INVESTORS' GUIDE
2016

KOMERI

10-year summary of financial and operating results

Komeri Co., Ltd. and subsidiaries

	5-Year Compound Annual Growth Rate	Years ended March 31									
amounts in millions, except where noted		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	1.7	324,343	316,969	335,567	319,245	312,017	298,594	285,480	277,557	273,889	259,218	247,461
Total revenues increase (%)	–	2.3	△ 5.5	5.1	2.3	4.5	4.6	2.9	1.3	5.7	4.8	5.8
Cost of sales	1.1	212,497	207,222	223,185	211,149	205,609	200,896	192,797	188,043	186,491	175,596	167,191
Selling, general, and administrative expenses	2.8	93,917	93,638	92,134	88,917	86,181	81,829	77,611	74,798	71,808	68,102	65,645
Operating income	2.5	17,928	16,108	20,246	19,178	20,226	15,869	15,072	14,716	15,591	15,520	14,624
Operating income increase (%)	–	11.3	△ 20.4	5.6	△ 5.2	27.5	5.3	2.4	△ 5.6	0.5	6.1	8.3
Income before income taxes	8.0	15,229	12,049	18,027	17,183	18,820	10,347	12,474	11,495	14,431	15,466	13,731
Net income attributable to owners of the parent	11.0	9,585	7,171	10,573	10,000	9,687	5,698	6,460	6,421	8,293	9,257	8,706
Net income attributable to owners of the parent increase (%)	–	33.7	△ 32.2	5.7	3.2	70.0	△ 11.8	0.6	△ 22.6	△ 10.4	6.3	10.2
Earnings per share	11.1	189.33	141.44	208.22	196.94	190.78	111.86	126.39	124.27	157.19	175.02	163.56
Earnings per share increase (%)	–	33.9	△ 32.1	5.7	3.2	70.60	△ 11.5	1.7	△ 20.9	△ 10.2	10.3	10.3
Weighted average number of shares outstanding (thousand)	△ 0.1	50,630	50,704	50,784	50,779	50,777	50,942	51,113	51,672	52,890	52,890	52,889
Gross margin-% of revenues	–	34.5	34.6	33.5	33.9	34.1	32.7	32.5	32.3	31.9	32.3	32.4
SG&A expenses-% of revenues	–	29.0	29.5	27.5	27.9	27.6	27.4	27.2	26.9	26.2	26.3	26.5
Operating margin-% of revenues	–	5.5	5.1	6.0	6.0	6.5	5.3	5.3	5.3	5.7	6.0	5.9
Net interest expense-% of revenues	–	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.5	0.2	0.2	0.1
Income before income taxes-% of revenues	–	4.7	3.8	5.4	5.4	6.0	3.5	4.4	4.1	6.0	6.0	5.5
Net income attributable to owners of the parent-% of revenues	–	3.0	2.3	3.2	3.1	3.1	1.9	2.3	2.3	3.0	3.6	3.5
Balance Sheet Data and Financial Ratios	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	4.3	305,496	301,128	296,811	272,073	257,609	247,689	239,832	242,290	229,783	219,178	201,084
Merchandise inventories	6.0	106,660	103,736	98,944	91,649	88,231	79,724	83,755	80,070	76,074	75,222	65,364
Net property and equipment	6.5	167,082	167,280	163,540	158,544	149,196	121,793	139,266	124,286	113,518	104,958	96,436
Long-term liabilities	17.9	65,040	54,984	43,934	35,370	26,409	28,577	18,935	23,516	18,897	23,758	22,517
Shareholders' equity	6.2	146,693	138,793	133,668	124,912	116,739	108,498	105,129	100,792	97,541	93,671	86,326
Book value per share (yen)	6.1	2,873.0	2,746.5	2,631.9	2,467.8	2,300.0	2,136.7	2,058.1	1,967.0	1,880.0	1,771.0	1,631.0
Long-term liabilities to equity (%)	–	44.3	39.6	32.9	28.3	22.6	26.3	18.0	23.3	19.4	25.4	26.1
Current ratio	–	1.46:1	1.25:1	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
Equity ratio (%)	–	47.6	46.1	45.0	46.1	45.3	43.8	43.8	41.6	42.5	42.7	42.9
Inventory turnover (month)	–	3.1	3.1	3.5	3.5	3.7	3.7	3.5	3.5	3.3	3.3	3.0
Return on equity (%)	–	6.7	5.3	8.2	8.3	8.6	5.3	6.3	6.5	8.7	8.7	10.3
Return on assets (%)	–	3.1	2.4	3.7	3.7	3.8	2.3	2.7	2.7	3.7	3.7	4.4
Statement of Cash Flows Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	0.3	11,686	12,123	11,840	11,778	12,065	11,487	11,408	11,176	7,714	7,117	6,659
Operational cash flow	1.2	21,834	14,900	22,293	17,511	17,620	20,535	19,928	13,131	15,067	10,658	12,436
Investment cash flow	5.2	△ 12,875	△ 17,088	△ 18,149	△ 17,913	△ 17,480	△ 9,975	△ 8,317	△ 14,529	△ 15,702	△ 13,957	△ 11445
Financial cash flow	1.2	△ 8,311	△ 1,539	5,543	△ 544	△ 6,306	△ 7,829	△ 12,239	△ 252	560	3,309	△ 2108
Cash dividends per share (yen)	1.1	36.0	36.0	36.0	36.0	34.0	34.0	34.0	34.0	34.0	34.0	32.0
Store Data	%											
Number of stores (actual);	2.4	1,178	1,169	1,150	1,126	1,089	1,047	986	949	921	843	763
Komeri Power	17.3	40	38	28	25	21	18	12				
Komeri Home Center	3.5	150	147	145	140	132	126	127	139	138	137	88
Komeri Hard & Green	2.0	975	970	962	945	919	885	847	810	783	706	628
Athena	-6.3	13	14	15	16	17	18					
Stores operated by HC subsidiaries	–	0	0	0	0	0	0	0	14	14	14	47
Weighted average selling space (square meters)	5.1	1,997,646	1,958,232	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
Weighted average number of employees(actual)	2.9	9,402	9,354	9,340	8,985	8,625	8,164	7,856	7,414	7,180	6,969	6,782
Sales per employee(thousands of yen)	△ 1.2	34,497	33,886	35,928	35,531	37,014	36,574	36,339	37,437	37,788	37,196	36,488
Comparable store sales increase (%)	–	△ 0.3	△ 8.5	1.6	△ 1.1	1.4	2.5	0.8	△ 3.3	0.9	△ 0.3	1.6

1. Analysis of operating results and financial position

(1) Analysis of operating results

1) Overview of operating results for the year ended March 31, 2016

Consolidated operating results

	Year ended March 31, 2015	Year ended March 31, 2016	Year-on-year comparison (%)
Operating revenue (Millions of yen)	316,969	324,343	102.3
Operating income (Millions of yen)	16,108	17,928	111.3
Ordinary profit (Millions of yen)	15,515	17,409	112.2
Net income attributable to owners of the parent (Millions of yen)	7,171	9,585	133.7

Non-consolidated operating results

	Year ended March 31, 2015	Year ended March 31, 2016	Year-on-year comparison (%)
Operating revenue (Millions of yen)	303,061	310,667	102.5
Operating income (Millions of yen)	11,630	12,667	108.9
Ordinary profit (Millions of yen)	11,950	13,036	109.1
Net income (Millions of yen)	5,164	6,974	135.1

In the Japanese economy during the fiscal year under review, there was a moderate tone of recovery amid factors that included signs of improving corporate earnings and rebounding capital investment. On the other hand, there was a mounting sense of uncertainty regarding the outlook amid developments such as a slowing rate of economic growth in emerging nations and unease in the global economy sparked by falling prices of crude oil.

Japan's consumer spending environment has been plagued by extremely harsh conditions. This is partially attributable to growing pressures on household budgets due to factors such as rising prices primarily of food items fueled by surging prices for imported raw materials brought about by the weakening yen, and furthermore attributable to slumping sales of heating equipment, winter clothing and other such items as a consequence of a warm winter season.

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 Home Center business during the fiscal year under review, we have been placing focus on our everyday low price ("EDLP") strategy which involves making merchandise available at affordable prices throughout the year to help enable our customers to live more comfortably. Merchandise targeted by our EDLP strategy achieved strong net sales, particularly consumables in respective product categories.

Established as part of restructuring initiatives implemented in April, our Product Development Department has been focusing its efforts on developing global private brand merchandise, while working to further enhance our product strengths.

Our large Power stores generated strong net sales, particularly in the “hardware, general materials and building materials” category. This was partially attributable to our efforts geared to boosting our product lineup of specialized merchandise tailored to needs of professionals, and also as a result of implementing a sweeping strategy on pricing.

Stores

The new store openings were 2 Power stores; 1 in each of Iwate Prefecture and Fukuoka Prefecture, 2 home centers; 1 in each of Aomori Prefecture and Saga Prefecture, and total 9 Hard & Green Stores in Tokyo and 6 prefectures. Of the new store openings, we got off to a solid start particularly with respect to store launches in the vicinity of Asahikawa City, Hokkaido Prefecture, of our Biei, Higashikawa and Tohma store locations, making these three sites the first Hard & Green Stores we have opened in the Hokkaido after having initially made full-scale entry into the region in December 2014. Additionally, 1 ATHENA store and 3 Hard & Green Stores were closed, 1 Hard & Green Store was converted into home center. As a result, the number of stores at the end of the fiscal year under review stood at 1,178 stores, consisting of 40 Power stores, 150 home centers, 975 Hard & Green Stores, and 13 ATHENA stores.

Consolidated operating results

	Year ended March 31, 2015	Year ended March 31, 2016	Year-on-year comparison (%)
Net sales (Millions of yen)	300,361	307,875	102.5
Number of stores	1,169	1,178	–
Number of stores newly opened	28	13	–

Operating results of Home Center line (by product line)

- Hardware, general materials and building materials

Sales of our EDLP merchandise were firm, particularly those of general and building material consumables purchased by construction industry professionals. Additionally, sales of renovation construction were firm. As a result, sales in this product line rose 4.9% year on year to 102,698 million yen.

- Gardening and agricultural goods

The year’s warm winter resulted in sluggish sales of snow removal items, but we achieved healthy sales of agricultural materials, fertilizers and agrichemicals for farmers due to efforts to promote our EDLP merchandise. As a result, sales in this product line rose 5.9% to 73,437 million yen.

- Household goods

Sales centered on daily consumables were also strong due to efforts to promote our EDLP strategy. As a result, sales in this product line rose 3.1% to 76,842 million yen.

- Office and leisure goods

Sales of furniture and storage cabinets languished, as did those of car goods due to the warm winter, but leisure goods and health & physical fitness goods generated strong sales. As a result, sales in this product line rose 2.9% to 43,898 million yen.

- Kerosene and other

Regarding net sales of kerosene, unit selling prices were discounted due to a fall in crude oil prices from December, which is the demand season. In addition, a mild winter led to stagnation in sales volume. As a result, sales in this product line fell 31.0% to 10,998 million yen.

Trend by product line

Product line	Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)		Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)		Year-on-year comparison (%)
	Net sales (Millions of yen)	Percentage (%)	Net sales (Millions of yen)	Percentage (%)	
Hardware, general materials and building materials	97,879	32.6	102,698	33.3	104.9
Gardening and agricultural goods	69,378	23.1	73,437	23.9	105.9
Household goods	74,516	24.8	76,842	24.9	103.1
Office and leisure goods	42,649	14.2	43,898	14.3	102.9
Kerosene and other	15,938	5.3	10,998	3.6	69.0
Home Center line total	300,361	100.0	307,875	100.0	102.5

Operating results of Other lines

- Logistics

  HOKUSEI SANGYO CO., LTD. operates distribution centers which function as the logistics bases of the Group. Since October 2014, in anticipation of expansion of the store network into Hokkaido, the Hokkaido Distribution Center has been in operation in Tomakomai City, Hokkaido Prefecture, becoming the Group's 10th distribution center in Japan. HOKUSEI SANGYO CO., LTD.'s operating revenue rose 3.9% year on year to 13,976 million yen.

- Information technology

  BIT-A CO., LTD. performs various information processing and computer software development, and its operating revenue fell 0.4% to 8,239 million yen.

- Credit cards

  KOMERI CAPITAL CO., LTD. performs credit card business, other contingent business and insurance agent business. In July, we began issuing new AQUA Card prepaid cards. In conjunction with the previously launched KOMERI Card, the total number of cardholders has been steadily on the rise. As a result, KOMERI CAPITAL CO., LTD.'s operating revenue rose 14.7% to 3,242 million yen.

Other businesses

LIFE KOMERI CO., LTD. sells liquefied petroleum gas, gasoline, kerosene, and related equipment. With Niigata Prefecture as its base, this company has expanded its network of sales offices into Nagano Prefecture.

MOVIE TIME CO., LTD. sells books, etc.

As a result of the above, operating revenue in the fiscal year under review rose 2.3% on a consolidated basis from the previous fiscal year to 324,343 million yen, operating income rose 11.3% to 17,928 million yen and ordinary profit rose 12.2% to 17,409 million yen. Net income attributable to owners of the parent rose 33.7% to 9,585 million yen, due to loss on impairment of fixed assets and adjustment of income taxes due to tax reform.

2) Outlook for the year ending March 31, 2017

Consolidated operating results

	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue (Millions of yen)	176,000	103.9%	339,000	104.5%
Operating income (Millions of yen)	12,100	107.7%	19,000	106.0%
Ordinary profit (Millions of yen)	12,000	108.9%	18,500	106.3%
Net income attributable to owners of the parent (Millions of yen)	7,800	110.6%	10,000	104.3%

Non-consolidated operating results

	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue (Millions of yen)	168,000	103.3%	323,000	104.0%
Operating income (Millions of yen)	9,400	109.7%	13,500	106.6%
Ordinary profit (Millions of yen)	9,700	110.6%	14,000	107.4%
Net income (Millions of yen)	6,400	112.4%	7,300	104.7%

With respect to our outlook for the year ending March 31, 2017, the sense of uncertainty regarding the Japanese economic outlook is still unlikely to subside given factors that include the slowing rate of emerging market growth and economic anxieties brought about by the worldwide downturn in resource prices.

Moreover, we are likely to face a harsh operating environment in the retail industry going forward, given a lack of signs that personal consumption may be gaining momentum amid a stalled Japanese economy.

Facing these circumstances, the Group will return to the basic focus of its business, which is to provide customers with good products at lower prices, and further promote its EDLP strategy, centering on the mainstay categories of (a) hardware, general materials and building materials and (b) gardening and agricultural goods. The Group will also work to strengthen its product knowledge and sales structure in order to meet the needs of a wide variety of customers, from professionals to general customers.

The Group plans to open a total of 20 new stores: 5 Power stores, 5 home centers, and 10 Hard & Green Stores.

Taking the above-mentioned circumstances into consideration, for the year ending March 31, 2017, on a consolidated basis, the Group expects operating revenue to rise 4.5% year on year to 339,000 million yen, operating income to rise 6.0% to 19,000 million yen, ordinary profit to rise 6.3% to 18,500 million yen and Net income attributable to owners of the parent to rise 4.3% to 10,000 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 4,367 million yen from the previous fiscal year-end to 305,496 million yen. This was mainly due to increases in trade notes and accounts receivable of 1,644 million yen and merchandise inventories of 2,924 million yen.

Liabilities decreased by 2,094 million yen from the previous fiscal year-end to 159,896 million yen. This was mainly due to a decrease in short-term bank loans of 11,000 million yen although there were increases in trade notes and accounts payable of 2,661 million yen and long-term debt including current portion of 6,583 million yen.

Net assets increased by 6,461 million yen from the previous fiscal year-end to 145,599 million yen. This was mainly due to an increase in retained earnings.

2) Consolidated cash flows

	Year ended March 31, 2015	Year ended March 31, 2016	Year-on-year comparison
Net cash provided by operating activities (Millions of yen)	14,900	21,834	6,934
Net cash used in investing activities (Millions of yen)	(17,088)	(12,875)	4,212
Net cash used in financing activities (Millions of yen)	(1,539)	(8,311)	(6,772)
Increase (decrease) in cash and cash equivalents (Millions of yen)	(3,719)	632	4,351
Cash and cash equivalents, end of year (Millions of yen)	8,996	9,628	632

Cash and cash equivalents (“cash”) at the end of the fiscal year under review totaled 9,628 million yen. Factors affecting cash flows include the followings:

(Net cash provided by operating activities)

Net cash provided by operating activities increased by 46.5% from the previous fiscal year to 21,834 million yen. The main sources of cash provided were income before income taxes of 15,229 million yen in addition to adjustments for depreciation of 11,686 million yen. The main reasons for cash usage were an increase in inventories of 3,127 million yen and an increase in trade notes and accounts receivable of 1,644 million yen.

(Net cash used in investing activities)

Net cash used in investing activities decreased 24.7% from the previous fiscal year to 12,875 million yen. The main reason for cash usage was the purchases of property, plant and equipment.

(Net cash used in financing activities)

Net cash used in financing activities increased 440.0% from the previous fiscal year to 8,311 million yen. The main source of cash provided was proceeds from long-term debt of 23,000 million yen and the main reasons for cash usage were decreases in short-term bank loans of 11,000 million yen, 16,416 million yen used for repayments of long-term debt and dividends paid of 1,821 million yen.

Trends in cash flow indices

	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016
Equity ratio (%)	45.3	46.1	45.0	46.1	47.6
Equity ratio based on market prices (%)	46.5	51.8	48.0	47.6	38.1
Years required to redeem liabilities (years)	3.8	4.0	3.5	5.5	3.5
Interest coverage ratio (times)	26.4	29.3	42.4	32.8	53.9

(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.

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 28, 2015. 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 38 yen per share, consisting of an interim dividend of 19 yen per share, an increase of 1 yen over the previous year, and a year-end dividend of 19 yen per share, an increase of 1 yen over the previous year.

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 leverages its strengths in business areas normally handled by home centers such as those involving building materials, hardware and agricultural materials, and is also working to modernize obsolete distribution systems in such areas of business.

(2) Target management indices

The Group is targeting the goals of achieving "33.3% labor's share, 10% ROA, and 10% ROE" and is striving to increase productivity of both our people and our capital.

As of the end of the fiscal year under review, ROA and ROE stood at 5.7% and 6.7%, respectively.

(3) The medium-to-long-term management strategy

Over the three years beginning with the fiscal year ending March 31, 2017, we will work to heighten the productivity of both our people and our capital, and will take steps to establish a business infrastructure geared to attaining further growth, as we aim to achieve the Group's target management indices of "33.3% labor's share, 10% ROA, and 10% ROE."

For details, please refer to "Notice Concerning Formulation of the Komeri Group's Medium-Term Management Plan," which was released on April 26, 2016.

(4) Issues to be addressed

The environment surrounding the Group is forecast to become increasingly difficult, characterized by the shrinkage in the market due to declines in the population and the number of households, and by the intensified 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 differentiate ourselves from our competitors by strengthening merchandise development and the marketing system to an even higher level.

Under our strategy for new store openings, we will work to establish geographic areas of market dominance by launching stores under a "clustered store development strategy" which hinges on store formats specifically tailored to conditions in regional markets where we launch new stores.

In addition, the Group aims 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.

(5) Other significant matters related to management

Responsibilities as a corporate citizen

The Group established the Komeri Greenery Fund in 1990. Over the 26 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 20,000 Group's employees have worked on over 11,200 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. It marked ten years in September since its establishment.

In preparation for future natural disasters, the Group has entered into 692 agreements mainly with local governments and associations in 46 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.

3. Basic rationale for selecting the accounting standard

As the Company is currently engaged in business within Japan, among other reasons, the Company's policy in the immediate term is to prepare its consolidated financial statements on the basis of Japanese GAAP.

The Company intends to examine the application of International Financial Reporting Standards (IFRS) in consideration of such factors as future business development and trends in Japan and overseas.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2016, 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, 2016, 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, 2016, 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 15, 2016

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2016

ASSETS	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 9,628	¥ 8,996	$ 85,439
Marketable securities (Notes 4 and 14)	3	4	31
Short-term investments (Notes 3 and 14)	314	314	2,790
Receivables (Notes 14 and 20):			
Trade notes and accounts	15,616	13,948	138,574
Allowance for doubtful receivables	(216)	(200)	(1,916)
Inventories (Note 5)	106,848	103,909	948,155
Deferred tax assets (Note 12)	1,134	1,650	10,064
Prepaid expenses and other current assets (Note 20)	5,086	5,226	45,133
Total current assets	138,413	133,847	1,228,270
PROPERTY, PLANT, AND EQUIPMENT (Notes 6 and 7):			
Land	29,309	29,197	260,086
Buildings and structures	197,779	194,412	1,755,067
Machinery and equipment	13,063	12,466	115,920
Lease assets (Note 13)	11,231	12,208	99,661
Construction in progress	3,829	1,672	33,979
Other	12,889	12,495	114,372
Total	268,100	262,450	2,379,085
Accumulated depreciation	(126,987)	(119,580)	(1,126,869)
Net property, plant, and equipment	141,113	142,870	1,252,216
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	1,221	498	10,833
Investments in unconsolidated subsidiaries	315	315	2,799
Intangible assets	7,140	7,085	63,364
Leasehold deposits (Note 20)	9,334	9,142	82,825
Deferred tax assets (Note 12)	6,673	5,875	59,213
Other assets	1,287	1,496	11,423
Total investments and other assets	25,970	24,411	230,457
TOTAL	¥ 305,496	¥ 301,128	$ 2,710,943

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 14)	¥ 18,700	¥ 29,700	$ 165,942
Current portion of long-term debt (Notes 7 and 14)	9,009	10,766	79,943
Payables (Notes 14 and 15):			
Trade notes and accounts	48,511	45,849	430,480
Construction and other	9,948	12,118	88,281
Income taxes payable (Note 14)	2,837	2,243	25,174
Accrued expenses	2,230	2,222	19,790
Liability for obligations to customers	462	779	4,100
Provision for losses from a natural disaster	1	1	10
Provision for directors' retirement benefits (Note 8)		1,301	
Other current liabilities	3,158	2,027	28,023
Total current liabilities	94,856	107,006	841,743
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	48,382	40,759	429,336
Liability for retirement benefits (Note 8)	9,582	7,618	85,030
Retirement benefits for directors and Audit & Supervisory Board members (Note 8)	179	180	1,585
Asset retirement obligations (Note 9)	4,526	4,288	40,160
Lease deposits from lessees	1,655	1,677	14,683
Deferred tax liabilities (Note 12)	123	173	1,088
Other long-term liabilities	594	289	5,279
Total long-term liabilities	65,041	54,984	577,161
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 2016 and 2015	18,802	18,802	166,848
Capital surplus	25,260	25,260	224,157
Stock acquisition rights (Note 11)	98	209	870
Retained earnings	111,776	104,025	991,894
Treasury stock—at cost, 3,764,682 shares in 2016 and 3,826,072 shares in 2015	(9,145)	(9,293)	(81,153)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	61	127	541
Deferred gain (loss) on derivatives under hedge accounting	(101)	336	(893)
Defined retirement benefit plans	(1,152)	(328)	(10,225)
Total equity	145,599	139,138	1,292,039
TOTAL	¥ 305,496	¥ 301,128	$ 2,710,943

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
REVENUES:			
Net sales (Note 20)	¥ 313,177	¥ 306,370	$ 2,779,103
Other operating revenues	11,167	10,599	99,092
Total revenues	324,344	316,969	2,878,195
COST OF SALES	212,498	207,222	1,885,683
Gross profit	111,846	109,747	992,512
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 20)	93,918	93,639	833,416
Operating income	17,928	16,108	159,096
OTHER INCOME (EXPENSES):			
Interest and dividend income	48	40	424
Interest expense	(406)	(457)	(3,602)
Loss on disposal of property, plant, and equipment	(174)	(519)	(1,552)
Loss on impairment of long-lived assets (Note 6)	(1,974)	(2,749)	(17,521)
Losses from a natural disaster	(388)		(3,443)
Expenses for director's retirement benefits		(520)	
Other—net	195	146	1,740
Other expenses—net	(2,699)	(4,059)	(23,954)
INCOME BEFORE INCOME TAXES	15,229	12,049	135,142
INCOME TAXES (Note 12):			
Current	5,385	5,479	47,784
Deferred	259	(601)	2,294
Total income taxes	5,644	4,878	50,078
NET INCOME	9,585	7,171	85,064
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 9,585	¥ 7,171	$ 85,064
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.q and 17):			
Basic net income	¥ 189.33	¥ 141.44	$ 1.68
Diluted net income	189.11	141.18	1.68
Cash dividends applicable to the year	36.00	36.00	0.32

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	¥ 9,585	¥ 7,171	$ 85,064
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized gain (loss) on available-for-sale securities	(66)	54	(582)
Deferred gain (loss) on derivatives under hedge accounting	(437)	68	(3,882)
Defined retirement benefit plans	(824)	22	(7,311)
Total other comprehensive income (loss)	(1,327)	144	(11,775)
COMPREHENSIVE INCOME	¥ 8,258	¥ 7,315	$ 73,289
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 8,258	¥ 7,315	$ 73,289
Noncontrolling interests			

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2016

	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 Plans	Total	Total Equity
BALANCE, APRIL 1, 2014 (as previously reported)	50,783,621	¥ 18,802	¥ 25,260	¥ 163	¥ 98,405	¥ (8,799)	¥ 73	¥ 268	¥ (350)	¥ (9)	¥ 133,822
Cumulative effect of accounting change					277						277
BALANCE, APRIL 1, 2014 (as restated)	50,783,621	18,802	25,260	163	98,682	(8,799)	73	268	(350)	(9)	134,099
Net income attributable to owners of the parent					7,171						7,171
Cash dividends, ¥36 per share					(1,828)						(1,828)
Purchase of treasury stock	(200,600)					(495)					(495)
Disposal of treasury stock	75					1					1
Issuance of stock acquisition rights				46							46
Net change in the year							54	68	22	144	144
BALANCE, MARCH 31, 2015	50,583,096	18,802	25,260	209	104,025	(9,293)	127	336	(328)	135	139,138
Net income attributable to owners of the parent					9,585						9,585
Cash dividends, ¥36 per share					(1,822)						(1,822)
Purchase of treasury stock	(810)					(3)					(3)
Disposal of treasury stock	62,200				(12)	151					139
Exercise of stock acquisition rights				(111)							(111)
Net change in the year							(66)	(437)	(824)	(1,327)	(1,327)
BALANCE, MARCH 31, 2016	50,644,486	¥ 18,802	¥ 25,260	¥ 98	¥ 111,776	¥ (9,145)	¥ 61	¥ (101)	¥ (1,152)	¥ (1,192)	¥ 145,599

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2016

	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 Plans	Total	Total Equity
BALANCE, MARCH 31, 2015	$ 166,848	$ 224,157	$ 1,859	$ 923,109	$ (82,475)	$ 1,123	$ 2,989	$ (2,914)	$ 1,198	$ 1,234,696
Net income attributable to owners of the parent				85,064						85,064
Cash dividends, $0.32 per share				(16,169)						(16,169)
Purchase of treasury stock					(19)					(19)
Disposal of treasury stock				(110)	1,341					1,231
Exercise of stock acquisition rights			(989)							(989)
Net change in the year						(582)	(3,882)	(7,311)	(11,775)	(11,775)
BALANCE, MARCH 31, 2016	$ 166,848	$ 224,157	$ 870	$ 991,894	$ (81,153)	$ 541	$ (893)	$ (10,225)	$ (10,577)	$ 1,292,039

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 15,229	¥ 12,049	$ 135,142
Adjustments for:			
Income taxes—paid	(4,963)	(6,953)	(44,039)
Depreciation	11,687	12,123	103,707
Loss on impairment of long-lived assets	1,974	2,749	17,521
Loss on valuation of derivatives	301		2,670
Loss on disposal of property, plant, and equipment	172	519	1,529
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	(1,644)	478	(14,592)
Decrease in provision for losses from a natural disaster		(8)	
Increase in inventories	(3,128)	(4,800)	(27,755)
Increase (decrease) in trade notes and accounts payable	2,662	(4,891)	23,619
Increase in liability for retirement benefits	792	766	7,024
Increase (decrease) in retirement benefits for directors and Audit & Supervisory Board members	(1,303)	520	(11,562)
Increase (decrease) in accrued consumption taxes	(564)	1,618	(5,005)
Other—net	619	730	5,500
Total adjustments	6,605	2,851	58,617
Net cash provided by operating activities	21,834	14,900	193,759
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(11,145)	(15,310)	(98,901)
Purchase of intangible assets	(612)	(754)	(5,429)
Purchase of investment securities	(823)		(7,306)
Other—net	(295)	(1,024)	(2,619)
Net cash used in investing activities	(12,875)	(17,088)	(114,255)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(11,000)	(10,650)	(97,613)
Proceeds from long-term debt	23,000	21,000	204,100
Repayments of long-term debt	(18,488)	(9,569)	(164,066)
Repurchase of treasury stock	(3)	(495)	(19)
Dividends paid	(1,821)	(1,826)	(16,161)
Disposal of treasury stock		1	
Net cash used in financing activities	(8,312)	(1,539)	(73,759)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(15)	7	(136)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 632	¥ (3,720)	$ 5,609

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 632	¥ (3,720)	$ 5,609
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,996	12,716	79,830
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,628	¥ 8,996	$ 85,439

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 which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥112 to $1, the approximate rate of exchange at March 31, 2016. 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, 2016, include the accounts of the Company and its five significant (five in 2015) 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 (six in 2015) 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. Business Combinations—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(*a*) *Transactions with noncontrolling interest*—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(*b*) *Presentation of the consolidated balance sheet*—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(*c*) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(*d*) *Acquisition-related costs*—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (d) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (d) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (d) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

c. ***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 that mature or become due within three months of the date of acquisition.

d. ***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.

e. ***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.

f. ***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.

g. ***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.

h. ***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 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.

i. ***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 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.

j. ***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.

k. ***Stock Options***—In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and 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 non-employees based on the fair value of either the stock options or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

l. ***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.

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.

m. ***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.

n. ***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.

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, currency options (which substantially function as foreign exchange forward contracts) and interest rate swaps 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.

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

Diluted EPS reflects the potential dilution that could occur if stock options were exercised.

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

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Time deposits	¥ 314	¥ 314	$ 2,790
Total	¥ 314	¥ 314	$ 2,790

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current—Trust fund investments and other	¥ 3	¥ 4	$ 31
Total	¥ 3	¥ 4	$ 31
Non-current:			
Marketable equity securities	¥ 1,109	¥ 484	$ 9,836
Corporate bond	100		887
Trust fund investments and other	12	14	110
Total	¥ 1,221	¥ 498	$ 10,833

The costs and aggregate fair values of marketable and investment securities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,004	¥ 123	¥ 59	¥ 1,068
Trust fund investments	12			12
Held-to-maturity	100			100
March 31, 2015				
Securities classified as available-for-sale:				
Equity securities	¥280	¥ 163		¥443
Trust fund investments	12	2		14

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale				
Equity securities	$ 8,908	$ 1,095	$ 525	$ 9,478
Trust fund investments	108	2		110
Held-to-maturity	887			887

5. INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Merchandise	¥ 106,661	¥ 103,736	$ 946,497
Supplies	187	173	1,658
Total	¥ 106,848	¥ 103,909	$ 948,155

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2016. As a result, the Group recognized an impairment loss of ¥1,974 million ($17,521 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 ¥1,517 million ($13,466 thousand) for buildings and structures and ¥457 million ($4,055 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 4%.

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

Short-term bank loans at March 31, 2016 and 2015, consisted of notes to banks. The annual weighted-average interest rate applicable to the short-term bank loans was 0.29% and 0.36% at March 31, 2016 and 2015, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans from banks and other financial institutions, due serially through 2021 with weighted-average interest rates of 0.26% (2016) and 0.25% (2015)—Unsecured	¥ 51,639	¥ 45,056	$ 458,240
Obligations under finance leases	5,752	6,469	51,039
Total	57,391	51,525	509,279
Less current portion	(9,009)	(10,766)	(79,943)
Long-term debt, less current portion	¥ 48,382	¥ 40,759	$ 429,336

Annual maturities of long-term debt at March 31, 2016, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 9,009	$ 79,943
2018	4,990	44,277
2019	17,333	153,812
2020	11,982	106,331
2021	3,574	31,713
2022 and thereafter	10,503	93,203
Total	¥ 57,391	$ 509,279

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥170 million ($1,509 thousand) at March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant, and equipment—net of accumulated depreciation	¥ 153	$ 1,356

As is customary in Japan, the Company maintains substantial deposit balances with banks which it has borrowings. Such deposit balances are not legally or contractually restricted 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, 2016, for directors and Audit & Supervisory Board members was ¥179 million ($1,585 thousand). The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders or Board of Directors.

(1) The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 7,618	¥ 7,336	$ 67,598
Cumulative effect of accounting change		(429)	
Balance at beginning of year (as restated)	7,618	6,907	67,598
Current service cost	825	783	7,318
Interest cost	94	85	837
Actuarial losses	1,362	170	12,087
Benefits paid	(317)	(327)	(2,810)
Balance at end of year	¥ 9,582	¥ 7,618	$ 85,030

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unfunded defined benefit obligation	¥ 9,582	¥ 7,618	$ 85,030
Net liability for defined benefit obligation	¥ 9,582	¥ 7,618	$ 85,030

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 9,582	¥ 7,618	$ 85,030
Net liability for defined benefit obligation	¥ 9,582	¥ 7,618	$ 85,030

(3) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 825	¥ 783	$ 7,319
Interest cost	94	85	837
Recognized actuarial losses	189	225	1,679
Net periodic benefit costs	¥ 1,108	¥ 1,093	$ 9,835

(4) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses	¥ 1,658	¥ 485	$ 14,716
Total	¥ 1,658	¥ 485	$ 14,716

(5) Assumptions used for the years ended March 31, 2016 and 2015, are set forth as follows:

	2016	2015
Discount rate	0.2 %	1.3 %
Expected rate of increase in salary	2.3	2.3

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 4,306	¥ 3,945	$ 38,210
Additional provisions associated with the acquisition of property, plant, and equipment	166	274	1,475
Reconciliation associated with passage of time	91	87	813
Reduction associated with settlement of asset retirement obligations	(12)		(111)
Balance at end of year	¥ 4,551	¥ 4,306	$ 40,387

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. Additionally, 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 being prescribed as one year rather than the normal two-year 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 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 within equity under certain conditions upon resolution by 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, 2016, 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
2014 Stock Option	9 directors	18,100 shares	July 15, 2014	¥1 ($0)	From July 16, 2014 to July 15, 2044
2015 Stock Option	7 directors	8,000 shares	July 14, 2015	¥1 ($0)	From July 15, 2015 to July 14, 2045

The stock option activity is as follows:

	2011 Stock Option	2012 Stock Option	2013 Stock Option (Shares)	2014 Stock Option	2015 Stock Option
Year Ended March 31, 2015					
Nonvested					
April 1, 2014—Outstanding	38,400	23,100	19,200		
Granted				18,100	
Canceled					
Vested	(38,400)	(23,100)	(19,200)		
March 31, 2015—Outstanding				18,100	
Vested					
April 1, 2014—Outstanding					
Vested	38,400	23,100	19,200		
Exercised					
Canceled					
March 31, 2015—Outstanding	38,400	23,100	19,200		
Year Ended March 31, 2016					
Nonvested					
March 31, 2015—Outstanding				18,100	
Granted					8,000
Canceled					
Vested				(18,100)	(8,000)
March 31, 2016—Outstanding					
Vested					
March 31, 2015—Outstanding	38,400	23,100	19,200		
Vested				18,100	8,000
Exercised	(25,300)	(14,300)	(12,000)	(10,600)	
Canceled					
March 31, 2016—Outstanding	13,100	8,800	7,200	7,500	8,000
Exercise price	¥1 ($0)	¥1 ($0)	¥1 ($0)	¥1 ($0)	¥1 ($0)
Average stock price at exercise	¥2,847 ($25.3)	¥2,847 ($25.3)	¥2,847 ($25.3)	¥2,847 ($25.3)	
Fair value price at grant date	¥2,155 ($19.1)	¥1,998 ($17.8)	¥2,442 ($21.5)	¥2,507 ($22.3)	¥2,656 ($23.6)

The Assumptions Used to Measure the Fair Value of the 2015 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	28.1%
Estimated remaining outstanding period:	0.96 years
Estimated dividend:	¥36 per share
Risk-free interest rate:	0.026%

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in normal effective statutory tax rates of approximately 33% and 35% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Loss on impairment	¥ 3,525	¥ 3,452	$ 31,280
Accrued enterprise taxes	237	198	2,106
Accrued bonuses	592	638	5,250
Liabilities for retirement benefits	2,925	2,449	25,957
Retirement benefits for directors and Audit & Supervisory Board members	54	485	483
Asset retirement obligation	1,386	1,381	12,302
Tax loss carryforwards	286	409	2,535
Other	976	1,176	8,659
Less valuation allowance	(706)	(720)	(6,265)
Total	9,275	9,468	82,307
Deferred tax liabilities:			
Property and equipment	(729)	(1,029)	(6,467)
Expense from asset retirement obligation	(713)	(733)	(6,329)
Other	(149)	(354)	(1,322)
Total	(1,591)	(2,116)	(14,118)
Net deferred tax assets	¥ 7,684	¥ 7,352	$ 68,189

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, 2016, with the corresponding figures for 2015 is as follows:

	2016	2015
Normal effective statutory tax rate	33%	35%
Per capita portion	3	4
Valuation allowance	0	(3)
Effect of tax rate reduction	3	6
Effect of reduction of income tax rates on deferred tax assets	(2)	(2)
Other—net	0	1
Actual effective tax rate	37%	41%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 31%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities in the consolidated balance sheet as of March 31, 2016, by ¥384 million ($3,405 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥357 million ($3,167 thousand).

At March 31, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥934 million ($8,291 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	¥ 10	$ 87
2019	16	145
2020	520	4,613
2021	371	3,297
2022	17	149
Total	¥ 934	$ 8,291

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, 2016 and 2015, was ¥13,328 million ($118,268 thousand) and ¥13,227 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 802	¥ 806	$ 7,116
Due after one year	2,391	2,424	21,221
Total	¥ 3,193	¥ 3,230	$ 28,337

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 held-to-maturity securities and 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 19 years after the balance sheet date. The purpose of bank loans and lease obligations is the financing of capital investments.

Derivatives mainly include forward foreign currency contracts, currency swaps, currency options and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of payables, and from 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, 2016.

Market risk management

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, through adequate financial planning by the corporate treasury department.

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

Fair values of financial instruments are based on quoted prices 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, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 9,628	¥ 9,628	
Short-term investments	314	314	
Receivables	15,400	15,400	
Marketable and investment securities	1,180	1,180	
Total	¥ 26,522	¥ 26,522	
Short-term bank loans	¥ 18,700	¥ 18,700	
Payables	58,459	58,459	
Income taxes payable	2,837	2,837	
Long-term debt	57,391	57,514	¥ 123
Total	¥ 137,387	¥ 137,510	¥ 123
March 31, 2015			
Cash and cash equivalents	¥ 8,996	¥ 8,996	
Short-term investments	314	314	
Receivables	13,748	13,748	
Marketable and investment securities	457	457	
Total	¥ 23,515	¥ 23,515	
Short-term bank loans	¥ 29,700	¥ 29,700	
Payables	57,967	57,967	
Income taxes payable	2,243	2,243	
Long-term debt	51,525	51,535	¥ 10
Total	¥ 141,435	¥ 141,445	¥ 10

	Thousands of U.S. Dollars		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 85,439	$ 85,439	
Short-term investments	2,790	2,790	
Receivables	136,658	136,658	
Marketable and investment securities	10,474	10,474	
Total	$ 235,361	$ 235,361	
Short-term bank loans	$ 165,942	$ 165,942	
Payables	518,761	518,761	
Income taxes payable	25,174	25,174	
Long-term debt	509,279	510,372	$ 1,093
Total	$ 1,219,156	$ 1,220,249	$ 1,093

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. Fair value information for marketable and investment securities by classification is included in Note 4.

Short-Term Bank Loans, Payables, and Income Taxes Payable

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

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
	2016	2015	2016
Investments in equity instruments that do not have a quoted market price in an active market	¥ 44	¥ 45	$ 390

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

	Millions of Yen			
March 31, 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	¥ 5,924			
Short-term investments	314			
Receivables	15,400			
Investment securities—available-for-sale securities with contractual maturities		¥ 12		
Total	¥ 21,638	¥ 12		

March 31, 2016	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	$ 52,572			
Short-term investments	2,790			
Receivables	136,658			
Investment securities—available-for-sale securities with contractual maturities		$ 110		
Total	$ 192,020	$ 110		

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

15. DERIVATIVES

The Group enters into derivative transactions, including foreign currency forward contracts, currency swaps and currency options to hedge foreign exchange risk associated with a portion of imported goods. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to the derivatives 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 Not Applied

March 31, 2016	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Currency options—selling U.S.$ (put), buying U.S.$ (call)	¥ 2,986	¥ 1,551	¥ (190)	¥ (190)
Interest rate swaps (fixed rate payment, floating rate receipt)	7,000	7,000	(111)	(111)

March 31, 2016	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Currency options—selling U.S.$ (put), buying U.S.$ (call)	$ 26,494	$ 13,766	$ (1,686)	$ (1,686)
Interest rate swaps (fixed rate payment, floating rate receipt)	62,117	62,117	(985)	(985)

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen		
March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign exchange forward contracts	Payables	¥ 254		¥ 27
Currency options	Payables	7,202	¥ 2,806	(172)
March 31, 2015				
Foreign exchange forward contracts	Payables	¥ 694	¥ 254	¥ 96
Currency options	Payables	7,716	4,043	404

		Thousands of U.S. Dollars		
March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign exchange forward contracts	Payables	$ 2,250		$ 238
Currency options	Payables	63,907	$ 24,903	(1,526)

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

The contract or notional amounts of derivatives that 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. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (100)	¥ 77	$ (890)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(100)	77	(890)
Income tax effect	34	(23)	308
Total	¥ (66)	¥ 54	$ (582)
Deferred gain (loss) on derivatives under hedge accounting:			
Losses arising during the year	¥ (777)	¥ (46)	$ (6,898)
Reclassification adjustments to profit or loss	133	130	1,178
Amount before income tax effect	(644)	84	(5,720)
Income tax effect	207	(16)	1,838
Total	¥ (437)	¥ 68	$ (3,882)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (1,362)	¥ (169)	$ (12,087)
Reclassification adjustments to profit or loss	189	225	1,679
Amount before income tax effect	(1,173)	56	(10,408)
Income tax effect	349	(34)	3,097
Total	¥ (824)	¥ 22	$ (7,311)
Total other comprehensive income	¥ (1,327)	¥ 144	$ (11,775)

17. EPS

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2016 and 2015, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2016	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 9,585	50,630	¥ 189.33	$ 1.68
Effect of dilutive securities—Stock option rights		57		
Diluted EPS—Net income for computation	¥ 9,585	50,687	¥ 189.11	$ 1.68

Year Ended March 31, 2015	Millions of Yen Net Income Attributable to Owners of the Parent	Thousands of Shares Weighted-Average Shares	Yen EPS
Basic EPS—Net income available to common shareholders	¥ 7,171	50,705	¥ 141.44
Effect of dilutive securities—Stock option rights		90	
Diluted EPS—Net income for computation	¥ 7,171	50,795	¥ 141.18

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Board of Directors' meeting held on May 17, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥18 ($0.16) per share	¥ 912	$ 8,089

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				
	2016				
	Reportable Segment				
	The Business to Sell Hardware, Gardening Tools, Etc.	Other	Total	Reconcil-iations	Consol-idated
Impairment losses of assets	¥ 1,974		¥ 1,974		¥ 1,974

	Millions of Yen				
	2015				
	Reportable Segment				
	The Business to Sell Hardware, Gardening Tools, Etc.	Other	Total	Reconcil-iations	Consol-idated
Impairment losses of assets	¥ 2,739	¥ 10	¥ 2,749		¥ 2,749

	Thousands of U.S. Dollars				
	2016				
	Reportable Segment				
	The Business to Sell Hardware, Gardening Tools, Etc.	Other	Total	Reconcil-iations	Consol-idated
Impairment losses of assets	$ 17,521		$ 17,521		$ 17,521

20. RELATED-PARTY DISCLOSURES

Transactions of the Company with directors for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Sales	¥ 18	¥ 47	$ 168
Rental expense	32	34	287
Commission fee	11		100

The balances due to or from directors at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Accounts receivable	¥1	¥9	$ 9
Prepaid expense	3	3	23
Leasehold deposits	9	9	81

* * * * * *