

Consolidated Financial Statements

**EDION Corporation
and Consolidated Subsidiaries**

*Year ended March 31, 2016
with Independent Auditor's Report*

EDION Corporation and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2016

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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, 2016, 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, 2016, 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 30, 2016

EDION Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2016	2015	2016
Assets			
Current assets:			
Cash and cash equivalents <i>(Note 10)</i>	¥ 12,247	¥ 9,001	\$ 108,684
Notes and accounts receivable:			
Trade <i>(Note 10)</i>	32,034	29,223	284,293
Other	9,240	10,119	82,004
Allowance for doubtful receivables	(54)	(44)	(479)
	41,220	39,298	365,818
 Inventories:			
Merchandise and products	102,648	106,528	910,970
Supplies	344	324	3,057
	102,992	106,852	914,027
 Deferred income taxes <i>(Note 9)</i>	7,814	8,071	69,343
Other current assets	3,512	3,809	31,169
Total current assets	167,785	167,031	1,489,041
 Property and equipment, at cost <i>(Notes 6 and 15)</i> :			
Land <i>(Notes 4 and 7)</i>	72,918	73,520	647,127
Buildings and structures <i>(Note 7)</i>	165,661	165,718	1,470,191
Tools, furniture and fixtures	24,301	24,299	215,663
Leased assets	1,040	1,428	9,232
Construction in progress	1,344	1,515	11,930
Other	988	680	8,755
	266,252	267,160	2,362,898
 Accumulated depreciation	(122,442)	(118,426)	(1,086,632)
Property and equipment, net	143,810	148,734	1,276,266
 Investments and other assets:			
Investments in securities <i>(Notes 3 and 10)</i>	2,255	3,313	20,014
Investments in affiliates <i>(Note 10)</i>	857	759	7,604
Leasehold deposits <i>(Note 10)</i>	27,332	28,964	242,565
Deferred income taxes <i>(Note 9)</i>	7,964	7,390	70,674
Other <i>(Note 15)</i>	10,311	11,148	91,500
Total investments and other assets	48,719	51,574	432,357
Total assets	¥ 360,314	¥ 367,339	\$ 3,197,664

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2016	2015	2016
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (<i>Notes 7 and 10</i>)	¥ —	¥ 27,000	\$ —
Current portion of long-term debt (<i>Notes 7 and 10</i>)	20,712	16,376	183,811
Notes and accounts payable:			
Trade (<i>Note 10</i>)	39,475	34,253	350,328
Other	11,682	11,729	103,673
	51,157	45,982	454,001
Lease obligations (<i>Notes 7 and 10</i>)	102	96	904
Accrued income taxes (<i>Note 9</i>)	5,418	559	48,084
Allowance for employees' bonuses	4,657	4,368	41,332
Reserve for point service program	8,911	9,229	79,084
Other current liabilities	13,827	11,967	122,709
Total current liabilities	104,784	115,577	929,925
Long-term liabilities:			
Long-term debt (<i>Notes 7 and 10</i>)	79,427	73,831	704,892
Liability for retirement benefits (<i>Note 8</i>)	9,519	7,652	84,483
Lease obligations (<i>Notes 7 and 10</i>)	890	961	7,901
Deferred income taxes (<i>Note 9</i>)	10	27	85
Deferred income taxes for land revaluation (<i>Note 9</i>)	1,773	1,870	15,733
Allowance for merchandise warranties	8,296	8,416	73,627
Asset retirement obligations (<i>Note 5</i>)	6,844	6,581	60,735
Other long-term liabilities	6,784	7,337	60,199
Total long-term liabilities	113,543	106,675	1,007,655
Contingent liabilities (<i>Note 12</i>)			
Net assets			
Shareholders' equity (<i>Note 13</i>):			
Common stock	11,940	11,940	105,967
Capital surplus	84,310	84,310	748,221
Retained earnings	64,164	60,401	569,436
Treasury stock, at cost	(10,457)	(5,471)	(92,798)
Total shareholders' equity	149,957	151,180	1,330,826
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities	149	719	1,328
Land revaluation difference (<i>Note 4</i>)	(6,689)	(7,011)	(59,366)
Retirement benefit liability adjustments (<i>Note 8</i>)	(1,479)	135	(13,128)
Total accumulated other comprehensive loss, net	(8,019)	(6,157)	(71,166)
Non-controlling interests	49	64	424
Total net assets	141,987	145,087	1,260,084
Total liabilities and net assets	¥ 360,314	¥ 367,339	\$ 3,197,664

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2016	2015	2016
Net sales	¥ 692,087	¥ 691,217	\$ 6,142,057
Cost of sales (<i>Note 14</i>)	496,011	500,857	4,401,941
Gross profit	196,076	190,360	1,740,116
Selling, general and administrative expenses	179,026	179,615	1,588,798
Operating income	17,050	10,745	151,318
Non-operating income (expenses):			
Interest and dividend income	172	228	1,528
Interest expense	(660)	(843)	(5,853)
Provision of allowance for doubtful receivables	(235)	–	(2,085)
Subsidy income	184	178	1,632
Loss on sales or disposal of property and equipment	(974)	(717)	(8,646)
Loss on impairment of property and equipment (<i>Notes 15 and 20</i>)	(4,256)	(2,791)	(37,774)
Gain on sales of investments in securities (<i>Note 3</i>)	150	158	1,331
Gain on sales of shares of subsidiary	–	2,575	–
Other, net	483	582	4,286
	(5,136)	(630)	(45,581)
Profit before income taxes	11,914	10,115	105,737
Income taxes (<i>Note 9</i>):			
Current	5,269	1,362	46,768
Deferred	637	3,838	5,655
Total income taxes	5,906	5,200	52,423
Profit	6,008	4,915	53,314
Profit (loss) attributable to:			
Non-controlling interests	(15)	(15)	(137)
Owners of parent	¥ 6,023	¥ 4,930	\$ 53,451

	<i>Yen</i>	<i>U.S. dollars</i>
Amounts per share:		
Profit attributable to owners of parent		
– Basic	¥ 60.04	¥ 45.77 \$ 0.53
– Diluted	47.66	42.69 0.42
Cash dividends	22.00	20.00 0.20

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2016	2015	2016
Profit	¥ 6,008	¥ 4,915	\$ 53,314
Other comprehensive (loss) income <i>(Note 16)</i> :			
Net unrealized (loss) gain on other securities	(570)	527	(5,055)
Land revaluation difference	93	198	823
Retirement benefit liability adjustments	(1,614)	(145)	(14,326)
Other comprehensive (loss) income, net	(2,091)	580	(18,558)
Comprehensive income	¥ 3,917	¥ 5,495	\$ 34,756
Comprehensive income attributable to:			
Owners of parent	¥ 3,932	¥ 5,510	\$ 34,893
Non-controlling interests	(15)	(15)	(137)

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2016

	<i>Millions of yen</i>				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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)
Profit attributable to owners of parent	—	—	4,930	—	4,930
Purchases of treasury stock	—	—	—	(4,999)	(4,999)
Disposition of treasury stock	—	142	—	330	472
Other changes	—	—	—	—	—
Balance at April 1, 2015	11,940	84,310	60,401	(5,471)	151,180
Cash dividends	—	—	(2,031)	—	(2,031)
Reversal of land revaluation difference	—	—	(229)	—	(229)
Profit attributable to owners of parent	—	—	6,023	—	6,023
Purchases of treasury stock	—	—	—	(4,986)	(4,986)
Disposition of treasury stock	—	0	—	0	0
Other changes	—	—	—	—	—
Balance at March 31, 2016	¥ 11,940	¥ 84,310	¥ 64,164	¥(10,457)	¥ 149,957

	<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	Non-controlling interests	Total net assets
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)
Profit attributable to owners of parent	—	—	—	—	—	—	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
Balance at April 1, 2015	719	(7,011)	135	(6,157)	—	64	145,087
Cash dividends	—	—	—	—	—	—	(2,031)
Reversal of land revaluation difference	—	—	—	—	—	—	(229)
Profit attributable to owners of parent	—	—	—	—	—	—	6,023
Purchases of treasury stock	—	—	—	—	—	—	(4,986)
Disposition of treasury stock	—	—	—	—	—	—	0
Other changes	(570)	322	(1,614)	(1,862)	—	(15)	(1,877)
Balance at March 31, 2016	¥ 149	¥ (6,689)	¥ (1,479)	¥ (8,019)	¥ —	¥ 49	¥ 141,987

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2016

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2015	\$ 105,967	\$ 748,221	\$ 536,042	\$ (48,556)	\$ 1,341,674
Cash dividends	—	—	(18,025)	—	(18,025)
Reversal of land revaluation difference	—	—	(2,032)	—	(2,032)
Profit attributable to owners of parent	—	—	53,451	—	53,451
Purchases of treasury stock	—	—	—	(44,242)	(44,242)
Disposition of treasury stock	—	0	—	0	0
Other changes	—	—	—	—	—
Balance at March 31, 2016	\$ 105,967	\$ 748,221	\$ 569,436	\$ (92,798)	\$ 1,330,826

	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Non- controlling interests	Total net assets
Balance at April 1, 2015	\$ 6,383	\$ (62,221)	\$ 1,198	\$ (54,640)	\$ 561	\$ 1,287,595
Cash dividends	—	—	—	—	—	(18,025)
Reversal of land revaluation difference	—	—	—	—	—	(2,032)
Profit attributable to owners of parent	—	—	—	—	—	53,451
Purchases of treasury stock	—	—	—	—	—	(44,242)
Disposition of treasury stock	—	—	—	—	—	0
Other changes	(5,055)	2,855	(14,326)	(16,526)	(137)	(16,663)
Balance at March 31, 2016	\$ 1,328	\$ (59,366)	\$ (13,128)	\$ (71,166)	\$ 424	\$ 1,260,084

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2016	2015	2016
Cash flows from operating activities			
Profit before income taxes	¥ 11,914	¥ 10,115	\$ 105,737
Adjustments for:			
Depreciation and amortization	9,543	10,364	84,691
Loss on impairment of property and equipment	4,256	2,791	37,774
Interest and dividend income	(172)	(228)	(1,528)
Interest expense	660	843	5,853
Increase (decrease) in allowance for employees' bonuses	289	(1,333)	2,568
Decrease in reserve for point service program	(318)	(109)	(2,824)
Increase (decrease) in liability for retirement benefits	1,867	(416)	16,571
Loss on sales or disposal of property and equipment	974	717	8,646
Gain on sales of shares of subsidiary	—	(2,575)	—
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(1,932)	19,850	(17,150)
Decrease (increase) in inventories	3,917	(23,016)	34,763
Increase (decrease) in notes and accounts payable	5,928	(17,914)	52,611
Decrease in advances received	(76)	(9,565)	(671)
Other, net	1,179	(2,709)	10,456
Subtotal	38,029	(13,185)	337,497
Interest and dividends received	101	61	898
Interest paid	(620)	(803)	(5,499)
Subsidies received	201	384	1,786
Income taxes refunded	426	2	3,776
Income taxes paid	(982)	(3,674)	(8,719)
Net cash provided by (used in) operating activities	37,155	(17,215)	329,739
Cash flows from investing activities			
Purchases of property and equipment	(8,504)	(9,227)	(75,471)
Proceeds from sales of property and equipment	185	3,791	1,643
Purchases of intangible assets	(1,473)	(1,296)	(13,070)
Payments of long-term prepaid expenses	(51)	(119)	(452)
Purchases of investments in securities	—	(65)	(4)
Proceeds from sales of investments in securities	391	437	3,468
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	4,048	—
Decrease (increase) in leasehold deposits, net	81	(1,158)	720
(Decrease) increase in leasehold deposits received from tenants, net	(205)	137	(1,820)
Other, net	(177)	(323)	(1,570)
Net cash used in investing activities	¥ (9,753)	¥ (3,775)	\$ (86,556)

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2016	2015	2016
Cash flows from financing activities			
(Decrease) increase in short-term bank loans, net	¥ (27,000)	¥ 23,000	\$ (239,617)
Proceeds from long-term loans	12,000	1,500	106,496
Repayments of long-term loans	(17,028)	(22,540)	(151,118)
Proceeds from issuance of convertible bonds	15,003	14,942	133,145
Cash dividends paid	(2,026)	(2,421)	(17,984)
Purchase of treasury stock	(4,986)	(4,999)	(44,242)
Proceeds from exercise of stock options	—	370	—
Other, net	(119)	(155)	(1,061)
Net cash (used in) provided by financing activities	(24,156)	9,697	(214,381)
Effect of exchange rate changes on cash and cash equivalents	0	0	0
Net increase (decrease) in cash and cash equivalents	3,246	(11,293)	28,802
Cash and cash equivalents at the beginning of the year	9,001	20,294	79,882
Cash and cash equivalents at the end of the year (Note 18)	¥ 12,247	¥ 9,001	\$ 108,684

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2016

1. Basis of Presentation of Consolidated Financial Statements

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2015 to the 2016 presentation. Such reclassifications had no effect on consolidated profit, net assets or net cash flow.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥112.68 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2016. 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, 2016 and 2015.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The Company has applied the equity method to investments in 3 affiliates for the years ended March 31, 2016 and 2015.

Neo System Co., Ltd. and HOUSALL Corporation were excluded from the scope of the equity method as their impact is not significant to the Company's profit or loss, 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) 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.

(h) 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)

(i) 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.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(j) 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.

(k) 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.

(l) 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.

(m) Derivatives and hedging activities

Derivatives positions are carried at fair value with any changes charged to profit, 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)

(n) Per share information

Basic profit attributable to owners of parent per share is computed based on the profit attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent 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 profit attributable to owners of parent per share for the years ended March 31, 2016 and 2015 were 100,311 thousand and 107,721 thousand, respectively. The dilutive potential of shares of common stock for the year ended March 31, 2016 and 2015 were 26,046 thousand and 7,760 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, 2016 and 2015 were ¥1,437.65 (\$12.76) and ¥1,389.43, respectively.

(o) 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 21. “Subsequent Events”).

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(p) Changes in accounting policy

(Application of Accounting Standard for Business Combinations)

Effective from the fiscal year ended March 31, 2016, the Company and its domestic consolidated subsidiaries adopted “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (“ASBJ”) Statement No.21, September 13, 2013), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). As a result, under these revised accounting standards, the difference arising from changes in the ownership interest in a subsidiary that is still under the parent’s control shall be accounted for in capital surplus, and the corresponding acquisition-related costs shall be accounted for as expenses in the period in which the costs are incurred. For business combinations occurring on or after April 1, 2015, any change to the allocation of the acquisition cost resulting from the finalization of the provisional accounting treatment are reflected in the consolidated financial statements for the period in which the business combination occurs. Additionally, a change in presentation has been made to net income, and the previous accounting standard category of minority interests has changed to non-controlling interests. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been restated.

The Company has adopted these accounting standards from the beginning of the fiscal year ended March 31, 2016, in accordance with transitional treatment based on Article 58-2(4) of ASBJ Statement No.21, Article 44-5(4) of ASBJ Statement No.22, and Article 57-4(4) of ASBJ Statement No.7.

There was no effect on the consolidated financial results for the year ended March 31, 2016 resulting from the adoption.

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

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets,” whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- Category requirements for (Category 2) and (Category 3)
- Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of adoption

The revised implementation guidance will be adopted from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of adopting revised implementation guidance

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments in Securities

- (a) Information regarding investments in securities classified as other securities inclusive of marketable securities at March 31, 2016 and 2015 were summarized as follows:

<i>Millions of yen</i>						
	2016			2015		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 2,060	¥ 1,798	¥ 262	¥ 3,084	¥ 2,029	¥1,055
Subtotal	¥ 2,060	¥ 1,798	¥ 262	¥ 3,084	¥ 2,029	¥1,055
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	¥ 147	¥ 183	¥ (36)	¥ 139	¥ 151	¥ (12)
Subtotal	¥ 147	¥ 183	¥ (36)	¥ 139	¥ 151	¥ (12)
Total (*a)	¥ 2,207	¥ 1,981	¥ 226	¥ 3,223	¥ 2,180	¥1,043

<i>Thousands of U.S. dollars</i>			
March 31, 2016			
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 18,289	\$ 15,964	\$ 2,325
Subtotal	\$ 18,289	\$ 15,964	\$ 2,325
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	\$ 1,303	\$ 1,621	\$ (318)
Subtotal	\$ 1,303	\$ 1,621	\$ (318)
Total (*a)	\$ 19,592	\$ 17,585	\$ 2,007

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 preceding table. The carrying values of such unlisted equity securities amounted to ¥48 million (\$422 thousand) and ¥90 million as of March 31, 2016 and 2015, respectively.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments in Securities (continued)

- (b) Proceeds from sales of and gross realized gain and loss on other securities for the fiscal years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Proceeds from sales	¥ 391	¥ 437	\$ 3,468
Gross realized gain	150	158	1,331
Gross realized loss	—	—	—

- (c) Losses on devaluation of investments in securities of ¥0 million (\$1 thousand) and nil were recognized in the consolidated statements of income for the fiscal years ended March 31, 2016 and 2015, 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 ¥11,269 million (\$100,013 thousand) and ¥11,596 million at March 31, 2016 and 2015, respectively, of which a certain portion of this land, in the amount of ¥2,845 million (\$25,253 thousand) and ¥3,135 million, corresponded to real estate for lease at March 31, 2016 and 2015, 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 discount rates ranging from 0.02% to 2.75%.

Changes in asset retirement obligations during the years ended March 31, 2016 and 2015 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Balance at the beginning of the year	¥ 6,581	¥ 5,934	\$ 58,400
Liabilities incurred due to the acquisition of property and equipment	303	757	2,688
Accretion expense	100	98	891
Liabilities settled	(140)	(208)	(1,244)
Balance at the end of the year	¥ 6,844	¥ 6,581	\$ 60,735

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own store properties including buildings and land for rent mainly in the main cities of Osaka, Aichi and other prefectures. Net rental income for these properties was recognized in the amount of ¥420 million (\$3,727 thousand) and ¥390 million for the years ended March 31, 2016 and 2015, respectively. Rental income was included in net sales and rental expenses were mainly included in selling, general and administrative expenses. Impairment of rental property of ¥407 million (\$3,613 thousand) and ¥271 million was recognized in loss on impairment of property and equipment for the years ended March 31, 2016 and 2015, 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>			
2016			
Carrying Value			Fair Value
March 31, 2015	Net change	March 31, 2016	March 31, 2016
¥ 23,525	¥(924)	¥ 22,601	¥ 23,028

<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>Thousands of U.S. dollars</i>			
2016			
Carrying Value			Fair Value
March 31, 2015	Net change	March 31, 2016	March 31, 2016
\$ 208,774	\$(8,197)	\$ 200,577	\$ 204,364

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 acquisition of properties of ¥24 million (\$214 thousand) and decreases due to depreciation of ¥507 million (\$4,497 thousand) for the year ended March 31, 2016. 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 and decreases due to sales of ¥2,488 million for the year ended March 31, 2015.
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 consisted of bank overdrafts. The annual average interest rate applicable to the short-term bank loans was 0.39% at March 31, 2015. The Group had no outstanding short-term bank loans at March 31, 2016.

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Zero coupon unsecured convertible bonds (with stock acquisition rights) due October 1, 2021	¥ 15,000	¥ 15,000	\$ 133,120
Zero coupon unsecured convertible bonds (with stock acquisition rights) due June 19, 2025	15,068	–	133,720
Unsecured loans principally from banks and insurance companies with an average interest rate of 0.67%	68,882	73,910	611,306
Long-term loans with an interest rate of 2.05%	1,189	1,297	10,557
	100,139	90,207	888,703
Less: current portion of long-term debt	(20,712)	(16,376)	(183,811)
	¥ 79,427	¥ 73,831	\$ 704,892

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.

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on June 19, 2015 are convertible at ¥1,240 (\$11.00) per share in the period from July 3, 2015 to June 5, 2025 subject to adjustment in certain circumstances.

The aggregate annual maturities of long-term debt subsequent to March 31, 2016 were summarized as follows:

<i>Year ending March 31,</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2017	¥ 20,712	\$ 183,811
2018	21,364	189,599
2019	15,600	138,448
2020	1,603	14,224
2021	1,605	14,245
2022 and thereafter	39,187	347,777
Total	¥ 100,071	\$ 888,104

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 2.96% and 3.00% at March 31, 2016 and 2015, respectively.

The aggregate annual maturities of lease obligations subsequent to March 31, 2016 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 102	\$ 904
2018	104	919
2019	79	699
2020	69	613
2021	71	628
2022 and thereafter	567	5,042
Total	¥ 992	\$ 8,805

The assets pledged as collateral for long-term loans and the current portion of long-term loans of ¥1,189 million (\$10,557 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,180 million (\$10,469 thousand) was as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,371	\$ 12,167
Buildings and structures – net of accumulated depreciation	3,206	28,451
Total	¥ 4,577	\$ 40,618

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 ¥109,600 million (\$972,666 thousand), of which ¥109,600 million (\$972,666 thousand) was available as of March 31, 2016.

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, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Retirement benefit obligation at the beginning of the year	¥ 14,766	¥ 15,033	\$ 131,043
Cumulative effect of changes in accounting policy	–	(36)	–
Restated balance	14,766	14,997	131,043
Service cost	456	462	4,051
Interest cost	161	164	1,432
Actuarial loss	1,933	225	17,153
Retirement benefit paid	(891)	(1,082)	(7,906)
Retirement benefit obligation at the end of the year	¥ 16,425	¥ 14,766	\$ 145,773

The changes in plan assets at fair value during the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Plan assets at fair value at the beginning of the year	¥ 7,114	¥ 6,965	\$ 63,132
Expected return on plan assets	292	153	2,588
Actuarial (loss) gain	(293)	279	(2,605)
Contribution by the Company	282	377	2,509
Retirement benefit paid	(489)	(660)	(4,334)
Plan assets at fair value at the end of the year	¥ 6,906	¥ 7,114	\$ 61,290

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The balances of retirement benefit obligation and plan assets at fair value and liabilities recognized in the consolidated balance sheet at March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Funded retirement benefit obligation	¥ 8,756	¥ 7,625	\$ 77,707
Plan assets at fair value	(6,906)	(7,114)	(61,290)
	1,850	511	16,417
Unfunded retirement benefit obligation	7,669	7,141	68,066
Net liability for retirement benefits in the balance sheet	¥ 9,519	¥ 7,652	\$ 84,483

The components of retirement benefit expense for the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Service cost	¥ 456	¥ 462	\$ 4,051
Interest cost	161	164	1,432
Expected return on plan assets	(292)	(153)	(2,588)
Amortization of actuarial loss	201	87	1,777
Amortization of prior service cost	(315)	(390)	(2,804)
Retirement benefit expense	¥ 211	¥ 170	\$ 1,868

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Actuarial (loss) gain	¥ (2,226)	¥ 54	\$ (19,758)

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, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Unrecognized prior service cost	¥ 1,398	¥ 1,713	\$ 12,402
Unrecognized actuarial loss	(3,581)	(1,544)	(31,778)
Total	¥(2,183)	¥ 169	\$(19,376)

The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 are as follows:

	2016	2015
Bonds	25%	21%
Stocks	12	15
General accounts	61	61
Other	2	3
Total	100%	100%

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

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

	2016	2015
Discount rates	0.1%-0.2%	1.0%-1.1%
Expected rates of return on plan assets	3.5%	4.1%
Expected rates of salary increase	1.1%-2.8%	1.2%-3.7%

Notes:

In addition to the above, the Company and certain consolidated subsidiaries charged contributions of ¥1,913 million (\$16,979 thousand) and ¥1,875 million to the defined contribution pension plans to income during the years ended March 31, 2016 and 2015, 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 33.0% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

The effective tax rates for the years ended March 31, 2016 and 2015 differed from the corresponding statutory tax rates for the following reasons:

	2016	2015
Statutory tax rates:	33.0 %	35.6 %
Expenses not deductible for income tax purposes	0.3	0.4
Inhabitants' per capita taxes	3.1	4.1
Change in valuation allowance	7.8	4.0
Effect of change in statutory tax rate	5.6	13.1
Effect of land evaluation difference	(0.0)	(4.0)
Other, net	(0.2)	(1.6)
Effective tax rates	49.6 %	51.6 %

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, 2016 and 2015 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Deferred tax assets:			
Depreciation	¥ 1,674	¥ 1,601	\$ 14,860
Allowance for employees' bonuses	1,449	1,449	12,857
Loss on impairment of property and equipment	8,754	8,507	77,687
Liability for retirement benefits	2,273	2,539	20,174
Reserve for point service program	2,777	3,075	24,641
Allowance for merchandise warranties	2,644	2,824	23,465
Unrealized loss on revaluation of land acquired by merger	1,548	1,638	13,740
Asset retirement obligations	2,125	2,143	18,862
Net operating tax loss carry forwards	221	306	1,964
Other	5,279	4,363	46,841
Less valuation allowance	(11,953)	(11,618)	(106,076)
Total deferred tax assets	16,791	16,827	149,015
Deferred tax liabilities:			
Asset retirement obligations	(714)	(827)	(6,337)
Unrealized holding gain on other securities	(87)	(328)	(776)
Other	(222)	(238)	(1,970)
Total deferred tax liabilities	(1,023)	(1,393)	(9,083)
Net deferred tax assets	¥ 15,768	¥ 15,434	\$ 139,932

The "Act for Partial Amendment for the Income Tax Act, etc." (Act No.15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.13 of 2016) were promulgated on March 29, 2016, and the Company is subject to the amended local tax effective for fiscal years beginning on or after April 1, 2016. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities has been changed from 32.2% to 30.8% for the temporary differences expected to be realized or settled from April 1, 2016 to March 31, 2018, and to 30.6% for those expected to be realized or settled on or after April 1, 2018.

As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by ¥703 million (\$6,238 thousand), income taxes-deferred increased by ¥670 million (\$5,944 thousand), net unrealized gain on other securities increased by ¥4 million (\$34 thousand), and retirement benefit liability adjustments decreased by ¥37 million (\$328 thousand). In addition, deferred income taxes for land revaluation decreased by ¥93 million (\$823 thousand), and land revaluation difference increased by the same amount as of and for the year ended March 31, 2016.

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.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Financial Instruments (continued)

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

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

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

(c) Supplementary explanation of fair value of financial instruments

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

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Financial Instruments (continued)

(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, 2016 and 2015 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>					
	2016			2015		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash and cash equivalents	¥ 12,247	¥ 12,247	¥ –	¥ 9,001	¥ 9,001	¥ –
Notes and accounts receivable-trade	32,034	32,034	–	29,223	29,223	–
Investments in securities, inclusive marketable securities:						
Other securities	2,207	2,207	–	3,223	3,223	–
Total assets	<u>¥ 46,488</u>	<u>¥ 46,488</u>	<u>¥ –</u>	<u>¥ 41,447</u>	<u>¥ 41,447</u>	<u>¥ –</u>
Liabilities:						
Notes and accounts payable-trade	¥ 39,475	¥ 39,475	¥ –	¥ 34,253	¥ 34,253	¥ –
Short-term bank loans	–	–	–	27,000	27,000	–
Long-term debt:						
Long-term loans (*1)	70,071	70,820	749	75,207	75,560	353
Convertible bonds (with stock acquisition rights)	30,068	31,426	1,358	15,000	17,291	2,291
Lease obligations (*1)	992	1,149	157	1,057	1,203	146
Total liabilities	<u>¥ 140,606</u>	<u>¥ 142,870</u>	<u>¥ 2,264</u>	<u>¥ 152,517</u>	<u>¥ 155,307</u>	<u>¥ 2,790</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)

	<i>Thousands of U.S. dollars</i>		
	2016		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and cash equivalents	\$ 108,684	\$ 108,684	\$ –
Notes and accounts receivable-trade	284,293	284,293	–
Investments in securities, inclusive marketable securities:			
Other securities	19,592	19,592	–
Total assets	<u>\$ 412,569</u>	<u>\$ 412,569</u>	<u>\$ –</u>
Liabilities:			
Notes and accounts payable-trade	\$ 350,328	\$ 350,328	\$ –
Short-term bank loans	–	–	–
Long-term debt:			
Long-term loans (*1)	621,863	628,507	6,644
Convertible bonds (with stock acquisition rights)	266,840	278,892	12,052
Lease obligations (*1)	8,805	10,200	1,395
Total liabilities	<u>\$ 1,247,836</u>	<u>\$ 1,267,927</u>	<u>\$ 20,091</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, 2016 and 2015

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Unlisted stocks	¥ 48	¥ 90	\$ 422
Investments in affiliates	857	759	7,604
Leasehold deposits	27,332	28,964	242,565

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, and notes and accounts receivable – trade with maturity dates at March 31, 2016 and 2015 were as follows:

<i>Millions of yen</i>				
2016				
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 8,679	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	32,034	–	–	–
	<u>¥ 40,713</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>
<i>Millions of yen</i>				
2015				
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 5,689	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	29,223	–	–	–
	<u>¥ 34,912</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>
<i>Thousands of U.S. dollars</i>				
2016				
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	\$ 77,024	\$ –	\$ –	\$ –
Notes and accounts receivable-trade	284,293	–	–	–
	<u>\$ 361,317</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

Cash and cash equivalents in the table above do not include cash on hand of ¥3,568 million (\$31,660 thousand) and ¥3,312 million at March 31, 2016 and 2015, 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>		
			2016		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 56,400	¥ 40,600	(*)

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

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Derivatives (continued)

<i>Thousands of U.S. dollars</i>					
2016					
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	\$500,532	\$360,312	(*)

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, 2016 and 2015.

12. Contingent Liabilities

The Company was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥113 million (\$999 thousand) at March 31, 2016.

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, 2016 and 2015.

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, 2016 and 2015 were summarized as follows:

		<i>Number of shares</i>			
		2016			
	Notes	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock		112,005,636	–	–	112,005,636
Treasury stock	(a) and (b)	7,629,557	5,646,490	50	13,275,997

		<i>Number of shares</i>			
		2015			
	Notes	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock		112,005,636	–	–	112,005,636
Treasury stock	(c) and (d)	1,509,193	6,740,664	620,300	7,629,557

- (a) The increase in treasury stock of 5,646,490 common shares for the year ended March 31, 2016 was due to the purchase of 5,644,200 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on June 3, 2015 and the purchase of 2,290 fractional shares.
- (b) The decrease in treasury stock of 50 common shares for the year ended March 31, 2016 was due to the sales of fractional shares.
- (c) 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.
- (d) 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.

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, 2016 and 2015 were summarized as follows:

	Thousands of shares			
	2016			
	April 1, 2015	Increase	Decrease	March 31, 2016
Stock acquisition rights attached to convertible bonds due October 1, 2021	16,741	–	–	16,741
Stock acquisition rights attached to convertible bonds due June 19, 2025	–	12,096	–	12,096
	16,741	12,096	–	28,837

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

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

14. Cost of Sales

Losses on inventory valuation included in cost of sales for the years ended March 31, 2016 and 2015 were ¥82 million (\$730 thousand) and ¥350 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 ¥4,256 million (\$37,774 thousand) and ¥2,791 million for the years ended March 31, 2016 and 2015, respectively, as follows:

March 31, 2016		
Use	Classification	Location
Store	Buildings and structures, Leased assets, Tools, furniture and fixtures, and other	Osaka Prefecture and other
Rental property	Buildings and structures, and Land	Aichi Prefecture and other
Other	Buildings and structures, Tools, furniture and fixtures, and Land	Nagano Prefecture and other
March 31, 2015		
Use	Classification	Location
Store	Buildings, structures and other	Shizuoka Prefecture and other
Rental property	Buildings, structures and other	Mie Prefecture and other
Other	Tools, furniture and fixtures, Land and Other	Fukui Prefecture and other

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, 2016 and 2015 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, 2016, 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 ¥3,865 million (\$34,303 thousand). In addition, a loss on impairment of rental property was ¥11 million (\$94 thousand). Moreover, a loss on impairment of other was ¥380 million (\$3,377 thousand).

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. In addition, a loss on impairment of rental property was ¥198 million. Moreover, a loss on impairment of other was ¥163 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, 2016 and 2015, the principal components of loss on impairment by asset classification were buildings and structures of ¥3,065 million (\$27,199 thousand) and ¥2,149 million, tools, furniture and fixtures of ¥358 million (\$3,179 thousand) and ¥321 million, land of ¥365 million (\$3,237 thousand) and ¥267 million, leased assets of ¥422 million (\$3,742 thousand) and nil, and other of ¥46 million (\$417 thousand) and ¥21 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 3.86% and 3.69% for the years ended March 31, 2016 and 2015, respectively.

16. Other Comprehensive (Loss) Income

Reclassification adjustments and tax effects for each component of other comprehensive (loss) income for the years ended March 31, 2016 and 2015 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Net unrealized (loss) gain on other securities:			
Amount arising during the year	¥ (702)	¥ 846	\$ (6,232)
Reclassification adjustments	(115)	(95)	(1,021)
Before tax effect	(817)	751	(7,253)
Tax effect	247	(224)	2,198
Total	(570)	527	(5,055)
Land revaluation difference:			
Tax effect	93	198	823
Retirement benefit liability adjustments:			
Amount arising during the year	(2,226)	54	(19,758)
Reclassification adjustments	(116)	(304)	(1,026)
Before tax effect	(2,342)	(250)	(20,784)
Tax effect	728	105	6,458
Total	(1,614)	(145)	(14,326)
Total other comprehensive (loss) income	¥ (2,091)	¥ 580	\$ (18,558)

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, 2016 and 2015 which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

<i>Millions of yen</i>						
	2016			2015		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 3,924	¥ 2,649	¥ 1,275	¥ 3,924	¥ 2,453	¥ 1,471

<i>Thousands of U.S. dollars</i>			
	2016		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	\$ 34,827	\$ 23,509	\$ 11,318

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, 2016 and 2015 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
Lease payments	¥ 216	¥ 216	\$ 1,917
Depreciation	196	196	1,741
Interest expense	15	17	136

Future minimum lease payments subsequent to March 31, 2016 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>
2017	¥ 203	\$ 1,799
2018 and thereafter	1,189	10,550
Total	<u>¥ 1,392</u>	<u>\$ 12,349</u>

Future minimum lease payments subsequent to March 31, 2016 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>
2017	¥ 3,733	\$ 33,132
2018 and thereafter	31,535	279,867
Total	<u>¥ 35,268</u>	<u>\$ 312,999</u>

Future minimum lease receipts subsequent to March 31, 2016 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>
2017	¥ 224	\$ 1,984
2018 and thereafter	3,785	33,594
Total	<u>¥ 4,009</u>	<u>\$ 35,578</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 U.S. dollars</i>
	2016	2015	2016
Increase in asset retirement obligations	¥ 403	¥ 855	\$3,579
Capitalized lease	34	5	302

19. Related Party Transactions

(a) Principal transactions between the Company and related parties during the years ended March 31, 2016 and 2015 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
SHOEI Co., Ltd.:			
Insurance expense	¥ 130	¥ 131	\$1,155
Masataka Kubo:			
Sales of goods	3	–	30

The outstanding balance of prepaid expenses and accounts payable related to insurance expense outlined above regarding SHOEI Co., Ltd. (“SHOEI”) amounted to ¥17 million (\$146 thousand) and ¥19 million, and ¥0 million (\$1 thousand) and ¥0 million at March 31, 2016 and 2015, respectively. There were no outstanding balances with Masataka Kubo at March 31, 2016 and 2015, respectively.

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 agency business. The capital amount of SHOEI was ¥90 million (\$799 thousand) at March 31, 2016 and 2015. Masataka Kubo is President, Chairman, and Representative Director of the Company at March 31, 2016 and 2015.

Insurance premiums are determined in the same manner as general insurance offered by insurance companies. Sales prices are determined at the same price as those to general customers.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Related Party Transactions (continued)

- (b) Principal transactions between the Company's subsidiaries and related parties during the years ended March 31, 2016 and 2015 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2015	2016
SHOEI Co., Ltd.:			
Insurance expense	¥ 3	¥ –	\$ 30
Masataka Kubo:			
Sales of goods	13	–	112

The outstanding balance of prepaid expenses related to insurance expense outlined above regarding SHOEI amounted to ¥0 million (\$3 thousand) and nil at March 31, 2016 and 2015, respectively.

There were no outstanding balances with Masataka Kubo at March 31, 2016 and 2015.

Insurance premiums are determined in the same manner as general insurance offered by insurance companies. Sales prices are determined at the same price as those to general customers.

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, 2016 and 2015 has been omitted.

Loss on impairment of property and equipment for all segments was recorded in the amounts of ¥4,256 million (\$37,774 thousand) and ¥2,791 million for the years ended March 31, 2016 and 2015, respectively. The remaining balance of goodwill for all segments as of March 31, 2016 and 2015 was nil.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Segment Information (continued)

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 income, the disclosure of the segment information by product and service for the years ended March 31, 2016 and 2015 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, 2016 and 2015 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, 2016 and 2015 has been omitted.

As sales of products and services to specific customers account for less than 10% of net sales in the consolidated statement of income, the disclosure of information by major customers for the years ended March 31, 2016 and 2015 has been omitted.

21. Subsequent Events

a. Impact of the 2016 Kumamoto Earthquake

Due to the 2016 Kumamoto Earthquakes, which occurred from April 14, 2016 onward, three stores of the Group, including the Kumamoto main store (Kumamoto), SunLive City Kumanan store (Kumamoto) and Isahaya store (Nagasaki), suffered damages including the collapse of buildings and the falling of merchandise from store shelves and storage areas.

On May 27, 2016, Kumamoto main store and SunLive City Kumanan store resumed operation, excluding some areas of those stores. On May 28, 2016, Isahaya store resumed full operation.

The Group is currently in the process of estimating the amount of the losses, and the effect of the disaster on the consolidated results of operations for the following fiscal year has not been determined at this time.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Subsequent Events (continued)

b. Civil actions against Joshin Denki Co., Ltd. over unauthorized use of trade secrets

On April 25, 2016, the Group sued Joshin Denki Co., Ltd. (“Joshin”) for unauthorized use of trade secrets in the Group’s home improvement business (the “Case”) and filed a civil suit in the Osaka District Court, seeking ¥5,000 million (\$44,373 thousand) in damages, in addition to an injunction and the disposal of business management software, in-house documents and exhibition booths resulting from the unauthorized use of trade secrets.

In light of the criminal court record of the Case and evidence the Group gathered, Joshin is presumed to start a home improvement business using the Group’s trade secrets and continued unauthorized use of the trade secrets up to the present time. As the continuation of such unauthorized use of trade secrets is likely to diminish Company’s motivation for pursuing fair trade competition, the Group has determined to file the Case to expose such unfair competition practices.

c. Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2016 was approved at the Company’s annual general meeting of shareholders held on June 29, 2016:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends of ¥12.00 (\$0.11) per share	¥ 1,185	\$10,514