

Consolidated Financial Statements

**EDION Corporation
and Consolidated Subsidiaries**

*Year ended March 31, 2017
with Independent Auditor's Report*

EDION Corporation and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2017

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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, 2017, 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, 2017, 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, 2017

Ernst & Young Shin Nihon LLC

EDION Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2017

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents <i>(Note 10)</i>	¥ 9,927	¥ 12,247	\$ 88,485
Notes and accounts receivable:			
Trade <i>(Note 10)</i>	33,258	32,034	296,445
Other	6,956	9,240	62,000
Allowance for doubtful receivables	(94)	(54)	(836)
	40,120	41,220	357,609
Inventories:			
Merchandise and products	105,778	102,648	942,845
Supplies	325	344	2,901
	106,103	102,992	945,746
Deferred income taxes <i>(Note 9)</i>	7,870	7,814	70,151
Other current assets	3,961	3,512	35,300
Total current assets	167,981	167,785	1,497,291
Property and equipment, at cost <i>(Notes 6 and 15)</i> :			
Land <i>(Notes 4 and 7)</i>	71,868	72,918	640,588
Buildings and structures <i>(Note 7)</i>	164,505	165,661	1,466,305
Tools, furniture and fixtures	25,326	24,301	225,740
Leased assets	1,932	1,040	17,219
Construction in progress	6,231	1,344	55,536
Other	1,132	988	10,097
	270,994	266,252	2,415,485
Accumulated depreciation	(125,827)	(122,442)	(1,121,549)
Property and equipment, net	145,167	143,810	1,293,936
Investments and other assets:			
Investments in securities <i>(Notes 3 and 10)</i>	2,380	2,255	21,209
Investments in affiliates <i>(Notes 3 and 10)</i>	975	857	8,692
Leasehold deposits <i>(Note 10)</i>	26,180	27,332	233,355
Deferred income taxes <i>(Note 9)</i>	14,274	7,964	127,234
Other	11,220	10,311	100,013
Total investments and other assets	55,029	48,719	490,503
Total assets	¥ 368,177	¥ 360,314	\$ 3,281,730

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2017	2016	2017
Liabilities and net assets			
Current liabilities:			
Current portion of long-term debt (Notes 7 and 10)	¥ 22,420	¥ 20,712	\$ 199,840
Notes and accounts payable:			
Trade (Note 10)	44,803	39,475	399,353
Other	12,558	11,682	111,931
	57,361	51,157	511,284
Lease obligations (Notes 7 and 10)	129	102	1,153
Accrued income taxes (Note 9)	2,762	5,418	24,623
Allowance for employees' bonuses	4,576	4,657	40,789
Reserve for point service program	8,535	8,911	76,074
Other current liabilities	11,882	13,827	105,909
Total current liabilities	107,665	104,784	959,672
Long-term liabilities:			
Long-term debt (Notes 7 and 10)	73,736	79,427	657,239
Liability for retirement benefits (Note 8)	9,218	9,519	82,161
Lease obligations (Notes 7 and 10)	1,647	890	14,681
Deferred income taxes (Note 9)	20	10	179
Deferred income taxes for land revaluation (Note 9)	1,708	1,773	15,230
Allowance for merchandise warranties	8,658	8,296	77,173
Asset retirement obligations (Note 5)	7,342	6,844	65,444
Other long-term liabilities	6,670	6,784	59,448
Total long-term liabilities	108,999	113,543	971,555
Contingent liabilities (Note 12)			
Net assets			
Shareholders' equity (Note 13):			
Common stock	11,940	11,940	106,429
Capital surplus	84,320	84,310	751,583
Retained earnings	74,690	64,164	665,742
Treasury stock, at cost	(12,084)	(10,457)	(107,707)
Total shareholders' equity	158,866	149,957	1,416,047
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities	379	149	3,378
Land revaluation difference (Note 4)	(6,367)	(6,689)	(56,750)
Retirement benefit liability adjustments (Note 8)	(1,365)	(1,479)	(12,172)
Total accumulated other comprehensive loss	(7,353)	(8,019)	(65,544)
Non-controlling interests	—	49	—
Total net assets	151,513	141,987	1,350,503
Total liabilities and net assets	¥ 368,177	¥ 360,314	\$ 3,281,730

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Net sales	¥ 674,427	¥ 692,087	\$ 6,011,468
Cost of sales (<i>Note 14</i>)	481,393	496,011	4,290,868
Gross profit	193,034	196,076	1,720,600
Selling, general and administrative expenses	177,760	179,026	1,584,458
Operating income	15,274	17,050	136,142
Non-operating income (expenses):			
Interest and dividend income	113	172	1,010
Interest expense	(522)	(660)	(4,649)
Provision of allowance for doubtful receivables	(3)	(235)	(23)
Service charge	(82)	(93)	(732)
Subsidy income	131	184	1,170
Loss on sales or disposal of property and equipment	(706)	(974)	(6,290)
Loss on impairment of property and equipment (<i>Notes 15 and 21</i>)	(3,612)	(4,256)	(32,199)
Gain on sales of investments in securities (<i>Note 3</i>)	8	150	71
Other, net	416	576	3,703
	(4,257)	(5,136)	(37,939)
Profit before income taxes	11,017	11,914	98,203
Income taxes (<i>Note 9</i>):			
Current	4,469	5,269	39,841
Deferred	(6,565)	637	(58,517)
Total income taxes	(2,096)	5,906	(18,676)
Profit	13,113	6,008	116,879
Profit (loss) attributable to:			
Non-controlling interests	(6)	(15)	(56)
Owners of parent	¥ 13,119	¥ 6,023	\$ 116,935

	<u><i>Yen</i></u>	<u><i>U.S. dollars</i></u>
Amounts per share:		
Profit attributable to owners of parent		
– Basic	¥ 133.04	¥ 60.04
– Diluted	102.89	47.66
Cash dividends	26.00	22.00

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Profit	¥ 13,113	¥ 6,008	\$ 116,879
Other comprehensive income (<i>Note 16</i>):			
Net unrealized gain (loss) on other securities	230	(570)	2,045
Land revaluation difference	–	93	–
Retirement benefit liability adjustments	114	(1,614)	1,013
Other comprehensive income (loss), net	344	(2,091)	3,058
Comprehensive income	¥ 13,457	¥ 3,917	\$ 119,937
Comprehensive income attributable to:			
Owners of parent	¥ 13,463	¥ 3,932	\$ 119,994
Non-controlling interests	(6)	(15)	(57)

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2017

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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 April 1, 2016	11,940	84,310	64,164	(10,457)	149,957
Purchase of shares of consolidated subsidiaries	—	10	—	—	10
Cash dividends	—	—	(2,271)	—	(2,271)
Reversal of land revaluation difference	—	—	(322)	—	(322)
Profit attributable to owners of parent	—	—	13,119	—	13,119
Purchases of treasury stock	—	—	—	(1,627)	(1,627)
Disposition of treasury stock	—	0	—	0	0
Other changes	—	—	—	—	—
Balance at March 31, 2017	¥ 11,940	¥ 84,320	¥ 74,690	¥ (12,084)	¥ 158,866

	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non- controlling interests	Total net assets
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 April 1, 2016	149	(6,689)	(1,479)	(8,019)	49	141,987
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	10
Cash dividends	—	—	—	—	—	(2,271)
Reversal of land revaluation difference	—	—	—	—	—	(322)
Profit attributable to owners of parent	—	—	—	—	—	13,119
Purchases of treasury stock	—	—	—	—	—	(1,627)
Disposition of treasury stock	—	—	—	—	—	0
Other changes	230	322	114	666	(49)	617
Balance at March 31, 2017	¥ 379	¥ (6,367)	¥ (1,365)	¥ (7,353)	¥ —	¥ 151,513

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2017

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2016	\$ 106,429	\$ 751,489	\$ 571,923	\$ (93,202)	\$ 1,336,639
Purchase of shares of consolidated subsidiaries	—	94	—	—	94
Cash dividends	—	—	(20,240)	—	(20,240)
Reversal of land revaluation difference	—	—	(2,876)	—	(2,876)
Profit attributable to owners of parent	—	—	116,935	—	116,935
Purchases of treasury stock	—	—	—	(14,507)	(14,507)
Disposition of treasury stock	—	0	—	2	2
Other changes	—	—	—	—	—
Balance at March 31, 2017	\$ 106,429	\$ 751,583	\$ 665,742	\$(107,707)	\$ 1,416,047

	Net unrealized gain on other securities	Land revaluation difference	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non- controlling interests	Total net assets
Balance at April 1, 2016	\$ 1,333	\$ (59,626)	\$ (13,185)	\$ (71,478)	\$ 426	\$ 1,265,587
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	94
Cash dividends	—	—	—	—	—	(20,240)
Reversal of land revaluation difference	—	—	—	—	—	(2,876)
Profit attributable to owners of parent	—	—	—	—	—	116,935
Purchases of treasury stock	—	—	—	—	—	(14,507)
Disposition of treasury stock	—	—	—	—	—	2
Other changes	2,045	2,876	1,013	5,934	(426)	5,508
Balance at March 31, 2017	\$ 3,378	\$ (56,750)	\$ (12,172)	\$ (65,544)	\$ —	\$ 1,350,503

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2017	2016	2017
Cash flows from operating activities			
Profit before income taxes	¥ 11,017	¥ 11,914	\$ 98,203
Adjustments for:			
Depreciation and amortization	9,193	9,543	81,943
Loss on impairment of property and equipment	3,612	4,256	32,199
Interest and dividend income	(113)	(172)	(1,010)
Interest expense	522	660	4,649
(Decrease) increase in allowance for employees' bonuses	(81)	289	(724)
Decrease in reserve for point service program	(376)	(318)	(3,356)
(Decrease) increase in liability for retirement benefits	(301)	1,867	(2,691)
Loss on sales or disposal of property and equipment	706	974	6,290
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	1,060	(1,932)	9,451
(Increase) decrease in inventories	(3,152)	3,917	(28,098)
Increase in notes and accounts payable	5,233	5,928	46,643
Increase (decrease) in advances received	484	(76)	4,318
Other, net	(732)	1,179	(6,515)
Subtotal	27,072	38,029	241,302
Interest and dividends received	45	101	399
Interest paid	(473)	(620)	(4,212)
Subsidies received	114	201	1,015
Income taxes refunded	218	426	1,943
Income taxes paid	(7,642)	(982)	(68,117)
Net cash provided by operating activities	19,334	37,155	172,330
Cash flows from investing activities			
Purchases of property and equipment	(12,068)	(8,504)	(107,566)
Proceeds from sales of property and equipment	1,509	185	13,453
Purchases of intangible assets	(2,505)	(1,473)	(22,327)
Payments of long-term prepaid expenses	(68)	(51)	(604)
Purchases of investments in securities	(0)	—	(4)
Proceeds from sales of investments in securities	198	391	1,769
(Increase) decrease in leasehold deposits, net	(47)	81	(421)
Increase (decrease) in leasehold deposits received from tenants, net	50	(205)	445
Other, net	(554)	(177)	(4,940)
Net cash used in investing activities	¥ (13,485)	¥ (9,753)	\$ (120,195)

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2017	2016	2017
Cash flows from financing activities			
Decrease in short-term bank loans, net	¥ –	¥ (27,000)	\$ –
Proceeds from long-term loans	17,000	12,000	151,529
Repayments of long-term loans	(20,866)	(17,028)	(185,984)
Proceeds from issuance of convertible bonds	–	15,003	–
Cash dividends paid	(2,265)	(2,026)	(20,187)
Purchase of treasury stock	(1,627)	(4,986)	(14,507)
Payments for acquisition of shares of subsidiaries not resulting in change in a scope of consolidation	(31)	–	(276)
Other, net	(380)	(119)	(3,384)
Net cash used in financing activities	(8,169)	(24,156)	(72,809)
Effect of exchange rate changes on cash and cash equivalents	0	0	0
Net (decrease) increase in cash and cash equivalents	(2,320)	3,246	(20,674)
Cash and cash equivalents at the beginning of the year	12,247	9,001	109,159
Cash and cash equivalents at the end of the year (Note 18)	¥ 9,927	¥ 12,247	\$ 88,485

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2017

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, 2016 to the 2017 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 ¥112.19 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2017. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. The number of consolidated subsidiaries was 5 as of March 31, 2017 and 2016.

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, 2017 and 2016.

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.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(a) Consolidation (continued)

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

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

(b) Cash and cash equivalents

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

(c) Investments in securities

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

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

(d) Inventories

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

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(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, except for buildings (other than facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated by the straight-line method. 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.

(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.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(i) Retirement benefits (continued)

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.

(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, 2017 and 2016 were 98,611 thousand and 100,311 thousand, respectively. The dilutive potential of shares of common stock for the year ended March 31, 2017 and 2016 were 28,898 thousand and 26,046 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, 2017 and 2016 were ¥1,558.86 (\$13.89) and ¥1,437.65, 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 22. “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 Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Effective from the fiscal year ended March 31, 2017, the Group adopted “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No.32 issued on June 17, 2016) in accordance with the revision of the Corporation Tax Act of Japan. Accordingly, the Group changed the depreciation method for facilities attached to buildings and for other structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result of this change, operating income and profit before income taxes increased by ¥207 million (\$1,844 thousand), respectively.

(q) Additional Information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year ended March 31, 2017, the Group adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, issued on March 28, 2016).

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments in Securities and Investments in Affiliates

- (a) Information regarding investments in securities classified as other securities inclusive of marketable securities at March 31, 2017 and 2016 were summarized as follows:

Millions of yen						
	2017			2016		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 2,240	¥ 1,691	¥ 549	¥ 2,060	¥ 1,798	¥ 262
Subtotal	¥ 2,240	¥ 1,691	¥ 549	¥ 2,060	¥ 1,798	¥ 262
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	¥ 92	¥ 101	¥ (9)	¥ 147	¥ 183	¥ (36)
Subtotal	¥ 92	¥ 101	¥ (9)	¥ 147	¥ 183	¥ (36)
Total (*a)	¥ 2,332	¥ 1,792	¥ 540	¥ 2,207	¥ 1,981	¥ 226

Thousands of U.S. dollars			
	2017		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 19,968	\$ 15,071	\$ 4,897
Subtotal	\$ 19,968	\$ 15,071	\$ 4,897
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	\$ 817	\$ 896	\$ (79)
Subtotal	\$ 817	\$ 896	\$ (79)
Total (*a)	\$ 20,785	\$ 15,967	\$ 4,818

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 (\$424 thousand) and ¥48 million as of March 31, 2017 and 2016, respectively.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments in Securities and Investments in Affiliates (continued)

- (b) Proceeds from sales of and gross realized gain and loss on other securities for the fiscal years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Proceeds from sales	¥ 198	¥ 391	\$ 1,769
Gross realized gain	8	150	71
Gross realized loss	—	—	—

- (c) Losses on devaluation of investments in securities of ¥0 million (\$1 thousand) and ¥0 million were recognized in the consolidated statements of income for the fiscal years ended March 31, 2017 and 2016, respectively. Moreover, losses on devaluation of investments in affiliates of ¥38 million (\$338 thousand) and nil were recognized in the consolidated statements of income for the fiscal years ended March 31, 2017 and 2016, 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 ¥11,237 million (\$100,162 thousand) and ¥11,269 million at March 31, 2017 and 2016, respectively, of which a certain portion of this land, in the amount of ¥2,724 million (\$24,281 thousand) and ¥2,845 million, corresponded to real estate for lease at March 31, 2017 and 2016, 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% to 2.75%.

Changes in asset retirement obligations during the years ended March 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Balance at the beginning of the year	¥ 6,844	¥ 6,581	\$ 61,000
Liabilities incurred due to the acquisition of property and equipment	556	303	4,957
Accretion expense	98	100	877
Liabilities settled	(156)	(140)	(1,390)
Balance at the end of the year	¥ 7,342	¥ 6,844	\$ 65,444

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 ¥512 million (\$4,559 thousand) and ¥420 million for the years ended March 31, 2017 and 2016, 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 ¥13 million (\$113 thousand) and ¥407 million was recognized in loss on impairment of property and equipment for the years ended March 31, 2017 and 2016, 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 corresponding fair value of those properties were as follows:

<i>Millions of yen</i>			
2017			
Carrying Value			Fair Value
March 31, 2016	Net change	March 31, 2017	March 31, 2017
¥ 22,601	¥ (1,838)	¥ 20,763	¥ 20,867

<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>Thousands of U.S. dollars</i>			
2017			
Carrying Value			Fair Value
March 31, 2016	Net change	March 31, 2017	March 31, 2017
\$ 201,453	\$ (16,380)	\$ 185,073	\$ 186,000

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 ¥40 million (\$355 thousand) and decreases due to sales of ¥1,322 million (\$11,787 thousand) for the year ended March 31, 2017. The main component of net change in the carrying value are the increases due to acquisition of properties of ¥24 million and decreases due to depreciation of ¥507 million for the year ended March 31, 2016.
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. Long-Term Debt and Lease Obligations

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Zero coupon unsecured convertible bonds (with stock acquisition rights) due October 1, 2021	¥ 15,000	¥ 15,000	\$ 133,702
Zero coupon unsecured convertible bonds (with stock acquisition rights) due June 19, 2025	15,060	15,068	134,237
Unsecured loans principally from banks and insurance companies with an average interest rate of 0.55%	65,017	68,882	579,520
Long-term loans with an interest rate of 2.05%	1,079	1,189	9,620
	96,156	100,139	857,079
Less: current portion of long-term debt	(22,420)	(20,712)	(199,840)
	¥ 73,736	¥ 79,427	\$ 657,239

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on October 3, 2014 are convertible at ¥894 (\$7.97) 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 ¥1,237.2 (\$11.03) 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, 2017 were summarized as follows:

<u>Year ending March 31,</u>	<u><i>Millions of yen</i></u>	<u><i>Thousands of U.S. dollars</i></u>
2018	¥ 22,420	\$ 199,840
2019	16,656	148,466
2020	2,659	23,698
2021	2,661	23,720
2022	16,664	148,530
2023 and thereafter	35,036	312,290
Total	¥ 96,096	\$ 856,544

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Lease Obligations (continued)

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 3.65% and 2.96% at March 31, 2017 and 2016, respectively.

The aggregate annual maturities of lease obligations subsequent to March 31, 2017 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 129	\$ 1,153
2019	95	851
2020	90	800
2021	94	837
2022	99	885
2023 and thereafter	1,269	11,308
Total	¥ 1,776	\$ 15,834

The assets pledged as collateral for long-term loans and the current portion of long-term loans of ¥1,079 million (\$9,620 thousand) and guarantee deposits from lessees included in other long-term liabilities of ¥1,112 million (\$9,910 thousand) was as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,371	\$ 12,220
Buildings and structures – net of accumulated depreciation	2,931	26,123
Total	¥ 4,302	\$ 38,343

In order to achieve more efficient and flexible financing, the Group has concluded bank overdraft agreements with 21 banks and line-of-credit agreements with 11 banks. Total committed lines of credit under such agreements amounted to ¥108,600 million (\$968,001 thousand), of which ¥108,600 million (\$968,001 thousand) was available as of March 31, 2017.

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, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Retirement benefit obligation at the beginning of the year	¥ 16,425	¥ 14,766	\$ 146,409
Service cost	521	456	4,644
Interest cost	32	161	282
Actuarial (gain) loss	(53)	1,933	(475)
Retirement benefit paid	(897)	(891)	(7,997)
Retirement benefit obligation at the end of the year	¥ 16,028	¥ 16,425	\$ 142,863

The changes in plan assets at fair value during the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Plan assets at fair value at the beginning of the year	¥ 6,906	¥ 7,114	\$ 61,558
Expected return on plan assets	242	292	2,155
Actuarial loss	(81)	(293)	(725)
Contribution by the Company	188	282	1,684
Retirement benefit paid	(445)	(489)	(3,970)
Plan assets at fair value at the end of the year	¥ 6,810	¥ 6,906	\$ 60,702

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, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Funded retirement benefit obligation	¥ 8,522	¥ 8,756	\$ 75,962
Plan assets at fair value	(6,810)	(6,906)	(60,702)
	1,712	1,850	15,260
Unfunded retirement benefit obligation	7,506	7,669	66,901
Net liability for retirement benefits in the balance sheet	¥ 9,218	¥ 9,519	\$ 82,161

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Service cost	¥ 521	¥ 456	\$ 4,644
Interest cost	32	161	282
Expected return on plan assets	(242)	(292)	(2,155)
Amortization of actuarial loss	519	201	4,623
Amortization of prior service cost	(319)	(315)	(2,836)
Retirement benefit expense	¥ 511	¥ 211	\$ 4,558

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Actuarial loss	¥ (28)	¥ (2,226)	\$ (250)

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, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Unrecognized prior service cost	¥ 1,079	¥ 1,398	\$ 9,619
Unrecognized actuarial loss	(3,079)	(3,581)	(27,448)
Total	¥ (2,000)	¥ (2,183)	\$ (17,829)

The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 are as follows:

	2017	2016
Bonds	16%	25%
Stocks	15	12
General accounts	60	61
Other	9	2
Total	100%	100%

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

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

	2017	2016
Discount rates	0.1%-0.2%	0.1%-0.2%
Expected rates of return on plan assets	2.8%	3.5%
Expected rates of salary increase	1.1%-2.8%	1.1%-2.8%

Notes:

In addition to the above, the Company and certain consolidated subsidiaries charged contributions of ¥1,958 million (\$17,449 thousand) and ¥1,913 million to the defined contribution pension plans to income during the years ended March 31, 2017 and 2016, 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 30.8% and 33.0% for the years ended March 31, 2017 and 2016, respectively.

The effective tax rates for the years ended March 31, 2017 and 2016 differed from the corresponding statutory tax rates for the following reasons:

	<u>2017</u>	<u>2016</u>
Statutory tax rates:	30.8%	33.0%
Expenses not deductible for income tax purposes	0.2	0.3
Inhabitants' per capita taxes	3.3	3.1
Change in valuation allowance	(50.6)	7.8
Effect of change in statutory tax rate	–	5.6
Effect of land revaluation difference	(0.6)	(0.0)
Tax credit	(1.0)	(0.9)
Other, net	(1.1)	0.7
Effective tax rates	<u>(19.0)%</u>	<u>49.6%</u>

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, 2017 and 2016 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Deferred tax assets:			
Depreciation	¥ 1,816	¥ 1,674	\$ 16,186
Allowance for employees' bonuses	1,423	1,449	12,686
Loss on impairment of property and equipment	9,234	8,754	82,303
Liability for retirement benefits	2,239	2,273	19,955
Reserve for point service program	2,651	2,777	23,628
Allowance for merchandise warranties	2,719	2,644	24,231
Unrealized loss on revaluation of land acquired by merger	1,548	1,548	13,800
Asset retirement obligations	2,274	2,125	20,272
Net operating tax loss carry forwards	335	221	2,988
Other	5,342	5,279	47,621
Less valuation allowance	(6,402)	(11,953)	(57,062)
Total deferred tax assets	23,179	16,791	206,608
Deferred tax liabilities:			
Asset retirement obligations	(672)	(714)	(5,991)
Unrealized holding gain on other securities	(164)	(87)	(1,464)
Other	(219)	(222)	(1,947)
Total deferred tax liabilities	(1,055)	(1,023)	(9,402)
Net deferred tax assets	¥ 22,124	¥ 15,768	\$ 197,206

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, 2017 and 2016 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>					
	2017			2016		
	<u>Carrying value</u>	<u>Estimated fair value</u>	<u>Difference</u>	<u>Carrying value</u>	<u>Estimated fair value</u>	<u>Difference</u>
Assets:						
Cash and cash equivalents	¥ 9,927	¥ 9,927	¥ –	¥ 12,247	¥ 12,247	¥ –
Notes and accounts receivable-trade	33,258	33,258	–	32,034	32,034	–
Investments in securities, inclusive marketable securities:						
Other securities	2,332	2,332	–	2,207	2,207	–
Total assets	<u>¥ 45,517</u>	<u>¥ 45,517</u>	<u>¥ –</u>	<u>¥ 46,488</u>	<u>¥ 46,488</u>	<u>¥ –</u>
Liabilities:						
Notes and accounts payable-trade	¥ 44,803	¥ 44,803	¥ –	¥ 39,475	¥ 39,475	¥ –
Long-term debt:						
Long-term loans (*1)	66,096	66,211	115	70,071	70,820	749
Convertible bonds (with stock acquisition rights)	30,060	33,600	3,540	30,068	31,426	1,358
Lease obligations (*1)	1,776	2,071	295	992	1,149	157
Total liabilities	<u>¥ 142,735</u>	<u>¥ 146,685</u>	<u>¥ 3,950</u>	<u>¥ 140,606</u>	<u>¥ 142,870</u>	<u>¥ 2,264</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>		
	2017		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and cash equivalents	\$ 88,485	\$ 88,485	\$ –
Notes and accounts receivable-trade	296,445	296,445	–
Investments in securities, inclusive marketable securities:			
Other securities	20,785	20,785	–
Total assets	<u>\$ 405,715</u>	<u>\$ 405,715</u>	<u>\$ –</u>
Liabilities:			
Notes and accounts payable-trade	\$ 399,353	\$ 399,353	\$ –
Long-term debt:			
Long-term loans (*1)	589,140	590,166	1,026
Convertible bonds (with stock acquisition rights)	267,939	299,492	31,553
Lease obligations (*1)	15,834	18,464	2,630
Total liabilities	<u>\$ 1,272,266</u>	<u>\$ 1,307,475</u>	<u>\$ 35,209</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. Refer to Note 3. "Investments in Securities and investments in affiliates" for further information on securities by holding purpose.

Liabilities

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, 2017 and 2016

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Unlisted stocks	¥ 48	¥ 48	\$ 424
Investments in affiliates	975	857	8,692
Leasehold deposits	26,180	27,332	233,355

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, 2017 and 2016 were as follows:

<i>Millions of yen</i>				
2017				
	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	¥ 6,107	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	33,258	–	–	–
	¥ 39,365	¥ –	¥ –	¥ –
<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	–	–	–
	¥ 40,713	¥ –	¥ –	¥ –
<i>Thousands of U.S. dollars</i>				
2017				
	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	\$ 54,437	\$ –	\$ –	\$ –
Notes and accounts receivable-trade	296,445	–	–	–
	\$ 350,882	\$ –	\$ –	\$ –

Cash and cash equivalents in the table above do not include cash on hand of ¥3,820 million (\$34,048 thousand) and ¥3,568 million at March 31, 2017 and 2016, respectively.

- (4) Refer to Note 7. “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>		
			2017		
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	¥ 40,600	¥ 21,000	(*)

			<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>Thousands of U.S. dollars</i>		
			2017		
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	\$ 361,886	\$ 187,182	(*)

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, 2017 and 2016.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Contingent Liabilities

The Company was contingently liable for guarantees of bank borrowings made by an affiliate in the aggregate amount of ¥75 million (\$672 thousand) at March 31, 2017.

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, 2017 and 2016.

Movements in common stock and treasury stock for the years ended March 31, 2017 and 2016 were summarized as follows:

		<i>Number of shares</i>			
		2017			
	Notes	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock		112,005,636	–	–	112,005,636
Treasury stock	(a) and (b)	13,275,997	1,535,094	234	14,810,857

		<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	(c) and (d)	7,629,557	5,646,490	50	13,275,997

- (a) The increase in treasury stock of 1,535,094 common shares for the year ended March 31, 2017 was due to the purchase of 1,533,500 shares on the Tokyo Stock Exchange based on the resolution of the Board of Directors meeting held on March 8, 2017 and the purchase of 1,594 fractional shares.
- (b) The decrease in treasury stock of 234 common shares for the year ended March 31, 2017 was due to the sales of fractional shares.
- (c) 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.
- (d) The decrease in treasury stock of 50 common shares for the year ended March 31, 2016 was due to the sales of fractional shares.

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, 2017 and 2016 were summarized as follows:

	<i>Thousands of shares</i>		
	2017		
	April 1, 2016	Increase	March 31, 2017
Stock acquisition rights attached to convertible bonds due October 1, 2021 (<i>Notes 1 and 2</i>)	16,741	37	16,778
Stock acquisition rights attached to convertible bonds due June 19, 2025 (<i>Notes 1 and 3</i>)	12,096	28	12,124
	28,837	65	28,902

	<i>Thousands of shares</i>		
	2016		
	April 1, 2015	Increase	March 31, 2016
Stock acquisition rights attached to convertible bonds due October 1, 2021 (<i>Note 1</i>)	16,741	–	16,741
Stock acquisition rights attached to convertible bonds due June 19, 2025 (<i>Note 1</i>)	–	12,096	12,096
	16,741	12,096	28,837

Notes:

1. Stock acquisition rights attached to convertible bonds were not accounted for separately.
2. The increase in stock acquisition rights attached to convertible bonds due October 1, 2021 was due to the adjustment of the conversion price.
3. The increase in stock acquisition rights attached to convertible bonds due June 19, 2025 was due to the adjustment of the conversion price.

14. Cost of Sales

Losses on inventory valuation included in cost of sales for the years ended March 31, 2017 and 2016 were ¥424 million (\$3,779 thousand) and ¥82 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 ¥3,612 million (\$32,199 thousand) and ¥4,256 million for the years ended March 31, 2017 and 2016, respectively, as follows:

March 31, 2017		
Use	Classification	Location
Store	Buildings and structures, Tools, furniture and fixtures, and other	Osaka Prefecture and other
Rental property	Land, Buildings and structures, and Tools, furniture and fixtures	Okayama Prefecture and other
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

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, 2017 and 2016 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, 2017, 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 ¥3,599 million (\$32,080 thousand). In addition, a loss on impairment of rental property was ¥13 million (\$119 thousand).

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. In addition, a loss on impairment of rental property was ¥11 million. Moreover, a loss on impairment of other was ¥380 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, 2017 and 2016, the principal components of loss on impairment by asset classification were buildings and structures of ¥2,942 million (\$26,220 thousand) and ¥3,065 million, tools, furniture and fixtures of ¥499 million (\$4,444 thousand) and ¥358 million, land of ¥11 million (\$98 thousand) and ¥365 million, leased assets of nil and ¥422 million, and other of ¥160 million (\$1,437 thousand) and ¥46 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 3.72% and 3.86% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Net unrealized gain (loss) on other securities:			
Amount arising during the year	¥ 284	¥ (702)	\$ 2,535
Reclassification adjustments	30	(115)	268
Before tax effect	314	(817)	2,803
Tax effect	(84)	247	(758)
Total	230	(570)	2,045
Land revaluation difference:			
Tax effect	—	93	—
Retirement benefit liability adjustments:			
Amount arising during the year	(17)	(2,226)	(154)
Reclassification adjustments	190	(116)	1,691
Before tax effect	173	(2,342)	1,537
Tax effect	(59)	728	(524)
Total	114	(1,614)	1,013
Total other comprehensive income (loss)	¥ 344	¥ (2,091)	\$ 3,058

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, 2017 and 2016 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>						
	2017			2016		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 3,924	¥ 2,845	¥ 1,079	¥ 3,924	¥ 2,649	¥ 1,275
<i>Thousands of U.S. dollars</i>						
	2017					
	Acquisition cost	Accumulated depreciation	Net book value			
Buildings and structures	\$ 34,980	\$ 25,360	\$ 9,620			

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, 2017 and 2016 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Lease payments	¥ 216	¥ 216	\$ 1,925
Depreciation	196	196	1,749
Interest expense	13	15	118

Future minimum lease payments subsequent to March 31, 2017 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>
2018	¥ 205	\$ 1,826
2019 and thereafter	984	8,771
Total	<u>¥ 1,189</u>	<u>\$ 10,597</u>

Future minimum lease payments subsequent to March 31, 2017 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>
2018	¥ 3,366	\$ 30,006
2019 and thereafter	28,625	255,146
Total	<u>¥ 31,991</u>	<u>\$ 285,152</u>

Future minimum lease receipts subsequent to March 31, 2017 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>
2018	¥ 253	\$ 2,258
2019 and thereafter	3,627	32,332
Total	<u>¥ 3,880</u>	<u>\$ 34,590</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 transactions:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
Increase in asset retirement obligations	¥ 654	¥ 403	\$ 5,834
Capitalized leases	892	34	7,946

19. Related Party Transactions

(a) Principal transactions between the Company and related parties during the years ended March 31, 2017 and 2016 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
SHOEI Co., Ltd.:			
Insurance expense	¥ 118	¥ 130	\$ 1,049
Masataka Kubo:			
Sales of goods	—	3	—
Kazutoshi Tomonori:			
Advisory fee	26	—	227

The outstanding balance of prepaid expenses and accounts payable related to insurance expense outlined above regarding SHOEI Co., Ltd. (“SHOEI”) amounted to ¥4 million (\$38 thousand) and ¥17 million, and ¥0 million (\$1 thousand) and ¥0 million at March 31, 2017 and 2016, respectively. There were no outstanding balances with Masataka Kubo and Kazutoshi Tomonori at March 31, 2017 and 2016, 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 (\$802 thousand) and ¥90 million at March 31, 2017 and 2016, respectively. Masataka Kubo is President, Chairman, and Representative Director of the Company at March 31, 2017 and 2016. Kazutoshi Tomonori is an advisor of the Company at March 31, 2017 and 2016.

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. Advisory fee is determined upon mutual consultation.

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, 2017 and 2016 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2017	2016	2017
SHOEI Co., Ltd.:			
Insurance expense	¥ 3	¥ 3	\$ 28
Masataka Kubo:			
Sales of goods	–	13	–

The outstanding balance of prepaid expenses related to insurance expense outlined above regarding SHOEI amounted to ¥0 million (\$1 thousand) and ¥0 million at March 31, 2017 and 2016, respectively.

There were no outstanding balances with Masataka Kubo at March 31, 2017 and 2016.

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. Business Combinations

Common control transaction

Additional acquisitions of shares in a subsidiary

1. Summary of transaction

(1) Name and business description of the combined company

Name of the combined company: E.R. Japan Corporation

Business description: Reusing and recycling of information and communication equipment, etc.

(2) Dates of business combination

August 31, 2016 and March 15, 2017

(3) Legal form of business combination

Acquisition of shares from non-controlling shareholders

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Business Combinations (continued)

1. Summary of transaction (continued)

(4) Company name after business combination

No change

(5) Other matters concerning the summary of transaction

The ratio of voting rights acquired on August 31, 2016 and March 15, 2017 was 30% and 15%, respectively.

The main purpose of the additional acquisitions of shares was to establish an integrated system for efficiently utilizing the management resources in the Group and to also improve the speed of making decisions.

2. Overview of accounting treatment

The transactions were treated as transactions with non-controlling shareholders among the common control transactions in accordance with the “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013) and the “Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, September 13, 2013).

3. Information relating to additional acquisitions of shares in the subsidiary Details of acquisition cost and consideration paid

Acquisition on August 31, 2016	Cash ¥ 17 million (\$152 thousand)
Acquisition on March 15, 2017	Cash ¥ 13 million (\$116 thousand)

4. Information relating to changes in ownership interest relating to transaction with non-controlling shareholders

(1) Main cause of changes in capital surplus

Additional acquisition of shares in a subsidiary

(2) Increase in capital surplus arising from transactions with non-controlling shareholders

Acquisition on August 31, 2016	¥8 million (\$71 thousand)
Acquisition on March 15, 2017	¥1 million (\$9 thousand)

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. 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, 2017 and 2016 has been omitted.

Loss on impairment of property and equipment for all segments was recorded in the amounts of ¥3,612 million (\$32,199 thousand) and ¥4,256 million for the years ended March 31, 2017 and 2016, respectively. The remaining balance of goodwill for all segments as of March 31, 2017 and 2016 was nil.

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, 2017 and 2016 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, 2017 and 2016 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, 2017 and 2016 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, 2017 and 2016 has been omitted.

22. Subsequent Events

Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2017 was approved at the Company’s annual general meeting of shareholders held on June 29, 2017:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends of ¥15.00 (\$0.13) per share	¥ 1,458	\$ 12,995