Financial Section 2013

Contents

Consolidated Six-Year Summary

AUTOBACS SEVEN Co., Ltd. and Subsidiaries

Fiscal year ended on March 31 for each displayed year	2013	2012	2011	2010	2009	2008
	Millions of yen, except per share data					
FISCAL YEAR						
Net sales:						
Tires and wheels	**¥56,351**	¥55,348	¥51,416	¥47,954	¥52,587	¥52,485
Car electronics	**44,490**	58,135	59,849	63,994	63,708	66,900
Oil and batteries	**25,568**	24,406	24,566	24,246	26,334	25,456
Car exterior goods	**24,054**	23,000	23,868	22,350	28,458	30,538
Car interior goods	**23,481**	21,735	21,540	21,071	23,674	25,070
Motor sports goods	**14,040**	13,516	14,451	15,377	17,383	19,733
Services	**19,249**	18,462	17,506	16,856	18,472	18,065
Others	**22,931**	22,736	23,155	21,089	28,528	28,182
Total	**230,168**	237,343	236,351	232,937	259,144	266,430
Operating income	**12,745**	13,721	11,989	10,171	5,090	6,937
Income (loss) before income taxes and minority interests	**13,915**	15,217	11,501	10,575	(3,938)	4,972
Net income (loss)	**7,590**	8,403	6,180	5,866	(3,398)	1,467
Dividends paid	**¥4,762**	¥4,706	¥4,555	¥4,023	¥4,547	¥2,294
Consolidated dividend payout ratio	**64.0**	57.3	75.9	77.2%	–	260.6%
Return (loss) on sales	**3.3%**	3.5%	2.6%	2.5%	(1.3%)	0.6%
Return (loss) on equity	**5.3%**	5.7%	4.1%	3.8%	(2.1%)	0.9%
Return (loss) on assets	**3.7%**	3.9%	3.0%	2.7%	(1.5%)	0.6%
Per share data (Yen):						
Basic net income (loss) *	**¥81.22**	¥84.28	¥59.32	¥53.99	¥(30.10)	¥12.79
Cash dividends	**156.00**	145.00	135.00	125.00	100.00	100.00
Net cash provided by (used in) operating activities	**¥10,741**	¥20,845	¥15,375	¥18,949	¥7,028	¥(646)
Net cash (used in) provided by investing activities	**(4,523)**	(10,156)	(5,002)	(4,694)	4,543	(7,993)
Net cash (used in) provided by financing activities	**(14,862)**	(11,574)	(11,790)	(12,187)	(9,259)	(729)
Capital expenditures	**6,249**	7,691	3,187	3,061	4,870	9,753
Depreciation and amortization	**5,194**	4,644	4,798	5,207	6,347	7,463
AT YEAR-END						
Cash and cash equivalents	**42,833**	51,402	¥52,317	¥53,786	¥51,749	¥49,637
Current assets	**127,203**	141,612	133,031	133,883	136,968	117,407
Current liabilities	**45,021**	55,650	40,649	41,521	44,842	43,571
Current ratio	**282.5%**	254.5%	327.3%	322.4%	305.4%	269.5%
Total assets	**205,527**	217,949	207,795	210,652	224,168	234,126
Equity	**142,862**	145,626	147,505	151,397	154,763	164,336
Equity ratio	**69.5%**	66.8%	71.0%	71.9%	69.0%	70.2%
Total number of stores	**579**	557	538	537	634	640
Of which, overseas stores	**27**	27	25	26	116	117
Number of employees	**4,678**	4,469	4,459	4,483	5,933	6,492

*The Company conducted a 1:3 stock split on common stock, with an effective date of April 1, 2013. Net income per share data has been calculated by number of shares outstanding (excluding treasury stock) after taking into account the 1:3 stock split on common stock.

Review of Fiscal 2013

OPERATIONAL REVIEW

THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group (“the Group”) consists of AUTOBACS SEVEN Co., Ltd. (“the Company”), 35 subsidiaries, and 7 affiliates accounted for by the equity method. The Group is mainly engaged in the wholesale and retail sales of automotive goods and accessories in Japan and other countries, as well as safety inspection and maintenance services, purchase and sales of automobiles, and loan and credit services. The Group also provides services for franchisee companies, including money-lending, store equipment leasing, consulting, back-office agency work, and IT support, as well as casualty insurance services.

In the automotive goods business, the Group’s main store brands are AUTOBACS, Super AUTOBACS, AUTO HELLOES, AUTOBACS Secohan Ichiba, and AUTOBACS EXPRESS. In the automobile purchase and sales business, its brand is AUTOBACS CARS. In October 2012, the AUTO HELLOES brand was integrated with the AUTOBACS brand.

Sales by Business Category

The Group generates revenue through three business categories: wholesale operations, retail operations, and others.

• Wholesale Operations

In wholesale operations, the Group generates revenue primarily from wholesale of automotive goods to franchisees and royalties paid by franchisees.

• Retail Operations

In retail operations, revenue is generated primarily through the sale of goods and services at stores that are managed directly by the Company or by its consolidated subsidiaries.

• Others

Revenue in this segment includes rental income from the lease of real estate and equipment to franchisees.

	Stores			
	2013		2012	
Stores included in consolidation (retail operations)				
Directly managed stores	**10**		12	
Consolidated subsidiaries (of which, overseas)	**164**	**(18)**	155	(18)
Subtotal	**174**		167	
Stores not included in consolidation				
Stores managed by franchisees, including stores of affiliates (of which, overseas)	**405**	**(9)**	390	(9)
Total stores (of which, overseas)	**579**	**(27)**	557	(27)

Franchise System

• Franchise Contracts

As the headquarters for franchisees, the Company grants franchisees the rights to use its trade name and corporate image and provides management know-how and infrastructure needed for store operations. In return, franchisees pay the Company royalties. Franchisees manage operations based on support and guidance from the headquarters. The aim of the franchise contracts is to ensure the mutual prosperity of the Company and franchisees.

• Royalties

Franchisees pay a fixed portion of their store sales to the Company. The fixed rate is 1.0% for main formats AUTOBACS, Super AUTOBACS, and AUTO HELLOES.

• Store Land and Buildings

Much of the land and buildings occupied by the entire AUTOBACS Chain (“the Chain”) are not owned by the Company. In many cases, the franchisee or the landowner constructs a building on the land, and the property is then rented by the franchisee or the Company under a rental agreement. In cases where the landowner constructs the building, the Company provides a rental deposit to the landowner. This is because buildings constructed to AUTOBACS’ specifications cannot easily be adapted for other purposes. (For more details, please see Rental Deposits on page 8.)

Sales by Store Type in Japan

		¥ million; Stores 2013	2012
AUTOBACS	Sales	**192,426**	194,136
	Stores	**455**	430
Super AUTOBACS	Sales	**76,936**	81,649
	Stores	**76**	76
AUTO HELLOES	Sales	**30**	350
	Stores	**0**	1
AUTOBACS CARS	Sales	**17,276**	16,523
	Stores	**244**	175
AUTOBACS Secohan Ichiba	Sales	**2,016**	2,430
	Stores	**14**	18
AUTOBACS EXPRESS	Sales	**3,113**	2,453
	Stores	**7**	5
Total Sales	Sales	**291,797**	297,542
	Stores	**452**	530

Analysis of Operating Environment

Japan's market for automotive goods and services has been shrinking since around fiscal 1997. It is estimated that retail sales in this market totaled ¥3,057 billion in fiscal 1997. In the year ended March 31, 2012, retail sales fell to ¥1,838.4 billion*. This market shrinkage has stemmed mainly from increased efforts by automakers to offer new vehicles with various equipment and accessories as standard features, as well as falling sales prices of car electronics goods. In recent years, moreover, the market for after-market wheels and motor sports goods has been declining, due mainly to young people losing interest in cars.

* Reference: AM+NETWORK, August 2001 and August 2012 issues. Data for fiscal 2013 could not be obtained because publication was stopped.

FISCAL 2012—OVERVIEW AND ACHIEVEMENTS

Performance Overview

Domestic consumption of automotive goods and services during fiscal 2013, the fiscal year ended March 31, 2013, generally rose in line with demand, buoyed by an increased number of new cars sold, mainly light automobiles and hybrid vehicles, encouraged by government subsidies for the purchase of fuel efficient vehicles. Even after the termination of the subsidies, demand for goods such as snow tires and tire chains remained strong, supported by the effects of cold weather nationwide and snowfall in the Kanto region. However, unit prices of car navigation devices declined as demand for car navigation devices and tuners for automobiles fell back after surging in the previous fiscal year with the changeover to terrestrial digital television broadcasting. Prices also reflected a more competitive environment, especially with car dealers among the market participants.

In this business environment, the Company focused its efforts on measures guided by the AUTOBACS 2010 Medium-Term Business Plan. The plan aims to increase store profitability and market share as the core of its business strategy.

•Overview of the Domestic AUTOBACS Chain Business

Overall sales of the businesses of the Chain in Japan decreased 4.5% year on year on a same-store basis and 2.0% on a total-store basis. Meanwhile, the number of customers visiting stores rose 0.5% on a same-store basis due to the effects of store reforms and customer service training, which the Group had been undertaking as part of the AUTOBACS 2010 Medium-Term Business Plan.

In "automotive goods," sales of tires, wheels, interior accessories, car washing supplies and other goods performed well. This reflected an initiative to strengthen promotional campaigns aimed at AUTOBACS members and tailoring them to specific car models benefiting from government subsidies for the purchase of fuel efficient vehicles. Meanwhile, sales of snow tires and wheel sets increased, thanks to the Group's initiatives to focus on customer convenience by improving the lineup of such goods and offering them as a set unit in each store. Moreover, as the number of smartphone users continues to increase, sales of goods related to smartphones remained robust as the Group expanded selling space for these goods. In car electronics, however, there was a sharp drop in sales due to a fall-back in demand for car navigation devices and tuners for automobiles following a surge in the previous fiscal year accompanying the shift to terrestrial digital television broadcasting, a change in the price range for strong-selling navigation devices, and falling unit prices due to price competition with car dealers and others. As a result, overall sales of automotive goods declined from the previous fiscal year. As a result, sales of automotive goods (excluding statutory safety inspections and maintenance) decreased 3.0% year on year to ¥254,500 million.

In "satatutory safety inspections and maintenance services," demand for statutory safety inspections declined due to strong sales of new cars. However, the Group undertook an aggressive sales promotion and, starting in April of this fiscal year, the Statutory Safety Inspection Contact Center began full-scale operations, responding to telephone and Internet inquiries from customers. As a result, the number of automobiles receiving safety inspections rose by 7.1% year on year to approximately 573,000 units. Sales of bodywork and painting services also rose, reflecting the opening of three Auto Body Repair and Painting Centers, which offer sophisticated plating skills in addition to the bodywork and painting services to repair small scars and dents that the Group had already been providing.

"The automobile purchase and sales business" saw strong sales of new cars associated with government subsidies for the purchase of fuel efficient vehicles. However, the number of used cars sold to distributors declined, mainly due to a fall in used cars purchased as demand fell back after surging in the previous year following the Great East Japan Earthquake. As a result, the total number of vehicles sold was up 2.9% year on year, to 18,400 units.

The number of “CARS” franchise chain stores increased from 175 stores as of the end of March 31, 2012 to 244 stores as of the end of March 31, 2013.

The opening and closure of stores in Japan included the opening of 30 new stores, and the opening and closure of five stores through scrap and build relocation and store format conversion, and the closure of nine stores. In addition, four AUTOBACS Secohan Ichiba stores were converted into in-stores within other types of business. These in-store operations are not included in the number of the Chain stores, and there were five such stores at the end of the fiscal year under review. As a result, the total number of stores in the Chain in Japan increased by 22 stores from 530 stores at the end of the previous fiscal year to 552 stores.

*AUTOBACS, Super AUTOBACS and AUTO HELLOES stores

Domestic Store Consolidation

	Stores							
		Year Ended March 2012						
		First Half			Second Half			
	March 31, 2012	New stores	S&B* relocation	Stores closed	New stores	S&B* relocation	Stores closed	March 31, 2013
AUTOBACS	430	+11	0	-1	+16	+1	-2	455
Super AUTOBACS	76							76
AUTO HELLOES	1		-1					0
AUTOBACS Secohan Ichiba	18		-3			-1		14
AUTOBACS EXPRESS	5	+2		-1	+1			7
Total (Japan)	530	+13	-4	-2	+17	0	-2	552

* S&B: scrap and build

Progress of the AUTOBACS 2010 Medium-Term Business Plan

The Company has executed a number of initiatives including business and financial strategies, and CSR and governance activities under the AUTOBACS 2010 Medium-Term Business Plan, which was announced in May 2010.

In existing store reform—a key policy aimed at strengthening the domestic business—the Group achieved improved results due to the effects of sales space renovating in many of the stores. In human resources reform, a training program designed to improve store managers’ managerial capabilities was launched, in addition to ongoing customer service training for store staff. This is expected to strengthen personnel capabilities to enhance the effects of the store reform that the Group has been implementing. New store openings are slightly behind the initial plan, with a cumulative total of 57 new stores opened in the three years from April 2010. However, in the fiscal year under review the Group stepped up its store development and opened 30 new stores as planned.

<Business Strategy>

As in the previous year, the Group emphasized strengthening of the domestic franchise business as a business strategy and sought to improve the profitability of the existing AUTOBACS stores.

In existing store reform, the Group worked during the fiscal year under review to maximize the benefit of the renovating efforts at AUTOBACS stores until the previous fiscal year. The Group stepped up initiatives for enhancing product appeal and presentation capabilities on the sales floor, such as collecting and distributing information about strong-selling items and standardizing sales floor development patterns. At many of the stores, earnings and store operating efficiency improved as initially planned, although the extent of the improvement differed among the stores. For stores with comparatively little improvement, underlying factors were studied in detail and tailored measures were developed and implemented for each store. The results were then examined to devise further improvements while continuing the measures. At stores that maintained a good performance, personnel systems and rules for cooperation across divisions were established and mechanisms to ensure the full use of customer service opportunities were strengthened. By standardizing the mechanism and concepts and deploying them at other stores, the Group will continue to improve customer convenience and bolster its performance.

Using know-how developed through the renovating of the sales floors of existing AUTOBACS stores, the renovating of the sales floors of Super AUTOBACS stores was launched in the fiscal year under review as part of the Group’s commitment to improving the profitability of the stores. To develop sales floors that would give full play to the strengths of Super AUTOBACS stores while differentiating them from competitor stores, the Group renovated them in line with customer attributes and area characteristics at each store location. The sales floors of 19 Super AUTOBACS stores were renovated during the fiscal year under review, and an improved performance was seen at the renovated stores.

In human resources reform, approximately 1,000 employees, mainly those of new stores, attended customer service training, which has been an ongoing focus since the launch of the medium-term business plan. In addition, customer service trainers have been assigned to each regional office to oversee ongoing training. Moreover, as part of store operating innovation, the Group conducted strategic strength training for all store managers to improve their managerial capabilities. Assistant managers also received the training to enhance the managerial capabilities of all store executives.

In efforts to open new stores, the Group launched 30 new stores to improve customer convenience and attract more customers. The Group is opening stores in areas where there are no Group stores; for example, commercial zones with no automotive goods stores and commercial zones with gaps between other stores where stores had not yet been opened. Meanwhile, the Group studied the business performance of the new stores by conducting performance analysis and examinations for each store to identify issues. The results were fed back into measures for preparing the next store opening. Store fixtures and service bay equipment were also checked individually to advance the Group’s cost-cutting efforts.

As a new service format, the Group established Auto Body Repair and Painting Centers in three locations (Urayasu City, Chiba Prefecture; Toda City, Saitama Prefecture; and Fukuoka City, Fukuoka Prefecture). This is one of the Group’s initiatives for future growth and it is currently conducting testing and verification to maximize the power of the AUTOBACS brand, and establish a business model for bodywork and painting services.

With respect to “CRM Strategy Implementation” which started in the year ended March 31, 2013, the Group is pursuing initiatives to strengthen customer ties by taking a fresh look at its relationship with its customers and at changes in customers’ feelings about cars, and focusing on future trends in the market environment. Based on this concept, a new customer relationship management system has been developed to offer proposals and information on services and merchandise that cater to the individual needs of customers, by utilizing data about customers’ lifestyles, hobbies, opinions, and other aspects.

Strengthening e-commerce is one of the pillars supporting the future growth of the AUTOBACS Group, given that Internet-based sales of automotive-related goods and services are expected to increase going forward. In addition to enhancing and strengthening functions of the Company’s own online shopping site, it opened a store in Rakuten Ichiba, an Internet shopping mall, to develop a new sales channel. Sales at Rakuten Ichiba have exceeded the original plan. Going forward, the Group will continue to conduct testing and verification of Internet sales.

Other policies include revising procurement to provide merchandise at an attractive price to customers, and enhancing merchandise and services provided to customers by strengthening sales of vehicles and statutory safety inspections.

Overseas, in an effort to improve profitability overseas, including the ASEAN region, France, and China, the Group opened one store and closed three in China and opened one store each in Malaysia and Taiwan. In China, in particular, the Group conducted testing and verification at the two directly managed stores for establishing store models. Going forward, the Group will conduct testing and verification from a long-term perspective and will look ahead to developing business outside its conventional business areas to further expand earnings in the future.

<Financial Strategy>

The Group’s financial strategy is aimed at increasing future operating cash flow. Based on this goal, the Group opened 30 new stores in Japan and made other business investments in a proactive manner. The Group will continue to proactively invest in businesses during fiscal 2014 and beyond.

The Group’s financial strategy is aimed at improving capital efficiency. In fiscal 2013, the Company purchased a total of 1.8 million of its own shares for approximately ¥7.2 billion based on a policy of increasing shareholder returns. Taking into consideration the management goal of maintaining a dividend on equity (DOE) ratio of at least 3%, and to strengthen shareholder returns, the Company increased the year-end dividend by ¥6 from the previous fiscal year to ¥81 per share. This will result in the annual dividend increasing by ¥11, to ¥156 per share. In addition, the Company implemented a stock split at a ratio of 1:3, effective April 1, 2013.

<CSR and Governance>

The AUTOBACS Group positions CSR activities as an important management issue. With the aim of operating the business in an environmentally friendly manner, six of the Group’s regional business establishments received ISO 14001 certification during the fiscal year under review, following the Toyosu Headquarters, which received certification in the previous fiscal year. The Toyosu Headquarters and regional offices continuously promoted environmentally conscious activities and significantly exceeded their goals for electricity conservation and reduction of copy paper and waste. Going forward, the entire Group will continue its concerted efforts to raise environmental awareness. The head office and stores have also established “AUTOBACS Day” –a day for cleaning up the neighborhood as a contribution to local communities.

As part of the Group’s efforts to enhance risk management, the method of administration for the Risk Management Committee, which had been established for the purpose of managing and minimizing risks in the AUTOBACS Group, was revised. To improve the effectiveness and efficiency of the Group’s response to risk, situation reporting and discussions took place in the Officers' Committee meeting for sharing the nature of risks and the Group’s responses among officers who are familiar with the actual situation on store floors. Moreover, the Group advanced its measures against anti-social forces in response to the Organized Crime Exclusion Ordinance that was enforced in the previous fiscal year. The Group’s efforts for strengthening risk management included preparation of the Manual for Responding to Antisocial Forces for the Group’s subsidiaries and the introduction of anti-racketeering provisions in contracts with existing trade connections.

FINANCIAL REVIEW

1. INCOME AND EXPENSES

Net Sales

In fiscal 2013, ended March 31, 2013, consolidated net sales amounted to ¥230,168 million, approximately the same level as fiscal 2012.

¥ Million (Percentage of net sales)

	2013		2012		Increase (Decrease)
Wholesale operations	**131,859**	**(57.3%)**	135,571	(57.1%)	(3,713)
Retail operations	**94,770**	**(41.2%)**	98,313	(41.4%)	(3,543)
Others	**3,539**	**(1.5%)**	3,459	(1.5%)	79
Total	**230,168**	**(100.0%)**	237,343	(100.0%)	(7,175)

• Wholesale Operations

Most of the revenue in the wholesale operations segment derives from sales to franchisees. In fiscal 2013, segment sales decreased by 2.7% year on year to ¥131,859 million. Overall segment sales declined significantly in line with falling unit prices for car navigation systems, which were partially offset by strong performances for car interior goods, car exterior goods, oil, and batteries.

• Retail Operations

The retail operations category consists of retail sales of stores that are managed directly by the Company or its consolidated subsidiaries. In fiscal 2013, sales of retail operations decreased by 3.6% year on year to ¥94,770 million. This decrease was mainly due to a decline in sales in line with lower unit prices of car navigation devices and lower demand for ETC devices, despite strong performances in tires and wheels.

• Others

Sales from other businesses increased by 2.3% to ¥3,539 million, mainly due to an increase in real estate rental income from domestic franchise operators.

Gross Profit

Gross profit was ¥75,730 million, down by 1.7% from a year earlier as a result of lower gross profit in car electronics. However, the gross margin improved from 32.5% to 32.9%, mainly due to more stringent control of expenses and a strong focus on sales of tires and wheels.

SG&A Expenses

Selling, general and administrative (SG&A) expenses declined by 0.5% year-on-year to ¥62,985 million as a consequence of lower sales promotion expenses associated with reviewing sales promotion methods. Meanwhile, depreciation and amortization costs increased, as did commissions paid.

	¥ Million		
	2013	2012	Increase (Decrease)
Personnel expenses	**29,190**	29,650	(460)
Employee compensation	**23,415**	23,835	(421)
Sales promotion expenses	**10,762**	11,415	(654)
Equipment expenses	**12,888**	12,592	296
Land and building rent	**6,106**	6,104	1
Depreciation	**4,359**	3,937	422
Administrative expenses	**10,145**	9,659	486
Provision for allowance for doubtful receivables	**83**	43	40
Total	**62,985**	63,316	(332)

Personnel expenses decreased by 1.6% to ¥29,190 million, and constituted 46.3% of SG&A expenses. This change was mainly because of a decrease in employee compensation.

Sales promotion expenses decreased by 5.7% to ¥10,762 million, or 17.1% of SG&A expenses. This was mainly due to cost reductions associated with a review of sales promotion methods.

Equipment expenses increased by 2.4% to ¥12,888 million, representing 20.5% of SG&A expenses. This was mainly attributable to an increase in depreciation cost following investment in information systems.

Administration expenses increased by 5.0% to ¥10,145 million, representing 16.1% of SG&A expenses. This was mainly due to increases in commissions paid and in the amortization of goodwill associated with making franchise chain corporations subsidiaries.

As a result of the above factors, operating income decreased by 7.1% to ¥12,745 million.

Number of Employees by Segment

	Number of Employees				
	2013		2012		Increase (Decrease)
The Company	**1,177**	(94)	1,060	(90)	117
Domestic Store Subsidiaries	**2,614**	(920)	2,558	(1,069)	56
Overseas Subsidiaries	**670**	(-)	651	(-)	19
Subsidiaries for Car Goods Supply and Other	**149**	(13)	128	(9)	21
Subsidiaries for Supporting Functions	**68**	(21)	72	(18)	(4)
Total	**4,678**	(1,048)	4,469	(1,186)	209

Note: These figures show the number of regular full-time employees. The number of temporary employees is shown in parentheses as an approximate average for the year.

Other Income and Expenses

In other items, other income—net was ¥1,170 million, down from other income–net of ¥1,496 million in the previous fiscal year. The main factor behind this was a foreign exchange gain (net) of ¥534 million. Meanwhile, other expenses included a loss on sale of investment securities of ¥468 million, and an impairment loss on fixed assets of ¥89 million.

Income Taxes

Income taxes for the period were ¥6,347 million. The income tax burden increased from 44.8% in the previous fiscal year to 45.6% due to expressing the difference in recovery potential for deferred tax assets at subsidiaries.

Net Income

Net income declined by 9.7% from the previous year to ¥7,590 million, bringing basic net income per share to ¥81.22. Financial indicators all worsened; net income ratio declined from 3.5% in the previous year to 3.3%, ROA declined from 3.9% to 3.7%, and ROE declined from 5.7% in the previous year to 5.3%.

2. SEGMENT INFORMATION

The Group's segments are as follows:

The Company: The Company operates wholesale trade, selling of automobile-related goods, etc., (major products include tires and wheels and car electronics) to franchisees, and retail trade, selling and providing installation services for automobile-related goods, primarily to general consumers (major store brands are AUTOBACS, Super AUTOBACS, AUTO HELLOES, and AUTOBACS Secohan Ichiba). It also operates a leasing business providing real estate for stores mainly to franchisees.

Domestic Store Subsidiaries : Domestic Store Subsidiaries mainly sell and provide installation services for automobile-related goods, primarily to general consumers.

Overseas Subsidiaries: Overseas Subsidiaries operate wholesale trade, selling automobile-related goods, etc., to franchisees, and retail trade, selling and providing installation services for automobile-related goods primarily to general consumers.

Subsidiaries for Car Goods Supply and Others: Subsidiaries for Car Goods Supply and Others operate wholesale trade, selling mainly automobile-related goods, etc., and engine oil.

Subsidiaries for Supporting Functions: Subsidiaries for Supporting Functions mainly operate money-lending business and leasing business, supplying loans and providing store equipment and facilities to franchisees, as well as the loan and credit business, non-life insurance agency services and office support business.

Relationship between Segments and Segmental Sales

The Company's reportable segments are the constituents of the Company for which financial information is separately available and which are subject to the board of directors' periodic review to determine allocation of managerial resources and evaluate their performance.

The Group is developing AUTOBACS franchise chains both domestically and overseas mainly for sales of automotive goods, safety inspection and maintenance services, and automobile purchase and sales, and consists of segments of Group companies engaging in these businesses in wholesale and retail operations.

Based on the above, the Group has five reportable segments: the Company, Domestic Store Subsidiaries, Overseas Subsidiaries, Subsidiaries for Car Goods Supply and Others and Subsidiaries for Supporting Functions.

The context of each segment's operations is as follows:

	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Others	Subsidiaries for Supporting Functions
Automotive goods	Wholesale-Retail	Retail	Wholesale-Retail	Wholesale	―
Safety inspection and maintenance services	Wholesale-Retail	Retail	Retail	Retail	―
Automobile purchase and sales business	Wholesale-Retail	Retail	―	Retail	―
Other	Lease business	―	―	―	Lease business

Note: 'Other' of subsidiaries for supporting functions are loan credit business, non-life insurance agency and office support business.

Profits and Losses by Segments

<Non-Consolidated>

Sales decreased 4.2% year on year to ¥187,299 million. In wholesale operations for franchisees, sales of car interior goods, tires and wheels, and car exterior goods increased, while sales of car electronics declined significantly. As a result, sales fell 4.5% compared to the previous fiscal year. In retail operations, sales decreased 1.6% year on year, mainly reflecting the significant effects of sluggish sales of car electronics, which offset higher automobile sales. Gross profit decreased 2.0% year on year, to ¥40,927 million, due mainly to decreased sales of car electronics. The gross margin rose, however, thanks to the effects of gross profit innovation and an improved profit mix. Selling, general, and administrative expenses shrank 3.4% year on year, to ¥27,192 million, mainly attributable to detailed checking and reduction of controllable expenses such as spending on advertising and sales promotions, which offset rising depreciation costs for information systems and commissions paid. As a result, operating income increased 1.1% year on year, to ¥13,735 million.

<Domestic Store Subsidiaries>

Sales fell 4.5% year on year to ¥78,057 million, and the operating income came to a loss of ¥789 million (compared to operating income of ¥435 million in the previous fiscal year). Sales declined given the effect of sluggish sales of car electronics and their installation labor charges, although sales of interior accessories, tires, and wheels performed well. Gross profit decreased, due to rises in the weighting of tires, wheels, and accessories, while the gross margin remained on a par with the level of the previous fiscal year. Selling, general, and administrative expenses increased year-on-year in the first quarter, swinging back upward after dipping in the wake of the Great East Japan Earthquake in the previous fiscal year, but by the end of the fiscal year were at the same level as a year ago, as a result of efforts from the second quarter to reduce expenses.

<Overseas Subsidiaries>

Sales fell 3.5% year on year to ¥8,781 million, and operating income declined to a loss of ¥72 million (compared to operating income of ¥86 million in the previous fiscal year). In France, sales declined with an increase in the number of stores not permitted to operate on Sundays and continued weakness in demand for winter merchandise, in addition to a slump in consumer spending associated with the sluggish European economy. These circumstances produced an operating loss, in spite of initiatives to raise the ratio of sales of services and control expenses. In China, sales declined because of the closure of the local subsidiary's first directly managed store in Shanghai and two other stores operated by franchisees, although the local subsidiary opened its third directly managed store. As a consequence, an operating loss was recorded, reflecting the cost of opening the new store and the loss associated with the closure, despite cost-cutting initiatives to offset sluggish sales. In Singapore, both sales and operating income increased from the previous fiscal year, reflecting the addition of sales from a store that was opened in the previous fiscal year and the effect of measures to boost sales of maintenance merchandise, such as tires and oil. In Thailand, although sales increased thanks to active sales promotion activities, especially for tires, an operating loss was posted due to increases in rents for stores and other expenses.

Opening and Closing of Stores Overseas

	Stores			
		Year Ended March 2013		
	March 31, 2012	First Half	Second Half	March 31, 2013
France	11			**11**
China	4	-1	-1	**2**
Taiwan	5		+1	**6**
Thailand	4			**4**
Singapore	3			**3**
Malaysia	0	+1		**1**
Total	27			**27**

<Subsidiaries for Car Goods Supply and Others>

Sales increased by 13.9% year on year, to ¥14,355 million, as PALSTER K.K., which operates the wholesale distribution of oils and other merchandise, saw a rise in the number of products handled by the company and the expansion of its sales channels, and Yanaka Corporation, which operates Auto Body Repair and Painting Centers, became a consolidated subsidiary of the Group. Operating income rose 45.5% year on year, to ¥163 million, reflecting a rise in gross profit as a result of increased sales, which outweighed year-on-year rises in distribution and personnel expenses.

<Subsidiaries for Supporting Functions>

Sales declined 0.2% year on year to ¥3,376 million, and operating income fell 3.2% to ¥417 million, about the same as the previous fiscal year.

Information about Sales and Profit (Loss)

	¥ Million					
	Year Ended March 2013					
	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Others	Subsidiaries for Supporting Functions	Total
Sales						
Sales to external customers	**136,062**	**77,272**	**8,533**	**7,298**	**1,003**	**230,168**
Intersegment sales or transfers	**51,237**	**785**	**248**	**7,057**	**2,373**	**61,700**
Total	**187,299**	**78,057**	**8,781**	**14,355**	**3,376**	**291,868**
Segment profit	**13,735**	**(789)**	**(72)**	**163**	**417**	**13,454**

Details of Adjustments to Consolidated Operating Income

The adjustment to derive consolidated operating income from the sum of operating income for all segments was minus ¥708 million. The main reason for the change in the consolidated adjustment from a positive value in the previous fiscal year is a rise in fixed asset adjustment within the Group, while there was also an increase in the amortization of goodwill associated with converting franchise chain corporations into subsidiaries.

Reconciliation of Published Figures and Aggregate of Reportable Segments

	¥ Million	
Net sales	**2013**	2012
Total reportable segments	**291,868**	302,400
Elimination of intersegment transactions	**(61,700)**	(65,057)
Net sales in consolidated financial statements	**230,168**	237,343

Operating Income	2013	2012
	¥ Million	
Total reportable segments	**13,454**	14,654
Elimination of intersegment transactions	**(383)**	(477)
Inventories	**(298)**	(325)
Allowance for point cards	**(36)**	(83)
Amortization of goodwill	**(263)**	(77)
Fixed assets	**179**	8
Others	**92**	21
Operating Income in consolidated financial statements	**12,745**	13,721

FINANCIAL POSITION

1. BALANCE SHEET ITEMS

Current Assets

Current assets decreased by ¥14,409 million year on year to ¥127,203 million. The main factors were decreases in marketable securities and investments in lease.

Property and Equipment, Investments and Other Assets

Net property and equipment was ¥41,453 million, up by ¥1,930 million year on year. The main factors were increases in buildings and structures and land in line with new store openings.

Total investments and other assets increased by ¥58 million from the previous period to ¥36,871 million. The increase was mainly due to an increase in investment securities associated with the acquisition of shares of Broadleaf Co., Ltd. The increase was partially offset by a decrease in software.

Current Liabilities

Total current liabilities were down by ¥10,629 million to ¥45,021 million. The main factors in this were decreases in short-term borrowings, other payables, and income taxes payable.

Long-term Liabilities

Total long-term liabilities increased by ¥1,100 million to ¥17,205 million. The main factors behind this were increases in long-term debt and lease obligations, although bonds decreased.

Equity

Total equity including minority interests fell by ¥2,892 million to ¥143,301 million. We recorded net income of ¥7,590 million and cash dividends of ¥4,762 million, and purchased our own shares at a cost of ¥7,196 million.

2. SPECIAL ITEMS ON THE BALANCE SHEET

Investments in Lease

We lease store buildings and equipment to some franchisees, and record finance leases that are deemed not to transfer ownership to the lessee as investments in lease. Investments in lease for fiscal 2013 decreased by ¥1,052 million year on year to ¥12,361 million.

Rental Deposits

The Chain's stores are built to the specifications of AUTOBACS business and leased for periods of 15 or 20 years under an irrevocable lease. The Company pays the lessor part or all of the construction cost for a store as a rental deposit. Rental deposits at March 31, 2013 were down by ¥603 million from the previous year-end to ¥18,618 million.

CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥10,741 million. The main factors for increasing cash were income before income taxes and minority interests of ¥13,915 million, depreciation and amortization of ¥4,921 million and a decrease in receivables of ¥2,264 million. The main factors decreasing cash were income taxes paid of ¥8,320 million and a decrease in other payables and accruals of ¥2,798 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥4,523 million. The main factors were disposition of investment securities of ¥2,927 million, capital expenditures of ¥6,249 million, and acquisition of investment securities of ¥2,156 million. Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a net inflow of ¥6,218 million.

•Capital Expenditures

In fiscal 2013, capital expenditures amounted to ¥6,249 million. These investments were associated mainly with acquisition of land and buildings for opening new stores, store expansions and renovations, and investments in the Company's internal information systems. A breakdown of capital expenditures (including intangible fixed assets) in fiscal 2013 is shown below.

Major Capital Expenditures in Fiscal 2013

	¥ Million
Opening new stores	2,943
Scrap and build or relocation of stores	346
Purchase of land for store locations	158
POS system development and IT investments	1,585
Other	1,214
Total	6,249

Capital Expenditures by Segments

	¥ Million		
	2013	2012	Increase (Decrease)
The Company	**4,959**	6,255	(1,296)
Domestic Store Subsidiaries	**258**	439	(181)
Overseas Subsidiaries	**153**	127	26
Subsidiaries for Car Goods Supply and Others	**52**	16	36
Subsidiaries for Supporting Functions	**825**	852	(27)
Total	**6,249**	7,691	(1,442)

Note: Amounts shown do not include cosumption tax, etc.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥14,862 million. This was mainly due to ¥7,196 million for purchase of treasury stock, ¥5,069 million for repayment of long-term debt, and ¥4,762 million for dividends paid.

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥42,833 million, down by ¥8,569 million from a year earlier. This includes adjustments for the effect of exchange rate changes on cash and cash equivalents; and represents net cash provided by operating activities of ¥10,741 million, net cash used in investing activities of ¥4,523 million, and net cash used in financing activities of ¥14,862 million.

Basic Policy on Distribution of Profits, Dividends for Fiscal 2013 and Fiscal 2014

The Company views the return of profits to shareholders as an important management issue. Our fundamental stance on distribution of profits is to secure the necessary liquidity on hand to continue business operations while maintaining consolidated DOE of at least 3%. We intend to pay stable and consistent dividends as deemed appropriate, giving due consideration to our business results and financial stability.

For fiscal 2013, we paid an annual dividend of ¥156 per share, comprising a year-end dividend of ¥81 (up by ¥6 year on year) and an interim dividend of ¥75. This resulted in a DOE of 3.4%.

In fiscal 2014, we plan to pay interim and year-end dividends of ¥27 per share each, for an annual dividend of ¥54 per share, representing an effective dividend increase based on the 3-for-1 stock split mentioned below. The Company canceled 5 million of its own shares on May 16, 2013. Furthermore, we plan to repurchase up to 3 million of our own shares for a maximum of ¥5.0 billion from May 13, 2013 to February 20, 2014. The Company conducted a 3-for-1 stock split on common stock, with an effective date of April 1, 2013.

BUSINESS RISKS

The following are issues contained in this annual report concerning the Group's operating and financial conditions that are likely to have a significant bearing on the decisions of investors.

(1) Competition

It is possible that competitors in the automotive goods and accessories market could influence the Group's business performance. These competitors include not only franchisees and rival companies currently operating in the same line of business, but also automakers and dealers making a full-scale entry into the market, as well as specialty tire stores, second-hand goods stores, and outlet stores.

(2) Unusual Weather Conditions

Merchandise sold by the Chain includes seasonal products, for which the number of units sold is significantly affected by weather conditions. Accordingly, in the event of unusual weather conditions, such as cool summers and/or warm winters, the Group's business performance could be affected by lower sales for seasonal products or a shift in demand season.

(3) Future Overseas Expansion

The Chain is operating in Europe and Asia, including China. In the event that the Chain fails to respond in a timely manner to various problems and risks in these regions, its business performance could be affected. Such problems include but are not limited to the following: the local culture with respect to cars and car-related goods; competition from existing local retailers; the economic situation; the level of information infrastructure; a lack of protection for intellectual property; an unstable political situation; and outbreaks of infectious disease.

(4) Regulations Governing Opening of New Stores

The Chain's development of stores is under the regulation of the Law Concerning the Measures by Large-Scale Retail Stores for Preservation of the Living Environment. This law applies to the opening of all new stores with sales floor areas exceeding 1,000 square meters and to the expansion of existing stores that will result in sales floor areas exceeding the limit. The law's purpose is to maintain the living environment of local residents. A local prefecture or a designated city office carries out predetermined checks on noise levels, traffic congestion, waste disposal, and other factors. In opening new stores larger than 1,000 square meters, the Chain's policy is to consider the local environment from the initial planning stage and to work closely with nearby residents and the local government. Due to the aforementioned regulations and other factors, however, the Group may not be able to open new stores as planned, which could have a negative impact on its business results.

(5) Observance of Laws and Regulations

With respect to the observance of laws and regulations, the Chain is working to enhance its internal control system. The Company established the Compliance Department to enhance internal control, and set a Code of Conduct and Guidelines to ensure ethical business conduct by its directors, officers and employees. However, in the unlikely event that a director, an officer or an employee violates laws or regulations, either intentionally or unintentionally, this could result in claims for compensation, which could affect the Group's business performance. In addition, the Chain holds a huge volume of consumer information. While careful attention is paid to the handling of such information, in the event of an external leakage of customer information due to unauthorized actions or other reasons, the Group could lose credibility and its business performance could be negatively affected.

(6) Fluctuations in Product Selling and Procurement Prices, and Raw Materials Prices

Due to various factors, merchandise sold by the Chain could be subject to unexpected fluctuations in procurement prices and raw materials prices. Also, sales prices of its merchandise could rise or fall sharply due to changes in the market environment. As a result, the Group's business performance could be affected by such developments as the selling price falling below the procurement price or declines in demand due to higher prices.

(7) Natural Disasters

In regions where the Chain has stores and operational facilities, natural disasters, such as earthquakes and typhoons, could cause damage to Company facilities or harm to directors, officers, and employees. In such an event, the Group's business results could be affected by such factors as reduced sales and costs required to restore operations and recruit human resources.

(8) Franchisees

The Company operates as a franchisor for stores that principally provide sales of automotive goods, safety inspection and maintenance services, and automobile purchase and sales. In the event that a franchisee violates the franchise contract or laws and regulations, the business performance of the Group could be affected, irrespective of the Group's holding of equity in the franchisee.

(9) Store Operations

The Chain operates retail stores that provide sales of automotive goods, safety inspection and maintenance services, and automobile purchase and sales. These operations have risks associated with the processing of waste generated by store operations, the handling of dangerous substances, and accidents in service bays and other places on the store grounds. The occurrence of these types of events could affect the Group's business performance directly or indirectly through a reduction in customer numbers due to a deterioration of the image of the stores.

(10) Exchange Rate Fluctuations

The Group extends loans denominated in foreign currencies to its overseas subsidiaries. Because foreign currency-denominated amounts are translated into yen for preparation of financial statements, changes in exchange rates could affect the Group's business performance.

(11) Lawsuits

The Group faces many and varied risks of lawsuits arising in the course of its operations in Japan and other countries. Although internal management has been established through the preparation of an internal control system, this cannot completely eliminate risk, and there is a possibility that the Group may be named in a lawsuit filed by a concerned.

(Reference: Resolution of Important Litigation)

The Company has executed a settlement agreement (the “Settlement Agreement”) with AUTOBACS STRAUSS INC.; 1945 Route 23 Associates, Inc.; and R&S Parts and Service, Inc. (collectively, the “Plaintiffs”) with respect to the damages lawsuits filed by the Plaintiffs against the Company in the United States Bankruptcy Court for the District of Delaware and the United States District Court for the District of New Jersey. The Settlement Agreement has come into effect following its approval by the United States Bankruptcy Court for the District of Delaware and the United States Bankruptcy Court for the District of New Jersey.

(1) Circumstances From Filing to Settlement of the Lawsuits

The Plaintiffs filed the damages lawsuits against the Company in the United States Bankruptcy Court for the District of Delaware on December 11, 2009 (North American Eastern Standard Time), and in the United States District Court for the District of New Jersey on December 17, 2009, respectively (collectively, the “Lawsuits”). After the lawsuit in its entirety was referred from the United States District Court for the District of New Jersey to the United States Bankruptcy Court for the District of New Jersey, it was decided on June 9, 2010 (United States time) to transfer this lawsuit from the United States Bankruptcy Court for the District of New Jersey to the United States Bankruptcy Court for the District of Delaware.

While the Company has responded to the Lawsuits, after comprehensively taking into account various factors, including the potential costs to be incurred due to the ongoing Lawsuits, the Company has agreed to settle with the Plaintiffs. Accordingly, the Company executed the Settlement Agreement with the Plaintiffs as of March 29, 2013 (North American Eastern Standard Time).

(2) Contents of the Settlement

The principal terms of the settlement are as follows.

1) The Company shall pay to the Plaintiffs US$8.5 million.

2) All of the Company’s proof of claim in the bankruptcy case of AUTOBACS STRAUSS INC. in the United States Bankruptcy Court for the District of Delaware shall be disallowed.

(3) Effectuation of the Settlement Agreement

The Settlement Agreement came into effect on May 8, 2013 (North American Eastern Standard Time), after the United States Bankruptcy Court for the District of Delaware and the United States District Court for the District of New Jersey entered into the Approval Orders on April 23, 2013 (North American Eastern Standard Time). Based on this Settlement Agreement, the Company paid US$8.5 million to the Plaintiffs on May 10, 2013 (North American Eastern Standard Time).

The Company expects that cash payment, etc., to be made through this settlement will have no material impact on its consolidated financial results from the fiscal year ending March 31, 2014.