bank overdraft contracts and other transactions as of March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	*2014*
Cash and time deposits (*1)	¥ -	¥ 100	$ -
Land (*2)	120	120	1,163
Total	¥ 120	¥ 220	$ 1,163

(*1) Pledged as collateral for bank overdraft contracts with a maximum amount of ¥100 million as of March 31, 2013

(*2) Pledged as collateral for customers' housing loans of ¥78 million ($761 thousand) and ¥86 million as of March 31, 2014 and 2013, respectively.

The aggregate annual maturities of long-term loans payable as of March 31, 2014 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2015	¥ 59,603	$ 579,116
2016	48,112	467,471
2017	43,350	421,196
2018	33,833	328,732
Thereafter	7,565	73,507
Total	¥ 192,463	$ 1,870,022

The aggregate annual maturities of finance lease obligations as of March 31, 2014 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2015	¥ 2,442	$ 23,723
2016	1,854	18,010
2017	1,587	15,424
2018	1,364	13,248
Thereafter	5,150	50,040
Total	¥ 12,397	$ 120,445

The aggregate annual maturities of long-term other payable as of March 31, 2014 were as follows:

Fiscal year ending March 31,	Millions of yen	*Thousands of U.S. dollars (Note 1)*
2015	¥ 476	$ 4,629
2016	759	7,376
2017	457	4,441
2018	833	8,097
Thereafter	158	1,537
Total	¥ 2,683	$ 26,080

The Company has entered into loan commitment agreements amounting to ¥50,000 million ($485,814 thousand) with seven financial institutions. Under these credit facilities, ¥50,000 million ($485,814 thousand) and ¥50,000 million have been executed as of March 31, 2014 and 2013, respectively.

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

The outstanding balance of convertible bond-type bonds of the Company and the current conversion prices into common stock as of March 31, 2014 and 2013 were as follows:

	Yen	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
		2014	2013	*2014*	
	Conversion price per share	Outstanding balance			Conversion period
Euro yen zero coupon convertible bonds due 2015···············	¥ 1,375.00	¥ 59,000	¥ 59,000	$ 573,261	March 28, 2008 – March 17, 2015
		(59,000)	-	(573,261)	

Notes:
(1) No subscription rights were exercised for the years ended March 31, 2014 and 2013.
(2) The amounts in parentheses are due within one year.

15. INCOME TAXES

Taxes on income consist of corporate income taxes, inhabitant taxes and enterprise taxes. The aggregate statutory tax rates on income before income taxes and minority interests were approximately 37.8% for both the years ended March 31, 2014 and 2013.

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Deferred tax assets:			
Loss on valuation of inventories	¥ 2,029	¥ 2,608	$ 19,712
Impairment loss	8,915	8,350	86,620
Loss on valuation of investment securities	801	797	7,786
Loss on valuation of stock of subsidiaries	4,373	4,121	42,485
Provision for bonuses	2,720	2,309	26,424
Provision for point card certificates	6,268	8,064	60,901
Provision for retirement benefits	-	6,169	-
Net defined benefit liability	7,769	-	75,490
Provision for directors' retirement benefits	151	1,214	1,468
Provision for product warranties	5,724	4,856	55,616
Asset retirement obligations	5,174	4,559	50,273
Undetermined accrued liabilities	2,922	-	28,393
Consolidated subsidiaries' tax loss carry-forward	20,110	24,441	195,394
Others	11,147	7,716	108,306
Sub-total	78,103	75,204	758,868
Valuation allowance	(42,183)	(48,592)	(409,864)
Total deferred tax assets	35,920	26,612	349,004
Deferred tax liabilities:			
Unrealized gains on valuation of land	(1,642)	(2,259)	(15,956)
Loss recognized corresponding to asset retirement obligations	(3,028)	(2,274)	(29,419)
Foreign exchange gains	(2,233)	(1,319)	(21,700)
Others	(1,438)	(1,078)	(13,967)
Total deferred tax liabilities	(8,341)	(6,930)	(81,042)
Net deferred tax assets	¥ 27,579	¥ 19,682	$ 267,962

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current assets – Deferred tax assets	¥ 14,848	¥ 11,643	$ 144,269
Investments and other assets – Deferred tax assets	14,446	10,805	140,365
Long-term liabilities – Other long-term liabilities	(1,715)	(2,766)	(16,672)

Reconciliations between the statutory income tax rate and the actual effective income tax rate, as percentage of income before income taxes and minority interests, for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Statutory income tax rate	37.8%	37.8%
Per capita inhabitants taxes	2.3	1.8
Change in valuation allowance	(17.8)	9.7
Amortization of negative goodwill	-	(3.2)
Tax rate differences for net loss subsidiaries	17.6	8.4
Adjustments of deferred tax assets at the year end for enacted changes in tax laws and rates	4.0	-
Others, net	(1.0)	0.2
Effective income tax rate	42.9%	54.7%

As a result of the promulgation of the "Act on Partial Amendment to the Income Tax Act, etc." (Act No. 10 of 2014) on March 31, 2014, the special corporation tax for restoration work in connection with the Great East Japan Earthquake shall no longer be imposed from the fiscal years beginning on or after April 1, 2014. Accordingly, the statutory income tax rate, which is used to calculate deferred tax assets and deferred tax liabilities for temporary difference to be reversed during the fiscal years beginning on or after April 1, 2014, decreased from 37.75% to 35.38%. As a result of this change, net deferred tax assets decreased by ¥1,416 million ($13,758 thousand) and deferred income taxes increased by the same amount.

16. CONTINGENT LIABILITIES

The Group was contingently liable for transferred accounts receivable of ¥21,693 million ($210,773 thousand) and ¥13,863 million to credit card companies as of March 31, 2014 and 2013, respectively.

The Group was contingently liable for guarantees of debt made by home buyers and the like in the amount of ¥676 million ($6,571 thousand) and ¥779 million as of March 31, 2014 and 2013, respectively.

17. RETIREMENT BENEFITS

<For the year ended March 31, 2014>

The Company and its certain consolidated subsidiaries maintain funded contributory and unfunded defined benefit plans, as well as defined contribution plans, for their employees' retirement benefits. Under the defined benefit corporate pension plans, retirement benefits are paid out in the form of a lump-sum payment or annuity payments based on salary and years of service. Under a lump-sum retirement payment plan, retirement benefits are paid out in the form of a lump-sum payment based on salary and years of service.

The simplified method is applied by certain consolidated subsidiaries in calculating the defined benefit liability and retirement benefit costs under lump-sum retirement payment plans.

Defined benefit plans

(1) The changes in retirement benefit obligations for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	*2014*
Beginning balance	¥ 38,658	$ 375,614
Service costs	3,577	34,758
Interest cost	556	5,401
Actuarial gains and losses	134	1,301
Payment of benefit obligations	(1,101)	(10,700)
Others	(1)	(7)
Ending balance	¥ 41,823	$ 406,367

Note: The simplified method has been applied by certain consolidated subsidiaries.

(2) Changes in pension assets for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	*2014*
Beginning balance	¥ 17,264	$ 167,746
Expected return on pension assets	223	2,164
Actuarial gains and losses	1,339	13,005
Contributions paid by the employer	1,596	15,506
Retirement benefits paid	(781)	(7,583)
Ending balance	¥ 19,641	$ 190,838

(3) Reconciliation of retirement benefit obligations and pension assets and net defined benefit liability (asset) for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	*2014*
Funded retirement benefit obligations	¥ 24,578	$ 238,808
Amount of pension assets	(19,641)	(190,838)
	4,937	47,970
Unfunded retirement benefit obligations	17,245	167,559
Total net defined benefit liability (asset)	¥ 22,182	$ 215,529
Net defined benefit liability	24,191	235,051
Net defined benefit asset	(2,009)	(19,522)
Total net defined benefit liability (asset)	¥ 22,182	$ 215,529

Note: The above table includes plans for which the simplified method has been applied.

(4) Components of retirement benefit costs for the year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
	2014		*2014*	
Service costs	¥	3,577	$	34,758
Interest cost		556		5,401
Expected return on pension assets		(223)		(2,164)
Amortization of actuarial differences		1,032		10,024
Amortization of prior service costs		(61)		(597)
Net periodic retirement benefit costs	¥	4,881	$	47,422

Note: Retirement benefit costs of certain consolidated subsidiaries calculated under the simplified method are recorded in service costs.

(5) Accumulated remeasurements of defined benefit plans for the year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 1)*	
	2014		*2014*	
Unrealized prior service costs	¥	(72)	$	(698)
Unrealized actuarial gains and losses		1,579		15,341
Total	¥	1,507	$	14,643

(6) Pension assets as of March 31, 2014

(i) The percentages for each classification of total pension assets as of March 31, 2014 were as follows:

	2014
Bonds	32.8 %
Stocks	30.3
Cash and time deposits	6.1
General accounts	27.1
Others	3.7
Total	100.0

(ii) Method of determining the long-term expected rate of return on plan assets

The long-term expected rate of return is determined based on the present and projected future allocation of plan assets and the present and expected future rate of return on various components of plan assets.

(7) Basis of actuarial calculation for the year ended March 31, 2014

The principal discount rate and the long-term expected rate of return on plan assets used by the Group were 1.46% and 2.00%, respectively, for the year ended March 31, 2014.

Defined contribution plans

The required contribution amount to the defined contribution plans of certain consolidated subsidiaries was ¥435 million ($4,224 thousand) for the year ended March 31, 2014.

Multi-employer plans

SXL Home participates in multi-employer type employee pension fund plans. Of the plans that SXL Home participates, certain plans are accounted for under the same accounting treatment applicable to a defined contribution plan when their plan assets corresponding to their contribution cannot be reasonably estimated. The required contribution amount to such multi-employer plans, which is expensed when incurred, was ¥320 million ($3,112 thousand) for the year ended March 31, 2014.

The latest actual data on the multi-employer type pension fund plans available as of the reporting date of the financial statements for the year ended March 31, 2014 was as follows.

(1) Matters concerning the funded status of the entire plans as of March 31, 2013

	Millions of yen	Thousands of U.S. Dollars (Note 1)
	March 31, 2013	
Amount of pension assets	¥ 43,334	$ 421,049
Amount of retirement benefit obligations	(54,475)	(529,295)
Net	¥ (11,141)	$ (108,246)

(2) Share of the pension fund contribution made by the Group as a percentage of the total plan for the year ended March 31, 2014 was 16.0%.

(3) Supplementary explanation

The net balance presented in (1) the above represents the outstanding balance of prior service costs of ¥11,141 million ($108,246 thousand). Prior service costs of the multi-employer plans are amortized over 20 years through amortization of principal and interest using the straight-line method, and special contribution of ¥118 million ($1,144 thousand) is recognized as expense in the accompanying consolidated financial statements for the year ended March 31, 2014.

The share in (2) above does not correspond to the actual share of the obligations owed by the Group.

<For the year ended March 31, 2013>

The Company and its certain consolidated subsidiaries maintain a lump-sum retirement payment plan and a defined benefit plan. In addition, certain other consolidated subsidiaries also maintain a defined contribution plan and a smaller enterprise retirement allowance mutual aid plan.

Provision for retirement benefits as of March 31, 2013 consisted of the following:

	Millions of yen	
	2013	
Projected benefit obligation	¥	38,658
Fair value of pension assets		(17,264)
Unrecognized actuarial gains and losses		(3,813)
Unrecognized prior service costs		133
Net amount recognized in the consolidated balance sheets		17,714
Prepaid pension cost		1,697
Provision for retirement benefits	¥	19,411

Retirement benefit costs for the year ended March 31, 2013 were as follows:

	Millions of yen	
	2013	
Service costs	¥	2,466
Interest cost		468
Expected return on plan assets		(144)
Amortization of actuarial differences		555
Amortization of prior service costs		(64)
Other (contributions to defined contribution pension plans)		265
Net periodic retirement benefit costs	¥	3,546

The principal discount rate used by the Group was 1.46% for the year ended March 31, 2013. The principal rate of expected return on plan assets used by the Group was 2.00% for the year ended March 31, 2013. The estimated amount of all retirement benefits to be paid at a 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 in which such costs are incurred using the straight-line method.

SXL Home participates in multi-employer plans for which the required contribution amounts are expensed as incurred. The actual data on such plans after the deemed date of acquisition (October 1, 2011) available as of the reporting date of the financial statements for the year ended March 31, 2013 was as follows.

(1) Matters concerning the funded status of the entire plans as of March 31, 2012

	Millions of yen	
	March 31, 2012	
Amount of plan assets	¥	39,662
Amount of benefit obligations		(52,090)
Net	¥	(12,428)

(2) Share of the pension fund contribution made by the Group as a percentage of the total plan for the year ended March 31, 2013 was 16.1%.

(3) Supplementary explanation

The net balance presented in (1) above is mainly composed of the outstanding amount of prior service costs of ¥11,233 million and pension shortfall carried forward of ¥1,195 million. Prior service cost of the multi-employer plans are amortized over 20 years through amortization of principal and interest using the straight-line method, and a special contribution of ¥113 million was recognized as expense in the accompanying consolidated financial statements for the year ended March 31, 2013.

The share in (2) above does not correspond to the actual share of the obligations owned by the Group.

18. 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 and the like.

The Group mainly estimates asset retirement obligations by using discount rates ranging from 0.18% to 2.29% with a term of 1 to 47 years.

Changes in asset retirement obligations for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2014		2013		*2014*	
Beginning balance	¥	12,733	¥	9,048	$	123,716
Increase due to purchase of property and equipment		1,774		901		17,240
Adjustments due to passage of time		288		222		2,797
Decrease due to implementation of asset retirement obligations		(66)		(181)		(644)
Increase due to exchange translation of asset retirement obligations denominated in foreign currencies		18		15		181
Other increases		-		2,728		-
Ending balance	¥	14,747	¥	12,733	$	143,290

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 regarding the disbursement schedule and/or the incurrence of expense, have not been included in the consolidated balance sheets.

19. NET ASSETS

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

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.

On October 1, 2013, the Company conducted a 10-for-1 stock split by way of a free share distribution.

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 the additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. The legal earnings reserve has been included in retained earnings in the accompanying consolidated balance sheets.

Under the Companies Act, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or capitalized by a resolution at the shareholders' meeting. Under the Companies Act, all paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which may become available for distribution as 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 27, 2014, the shareholders approved cash dividends amounting to ¥5,360 million ($52,082 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014 as they are to be recognized in the period in which they are approved by the shareholders.

20. STOCK OPTIONS

Stock option expense recognized for the year ended March 31, 2014 was ¥148 million ($1,439 thousand). No stock option expense was recognized for the year ended March 31, 2013.

The stock options existed during the years ended March 31, 2014 and 2013 were as follows:

	2009 stock option	1st compensation-type stock option
Company name	YAMADA SXL HOME CO., LTD.	YAMADA DENKI CO., LTD.
Persons granted	4 directors and 71 employees	16 directors
Number of options granted expressed in number of common stock (*1)	597,000 shares	483,100 shares (*2)
Date of grant	December 14, 2009	July 12, 2013
Vesting condition	Continued employment from the date of grant to the end of vesting period (September 30, 2011)	Not set (*3)
Service period covered	From December 14, 2009 to September 30, 2011	Not prescribed
Exercise period	From December 15, 2011 to September 30, 2013	From July 13, 2013 to July 12, 2043

Notes:
(*1) Number of options granted is expressed in number of shares of common stock granted.
(*2) Number of shares of common stock granted reflects 10-for-1 stock split executed by the Company on October 1, 2013.
(*3) The stock options can be exercised only in single lump-sum transaction during the 10-day period from the day after leaving one's position as director, corporate auditor, executive officer or employee of the Company or its subsidiaries within the exercise period stated above.

The stock option activity expressed in number of common stock for the year ended March 31, 2014 was as follows:

	2009 stock option	1st compensation-type stock option
	(Shares)	(Shares)
Number of stock options expressed in number of common stock:		
Non-vested		
March 31, 2013 – Outstanding	-	-
Granted	-	483,100
Forfeited	-	(4,700)
Vested	-	(361,100)
March 31, 2014 - Outstanding	-	117,300
Vested		
March 31, 2013 – Outstanding	139,000	-
Vested	-	361,100
Exercised	(136,000)	-
Forfeited	(3,000)	-
March 31, 2014 - Outstanding	-	361,000

	Yen	*U.S. dollars (Note 1)*	Yen	*U.S. dollars (Note 1)*
Price information:				
Exercise price	¥ 46	$ 0.45	¥ 1	$ 0.01
Average price at exercise date	¥ 154	$ 1.50	¥ -	$ -
Fair value at grant date	¥ 15	$ 0.15	¥ 410.9	$ 3.99

Note: Figures in the above table reflect 10-for-1 stock split executed by the Company on October 1, 2013.

The fair value of the 1st compensation-type stock option is estimated using the Black-Scholes option pricing model with the assumptions noted in the following table:

	1st compensation-type stock option
Volatility of stock price (*1)	39.6%
Estimated remaining outstanding period (*2)	8.6 years
Estimated dividend (*3)	¥60 per share
Risk free interest rate (*4)	0.735%

Notes:

(*1) The volatility of stock price is based on the historical weekly volatility of the Company's stock for the period equal to the option's estimated remaining outstanding period from the grant date.

(*2) The estimated remaining outstanding period is calculated by weighted averaging the estimated term period of each director with the number of options granted.

(*3) The estimated dividend is based on the actual per share dividend distributed in the preceding year for the year ended March 31, 2013.

(*4) The risk free interest rate is based on the yield of government bonds having a remaining life equal to the option's estimated remaining outstanding period.

21. COST OF SALES

The ending balance of inventories is measured at the lower of cost or market value. Loss on valuation of inventories included in cost of sales for the years ended March 31, 2014 and 2013 were ¥624 million ($6,067 thousand) and ¥195 million, respectively.

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of “selling, general and administrative expenses” for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	*2014*
Advertising	¥ 33,469	¥ 30,829	$ 325,198
Salaries	115,499	100,810	1,122,224
Rent expenses	71,997	62,624	699,538
Depreciation	21,309	20,557	207,047
Point card-related promotion	43,853	59,271	426,084
Others	132,734	110,498	1,289,684
Total	¥ 418,861	¥ 384,589	$ 4,069,775

23. OTHER INCOME (EXPENSES)

“Others, net” in “other income (expenses)” in the consolidated statements of income for the years ended March 31, 2014 and 2013 included the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	*2014*
Surrender value of insurance	¥ 73	¥ 64	$ 711
Rent income	2,224	1,323	21,605
Rent expenses	(1,695)	(995)	(16,470)
Gain on sale of property and equipment	36	3	347
Loss on disposal of non-current assets	(578)	(303)	(5,611)
Loss on valuation of investment securities	(24)	(969)	(230)
Provision for loss on liquidation of subsidiaries	(699)	(558)	(6,797)
Others, net	5,464	5,321	53,097
Total	¥ 4,801	¥ 3,886	$ 46,652

24. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income 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)*
	2014	2013	*2014*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 845	¥ 555	$ 8,207
Reclassification adjustments	(0)	969	(3)
Valuation difference on available-for-sale securities before related tax effect	845	1,524	8,204
Related tax effect	74	(1,075)	721
Valuation difference on available-for-sale securities, net of taxes	919	449	8,925
Deferred losses on derivatives under hedge accounting:			
Amount arising during the year	-	(34)	-
Reclassification adjustments	-	-	-
Deferred losses on derivatives under hedge accounting before related tax effect	-	(34)	-
Related tax effect	-	-	-
Deferred losses on derivatives under hedge accounting, net of taxes	-	(34)	-
Foreign currency translation adjustments:			
Amount arising during the year	(1,149)	(107)	(11,167)
Reclassification adjustments	-	-	-
Foreign currency translation adjustments before related tax effect	(1,149)	(107)	(11,167)
Related tax effect	-	-	
Foreign currency translation adjustments, net of taxes	(1,149)	(107)	(11,167)
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	5	5	53
Reclassification adjustments	-	-	-
Share of other comprehensive income of associates accounted for using equity method	5	5	53
Total other comprehensive income	¥ (225)	¥ 313	$ (2,189)

25. SEGMENT INFORMATION

- **Segment Information**

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

- **Supplemental Information on Reportable Segment**

Information about products and services for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen			
	2014			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	¥ 1,109,397	¥ 551,916	¥ 232,659	¥ 1,893,972

	Thousands of U.S. dollars (Note 1)			
	2014			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	$ 10,779,213	$ 5,362,573	$ 2,260,583	$ 18,402,369

	Millions of yen			
	2013			
	Home electrical appliances	Home information appliances	Other products	Total
Sales to external customers······	¥ 976,731	¥ 511,423	¥ 213,335	¥ 1,701,489

Information about geographic area for the years ended March 31, 2014 and 2013 has not been disclosed because sales to domestic customers and total property and equipment located in Japan accounted for more than 90% of consolidated sales and total property and equipment, respectively.

Information about major customers for the years ended March 31, 2014 and 2013 has not been disclosed since no single customer accounted for more than 10% of consolidated sales.

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

The Group has been primarily engaged in the sales of home electrical appliances and home information appliances, which constitute a single segment. Therefore, information on impairment loss on long-lived assets has been omitted.

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

For the years ended and as of March 31, 2013, amortization and unamortized balance of goodwill resulting from business combinations were as follows:

	Sales of home electrical appliances and home information appliances retail business		
	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2014	2013	*2014*
Amortization of goodwill·················	¥ -	¥ 1,106	$ -
Ending balance································	¥ -	¥ 8,573	$ -

The Group has been primarily engaged in the sales of home electrical appliances and home information appliances, which constitute a single segment. Therefore, information on amortization and unamortized balance of goodwill has been omitted for the year ended March 31, 2014.

For the years ended and as of March 31, 2013, amortization and unamortized balance of negative goodwill resulting from business combinations occurring before April 1, 2010 were as follows:

	Sales of home electrical appliances and home information appliances retail business	
	Millions of yen	
	2013	
Amortization of negative goodwill ···	¥	142
Ending balance ···	¥	-

- **Information about Gain on Negative Goodwill**

Information about gain on negative goodwill has not been disclosed since there was no gain on negative goodwill for the year ended March 31, 2014.

The Group has been primarily engaged in the sales of home electrical appliances and home information appliances, which constitute a single segment. Therefore, information about gain on negative goodwill has been omitted for the year ended March 31, 2013.

26. RELATED PARTIES

Significant balances with related parties as of March 31, 2014 and 2013 and related transactions for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen				*Thousands of U.S. dollars (Note 1)*	
	2014		2013		*2014*	
Balances of the Company:						
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director and chairman, and his relatives:						
Prepaid expense (prepaid rent) ···	¥	84	¥	79	$	812
Guarantee deposits (due within one year) ···		146		146		1,423
Guarantee deposits ···		2,863		2,928		27,814
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:						
Accounts payable ···		12		9		117
Principal transactions of the Company:						
Tecc Planning Co., Ltd., 100% directly owned by Noboru Yamada, representative director and chairman, and his relatives:						
Payment of company house rent and lease and guarantee deposit ···		942		914		9,151
Sales of inventories ···		-		13		-
Puinpul Co., Ltd., subsidiary of Tecc Planning Co., Ltd.:						
Purchases of inventories ···		78		48		754

27. SUBSEQUENT EVENTS

I. Issuance of euro yen zero coupon convertible bonds subject to call due 2019

At a meeting of the Board of Directors held on May 27, 2014, the Company approved a resolution to issue euro yen zero coupon convertible bonds subject to call due 2019 (hereinafter referred to as the "Convertible Bonds," of which the bonds shall be referred to as the "Bonds" and the attached subscription rights to shares shall be referred to as the "Subscription Rights to Shares"), and payment was completed on June 12, 2014. This matter is outlined below.

(1) Aggregate issue price:

A total of ¥100,500 million plus an aggregate payment amount of the Bonds in respect of replacement certificates of the convertible bonds

(2) Issue price (payment amount):

100.5% of the principal amount of the Bonds (the principal amount of each Bond: ¥10 million)

(3) Issue price (offering price):

103.0% of the principal amount of the Bonds

(4) Payment date and issue date of bonds:

June 12, 2014

(5) Maturity date:

To be redeemed at 100% of the principal amount of each Bond on June 28, 2019 (In certain cases, provisions for redemption before maturity and retirement by purchase may apply, which are indicated in the issuance guidelines.

(6) Interest rate:

No interest on the Bonds

(7) Collateral or guarantee:

None

(8) Class, contents and number of shares to be issued upon exercise of subscription rights to shares

a. Class and contents: Common stock of the Company (share unit number: 100 shares)
b. Number: The number of common shares of the Company to be delivered by the Company upon exercise of the Subscription Rights to Shares shall be the number obtained by dividing the total principal amount of the Bonds in respect of exercise requests by the conversion price provided in (10) below. However, fractions less than one share that arise due to such exercise are rounded down and amounts thereof will not be adjusted in cash.

(9) Total number of subscription rights to shares:

The total of 10,000 units plus the number of units obtained by dividing the aggregate principal amount of the Bonds in respect of replacement certificates of the convertible bonds by ¥10 million

(10) Contents and value of property to be contributed upon exercise of Subscription Rights to Shares

a. Upon exercise of each of the Subscription Rights to Shares, the Bonds in respect to said Subscription Rights to Shares shall be contributed, and the value of said Bonds shall be the same as the amount of their principal amount.
b. The conversion price shall initially be ¥540.
c. Adjustment of conversion price:

The conversion price shall be adjusted in accordance with the following formula when the Company issues common shares or disposes of such shares held by the Company, at an amount to be paid that is lower than the current market price of the common shares of the Company after the issuance of the Convertible Bonds. In the following formula, the "number of already issued shares" means the total number of the issued shares of common stock of the Company (excluding the shares held by the Company).

$$\text{Conversion price after adjustment} = \text{Conversion price before adjustment} \times \frac{\text{Number of already issued shares} + \dfrac{\text{Number of shares to be issued or disposed of} \times \text{Amount to be paid in per share}}{\text{Current market price}}}{\text{Number of already issued shares} + \text{Number of shares to be issued or disposed of}}$$

The conversion price shall also be adjusted as appropriate if certain events occur, such as a split or consolidation of the common shares of the Company, a payment of certain dividends from surplus, or an issuance of subscription rights to shares (including those attached to convertible bonds) that enable the holders thereof to make requests for the delivery of common shares of the Company at a price less than the current market price of such shares.

(11) Exercise period of Subscription Rights to Shares

The exercise period shall be from June 26, 2014 to June 14, 2019 (at the local time of the location where exercise requests are received). However, such period shall differ in the following cases: (1) in the case of redemption before maturity, the period shall be until three business days before the redemption date in Tokyo (except for Subscription Rights to Shares with respect to Bonds for which redemption before maturity is not selected); (2) in the case of acquisition of Convertible Bonds or retirement by purchase of Bonds by the Company, the period shall be until the Bonds are retired; and (3) in the case of a default on the Bonds, the period shall be until such default. In any of the above cases, the Subscription Rights to Shares may not be exercised after June 14, 2019 (in the local time of the location where exercise requests are received).

Notwithstanding the foregoing, if the Company acquires the Convertible Bonds, the Subscription Rights to Shares may not be exercised in the period from the date following the date of notification of acquisition to the date of such acquisition. In addition, if the Company reasonably determines that it is necessary for the purpose of carrying out a corporate reorganization or similar action, the Subscription Rights to Shares may not be exercised during the period designated by the Company, which may not exceed 30 days and shall end no later than 14 days from the date following the effective date of the corporate reorganization or similar action.

Furthermore, if the date on which exercise of the Subscription Rights to Shares comes into effect (if the relevant date is not a business day, such date will be the following business day in Tokyo) falls on the two business day period in Tokyo before a record date specified by the Company or another date specified for determining shareholders in relation to Article 151, Paragraph 1 of the Act on Book-Entry Transfer of Company Bonds, Shares, etc. (hereinafter, the "Shareholder Record Date"; if said Shareholder Record Date does not fall on a business day in Tokyo, such period shall be the three business day period in Tokyo before the Shareholder Record Date, and the Shareholder Record Date shall be the following business day in Tokyo), the Subscription Rights to Shares may not be exercised. However, if there is a change in Japanese laws and regulations or practice relating to the delivery of shares upon the exercise of stock acquisition rights through the book-entry transfer system established pursuant to the Act on Book-Entry Transfer of

Company Bonds, Shares, etc., the Company may amend the restriction on the exercise period of the Stock Acquisition Rights to Shares under this paragraph to reflect such change.

(12) Amount of common stock and legal capital surplus to be increased if shares are issued upon exercise of stock acquisition rights

The amount of common stock to be increased if shares are issued upon the exercise of the Stock Acquisition Rights to Shares shall be one-half of the maximum amount of increase in common stock and others as calculated pursuant to Article 17 of the Ordinance on Accounting of Companies, with any fraction of less than one yen resulting from the calculation rounded up. The amount of legal capital surplus to be increased shall be the amount obtained by deducting the increase in common stock from the maximum amount of increase in common stock and others.

(13) Use of proceeds

Of the approximately ¥100,000 million in proceeds from the new issuance of the Convertible Bonds, ¥50,000 million will be used as funds for the purchase of treasury stock and the remaining balance will be used to fund the redemption of the Convertible Bonds due 2015.

(14) Other

The Convertible Bonds will be listed on the Singapore Exchange.

II. Purchase of treasury stock

At a meeting of the Board of Directors held on May 27, 2014, the Company approved a resolution to conduct purchases of treasury stock pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Article 165, Paragraph 3 of the same Act, and the Company has been conducting said purchases since May 28, 2014.

(1) Reason for conducting purchase of treasury stock:

To enhance the return on profits to shareholders through improvements in capital efficiency

(2) Details of matters relating to purchase

a. Class of shares subject to purchase: Common stock
b. Total number of shares to be purchased: 150,000,000 shares (maximum)
(16.79% of total number of issued shares excluding treasury stock)
c. Total amount for share purchase: ¥50,000 million (maximum)
There may be cases where part or all of the order cannot be executed due to market trends or other circumstances.
d. Purchase period: May 28, 2014 to December 30, 2014
e. Method of share purchase: Purchase by stock exchange market

III. Appropriations of Retained Earnings

The following appropriations of retained earnings were approved at the General Meeting of Shareholders held on June 27, 2014:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Year-end cash dividends, ¥6 ($0.06) per share	¥ 5,360	$ 52,082

* * * * * *

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, 2014 and 2013, and the consolidated statements of income ,the consolidated statements of comprehensive income, the consolidated statements of changes in net assets and the consolidated 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, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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 12, 2014
Tokyo, Japan