

**Consolidated Financial Statements**

**EDION Corporation  
and Consolidated Subsidiaries**

*Year ended March 31, 2015  
with Independent Auditor's Report*

EDION Corporation and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2015

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## Independent Auditor's Report

The Board of Directors  
EDION Corporation

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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

### *Convenience Translation*

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

Osaka, Japan  
June 29, 2015

# EDION Corporation and Consolidated Subsidiaries

## Consolidated Balance Sheet

March 31, 2015

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

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

See accompanying notes to consolidated financial statements.

## EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Income

Year ended March 31, 2015

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

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2015

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

See accompanying notes to consolidated financial statements.

# EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2015

|                                                   | <i>Millions of yen</i> |                 |                   |                         |                            |
|---------------------------------------------------|------------------------|-----------------|-------------------|-------------------------|----------------------------|
|                                                   | Common stock           | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| Balance at April 1, 2013                          | ¥ 10,175               | ¥ 82,334        | ¥ 56,914          | ¥ (2,192)               | ¥ 147,231                  |
| Issuance of new shares                            | 1,765                  | 1,765           | —                 | —                       | 3,530                      |
| Cash dividends                                    | —                      | —               | (2,120)           | —                       | (2,120)                    |
| Reversal of land revaluation difference           | —                      | —               | (724)             | —                       | (724)                      |
| Net income                                        | —                      | —               | 5,150             | —                       | 5,150                      |
| Purchases of treasury stock                       | —                      | —               | —                 | (2)                     | (2)                        |
| Disposition of treasury stock                     | —                      | 69              | —                 | 1,392                   | 1,461                      |
| Other changes                                     | —                      | —               | —                 | —                       | —                          |
| Balance at April 1, 2014                          | 11,940                 | 84,168          | 59,220            | (802)                   | 154,526                    |
| Cumulative effect of changes in accounting policy | —                      | —               | 22                | —                       | 22                         |
| Restated balance                                  | 11,940                 | 84,168          | 59,242            | (802)                   | 154,548                    |
| Cash dividends                                    | —                      | —               | (2,421)           | —                       | (2,421)                    |
| Reversal of land revaluation difference           | —                      | —               | (1,350)           | —                       | (1,350)                    |
| Net income                                        | —                      | —               | 4,930             | —                       | 4,930                      |
| Purchases of treasury stock                       | —                      | —               | —                 | (4,999)                 | (4,999)                    |
| Disposition of treasury stock                     | —                      | 142             | —                 | 330                     | 472                        |
| Other changes                                     | —                      | —               | —                 | —                       | —                          |
| <b>Balance at March 31, 2015</b>                  | <b>¥ 11,940</b>        | <b>¥ 84,310</b> | <b>¥ 60,401</b>   | <b>¥ (5,471)</b>        | <b>¥ 151,180</b>           |

|                                                   | <i>Millions of yen</i>                  |                             |                                          |                                                 |                          |                    |                  |
|---------------------------------------------------|-----------------------------------------|-----------------------------|------------------------------------------|-------------------------------------------------|--------------------------|--------------------|------------------|
|                                                   | Net unrealized gain on other securities | Land revaluation difference | Retirement benefit liability adjustments | Total accumulated other comprehensive loss, net | Stock acquisition rights | Minority interests | Total net assets |
| Balance at April 1, 2013                          | ¥ 264                                   | ¥ (9,283)                   | ¥ —                                      | ¥ (9,019)                                       | ¥ 243                    | ¥ 34               | ¥ 138,489        |
| Issuance of new shares                            | —                                       | —                           | —                                        | —                                               | —                        | —                  | 3,530            |
| Cash dividends                                    | —                                       | —                           | —                                        | —                                               | —                        | —                  | (2,120)          |
| Reversal of land revaluation difference           | —                                       | —                           | —                                        | —                                               | —                        | —                  | (724)            |
| Net Income                                        | —                                       | —                           | —                                        | —                                               | —                        | —                  | 5,150            |
| Purchases of treasury stock                       | —                                       | —                           | —                                        | —                                               | —                        | —                  | (2)              |
| Disposition of treasury stock                     | —                                       | —                           | —                                        | —                                               | —                        | —                  | 1,461            |
| Other changes                                     | (72)                                    | 724                         | 280                                      | 932                                             | (4)                      | 45                 | 973              |
| Balance at April 1, 2014                          | 192                                     | (8,559)                     | 280                                      | (8,087)                                         | 239                      | 79                 | 146,757          |
| Cumulative effect of changes in accounting policy | —                                       | —                           | —                                        | —                                               | —                        | —                  | 22               |
| Restated balance                                  | 192                                     | (8,559)                     | 280                                      | (8,087)                                         | 239                      | 79                 | 146,779          |
| Cash dividends                                    | —                                       | —                           | —                                        | —                                               | —                        | —                  | (2,421)          |
| Reversal of land revaluation difference           | —                                       | —                           | —                                        | —                                               | —                        | —                  | (1,350)          |
| Net income                                        | —                                       | —                           | —                                        | —                                               | —                        | —                  | 4,930            |
| Purchases of treasury stock                       | —                                       | —                           | —                                        | —                                               | —                        | —                  | (4,999)          |
| Disposition of treasury stock                     | —                                       | —                           | —                                        | —                                               | —                        | —                  | 472              |
| Other changes                                     | 527                                     | 1,548                       | (145)                                    | 1,930                                           | (239)                    | (15)               | 1,676            |
| <b>Balance at March 31, 2015</b>                  | <b>¥ 719</b>                            | <b>¥ (7,011)</b>            | <b>¥ 135</b>                             | <b>¥ (6,157)</b>                                | <b>¥ —</b>               | <b>¥ 64</b>        | <b>¥ 145,087</b> |

# EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2015

*Thousands of U.S. dollars (Note 1)*

|                                                      | Common<br>stock  | Capital<br>surplus | Retained<br>earnings | Treasury<br>stock,<br>at cost | Total<br>shareholders'<br>equity |
|------------------------------------------------------|------------------|--------------------|----------------------|-------------------------------|----------------------------------|
| Balance at April 1, 2014                             | \$ 99,362        | \$ 700,404         | \$ 492,803           | \$ (6,671)                    | \$ 1,285,898                     |
| Cumulative effect of changes<br>in accounting policy | —                | —                  | 181                  | —                             | 181                              |
| Restated balance                                     | 99,362           | 700,404            | 492,984              | (6,671)                       | 1,286,079                        |
| Cash dividends                                       | —                | —                  | (20,140)             | —                             | (20,140)                         |
| Reversal of land revaluation<br>difference           | —                | —                  | (11,238)             | —                             | (11,238)                         |
| Net income                                           | —                | —                  | 41,025               | —                             | 41,025                           |
| Purchases of treasury stock                          | —                | —                  | —                    | (41,600)                      | (41,600)                         |
| Disposition of treasury stock                        | —                | 1,181              | —                    | 2,742                         | 3,923                            |
| Other changes                                        | —                | —                  | —                    | —                             | —                                |
| <b>Balance at March 31, 2015</b>                     | <b>\$ 99,362</b> | <b>\$ 701,585</b>  | <b>\$ 502,631</b>    | <b>\$ (45,529)</b>            | <b>\$ 1,258,049</b>              |

*Thousands of U.S. dollars (Note 1)*

|                                                      | Net<br>unrealized<br>gain on other<br>securities | Land<br>revaluation<br>difference | Retirement<br>benefit<br>liability<br>adjustments | Total<br>accumulated<br>other<br>comprehensive<br>loss, net | Stock<br>acquisition<br>rights | Minority<br>interests | Total net<br>assets |
|------------------------------------------------------|--------------------------------------------------|-----------------------------------|---------------------------------------------------|-------------------------------------------------------------|--------------------------------|-----------------------|---------------------|
| Balance at April 1, 2014                             | \$ 1,598                                         | \$ (71,224)                       | \$ 2,329                                          | \$ (67,297)                                                 | \$ 1,987                       | \$ 655                | \$ 1,221,243        |
| Cumulative effect of changes<br>in accounting policy | —                                                | —                                 | —                                                 | —                                                           | —                              | —                     | 181                 |
| Restated balance                                     | 1,598                                            | (71,224)                          | 2,329                                             | (67,297)                                                    | 1,987                          | 655                   | 1,221,424           |
| Cash dividends                                       | —                                                | —                                 | —                                                 | —                                                           | —                              | —                     | (20,140)            |
| Reversal of land revaluation<br>difference           | —                                                | —                                 | —                                                 | —                                                           | —                              | —                     | (11,238)            |
| Net income                                           | —                                                | —                                 | —                                                 | —                                                           | —                              | —                     | 41,025              |
| Purchases of treasury stock                          | —                                                | —                                 | —                                                 | —                                                           | —                              | —                     | (41,600)            |
| Disposition of treasury stock                        | —                                                | —                                 | —                                                 | —                                                           | —                              | —                     | 3,923               |
| Other changes                                        | 4,387                                            | 12,881                            | (1,205)                                           | 16,063                                                      | (1,987)                        | (128)                 | 13,948              |
| <b>Balance at March 31, 2015</b>                     | <b>\$ 5,985</b>                                  | <b>\$ (58,343)</b>                | <b>\$ 1,124</b>                                   | <b>\$ (51,234)</b>                                          | <b>\$ —</b>                    | <b>\$ 527</b>         | <b>\$ 1,207,342</b> |

# EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Cash Flows

Year ended March 31, 2015

|                                                                                             | <i>Millions of yen</i> |             | <i>Thousands of<br/>U.S. dollars<br/>(Note 1)</i> |
|---------------------------------------------------------------------------------------------|------------------------|-------------|---------------------------------------------------|
|                                                                                             | <b>2015</b>            | <b>2014</b> | <b>2015</b>                                       |
| <b>Cash flows from operating activities</b>                                                 |                        |             |                                                   |
| Income before income taxes and minority interests                                           | ¥ 10,115               | ¥ 8,895     | \$ 84,170                                         |
| Adjustments for:                                                                            |                        |             |                                                   |
| Depreciation and amortization                                                               | 10,364                 | 12,399      | 86,243                                            |
| Loss on impairment of property and equipment                                                | 2,791                  | 5,461       | 23,225                                            |
| Interest and dividend income                                                                | (228)                  | (202)       | (1,900)                                           |
| Interest expense                                                                            | 843                    | 922         | 7,018                                             |
| Amortization of negative goodwill                                                           | —                      | (569)       | —                                                 |
| (Decrease) increase in allowance for employees' bonuses                                     | (1,333)                | 1,695       | (11,092)                                          |
| (Decrease) increase in reserve for point service program                                    | (109)                  | 958         | (910)                                             |
| Decrease in accrued retirement benefits                                                     | —                      | (8,913)     | —                                                 |
| (Decrease) increase in liability for retirement benefits                                    | (416)                  | 8,068       | (3,457)                                           |
| Loss on sales or disposal of property and equipment                                         | 717                    | 444         | 5,968                                             |
| Gain on sales of shares of subsidiary                                                       | (2,575)                | —           | (21,426)                                          |
| Changes in operating assets and liabilities:                                                |                        |             |                                                   |
| Decrease (increase) in notes and accounts receivable                                        | 19,850                 | (19,160)    | 165,183                                           |
| (Increase) decrease in inventories                                                          | (23,016)               | 15,323      | (191,528)                                         |
| (Decrease) increase in notes and accounts payable                                           | (17,914)               | 5,267       | (149,068)                                         |
| (Decrease) increase in advances received                                                    | (9,565)                | 10,416      | (79,596)                                          |
| Other, net                                                                                  | (2,709)                | 5,475       | (22,552)                                          |
| Subtotal                                                                                    | (13,185)               | 46,479      | (109,722)                                         |
| Interest and dividends received                                                             | 61                     | 118         | 509                                               |
| Interest paid                                                                               | (803)                  | (885)       | (6,680)                                           |
| Subsidies received                                                                          | 384                    | 17          | 3,197                                             |
| Income taxes refunded                                                                       | 2                      | 427         | 15                                                |
| Income taxes paid                                                                           | (3,674)                | (415)       | (30,578)                                          |
| Net cash (used in) provided by operating activities                                         | (17,215)               | 45,741      | (143,259)                                         |
| <b>Cash flows from investing activities</b>                                                 |                        |             |                                                   |
| Proceeds from redemption of investments in securities                                       | —                      | 1,000       | —                                                 |
| Purchases of property and equipment                                                         | (9,227)                | (17,307)    | (76,779)                                          |
| Proceeds from sales of property and equipment                                               | 3,791                  | 3,598       | 31,550                                            |
| Purchases of intangible assets                                                              | (1,296)                | (1,020)     | (10,786)                                          |
| Payments of long-term prepaid expenses                                                      | (119)                  | (39)        | (993)                                             |
| Purchases of investments in securities                                                      | (65)                   | (170)       | (541)                                             |
| Proceeds from sales of investments in securities                                            | 437                    | 932         | 3,635                                             |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | 4,048                  | —           | 33,683                                            |
| Increase in leasehold deposits, net                                                         | (1,158)                | (418)       | (9,635)                                           |
| Increase in leasehold deposits received from tenants, net                                   | 137                    | 433         | 1,138                                             |
| Other, net                                                                                  | (323)                  | (164)       | (2,685)                                           |
| Net cash used in investing activities                                                       | ¥ (3,775)              | ¥ (13,155)  | \$ (31,413)                                       |

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2015

|                                                              | <i>Millions of yen</i> |            | <i>Thousands of<br/>U.S. dollars<br/>(Note 1)</i> |
|--------------------------------------------------------------|------------------------|------------|---------------------------------------------------|
|                                                              | <b>2015</b>            | 2014       | <b>2015</b>                                       |
| <b>Cash flows from financing activities</b>                  |                        |            |                                                   |
| Increase (decrease) in short-term bank loans, net            | ¥ 23,000               | ¥ (32,000) | \$ 191,396                                        |
| Proceeds from long-term loans                                | 1,500                  | 20,723     | 12,482                                            |
| Repayments of long-term loans                                | (22,540)               | (11,900)   | (187,568)                                         |
| Proceeds from issuance of convertible bonds                  | 14,942                 | —          | 124,342                                           |
| Redemption of convertible bonds                              | —                      | (1,765)    | —                                                 |
| Proceeds from issuance of new shares                         | —                      | 3,530      | —                                                 |
| Cash dividends paid                                          | (2,421)                | (2,119)    | (20,143)                                          |
| Purchase of treasury stock                                   | (4,999)                | (2)        | (41,600)                                          |
| Proceeds from sales of treasury stock                        | —                      | 1,461      | —                                                 |
| Proceeds from exercise of stock options                      | 370                    | —          | 3,083                                             |
| Other, net                                                   | (155)                  | (187)      | (1,293)                                           |
| Net cash provided by (used in) financing activities          | 9,697                  | (22,259)   | 80,699                                            |
| Effect of exchange rate changes on cash and cash equivalents | 0                      | 0          | 0                                                 |
| Net (decrease) increase in cash and cash equivalents         | (11,293)               | 10,327     | (93,973)                                          |
| Cash and cash equivalents at beginning of the year           | 20,294                 | 9,967      | 168,876                                           |
| Cash and cash equivalents at end of the year                 | ¥ 9,001                | ¥ 20,294   | \$ 74,903                                         |

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements

March 31, 2015

### **1. Basis of Presentation of Consolidated Financial Statements**

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the fiscal year ended March 31, 2014 to the 2015 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥120.17 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2015. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies

#### (a) Consolidation

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

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

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

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

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

#### (b) Cash and cash equivalents

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

#### (c) Investments in securities

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **(d) Inventories**

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

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

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

#### **(f) Leased assets**

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

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

#### **(g) Goodwill and negative goodwill**

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

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

#### **(h) Allowance for doubtful receivables**

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

#### **(i) Allowance for employees' bonuses**

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (j) Retirement benefits

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

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

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

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

#### (Accounting Change)

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (j) Retirement benefits (continued)

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

#### (k) Reserve for point service program

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

#### (l) Allowance for merchandise warranties

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

#### (m) Income taxes

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

#### (n) Derivatives and hedging activities

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (o) Per share information

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

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

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

#### (p) Distribution of retained earnings

Under the Corporation Law of Japan (the “Law”), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at an annual meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 22. “Subsequent Events”).

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (q) Accounting standards issued but not yet effective

##### Accounting Standard for Business Combinations and Related Standards and Implementation Guidance

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

#### (1) Outline

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

- a) The accounting treatment for changes in a parent’s ownership interest in a subsidiary when the parent retains control over the subsidiary in the additional acquisition of shares in a subsidiary.
- b) The accounting treatment of acquisition related costs.
- c) Change in presentation of net income and changes in presentation to “non-controlling interests” from minority interests.
- d) Provisional accounting treatment.

#### (2) Scheduled date of adoption

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

#### (3) Impact of adopting these accounting standards and guidance

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 3. Investments in Securities

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

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

| <i>Thousands of U.S. dollars</i>                                         |                |                   |                        |
|--------------------------------------------------------------------------|----------------|-------------------|------------------------|
| March 31, 2015                                                           |                |                   |                        |
|                                                                          | Carrying value | Acquisition costs | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs:         |                |                   |                        |
| Equity securities                                                        | \$ 25,665      | \$ 16,885         | \$ 8,780               |
| Subtotal                                                                 | \$ 25,665      | \$ 16,885         | \$ 8,780               |
| Securities whose carrying value does not exceed their acquisition costs: |                |                   |                        |
| Equity securities                                                        | \$ 1,155       | \$ 1,253          | \$ (98)                |
| Subtotal                                                                 | \$ 1,155       | \$ 1,253          | \$ (98)                |
| Total (*a)                                                               | \$ 26,820      | \$ 18,138         | \$ 8,682               |

Notes:

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 3. Investments in Securities (continued)

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

|                     | <i>Millions of yen</i> |       | <i>Thousands of<br/>U.S. dollars</i> |
|---------------------|------------------------|-------|--------------------------------------|
|                     | <b>2015</b>            | 2014  | <b>2015</b>                          |
| Proceeds from sales | <b>¥ 437</b>           | ¥ 932 | <b>\$ 3,635</b>                      |
| Gross realized gain | <b>158</b>             | 335   | <b>1,314</b>                         |
| Gross realized loss | <b>0</b>               | (2)   | <b>1</b>                             |

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

### 4. Land Revaluation

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 5. Asset Retirement Obligations

Asset retirement obligations mainly consist of restoration costs related to lease contracts for stores and rental property.

The amount of asset retirement obligations is calculated by the estimated useful life according to the terms of the agreement or mostly 15 years (in the case of agreements under the former Act on Land and Building Leases) using mainly a discount rate of 1.65%.

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

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

### 6. Investment and Rental Property

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 6. Investment and Rental Property (continued)

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

| <i>Millions of yen</i> |            |                |                |
|------------------------|------------|----------------|----------------|
| 2015                   |            |                |                |
| Carrying Value         |            | Fair Value     |                |
| March 31, 2014         | Net change | March 31, 2015 | March 31, 2015 |
| ¥ 25,576               | ¥ (2,051)  | ¥ 23,525       | ¥ 23,865       |

  

| <i>Millions of yen</i> |            |                |                |
|------------------------|------------|----------------|----------------|
| 2014                   |            |                |                |
| Carrying Value         |            | Fair Value     |                |
| March 31, 2013         | Net change | March 31, 2014 | March 31, 2014 |
| ¥ 24,698               | ¥ 878      | ¥ 25,576       | ¥ 24,088       |

  

| <i>Thousands of U.S. dollars</i> |             |                |                |
|----------------------------------|-------------|----------------|----------------|
| 2015                             |             |                |                |
| Carrying Value                   |             | Fair Value     |                |
| March 31, 2014                   | Net change  | March 31, 2015 | March 31, 2015 |
| \$ 212,832                       | \$ (17,070) | \$ 195,762     | \$ 198,595     |

Notes:

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

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

Long-term debt at March 31, 2015 and 2014 consisted of the following:

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

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on October 3, 2014 are convertible at ¥896 (\$7.46) per share in the period from October 17, 2014 to September 17, 2021 subject to adjustment in certain circumstances.

The aggregate annual maturities of long-term debt subsequent to March 31, 2015 were summarized as follows:

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 7. Short-Term Bank Loans, Long-Term Debt and Lease Obligations (continued)

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 3.00% and 3.12% at March 31, 2015 and 2014, respectively.

The aggregate annual maturities of lease obligations subsequent to March 31, 2015 were summarized as follows:

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

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

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 8. Retirement Benefit Plans

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

The changes in the retirement benefit obligation during the years ended March 31, 2015 and 2014 are as follows:

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

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 8. Retirement Benefit Plans (continued)

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

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

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

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

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

|                | <i>Millions of yen</i> |      | <i>Thousands of U.S. dollars</i> |
|----------------|------------------------|------|----------------------------------|
|                | <b>2015</b>            | 2014 | <b>2015</b>                      |
| Actuarial gain | <b>¥ 54</b>            | ¥ –  | <b>\$ 447</b>                    |

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 8. Retirement Benefit Plans (continued)

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

|                                 | <i>Millions of yen</i> |         | <i>Thousands of<br/>U.S. dollars</i> |
|---------------------------------|------------------------|---------|--------------------------------------|
|                                 | <b>2015</b>            | 2014    | <b>2015</b>                          |
| Unrecognized prior service cost | <b>¥ 1,713</b>         | ¥ 2,103 | <b>\$ 14,257</b>                     |
| Unrecognized actuarial loss     | <b>(1,544)</b>         | (1,684) | <b>(12,848)</b>                      |
| Total                           | <b>¥ 169</b>           | ¥ 419   | <b>\$ 1,409</b>                      |

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

|                  | <b>2015</b> | 2014 |
|------------------|-------------|------|
| Bonds            | <b>21%</b>  | 21%  |
| Stocks           | <b>15</b>   | 14   |
| General accounts | <b>61</b>   | 63   |
| Other            | <b>3</b>    | 2    |
| Total            | <b>100%</b> | 100% |

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future and long-term expected rate of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the above plans were as follows:

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

Notes:

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 9. Income Taxes

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

The effective tax rates for the years ended March 31, 2015 and 2014 differed from the corresponding statutory tax rates for the following reasons:

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 9. Income Taxes (continued)

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

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

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Financial Instruments

#### Overview

##### (a) Policy for financial instruments

The Group manages its funds by investing in short-term deposits and safe financial assets.

In consideration of plans for capital investment, the Group finances necessary funds mainly by bank borrowings, bond issuances and other means. The Group utilizes derivatives to avoid the risk of fluctuation in market interest rates.

##### (b) Types of financial instruments, related risks and risk management

Trade receivables, notes and accounts receivables, are exposed to credit risk of customers. To respond to this risk, the Group manages settlement due dates and balances of each customer and monitors the financial conditions of customers when appropriate.

Securities and investments in securities inclusive marketable securities are mainly shares of companies with which the Group has business relationships. Securities and investments in securities inclusive marketable securities which have market price are subject to the risk of market price fluctuations. Non-marketable securities are exposed to the risk of impairment due to the decline in the financial results of the issuers. To correspond to this risk, the Group periodically monitors their market values and corporate values and reports information to meetings of the Board of Directors if the Group identifies significant fluctuations.

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

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

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Financial Instruments (continued)

#### (c) Supplementary explanation of fair value of financial instruments

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

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

Carrying value, estimated fair value and the difference between them of financial instruments on the consolidated balance sheet as of March 31, 2015 and 2014 were shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

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

Notes:

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

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Financial Instruments (continued)**

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

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

Notes:

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Financial Instruments (continued)

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

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

##### Assets

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

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

Investments in securities:

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

##### Liabilities

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

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

Convertible bonds (with stock acquisition rights):

All bonds are valued at market price.

Long-term loans:

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Financial Instruments (continued)

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

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

Lease obligations:

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

Derivative transactions:

Refer to Note 11. "Derivatives."

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

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Financial Instruments (continued)

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

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

| <i>Millions of yen</i>                 |                          |                                        |                                          |                       |
|----------------------------------------|--------------------------|----------------------------------------|------------------------------------------|-----------------------|
| <b>2015</b>                            |                          |                                        |                                          |                       |
|                                        | Due in 1 year<br>or less | Due after<br>1 year through<br>5 years | Due after<br>5 years through<br>10 years | Due after<br>10 years |
| Cash and cash equivalents              | ¥ 5,689                  | ¥ –                                    | ¥ –                                      | ¥ –                   |
| Notes and accounts<br>receivable-trade | 29,223                   | –                                      | –                                        | –                     |
|                                        | <u>¥ 34,912</u>          | <u>¥ –</u>                             | <u>¥ –</u>                               | <u>¥ –</u>            |
| <i>Millions of yen</i>                 |                          |                                        |                                          |                       |
| <b>2014</b>                            |                          |                                        |                                          |                       |
|                                        | Due in 1 year<br>or less | Due after<br>1 year through<br>5 years | Due after<br>5 years through<br>10 years | Due after<br>10 years |
| Cash and cash equivalents              | ¥ 15,417                 | ¥ –                                    | ¥ –                                      | ¥ –                   |
| Notes and accounts<br>receivable-trade | 46,377                   | –                                      | –                                        | –                     |
|                                        | <u>¥ 61,794</u>          | <u>¥ –</u>                             | <u>¥ –</u>                               | <u>¥ –</u>            |
| <i>Thousands of U.S. dollars</i>       |                          |                                        |                                          |                       |
| <b>2015</b>                            |                          |                                        |                                          |                       |
|                                        | Due in 1 year<br>or less | Due after<br>1 year through<br>5 years | Due after<br>5 years through<br>10 years | Due after<br>10 years |
| Cash and cash equivalents              | \$ 47,338                | \$ –                                   | \$ –                                     | \$ –                  |
| Notes and accounts<br>receivable-trade | 243,182                  | –                                      | –                                        | –                     |
|                                        | <u>\$ 290,520</u>        | <u>\$ –</u>                            | <u>\$ –</u>                              | <u>\$ –</u>           |

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 11. Derivatives

Derivative transactions to which hedge accounting is applied

Interest rate-related transactions

|                                          |                                                          |                 | <i>Millions of yen</i> |                                                |            |
|------------------------------------------|----------------------------------------------------------|-----------------|------------------------|------------------------------------------------|------------|
|                                          |                                                          |                 | <b>2015</b>            |                                                |            |
| Method of hedge accounting               | Transaction                                              | Hedged item     | Notional amount        | Notional amount maturing in more than one year | Fair value |
| Special treatment for interest rate swap | Interest rate swap<br>Receive / floating and pay / fixed | Long-term loans | <b>¥ 63,100</b>        | <b>¥ 50,400</b>                                | <b>(*)</b> |
|                                          |                                                          |                 | <i>Millions of yen</i> |                                                |            |
|                                          |                                                          |                 | <b>2014</b>            |                                                |            |
| Method of hedge accounting               | Transaction                                              | Hedged item     | Notional amount        | Notional amount maturing in more than one year | Fair value |
| Special treatment for interest rate swap | Interest rate swap<br>Receive / floating and pay / fixed | Long-term loans | <b>¥ 83,000</b>        | <b>¥ 63,100</b>                                | <b>(*)</b> |

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 11. Derivatives (continued)

|                                          |                                                          |                 | <i>Thousands of U.S. dollars</i> |                                                |            |
|------------------------------------------|----------------------------------------------------------|-----------------|----------------------------------|------------------------------------------------|------------|
|                                          |                                                          |                 | <b>2015</b>                      |                                                |            |
| Method of hedge accounting               | Transaction                                              | Hedged item     | Notional amount                  | Notional amount maturing in more than one year | Fair value |
| Special treatment for interest rate swap | Interest rate swap<br>Receive / floating and pay / fixed | Long-term loans | \$ 525,089                       | \$ 419,406                                     | (*)        |

Notes:

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

There are no derivative transactions to which hedge accounting is not applied for the years ended March 31, 2015 and 2014.

### 12. Contingent Liabilities

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

### 13. Shareholders' Equity

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

The legal reserve of the Company was nil at March 31, 2015 and 2014.

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 13. Shareholders' Equity (continued)

According to the 2009 plan, on August 6, 2009, the Company granted 1,570,000 stock options for common stock to 9 board directors and 3 employees of the Company and 12 board directors, 21 managing officers and 647 employees of certain subsidiaries. The service period for grantees is from August 6, 2009 to August 6, 2011 and the exercisable period is August 7, 2011 to August 6, 2014. No stock option expense was incurred for the years ended March 31, 2015 and 2014. Gain on reversal of stock options of ¥138 million (\$1,146 thousand) and ¥4 million were included in other, net in the consolidated statements of income for the years ended March 31, 2015 and 2014, respectively.

Movement in the number of vested stock options for the stock option plan of the Company during the year ended March 31, 2015 was summarized as follows:

|               | 2015                                  |        |                |                | Outstanding<br>as of March<br>31, 2015 |
|---------------|---------------------------------------|--------|----------------|----------------|----------------------------------------|
|               | Outstanding<br>as of April<br>1, 2014 | Vested | Exercised      | Forfeited      |                                        |
| The 2009 plan | <b>1,465,000</b>                      | –      | <b>620,300</b> | <b>844,700</b> | –                                      |

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

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 13. Shareholders' Equity (continued)

Movements in common stock and treasury stock for the years ended March 31, 2015 and 2014 were summarized as follows:

|                |             | <i>Number of shares</i> |                  |                |                    |
|----------------|-------------|-------------------------|------------------|----------------|--------------------|
|                |             | <b>2015</b>             |                  |                |                    |
|                | Notes       | April 1, 2014           | Increase         | Decrease       | March 31, 2015     |
| Common stock   |             | <b>112,005,636</b>      | –                | –              | <b>112,005,636</b> |
| Treasury stock | (a) and (b) | <b>1,509,193</b>        | <b>6,740,664</b> | <b>620,300</b> | <b>7,629,557</b>   |
|                |             | <i>Number of shares</i> |                  |                |                    |
|                |             | <b>2014</b>             |                  |                |                    |
|                | Notes       | April 1, 2013           | Increase         | Decrease       | March 31, 2014     |
| Common stock   |             | 105,665,636             | 6,340,000        | –              | 112,005,636        |
| Treasury stock | (c) and (d) | 4,127,763               | 2,430            | 2,621,000      | 1,509,193          |

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 13. Shareholders' Equity (continued)

Movements in stock acquisition rights during the years ended March 31, 2015 and 2014 were summarized as follows:

|                                                                            | <i>Thousands of shares</i> |          |          |
|----------------------------------------------------------------------------|----------------------------|----------|----------|
|                                                                            | April 1,<br>2014           | Increase | Decrease |
| Stock acquisition rights attached to convertible bonds due October 1, 2021 | –                          | 16,741   | –        |
|                                                                            | –                          | 16,741   | –        |

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

|                                                                         | <i>Thousands of shares</i> |          |          | <i>Millions of yen</i> |
|-------------------------------------------------------------------------|----------------------------|----------|----------|------------------------|
|                                                                         | April 1,<br>2013           | Increase | Decrease | March 31, 2014         |
| Stock acquisition rights attached to convertible bonds due May 10, 2013 | 1,304                      | –        | 1,304    | –                      |
| Stock acquisition rights as stock options                               | –                          | –        | –        | 239                    |
|                                                                         | 1,304                      | –        | 1,304    | ¥ 239                  |

### 14. Cost of Sales

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 15. Loss on Impairment of Property and Equipment

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

| March 31, 2015  |                                                  |                               |
|-----------------|--------------------------------------------------|-------------------------------|
| Use             | Classification                                   | Location                      |
| Store           | Buildings, structures and other                  | Shizuoka Prefecture and other |
| Rental property | Buildings, structures and other                  | Mie Prefecture and other      |
| Other           | Tools, furniture and fixtures,<br>Land and Other | Fukui Prefecture and other    |
| March 31, 2014  |                                                  |                               |
| Use             | Classification                                   | Location                      |
| Store           | Buildings, structures and other                  | Osaka Prefecture and other    |
| Rental property | Buildings, structures and other                  | Hokkaido Prefecture and other |

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

Losses on impairment of property and equipment were recorded for the years ended March 31, 2015 and 2014 as the assets and asset groups listed above recorded consecutive years of negative operating cash flows and because their utilization in the future was not determinable.

As a result, for the year ended March 31, 2015, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥2,430 million (\$20,218 thousand). In addition, a loss on impairment of rental property was ¥198 million (\$1,647 thousand). Moreover, a loss on impairment of other was ¥163 million (\$1,360 thousand).

For the year ended March 31, 2014, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥5,331 million. In addition, a loss on impairment of rental property was ¥130 million.

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 15. Loss on Impairment of Property and Equipment (continued)

For the years ended March 31, 2015 and 2014, the principal components of loss on impairment by asset classification were buildings and structures of ¥2,149 million (\$17,883 thousand) and ¥4,824 million, tools, furniture and fixtures of ¥321 million (\$2,672 thousand) and ¥211 million, and land of ¥267 million (\$2,219 thousand) and ¥381 million, respectively.

The recoverable amounts of asset groups are measured at the higher of their net selling value or value in use. The net selling value for significant assets is based on professional appraisals. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 3.69% and 3.32% for the years ended March 31, 2015 and 2014, respectively.

### 16. Other Comprehensive Income (Loss)

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 17. Leases

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

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

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2015 and 2014 which would have been reflected in the accompanying consolidated balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

| <i>Millions of yen</i>           |                  |                          |                             |                |                  |                          |                             |                |
|----------------------------------|------------------|--------------------------|-----------------------------|----------------|------------------|--------------------------|-----------------------------|----------------|
|                                  | 2015             |                          |                             |                | 2014             |                          |                             |                |
|                                  | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value |
| Buildings and structures         | ¥ 3,924          | ¥ 2,453                  | ¥ –                         | ¥ 1,471        | ¥ 3,924          | ¥ 2,257                  | ¥ –                         | ¥ 1,667        |
|                                  | ¥ 3,924          | ¥ 2,453                  | ¥ –                         | ¥ 1,471        | ¥ 3,924          | ¥ 2,257                  | ¥ –                         | ¥ 1,667        |
| <i>Thousands of U.S. dollars</i> |                  |                          |                             |                |                  |                          |                             |                |
|                                  | 2015             |                          |                             |                |                  |                          |                             |                |
|                                  | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value |                  |                          |                             |                |
| Buildings and structures         | \$ 32,657        | \$ 20,410                | \$ –                        | \$ 12,247      |                  |                          |                             |                |
|                                  | \$ 32,657        | \$ 20,410                | \$ –                        | \$ 12,247      |                  |                          |                             |                |

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 17. Leases (continued)

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

|                  | <i>Millions of yen</i> |       | <i>Thousands of U.S. dollars</i> |
|------------------|------------------------|-------|----------------------------------|
|                  | <b>2015</b>            | 2014  | <b>2015</b>                      |
| Lease payments   | <b>¥ 216</b>           | ¥ 223 | <b>\$ 1,797</b>                  |
| Depreciation     | <b>196</b>             | 203   | <b>1,633</b>                     |
| Interest expense | <b>17</b>              | 19    | <b>144</b>                       |

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

| <i>Year ending March 31,</i> | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|------------------------------|------------------------|----------------------------------|
| 2016                         | ¥ 201                  | \$ 1,670                         |
| 2017 and thereafter          | 1,391                  | 11,580                           |
| Total                        | <u>¥ 1,592</u>         | <u>\$ 13,250</u>                 |

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

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

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

| <i>Year ending March 31,</i> | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|------------------------------|------------------------|----------------------------------|
| 2016                         | ¥ 261                  | \$ 2,174                         |
| 2017 and thereafter          | 4,006                  | 33,339                           |
| Total                        | <u>¥ 4,267</u>         | <u>\$ 35,513</u>                 |

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 18. Supplementary Information on the Consolidated Statement of Cash Flows

Information on significant non-cash transaction:

|                                          | <i>Millions of yen</i> |       | <i>Thousands of<br/>U.S. dollars</i> |
|------------------------------------------|------------------------|-------|--------------------------------------|
|                                          | <b>2015</b>            | 2014  | <b>2015</b>                          |
| Increase in asset retirement obligations | <b>¥ 855</b>           | ¥ 942 | <b>\$ 7,111</b>                      |
| Capitalized lease                        | <b>¥ 5</b>             | ¥ 259 | <b>\$ 42</b>                         |

### 19. Related Party Transactions

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

|                   | <i>Millions of yen</i> |       | <i>Thousands of<br/>U.S. dollars</i> |
|-------------------|------------------------|-------|--------------------------------------|
|                   | <b>2015</b>            | 2014  | <b>2015</b>                          |
| SHOEI Co., Ltd.:  |                        |       |                                      |
| Insurance expense | <b>¥ 131</b>           | ¥ 134 | <b>\$ 1,093</b>                      |

The outstanding balance of prepaid expenses and accounts payable related to insurance expense outline above amounted to ¥19 million (\$159 thousand) and ¥17 million, and ¥0 million (\$3 thousand) and ¥0 million at March 31, 2015 and 2014, respectively.

SHOEI Co., Ltd. ("SHOEI") is a majority owned company by a director and the director's relatives, located in Nisshin City, Aichi and it is engaged in the insurance business. The capital amount of SHOEI was ¥90 million (\$749 thousand) at March 31, 2015 and 2014.

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 20. Segment Information

Reportable segments of the Group are “Sales of home electric appliances” and “Others.” As the “Others” segment is immaterial to the segment total, the disclosure of segment information for the years ended March 31, 2015 and 2014 has been omitted.

Loss on impairment of property and equipment for all segments was recorded in the amounts of ¥2,791 million (\$23,225 thousand) and ¥5,461 million for the years ended March 31, 2015 and 2014, respectively. The remaining balance of goodwill for all segments as of March 31, 2015 and 2014 were nil. Amortization of negative goodwill for all segments was recorded in the amounts of nil and ¥569 million for the years ended March 31, 2015 and 2014, respectively. No remaining balance of negative goodwill for all segments was recorded as of the March 31, 2015 and 2014, respectively.

As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statement of operations, the disclosure of the segment information by product and service for the years ended March 31, 2015 and 2014 has been omitted.

As there were no overseas sales of products and services to external customers, the disclosure of net sales by geographical region for the years ended March 31, 2015 and 2014 has been omitted.

As there was no property and equipment located overseas, the disclosure of property and equipment by geographical region as of March 31, 2015 and 2014 has been omitted.

As sales of products and services to specific customers account for less than 10% of net sales in the consolidated statements of operations, the disclosure of information by major customers for the years ended March 31, 2015 and 2014 has been omitted.

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 21. Business Combination

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

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

#### *Company Split (under common control)*

##### (1) Outline of the transaction

###### a) Name and details of business transferred

Operations of home center stores (excluding, sales of home electric products)

###### b) Date of company split

October 1, 2014

###### c) Legal form of company split

The method is an Incorporation-Type Company Split in which the Company is the splitting company and the newly incorporated company is the successor company. (Simple Incorporation-Type Company Split)

This company split, pursuant to Article 805 of the Corporation Law (Simple Split), will be executed without the approval of a general meeting of shareholders.

###### d) Name and overview of newly incorporated company

Company name: Home Expo Co., Ltd.

Address of headquarters: 411, Hidaka 3-chome, Kariya, Aichi, Japan

Representative: President and representative director, Katsuyoshi Ishiguro

Business description: Operations of home center stores

Capital: ¥10 million (\$83 thousand)

Personnel: 112

###### e) Other information

The Company has operated six home center stores called “Home Expo” in Aichi, Japan. Considering the business environment of the home center market being increasingly oligopolistic in recent years and possibilities for the further expansion of “Home Expo”, the Company determined that this transaction, the company split and transfer of shares of the newly incorporated company, would enable it to optimize the Group’s resource allocation and increase profitability in order to enhance corporate value.

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 21. Business Combination (continued)

#### *Company Split (under common control) (continued)*

##### (2) Summary of Accounting Treatment

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

#### *Information on business divestiture*

##### (1) Outline of transfer

###### a) Name and overview of transferee

Company name: KAHMA Co., Ltd, (renamed, DCM KAHMA CO., Ltd.).  
Address of headquarters: 411, Hidaka 3-chome, Kariya, Aichi, Japan  
Representative: President, representative director and officers Yoshiyuki Toyoda  
Business description: Operations of home center stores  
Capital: ¥6,001 million (\$49,938 thousand)  
Personnel: 1,036 (as of February 28, 2014)

###### b) Transferred operation

The Company’s operations of home center stores (excluding, sales of home electric product)

###### c) Objective of business divestiture

The Company has operated six home center stores called “Home Expo” in Aichi, Japan. Considering the business environment of the home center market being increasingly oligopolistic in recent years and possibilities for the further expansion of “Home Expo”, the Company determined that this transaction, the company split and transfer of shares of the newly incorporated company, would enable it to optimize the Group’s resource allocation and increase profitability in order to enhance corporate value.

###### d) Date of the business divestiture

October 1, 2014

###### e) Other information including legal form

The Company transferred all shares of the newly incorporated company (100% subsidiary owned by the Company) to KAHMA Co., Ltd (renamed, DCM KAHMA Co., Ltd.) in exchange for cash and other as consideration.

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 21. Business Combination (continued)

#### Information of business divestiture (continued)

#### (2) Summary of Accounting Treatment

##### a) Gain on sales of shares of subsidiary

¥2,575 million (\$ 21,426 thousand)

##### b) Assets and liabilities related to transferred operations (As of October 1, 2014)

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

##### c) Reporting segment in which the transferred operations were included

Operations of home center stores and other

As a result of this transfer, the Company's reporting segments were changed to "Sales of home electric appliances" and "Others" from the fiscal year ended March 31, 2015.

##### d) Estimated amounts of sales and operating income of transferred operations included in the consolidated financial statement of income for the year ended March 31, 2015

|                  | <i>Millions of yen</i> | <i>Thousands of<br/>U.S. dollars</i> |
|------------------|------------------------|--------------------------------------|
| Sales            | ¥ 4,346                | \$ 36,169                            |
| Operating income | 107                    | 889                                  |

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Subsequent Events

#### (Issuance of Convertible Bonds (with Stock Acquisition Rights))

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

The outline of the issuance is as follows:

(1) Description of convertible bonds

EDION Corporation Euro-Yen denominated convertible bonds with stock acquisition rights due 2025 (the “Convertible Bonds”)

(2) Issue price (offer price)

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

(3) Issue price (amounts to be offered)

103.0% of the principal amount of the Convertible Bonds

(4) Aggregate principal amount of the Convertible Bonds

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

(5) Coupon

Zero

(6) Closing date and issuance date of the Convertible Bonds

June 19, 2015 (London time; unless otherwise indicated, hereinafter the same shall apply)

(7) Maturity date

June 19, 2025

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Subsequent Events

#### (Issuance of Convertible Bonds (with Stock Acquisition Rights)) (continued)

##### (8) Details on Stock Acquisition Rights

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

##### (9) Collateral and Guarantee

No collateral or guarantee

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Subsequent Events

#### (Issuance of Convertible Bonds (with Stock Acquisition Rights)) (continued)

##### (10) Use of Proceeds

The net proceeds of approximately ¥15,000 million (\$124,823 thousand) from the issuance of the Convertible Bonds due 2025 are expected to be used primarily as follows:

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

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

# EDION Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Subsequent Events

#### (Issuance of Convertible Bonds (with Stock Acquisition Rights)) (continued)

#### (Distribution of retained earnings of the Company)

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

|                                                      | <i>Millions of yen</i> | <i>Thousands of<br/>U.S. dollars</i> |
|------------------------------------------------------|------------------------|--------------------------------------|
| Year-end cash dividends of ¥10.00 (\$0.08) per share | ¥ 1,044                | \$ 8,686                             |