INVESTORS' GUIDE
2014

KOMERI

10-year summary of financial and operating results

Komeri Co., Ltd. and subsidiaries

amounts in millions, except where noted	5-Year Compound Annual Growth Rate	Years ended March 31 2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	3.9	335,567	319,245	312,017	298,594	285,480	277,557	273,889	259,218	247,461	233,982	217,923
Total revenues increase(%)	―	5.1	2.3	4.5	4.6	2.9	1.3	5.7	4.8	5.8	7.4	8.7
Cost of sales	3.5	223,185	211,149	205,609	200,896	192,797	188,043	186,491	175,596	167,191	157,107	145,177
Selling, general, and administrative expenses	4.3	92,134	88,917	86,181	81,829	77,611	74,798	71,808	68,102	65,645	63,369	59,886
Operating income	6.6	20,246	19,178	20,226	15,869	15,072	14,716	15,591	15,520	14,624	13,506	12,860
Operating income increase (%)	―	5.6	△ 5.2	27.5	5.3	2.4	△ 6	1	6	8.3	5.0	12.0
Income before income taxes and minority interests	9.4	18,027	17,183	18,820	10,347	12,474	11,495	14,431	15,466	13,731	12,438	12,292
Net income	10.5	10,573	10,000	9,687	5,698	6,460	6,421	8,293	9,257	8,706	7,899	7,175
Net income increase(%)	―	5.7	3.2	70.0	△ 11.8	0.6	△ 23	△ 10	6	10.2	10.1	15.3
Earnings per share	10.9	208.22	196.94	190.78	111.86	126.39	124	157	175	163.56	148.35	136.88
Earnings per share increase(%)	―	5.7	3.2	70.6	△ 11.50	1.70	△ 21	△ 10	10	10.3	8.4	15.3
Weighted average number of shares outstanding (thousand)	△ 0.3	50,784	50,779	50,777	50,942	51,113	51,672	52,890	52,890	52,889	52,892	52,061
Gross margin-% of revenues	―	33.5	33.9	34.1	32.7	32.5	32.3	31.9	32.3	32.4	32.9	33.4
SG&A expenses-% of revenues	―	27.5	27.9	27.6	27.4	27.2	26.9	26.2	26.3	26.5	27.1	27.5
Operating margin-% of revenues	―	6.0	6.0	6.5	5.3	5.3	5.3	5.7	6.0	5.9	5.8	5.9
Net interest expense-% of revenues	―	0.2	0.2	0.2	0.3	0.4	0.5	0.2	0.2	0.1	0.2	0.2
Income before income taxes-% of revenues	―	5.4	5.4	6.0	3.5	4.4	4.1	6.0	6.0	5.5	5.3	5.6
Net income-% of revenues	―	3.2	3.1	3.1	1.9	2.3	2.3	3.0	3.6	3.5	3.4	3.3
Balance Sheet Data and Financial Ratios	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	4.1	296,811	272,073	257,609	247,689	239,832	242,290	229,783	219,178	201,084	188,855	180,887
Merchandise inventories	4.3	98,944	91,649	88,231	79,724	83,755	80,070	76,074	75,222	65,364	58,809	55,362
Net property and equipment	5.6	163,540	158,544	149,196	121,793	139,266	124,286	113,518	104,958	96,436	90,895	89,428
Long-term liabilities	13.3	43,934	35,370	26,409	28,577	18,935	23,516	18,897	23,758	22,517	23,554	26,773
Shareholders' equity	5.8	133,668	124,912	116,739	108,498	105,129	100,792	97,541	93,671	86,326	79,015	72,598
Book value per share (yen)	6.0	2,631.9	2,467.8	2,300.0	2,136.70	2,058.10	1,967	1,880	1,771	1,631	1,493	1,372
Long-term liabilities to equity (%)	―	32.9	28.3	22.6	26.3	18.0	23.3	19.4	25.4	26.1	29.8	36.9
Current ratio	―	1.12:1	1.02:1	0.95:1	0.94:1	0.87:1	0.83:0	0.85:1	0.93:1	0.92:1	0.91:1	0.88:1
Equity ratio(%)	―	45.0	46.1	45.3	43.8	43.8	41.6	42.5	42.7	42.9	41.8	38.4
Inventory turnover (month)	―	3.5	3.5	3.7	3.7	3.5	3.5	3.3	3.3	3.0	2.9	2.9
Return on equity (%)	―	8.2	8.3	8.6	5.3	6.3	6.5	8.7	10.3	10.5	10.4	10.5
Return on assets (%)	―	3.7	3.7	3.8	6.3	2.7	2.7	3.7	4.4	4.5	4.3	4.1
Statement of Cash Flows Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	1.2	11,840	11,778	12,065	11,487	11,408	11,176	7,714	7,117	6,659	6,653	6,230
Operational cash flow	11.2	22,293	17,511	17,620	20,535	19,928	13,131	15,067	10,658	12,436	12,360	10,312
Investment cash flow	4.5	△ 18,149	△ 17,913	△ 17,480	△ 9,975	△ 8,056	△ 14,529	△ 15,702	△ 13,957	△ 11,445	△ 8335	△ 14,739
Financial cash flow	―	5,543	△ 544	△ 6,306	△ 7,829	△ 12,239	△ 252	560	3,309	△ 2,108	△ 987	4,146
Cash dividends per share (yen)	1.1	36.0	36.0	34.0	34.0	34.0	34.0	34.0	34.0	32.0	28.0	27
Store Data	%											
Number of stores (actual);	3.9	1,150	1,126	1,089	1,047	986	949	921	843	763	708	655
Komeri Power	―	28	25	21	18							
Komeri Home Center	0.8	145	140	132	126	139	139	138	137	88	87	85
Komeri Hard & Green	3.5	962	945	919	885	847	810	783	706	628	575	523
Athena	―	15	16	17	18							
Stores operated by HC subsidiaries	―	0	0	0	0	0	14	14	14	47	46	47
Weighted average selling space (square meters)	6.6	1,858,724	1,775,021	1,657,833	1,556,329	1,462,352	1,348,673	1,234,399	1,133,206	1,043,849	960,412	887,675
Weighted average number of employees(actual)	4.7	9,340	8,985	8,625	8,164	7,856	7,414	7,180	6,969	6,782	6,510	6,255
Sales per employee(thousands of yen)	△ 0.8	35,928	35,531	36,176	36,574	36,339	37,437	37,788	37,196	36,488	35,942	34,840
Comparable store sales increase (%)	―	1.6	△ 1.1	1.4	2.5	0.8	△ 3.3	0.9	△ 0.3	1.6	1.3	△ 2.3

1. Analysis of operating results and financial position

(1) Analysis of operating results

1) Overview of operating results for the year ended March 31, 2014

Consolidated operating results

	Year ended March 31, 2013	Year ended March 31, 2014	Year-on-year comparison (%)
Operating revenue (Millions of yen)	319,245	335,567	105.1
Operating income (Millions of yen)	19,178	20,246	105.6
Ordinary profit (Millions of yen)	18,570	19,626	105.7
Net income (Millions of yen)	10,000	10,573	105.7

Non-consolidated operating results

	Year ended March 31, 2013	Year ended March 31, 2014	Year-on-year comparison (%)
Operating revenue (Millions of yen)	305,385	321,136	105.2
Operating income (Millions of yen)	15,065	15,601	103.6
Ordinary profit (Millions of yen)	15,283	15,789	103.3
Net income (Millions of yen)	8,293	8,481	102.3

In the Japanese economy during the fiscal year under review, there was a moderate tone of recovery centered on export-related companies against the background of economic measures by the government and monetary easing by the Bank of Japan. In addition, there were signs of improvement in the employment and income environments including an increase in employment, a fall in unemployment and decisions to raise wages at some companies.

In the retail industry, there was a negative effect from a deterioration in revenue mainly reflecting a rise in imported commodity prices due to yen depreciation and soaring energy costs. Even so, there were increases in sales of high-priced products at department stores and mass home appliance retailers and products such as daily consumables at home centers and drugstores on the back of a last-minute rise in demand before a consumption tax hike. In this way, there was further polarization between consumption of high-priced products and low-priced products despite a tone of recovery in consumer sentiment.

Operating under these circumstances, the Group’s operating results by business in the fiscal year under review were as follows.

Home Center business

In the operating results of the Home Center business, sales of seasonal products were weak reflecting inclement weather between the seasons including a late start to spring across the country and a late end to the rainy season as well as a small volume of snow in December in the Tohoku and Hokuriku districts. On the other hand, there were robust sales in our mainstay field of hardware, general materials and building materials against the background of increased activity in the construction market. Furthermore, there was a substantial year-on-year increase in sales of consumables in all product categories as a result of the last-minute rise in demand before the consumption tax rise.

Stores

The total number of new store openings was 28: 2 Power stores (PW stores); 1 in each of Niigata City, Niigata Prefecture and Omuta City, Fukuoka Prefecture, 7 home centers (HC stores); 1 in each of Ishikawa Prefecture, Chiba Prefecture, Shimane Prefecture, Fukuoka Prefecture and Nagasaki Prefecture, and 2 in Ibaraki Prefecture, and 19 Hard & Green Stores (H&G stores) in 14 prefectures. Additionally, the HC Minakuchi store (Shiga Prefecture) and the H&G Nogi store (Tochigi Prefecture) were relocated to increase their floor space, and the HC Minakuchi store was converted into a PW store. The HC Odate store (Akita Prefecture), the H&G Shinminato store (Toyama Prefecture), the H&G Togi store (Ishikawa Prefecture) and the ATHENA Nagaoka Kawasaki store (Niigata Prefecture) were closed. As a result, the number of stores at the end of the fiscal year under review stood at 1,150 stores, consisting of 28 PW stores, 145 HC stores, and 962 H&G stores, as well as 15 ATHENA stores.

Consolidated operating results

	Year ended March 31, 2013	Year ended March 31, 2014	Year-on-year comparison (%)
Net sales (Millions of yen)	303,082	318,708	105.2
Number of stores	1,126	1,150	–
Number of stores newly opened	39	28	–

Operating results of Home Center line (by product line)

- Hardware, general materials and building materials

In the “hardware, general materials and building materials” product line, sales of wood, housing equipment and other products were robust against the background of increased activity in the construction market. Furthermore, there was a substantial year-on-year increase in renovation construction sales. As a result, sales in this product line rose 7.5% year on year to 101,928 million yen.

- Gardening and agricultural goods

In the “gardening and agricultural goods” product line, although there was an impact on sales resulting from delays in spring products and poor weather, sales of agricultural materials, fertilizer, agrichemicals and other products were robust due to a last-minute rise in demand. As a result, sales in this product line rose 4.9% to 72,196 million yen.

- Household goods

In the “household goods” product line, there was an increase in sales of daily consumables on the back of a last-minute rise in demand. Sales of home appliances such as refrigerators and washing machines also performed strongly. As a result, sales in this product line rose 5.0% to 79,986 million yen.

- Office and leisure goods

In the “office and leisure goods” product line, there was a tone of recovery in sales of pet goods, particularly cat food. As a result, sales in this product line rose 2.7% to 44,032 million yen.

- Kerosene and other

In the “kerosene and other” product line, although kerosene sales volume declined, unit prices rose. As a result, sales in this product line rose 1.0% to 20,564 million yen, which remained the same as the previous year.

Trend by product line

Product line	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)		Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)		Year-on-year comparison (%)
	Net sales (Millions of yen)	Percentage (%)	Net sales (Millions of yen)	Percentage (%)	
Hardware, general materials and building materials	94,847	31.3	101,928	32.0	107.5
Gardening and agricultural goods	68,815	22.7	72,196	22.7	104.9
Household goods	76,177	25.1	79,986	25.1	105.0
Office and leisure goods	42,874	14.2	44,032	13.8	102.7
Kerosene and other	20,367	6.7	20,564	6.4	101.0
Home Center line total	303,082	100.0	318,708	100.0	105.2

Operating results of Other lines

- Logistics

HOKUSEI SANGYO CO., LTD. operates 9 distribution centers across the country, which function as the logistics bases of the Group. In addition, the operating rate of Ibaraki Distribution Center, which was established in January 2013, is steadily improving. Its operating revenue rose 7.9% year on year to 13,560 million yen.

- Information technology

BIT-A CO., LTD. performs various information processing and computer software development, and its operating revenue rose 6.6% to 8,230 million yen.

- Credit cards

KOMERI CAPITAL CO., LTD. performs credit card business, other contingent business and insurance agent business. Its operating revenue rose 19.6% to 2,403 million yen.

Other businesses

LIFE KOMERI CO., LTD. sells liquefied petroleum gas, gasoline, kerosene, and related equipment.

MOVIE TIME CO., LTD. sells books and operates video rental services.

As a result of the above, operating revenue in the fiscal year under review rose 5.1% on a consolidated basis from the previous fiscal year to 335,567 million yen, operating income rose 5.6% to 20,246 million yen and ordinary profit rose 5.7% to 19,626 million yen. Income taxes - deferred in the fiscal year under review increased by 111 million yen because the special corporation tax for reconstruction, a surtax for reconstruction funding after the Great East Japan Earthquake, was abolished in the fiscal year occurring on or after April 1, 2014. As a result, net income rose 5.7% to 10,573 million yen, while operating revenue, operating income, ordinary profit and net income all hit record highs.

2) Outlook for the year ending March 31, 2015

Consolidated operating results

	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue (Millions of yen)	170,000	103.5%	340,000	101.3%
Operating income (Millions of yen)	12,400	106.5%	20,300	100.3%
Ordinary profit (Millions of yen)	12,100	107.4%	19,700	100.4%
Net income (Millions of yen)	7,350	110.8%	10,600	100.2%

Non-consolidated operating results

	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue (Millions of yen)	162,000	103.0%	325,000	101.2%
Operating income (Millions of yen)	10,100	108.0%	15,700	100.6%
Ordinary profit (Millions of yen)	10,300	109.8%	15,900	100.7%
Net income (Millions of yen)	6,400	115.2%	8,550	100.8%

Looking at the outlook for the Japanese economy, although there are signs of moderate recovery, there are lingering reasons for concern including a fall in China's economic growth rate and uncertain situations in Eastern Europe. In the retail industry, meanwhile, the outlook is expected to remain uncertain mainly reflecting cooling consumer sentiment due to increased momentum in consumer price rises and the consumption tax rise. There are also concerns about the impact on profits from soaring building costs and increases in personnel expenses and other costs in relation to store openings.

Facing these circumstances, although the Group's sales will be affected by a lull in demand following the last-minute demand rise ahead of the consumption tax hike, the Group will focus on the mainstay categories of (a) hardware, general materials and building materials and (b) gardening and agricultural goods and concentrate efforts into further enhancing the merchandise assortment and realizing prices that customers are happy to pay. The Group will also work to improve the gross profit margin of merchandise by developing new private brand merchandise and expanding sales.

The Group plans to open a total of 35 new stores: 8 PW stores, 7 HC stores, and 20 H&G stores. Of these, 2 PW stores are expected to be opened in Hokkaido, as is 1 H&G store. In addition, the Group plans to open H&G stores in Tokyo and 3 prefectures in the Tokyo metropolitan area, which are areas of high population density.

Taking the above-mentioned circumstances into consideration, for the year ending March 31, 2015, on a consolidated basis, the Group expects operating revenue to rise 1.3% year on year to 340,000 million yen, operating income to rise 0.3% to 20,300 million yen, ordinary profit to rise 0.4% to 19,700 million yen and net income to rise 0.2% to 10,600 million yen.

(2) Analysis of financial position

1) Assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased by 24,737 million yen from the previous fiscal year-end to 296,811 million yen. This was mainly due to increases in cash and deposits of 9,698 million yen, trade notes and accounts receivable of 3,404 million yen, merchandise of 7,294 million yen, property and plant and equipment of 4,728 million yen.

Liabilities increased by 16,347 million yen from the previous fiscal year-end to 162,988 million yen. This was mainly due to increases in trade notes and accounts payable of 6,607 million yen, short-term bank loans of 2,630 million yen and long-term debt including current portion of 7,136 million yen.

Net assets increased by 8,390 million yen from the previous fiscal year-end to 133,822 million yen. This was mainly due to an increase in retained earnings.

2) Consolidated cash flows

	Year ended March 31, 2013	Year ended March 31, 2014	Year-on-year comparison
Net cash provided by operating activities (Millions of yen)	17,511	22,293	4,782
Net cash used in investing activities (Millions of yen)	(17,913)	(18,149)	(235)
Net cash provided by (used in) financing activities (Millions of yen)	(544)	5,543	6,088
Increase (decrease) in cash and cash equivalents (Millions of yen)	(947)	9,688	10,635
Cash and cash equivalents, end of year (Millions of yen)	3,027	12,715	9,688

Cash and cash equivalents (“cash”) at the end of the fiscal year under review totaled 12,715 million yen. Factors affecting cash flows include the followings:

(Net cash provided by operating activities)

Net cash provided by operating activities increased by 27.3% from the previous fiscal year to 22,293 million yen. This was mainly due to income before income taxes and minority interests of 18,027 million yen in addition to adjustments for depreciation of 11,840 million yen while there was an increase in inventories of 7,288 million yen.

(Net cash used in investing activities)

Net cash used in investing activities increased 1.3% from the previous fiscal year to 18,149 million yen. This was mainly due to the purchases of property, plant and equipment and intangible assets.

(Net cash provided by financing activities)

Net cash provided by financing activities was 5,543 million yen, compared with 544 million yen used in the previous fiscal year. This was primarily due to 6,863 million yen used for repayments of long-term debt as well as dividends paid of 1,826 million yen, while there were proceeds from long-term debt of 14,000 million yen.

Trends in cash flow indices

	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014
Equity ratio (%)	43.8	43.8	45.3	46.1	45.0
Equity ratio based on market prices (%)	51.9	43.4	46.5	51.8	48.0
Years required to redeem liabilities (years)	3.7	3.4	3.8	4.0	3.5
Interest coverage ratio (times)	20.4	24.6	26.4	29.3	42.4

(Notes) 1. The calculation methods are as follows:

Equity ratio: shareholders' equity/total assets

Equity ratio based on market prices: market capitalization/total assets

Years required to redeem liabilities: interest-bearing liabilities/operating cash flow

Interest coverage ratio: operating cash flow/interest payments

2. Each of the foregoing indices is calculated on the basis of consolidated financial data.
3. "Market capitalization" is calculated by multiplying the share price on the final day of the fiscal year by the number of issued shares on the same day (excluding treasury stock).
4. For "operating cash flow," we use the figure of "net cash provided by operating activities" in the consolidated statement of cash flows.
5. "Interest-bearing liabilities" refers to all liabilities on the consolidated balance sheet on which interest payments are made. For "interest payments," we use the figure of "interest expense" in the consolidated statement of cash flows.

(3) Basic policy on distribution of profits and dividends for the fiscal year under review and the next fiscal year

The Group places the highest priority on increasing returns to shareholders by constantly raising its corporate value. When distributing profits we aim to continuously provide stable dividends while strengthening the Group's operating base and financial structure, and fully consider our profitability and dividend payout ratio.

We strive to efficiently allocate funds in our internal reserves for investment in new stores as well as for expansions and renovations to further vitalize the existing stores, thereby achieving sales growth and a higher ROE. In this way, we aim to increase returns to shareholders from a comprehensive, long-term perspective.

To show our gratitude to our shareholders, we will pay a year-end dividend of 18 yen per share, as announced on April 30, 2013. As a result, the annual dividend will be 36 yen per share including an interim dividend of 18 yen per share.

For the next fiscal year, we plan to pay an annual dividend of 36 yen per share, consisting of an interim dividend of 18 yen per share and a year-end dividend of 18 yen per share.

2. Management policy

(1) Fundamental management policy

The Group's philosophy is based on the concept that "A company should serve the purpose of making people happy, and by making people happy, it will be supported by society, and thus remain a going concern." This has not changed since the Company was founded.

Based on the above management philosophy, the Group aims to establish a true home center industry by reforming the old distribution structure for the construction and agricultural areas.

(2) Target management indices

The Group places emphasis on the effective management of invested capital, and strives to increase capital productivity and raise the ROE with the aim of achieving a ratio of ordinary profit to total assets of 10%.

As of the end of the fiscal year under review, the ratio of ordinary profit to total assets stood at 6.9%.

(3) The medium-to-long-term management strategy and issues to be addressed

The environment surrounding the Group is forecast to become increasingly difficult, characterized by declines in the population and the number of households and sales competition going beyond the conventional boundaries of business fields and business formats.

Facing these circumstances, the Group will concentrate on "home" and "agriculture" and strive towards strengthening merchandise development and the marketing system to an even higher level.

The Group will continue to open PW stores, HC stores, and H&G stores under a "clustered store development strategy" according to the commercial area's size and pursue greater expansion of the store network and dominance in the market.

In order to realize the Group's growth strategy, it is essential to further advance our systems for the collection and analysis of information and establish a broad information backbone including information provision and merchandise sales via the Internet and the operation of a customer reward program based on a card system.

(4) Other significant matters related to management

Responsibilities as a corporate citizen

The Group established the Komeri Greenery Fund in 1990. Over the 24 years since the fund's establishment, the Group has been using 1% of each year's profit as funding to continue greening activities for the regions, the development of infrastructures for the stable supply of goods in the event of disasters, and other social contribution programs aimed at cultural and social promotion.

1) The Komeri Greenery Aid Foundation

Initially, the Group's greening activities primarily consisted of the provision of subsidies. As the Group has opened stores over a wider area every year, expectations regarding the Komeri Greenery Fund have changed with the times. In view of these changes, the Group established a new public interest incorporated foundation called the "Komeri Greenery Aid Foundation" in 2012 and the foundation started its activities in the same year.

Under the aim of bringing more abundant greenery to the areas in which we live, the Komeri Greenery Aid Foundation's activities consist of providing subsidies for local greening activities, helping to create a richer natural environment, supporting new technological development in the gardening and agricultural fields and supporting the development of human resources who underpin the future agricultural industry. The Group has also established the "Komeri Greenery Fund Volunteer" program, in which employees use their days off from work to participate and cooperate in regional greening activities carried out by kindergartens, childcare centers, elementary schools, junior high schools and others. To date, more than 15,000 Group's employees have worked on over 8,000 greening activities with the people of local areas, helping to bring an abundance of flowers and greenery to these areas.

2) Support activities in times of disaster

As a corporate group engaged in distribution, in response to the frequent natural disasters in recent years, the Group considers its role in such times to be “responsibility for the provision of materials,” and in 2005 the “Komeri Disaster Response Center NPO” was established as an infrastructure for emergency activities in the event of a disaster. In preparation for future natural disasters, the Group has entered into 503 agreements mainly with local governments and associations in 45 prefectures for the provision of materials in times of disaster. Furthermore, to strengthen cooperation with local governments, the Group participates in disaster response drills and other disaster training activities. The Group also plays an active part in exchanging information with local governments and associations by providing information through twice-yearly magazines and its website.

We have expanded its 1% social contribution activities from the initial greening program to those encompassing wider support to promote culture and society including research and development activities in the area of agriculture and providing materials in times of disaster.

Through these activities, the Group is fulfilling its social responsibilities as a corporate citizen.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2014, and Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KOMERI Co., Ltd.:

We have audited the accompanying consolidated balance sheet of KOMERI Co., Ltd. and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, 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 such internal control as management determines is necessary to enable the preparation of 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. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOMERI Co., Ltd. and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 16, 2014
(August 5, 2014 as to Note 18)

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2014

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 12,716	¥ 3,027	$ 123,548
Marketable securities (Notes 4 and 14)	11		107
Short-term investments (Notes 3 and 14)	314	304	3,054
Receivables (Notes 14 and 20):			
Trade notes and accounts	14,515	11,170	141,028
Allowance for doubtful receivables	(212)	(71)	(2,064)
Inventories (Note 5)	99,109	91,820	962,971
Deferred tax assets (Note 12)	1,276	1,322	12,395
Prepaid expenses and other current assets (Notes 15 and 20)	5,542	5,956	53,859
Total current assets	133,271	113,528	1,294,898
PROPERTY, PLANT, AND EQUIPMENT (Notes 6 and 7):			
Land	28,885	27,860	280,658
Buildings and structures	185,378	177,509	1,801,185
Machinery and equipment	11,903	9,864	115,653
Lease assets (Note 13)	13,360	14,462	129,810
Construction in progress	1,771	1,111	17,206
Other	12,165	11,430	118,202
Total	253,462	242,236	2,462,714
Accumulated depreciation	(113,493)	(106,996)	(1,102,731)
Net property, plant, and equipment	139,969	135,240	1,359,983
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	415	446	4,032
Investments in unconsolidated subsidiaries	315	295	3,065
Intangible assets	7,248	6,638	70,419
Leasehold deposits	8,208	8,252	79,755
Deferred tax assets (Note 12)	5,923	5,829	57,545
Other assets	1,462	1,845	14,207
Total investments and other assets	23,571	23,305	229,023
TOTAL	¥ 296,811	¥ 272,073	$ 2,883,904

LIABILITIES AND EQUITY	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 14)	¥ 40,350	¥ 37,720	$ 392,052
Current portion of long-term debt (Notes 7 and 14)	8,845	9,071	85,938
Payables (Notes 14 and 15):			
Trade notes and accounts	50,740	44,133	493,003
Construction and other	10,759	12,982	104,539
Income taxes payable (Note 14)	3,730	2,988	36,242
Accrued expenses	2,321	2,394	22,556
Liability for obligations to customers	474	443	4,609
Allowance for losses from a natural disaster	9	34	89
Other current liabilities	1,827	1,506	17,742
Total current liabilities	119,055	111,271	1,156,770
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	29,548	22,849	287,097
Liability for retirement benefits (Note 8)	7,336	5,985	71,278
Retirement benefits for directors and Audit & Supervisory Board members (Note 8)	962	1,024	9,342
Asset retirement obligations (Note 9)	3,926	3,517	38,144
Lease deposits from lessees	1,714	1,729	16,653
Deferred tax liabilities (Note 12)	222	74	2,161
Other long-term liabilities	226	192	2,201
Total long-term liabilities	43,934	35,370	426,876
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 14 and 15)			
EQUITY (Note 10):			
Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2014 and 2013	18,802	18,802	182,687
Capital surplus	25,260	25,260	245,436
Stock acquisition rights (Note 11)	163	116	1,591
Retained earnings	98,405	89,661	956,127
Treasury stock—at cost, 3,625,547 shares in 2014 and 3,630,310 shares in 2013	(8,799)	(8,811)	(85,494)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	73	68	704
Deferred gain on derivatives under hedge accounting	268	336	2,603
Defined retirement benefit plans	(350)		(3,396)
Total equity	133,822	125,432	1,300,258
TOTAL	¥ 296,811	¥ 272,073	$ 2,883,904

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
REVENUES:			
Net sales (Note 20)	¥325,222	¥309,485	$3,159,951
Other operating revenues	10,345	9,760	100,515
Total revenues	335,567	319,245	3,260,466
COST OF SALES	223,186	211,149	2,168,538
Gross profit	112,381	108,096	1,091,928
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 20)	92,135	88,918	895,209
Operating income	20,246	19,178	196,719
OTHER INCOME (EXPENSES):			
Interest and dividend income	43	48	418
Interest expense	(525)	(598)	(5,102)
Loss on disposal of property, plant, and equipment	(267)	(351)	(2,590)
Loss on impairment of long-lived assets (Note 6)	(1,332)	(1,327)	(12,942)
Other—net	(138)	233	(1,339)
Other expenses—net	(2,219)	(1,995)	(21,555)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	18,027	17,183	175,164
INCOME TAXES (Note 12):			
Current	7,082	7,376	68,812
Deferred	372	(193)	3,613
Total income taxes	7,454	7,183	72,425
NET INCOME BEFORE MINORITY INTERESTS	10,573	10,000	102,739
NET INCOME	¥ 10,573	¥ 10,000	$ 102,739

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.q and 17):			
Basic net income	¥208.22	¥196.94	$2.02
Diluted net income	207.92	196.75	2.02
Cash dividends applicable to the year	36.00	36.00	0.35

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥10,573	¥10,000	$102,739
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized gain on available-for-sale securities	5	43	41
Deferred gain (loss) on derivatives under hedge accounting	(68)	345	(661)
Total other comprehensive income	(63)	388	(620)
COMPREHENSIVE INCOME	¥10,510	¥10,388	$102,119
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥10,510	¥10,388	$102,119
Minority interests			

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2014

	Number of Shares of Common Stock Outstanding	Millions of Yen					Accumulated Other Comprehensive Income (Loss)			
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Defined Retirement Benefit Plan	Total Equity
BALANCE, APRIL 1, 2012	50,777,882	¥18,802	¥25,260	¥ 32	¥81,491	¥(8,813)	¥25	¥ (9)		¥116,788
Net income					10,000					10,000
Cash dividends, ¥36 per share					(1,828)					(1,828)
Purchase of treasury stock	(355)					(1)				(1)
Disposal of treasury stock	1,331				(2)	3				1
Issuance of stock acquisition rights				84						84
Net change in the year							43	345		388
BALANCE, MARCH 31, 2013	50,778,858	18,802	25,260	116	89,661	(8,811)	68	336		125,432
Net income					10,573					10,573
Cash dividends, ¥36 per share					(1,828)					(1,828)
Purchase of treasury stock	(537)					(1)				(1)
Disposal of treasury stock	5,300				(1)	13				12
Issuance of stock acquisition rights				47						47
Net change in the year							5	(68)	¥(350)	(413)
BALANCE, MARCH 31, 2014	50,783,621	¥18,802	¥25,260	¥163	¥98,405	¥(8,799)	¥73	¥268	¥(350)	¥133,822

	Thousands of U.S. Dollars (Note 1)					Accumulated Other Comprehensive Income (Loss)			
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Defined Retirement Benefit Plan	Total Equity
BALANCE, MARCH 31, 2013	$182,687	$245,436	$1,126	$871,167	$(85,606)	$663	$3,264		$1,218,737
Net income				102,739					102,739
Cash dividends, $0.35 per share				(17,762)					(17,762)
Purchase of treasury stock					(13)				(13)
Disposal of treasury stock				(17)	125				108
Issuance of stock acquisition rights			465						465
Net change in the year						41	(661)	$(3,396)	(4,016)
BALANCE, MARCH 31, 2014	$182,687	$245,436	$1,591	$956,127	$(85,494)	$704	$2,603	$(3,396)	$1,300,258

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥18,027	¥17,183	$175,164
Adjustments for:			
Income taxes—paid	(6,349)	(10,108)	(61,691)
Depreciation	11,840	11,778	115,048
Loss on impairment of long-lived assets	1,332	1,327	12,942
Loss on disposal of property, plant, and equipment	267	341	2,590
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(3,404)	(1,253)	(33,083)
Decrease in provision for loss from disaster	(25)		(247)
Increase in inventories	(7,289)	(3,423)	(70,817)
Increase in trade notes and accounts payable	6,607	833	64,197
Increase in liability for retirement benefits	810	758	7,875
Decrease in retirement benefits for directors and Audit & Supervisory Board members	(62)	(1)	(606)
Other—net	539	76	5,242
Total adjustments	4,266	328	41,450
Net cash provided by operating activities	22,293	17,511	216,614
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(16,769)	(15,757)	(162,930)
Purchase of intangible assets	(1,345)	(916)	(13,067)
Other—net	(34)	(1,240)	(346)
Net cash used in investing activities	(18,148)	(17,913)	(176,343)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	2,630	(7,120)	25,554
Proceeds from long-term debt	14,000	16,600	136,028
Repayments of long-term debt	(9,258)	(8,197)	(89,958)
Repurchase of treasury stock	(1)	(1)	(13)
Dividends paid	(1,827)	(1,827)	(17,747)
Net cash provided by (used in) financing activities	5,544	(545)	53,864
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,689	(947)	94,135
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,027	3,974	29,413
CASH AND CASH EQUIVALENTS, END OF YEAR	¥12,716	¥ 3,027	$123,548

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which KOMERI Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Consolidation*—The consolidated financial statements as of March 31, 2014, include the accounts of the Company and its five significant (six in 2013) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in six (five in 2013) unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. *Cash Equivalents*—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

c. *Inventories*—Merchandise inventories in retail stores are stated at the lower of cost, as determined by the retail method as generally applied by the retail industry in Japan, or net selling value. Supplies are stated at the lower of cost, using the last purchase price method, or net selling value.

d. *Marketable and Investment Securities*—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

   Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

   For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. *Property, Plant, and Equipment*—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998. Lease assets are depreciated by the straight-line method over the respective lease periods. The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 4 to 8 years for machinery and equipment.

f. *Long-Lived Assets*—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. *Retirement and Pension Plans*—The Company and some subsidiaries have an unfunded retirement benefit plan for employees covering substantially all employees.

   The gain or loss component of net periodic pension cost (the difference between the actual return on plan assets and the expected return on plan assets, etc.) is amortized over five years from the following fiscal year.

   Effective June 29, 2010, the Company terminated its unfunded severance payment plan for all directors and Audit & Supervisory Board members. The accumulated retirement benefits of the plan will be paid as retirement benefits at the time each director or Audit & Supervisory Board member retires.

   Retirement benefits to directors and Audit & Supervisory Board members are recorded at the amount that would be required at the termination of the plan.

In May 2012, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.s).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥7,336 million ($71,278 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥349 million ($3,396 thousand).

h. ***Liability for Obligations to Customers***—The Company and certain subsidiaries have adopted a point service plan for their registered customers. In the point service plan, the preregistered customers acquire service points in proportion to their actual purchases. The acquired service points are accumulated up to a certain level and then may be exchanged for gift certificates.

The Company and certain subsidiaries recognize a liability for obligations to customers when customers acquire the service points in amounts considered to be appropriate based on past experience.

i. ***Asset Retirement Obligations***—In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. ***Stock Options***—ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The Company has applied the accounting standard for stock options to those granted on or after May 1, 2006.

k. ***Leases***—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee to be measured at the amount of obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the amount of obligations under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

l. ***Bonuses to Directors and Audit & Supervisory Board Members***—Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

m. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

n. ***Appropriations of Retained Earnings***—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

o. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

p. ***Derivatives and Hedging Activities***—The Group uses derivative financial instruments ("derivatives") to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency swaps (which substantially function as foreign exchange forward contracts), and interest rate swaps (including rate floors) are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Foreign exchange forward contracts are utilized to hedge foreign exchange exposures for import purchases. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts applied for forecasted transactions are measured at the fair value, and the unrealized gains or losses are deferred until the underlying transactions are completed.

The interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Those swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

q. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

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 the year.

r. *Accounting Changes and Error Corrections*—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

s. *New Accounting Pronouncements*

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(*a*) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(*b*) *Treatment in the statement of income and the statement of comprehensive income*

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(*c*) *Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases*

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014.

In the beginning of year ending March 31, 2015, earned surpluses are likely to increase under this effect by ¥277 million ($2,694 thousand).

In addition, the effects on the profit and loss for the fiscal year ending March 31, 2015, are likely to be insignificant.

3. SHORT-TERM INVESTMENTS

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Time deposits	¥314	¥304	$3,054
Total	¥314	¥304	$3,054

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current—Trust fund investments and other	¥ 11		$ 107
Total	¥ 11		$ 107
Noncurrent:			
Equity securities	¥411	¥431	$3,990
Trust fund investments and other	4	15	42
Total	¥415	¥446	$4,032

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥280	¥95	¥6	¥369
Trust fund investments	12		1	11
March 31, 2013				
Securities classified as available-for-sale:				
Equity securities	¥280	¥113	¥5	¥388
Trust fund investments	12		3	9

	Thousands of U.S. Dollars			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$2,723	$922	$63	$3,582
Trust fund investments	118		11	107

5. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Merchandise	¥98,945	¥91,650	$961,373
Supplies	164	170	1,598
Total	¥99,109	¥91,820	$962,971

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2014. As a result, the Group recognized an impairment loss of ¥1,332 million ($12,942 thousand) as other expense for certain unprofitable stores due to continuous operating losses. The carrying amount of the assets of the relevant stores was written down to the recoverable amount, which is composed of ¥1,153 million ($11,201 thousand) for buildings and structures and ¥179 million ($1,741 thousand) for other items. The recoverable amount of this asset group was measured at its value in use, and the discount rate used for the computation of the present value of future cash flows was 5%.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2014 and 2013, consisted of notes to banks. The annual weighted-average interest rate applicable to the short-term bank loans was 0.35% and 0.39% at March 31, 2014 and 2013, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Loans from banks and other financial institutions, due serially through 2018 with weighted-average interest rates of 0.29% (2014) and 0.33% (2013):			
Collateralized		¥ 25	
Unsecured	¥31,367	24,206	$304,775
Obligations under finance leases	7,026	7,689	68,260
Total	38,393	31,920	373,035
Less current portion	(8,845)	(9,071)	(85,938)
Long-term debt, less current portion	¥29,548	¥22,849	$287,097

Annual maturities of long-term debt at March 31, 2014, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 8,845	$ 85,938
2016	8,809	85,587
2017	5,095	49,507
2018	2,411	23,430
2019	12,474	121,203
2020 and thereafter	759	7,370
Total	¥38,393	$373,035

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥170 million ($1,652 thousand) at March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant, and equipment—net of accumulated depreciation	¥157	$1,527

As is customary in Japan, the Company maintains substantial deposit balances with banks from which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors, and Audit & Supervisory Board members. 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 severance payment from the Company and some consolidated subsidiaries. Employees are entitled to larger payments if the termination is involuntary by retirement at the mandatory retirement age or by death.

The liability for retirement benefits at March 31, 2014, for directors and Audit & Supervisory Board members was ¥962 million ($9,342 thousand). The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥6,691	$65,009
Current service cost	698	6,790
Interest cost	83	808
Actuarial losses	56	545
Benefits paid	(192)	(1,874)
Balance at end of year	¥7,336	$71,278

(2) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unfunded defined benefit obligation	¥7,336	$71,278
Net liability for defined benefit obligation	¥7,336	$71,278

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥7,336	$71,278
Net liability for defined benefit obligation	¥7,336	$71,278

(3) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 699	$6,790
Interest cost	83	809
Recognized actuarial losses	221	2,150
Net periodic benefit costs	¥1,003	$9,749

(4) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized actuarial losses	¥540	$5,254
Total	¥540	$5,254

(5) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	1.3%

Year Ended March 31, 2013

The liability for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥6,691
Unrecognized actuarial gain	(706)
Net liability	¥5,985

The components of net periodic benefit costs for the year ended March 31, 2013, are as follows:

	Millions of Yen
Service cost	¥672
Interest cost	76
Recognized actuarial loss	217
Net periodic benefit costs	¥965

Assumptions used for the year ended March 31, 2013, are set forth as follows:

Discount rate	1.3%
Recognition period of actuarial gain/loss	5 years

9. ASSET RETIREMENT OBLIGATIONS

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Balance at beginning of year	¥3,552	¥3,146	$34,516
Additional provisions associated with the acquisition of property, plant, and equipment	312	333	3,029
Reconciliation associated with passage of time	81	73	784
Balance at end of year	¥3,945	¥3,552	$38,329

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. *Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. *Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. STOCK OPTIONS

The stock options outstanding as of March 31, 2014, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2011 Stock Option	7 directors	43,300 shares	August 12, 2011	¥1 ($0)	From August 13, 2011 to August 12, 2041
2012 Stock Option	8 directors	24,800 shares	July 11, 2012	¥1 ($0)	From July 12, 2012 to July 11, 2042
2013 Stock Option	7 directors	19,200 shares	July 10, 2013	¥1 ($0)	From July 11, 2013 to July 10, 2043

The stock option activity is as follows:

	2011 Stock Option	2012 Stock Option	2013 Stock Option
		(Shares)	
Year Ended March 31, 2013			
Nonvested			
April 1, 2012—Outstanding	43,300		
Granted		24,800	
Canceled			
Vested	(1,300)		
March 31, 2013—Outstanding	42,000	24,800	
Vested			
April 1, 2012—Outstanding			
Vested	1,300		
Exercised	(1,300)		
Canceled			
March 31, 2013—Outstanding			

	2011 Stock Option	2012 Stock Option	2013 Stock Option
		(Shares)	
Year Ended March 31, 2014			
Nonvested			
March 31, 2013—Outstanding	42,000	24,800	
Granted			19,200
Canceled			
Vested	(3,600)	(1,700)	
March 31, 2014—Outstanding	38,400	23,100	19,200
Vested			
March 31, 2013—Outstanding			
Vested	3,600	1,700	
Exercised	(3,600)	(1,700)	
Canceled			
March 31, 2014—Outstanding			
Exercise price	¥1 ($0)	¥1 ($0)	¥1 ($0)
Average stock price at exercise	¥2,753 ($26.7)	¥2,753 ($26.7)	
Fair value price at grant date	¥2,155 ($20.9)	¥1,998 ($19.4)	¥2,422 ($23.5)

The Assumptions Used to Measure the Fair Value of the 2013 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	25.5%
Estimated remaining outstanding period:	0.98 years
Estimated dividend:	¥36 per share
Risk-free interest rate:	0.108%

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Loss on impairment	¥3,142	¥3,152	$30,527
Accrued enterprise taxes	267	271	2,597
Accrued bonuses	717	781	6,964
Liabilities for retirement benefits	2,596	2,126	25,227
Retirement benefits for directors and Audit & Supervisory Board members	340	362	3,304
Asset retirement obligation	1,395	1,257	13,557
Tax loss carryforwards	477	605	4,635
Other	1,170	931	11,361
Less valuation allowance	(1,090)	(1,073)	(10,593)
Total	9,014	8,412	87,579
Deferred tax liabilities:			
Property and equipment	(929)	(251)	(9,036)
Expense from asset retirement obligation	(779)	(725)	(7,565)
Other	(329)	(359)	(3,199)
Total	(2,037)	(1,335)	(19,800)
Net deferred tax assets	¥6,977	¥7,077	$67,779

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2014, with the corresponding figures for 2013 is as follows:

	2014	2013
Normal effective statutory tax rate	38%	38%
Per capita portion	3	3
Valuation allowance	0	1
Effect of tax rate reduction	0	0
Other—net	0	0
Actual effective tax rate	41%	42%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38% to 35%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥102 million ($10,503 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥111 million ($11,512 thousand).

At March 31, 2014, certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,349 million ($13,105 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 34	$ 334
2019	16	159
2020	910	8,839
2021	372	3,610
2022	17	163
Total	¥1,349	$13,105

13. LEASES

The Group leases certain store fixtures, computer equipment, store space, and other assets.

Total rental expense including lease payments for the years ended March 31, 2014 and 2013, was ¥12,856 million ($124,911 thousand) and ¥12,576 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 820	¥ 848	$ 7,969
Due after one year	2,377	2,700	23,097
Total	¥3,197	¥3,548	$31,066

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments, mainly long-term debt including bank loans and lease obligation, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets, mainly short-term deposits. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Marketable and investment securities, mainly equity instruments, are exposed to issuer credit risk and the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Maturities of bank loans and lease obligations are less than 18 years after the balance sheet date. Although a part of such bank loans and lease obligations are exposed to market risks from changes in variable interest rates, those risks are mitigated by using interest-rate swaps.

Derivatives mainly include forward foreign currency contracts, currency swaps, and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of payables and changes in interest rates of bank loans. See Note 15 for more details about derivatives.

(3) ***Risk Management for Financial Instruments***

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in the early stages.

With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to high credit rating financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2014.

Market risk management (foreign exchange risk and interest rate risk)

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

The basic principles of derivative transactions are approved at management meetings based on the internal guidelines which prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transaction and balances with customers is made, and the transaction data is reported to the management on a quarterly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk, along with adequate financial planning by the corporate treasury department.

(4) ***Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. See Note 15 for the details of fair value of derivatives.

(*a*) *Fair value of financial instruments*

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 12,716	¥ 12,716	
Short-term investments	314	314	
Receivables	14,303	14,303	
Marketable and investment securities	379	379	
Total	¥ 27,712	¥ 27,712	
Short-term bank loans	¥ 40,350	¥ 40,350	
Payables	61,499	61,499	
Income taxes payable	3,730	3,730	
Long-term debt	38,393	38,396	¥3
Total	¥143,972	¥143,975	¥3
March 31, 2013			
Cash and cash equivalents	¥ 3,027	¥ 3,027	
Short-term investments	304	304	
Receivables	11,099	11,099	
Investment securities	398	398	
Total	¥ 14,828	¥ 14,828	
Short-term bank loans	¥ 37,720	¥ 37,720	
Payables	57,115	57,115	
Income taxes payable	2,988	2,988	
Long-term debt	31,920	31,926	¥6
Total	¥129,743	¥129,749	¥6

	Thousands of U.S. Dollars		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 123,548	$ 123,548	
Short-term investments	3,054	3,054	
Receivables	138,964	138,964	
Marketable and investment securities	3,682	3,682	
Total	$ 269,248	$ 269,248	
Short-term bank loans	$ 392,052	$ 392,052	
Payables	597,542	597,542	
Income taxes payable	36,242	36,242	
Long-term debt	373,035	373,070	$35
Total	$1,398,871	$1,398,906	$35

Cash and Cash Equivalents, Short-Term Investments, and Receivables

The carrying values of cash and cash equivalents, short-term investments, and receivables approximate fair value because of their short maturities.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. The information on the fair value of the marketable and investment securities by classification is included in Note 4.

Short-Term Bank Loans and Payables

The carrying values of short-term bank loans and payables approximate fair value because of their short maturities.

Income Taxes Payable

The carrying values of income taxes payable approximate fair value.

Long-Term Debt

The fair values of long-term bank loans are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate. The fair value of long-term debt with no interest is determined by discounting the cash flows related to the debt at a risk-free rate.

The carrying values of long-term lease obligations approximate fair value.

Derivatives

Fair value information for derivatives is included in Note 15.

(*b*) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Investments in equity instruments that do not have a quoted market price in an active market	¥94	¥76	$916

(5) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

March 31, 2014	Millions of Yen			
	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	¥12,716			
Short-term investments	314			
Receivables	14,303			
Investment securities—Available-for-sale securities with contractual maturities	11			
Total	¥27,344			

March 31, 2014	Thousands of U.S. Dollars			
	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	$123,548			
Short-term investments	3,054			
Receivables	138,964			
Investment securities—Available-for-sale securities with contractual maturities	107			
Total	$265,673			

Please see Note 7 for annual maturities of long-term debt.

15. DERIVATIVES

The Group enters into derivative transactions, including foreign exchange forward contracts and currency swaps, to hedge foreign exchange risk associated with a portion of imported goods.

Currency swaps are subject to foreign exchange risk.

Because the counterparties to the derivative are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk.

The execution and control of derivatives are controlled by the Company's accounting department in accordance with its internal policies.

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2014	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Currency swaps—Receive U.S.$/pay yen	Payables	¥6,091	¥2,912	¥414

March 31, 2013	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Currency swaps—Receive U.S.$/pay yen	Payables	¥4,703	¥1,496	¥539
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	25		

March 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Currency swaps—Receive U.S.$/pay yen	Payables	$59,185	$28,293	$4,027

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

16. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ (18)	¥ 67	$ (176)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(18)	67	(176)
Income tax effect	23	(24)	217
Total	¥ 5	¥ 43	$ 41
Deferred gain (loss) on derivatives under hedge accounting:			
Gains arising during the year	¥(334)	¥534	$(3,249)
Reclassification adjustments to profit or loss	209	20	2,033
Amount before income tax effect	(125)	554	(1,216)
Income tax effect	57	(209)	555
Total	¥ (68)	¥345	$ (661)
Total other comprehensive income	¥ (63)	¥388	$ (620)

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2014 and 2013, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2014	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥10,573	50,782	¥208.22	$2.02
Effect of dilutive securities—Stock option rights		74		
Diluted EPS—Net income for computation	¥10,573	50,856	¥207.92	$2.02
Year Ended March 31, 2013				
Basic EPS—Net income available to common shareholders	¥10,000	50,778	¥196.94	
Effect of dilutive securities—Stock option rights		50		
Diluted EPS—Net income for computation	¥10,000	50,828	¥196.75	

18. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's shareholders' meeting held on June 27, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥18 ($0.17) per share	¥914	$8,881

Stock Option

The following stock option was approved at the Board of Directors' meeting held on June 27, 2014:

Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
9 directors	18,100 shares	July 15, 2014	¥1 ($0)	From July 16, 2014 to July 15, 2044

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) *Description of Reportable Segments*

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

Information about reportable segments is not shown since the Company only has one reportable segment, which is the business to sell hardware, gardening tools, etc.

(2) *Information about Impairment Losses of Assets*

	Millions of Yen				
	2014				
	Reportable Segment				
	The Business to Sell Hardware, Gardening Tools, Etc.	Other	Total	Reconcil-iations	Consol-idated
Impairment losses of assets	¥1,315	¥17	¥1,332		¥1,332

	Millions of Yen				
	2013				
	Reportable Segment				
	The Business to Sell Hardware, Gardening Tools, Etc.	Other	Total	Reconcil-iations	Consol-idated
Impairment losses of assets	¥1,327		¥1,327		¥1,327

	Thousands of U.S. Dollars				
	2014				
	Reportable Segment				
	The Business to Sell Hardware, Gardening Tools, Etc.	Other	Total	Reconcil-iations	Consol-idated
Impairment losses of assets	$12,780	$162	$12,942		$12,942

20. RELATED-PARTY DISCLOSURES

Transactions of the Company with directors for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales	¥26	¥43	$251
Rental expense	28	28	280

The balances due to or from directors at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	¥3	¥2	$35
Prepaid expense	2	2	25

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