



# 2014
## Annual Report


クルマのことならオートバックス

AUTOBACS SEVEN

Profile

# Aiming to be a Corporate Group that Makes Car Societies Better

AUTOBACS SEVEN operates the AUTOBACS Chain, Japan's largest network of stores specializing in car goods, maintenance services and automobiles. By always taking the customer's perspective, and offering valuable merchandise and services, we have established ourselves as the country's leading retailer of car goods.

Looking to the future, we will continue to pursue business activities that respect our relationships with all of our stakeholders, so that AUTOBACS SEVEN remains a company that helps customers get greater enjoyment and convenience from their automobiles and is a valuable member of society. We believe that doing this will allow us to achieve sustainable growth and increase the corporate value of the entire AUTOBACS Group.

### AUTOBACS Chain Management Mission

AUTOBACS' mission is to help create a sustainable society enriched with automobiles by constantly proposing the best ways for customers to enjoy motoring.

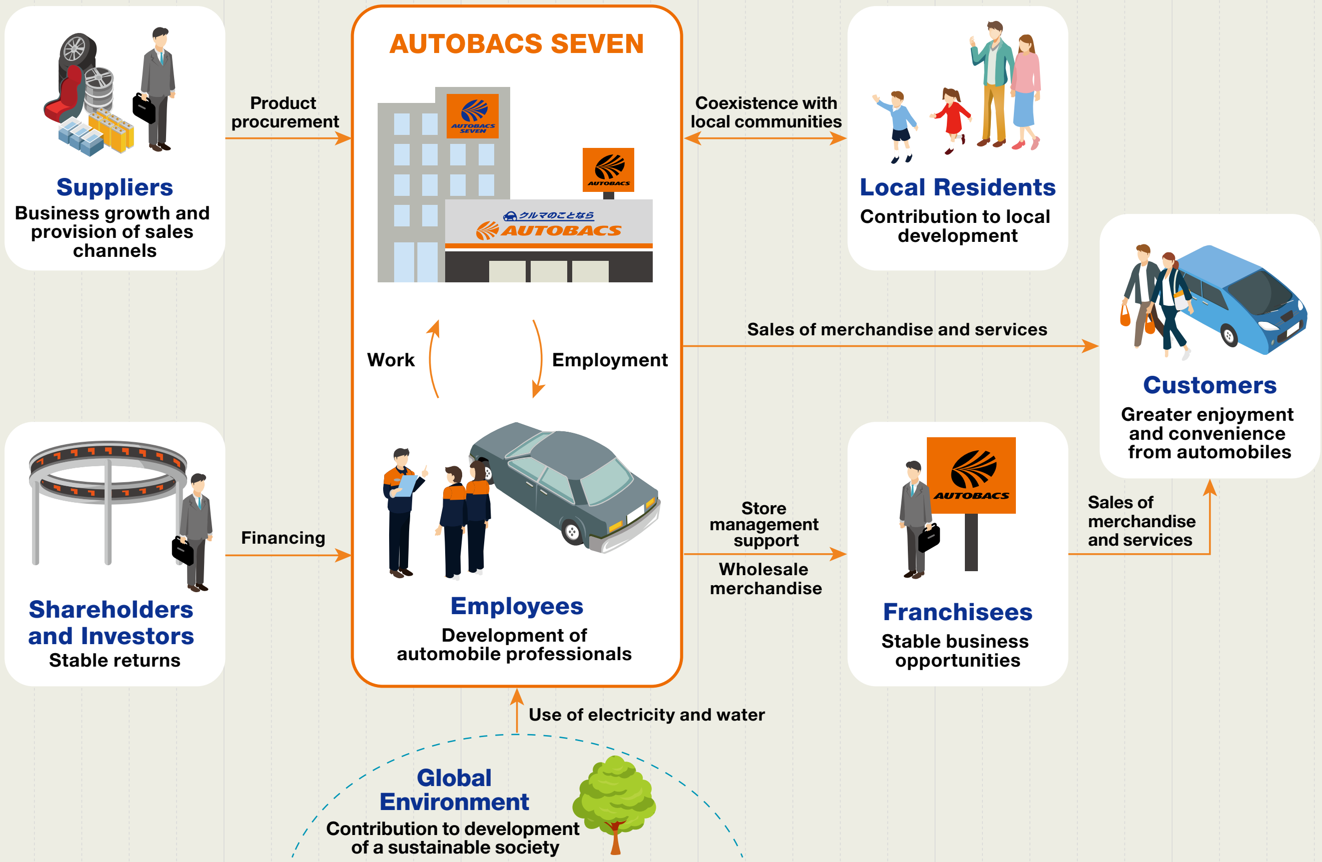
### AUTOBACS Chain Management Vision

As a comprehensive specialist store chain providing joy and solutions for automobiles, AUTOBACS will "earn" customers' genuine trust in the brand message, "Anything about cars, you find at AUTOBACS."

## Anything about cars, you find at AUTOBACS

INDEX

# AUTOBACS SEVEN and Society




## ▶ Online Annual Report

**http://www.autobacs.co.jp/en/ir/ar2014/index.html**

To leverage the convenience of online access, we have prepared an HTML-version of our annual report for viewing on the Internet. We have also prepared a downloadable PDF file containing our management discussion and analysis.


## Cautionary Note Regarding Forward-Looking Statements

Portions of this report that are not based on historical facts — areas addressing strategy, future business developments, and other topics regarding the future — reflect information available at the time this report was prepared and management's judgment. Actual results may differ from projections or expectations due to changes in various risk factors. For more information on the primary business risks faced by the AUTOBACS Group, please refer to the online version of the annual report.

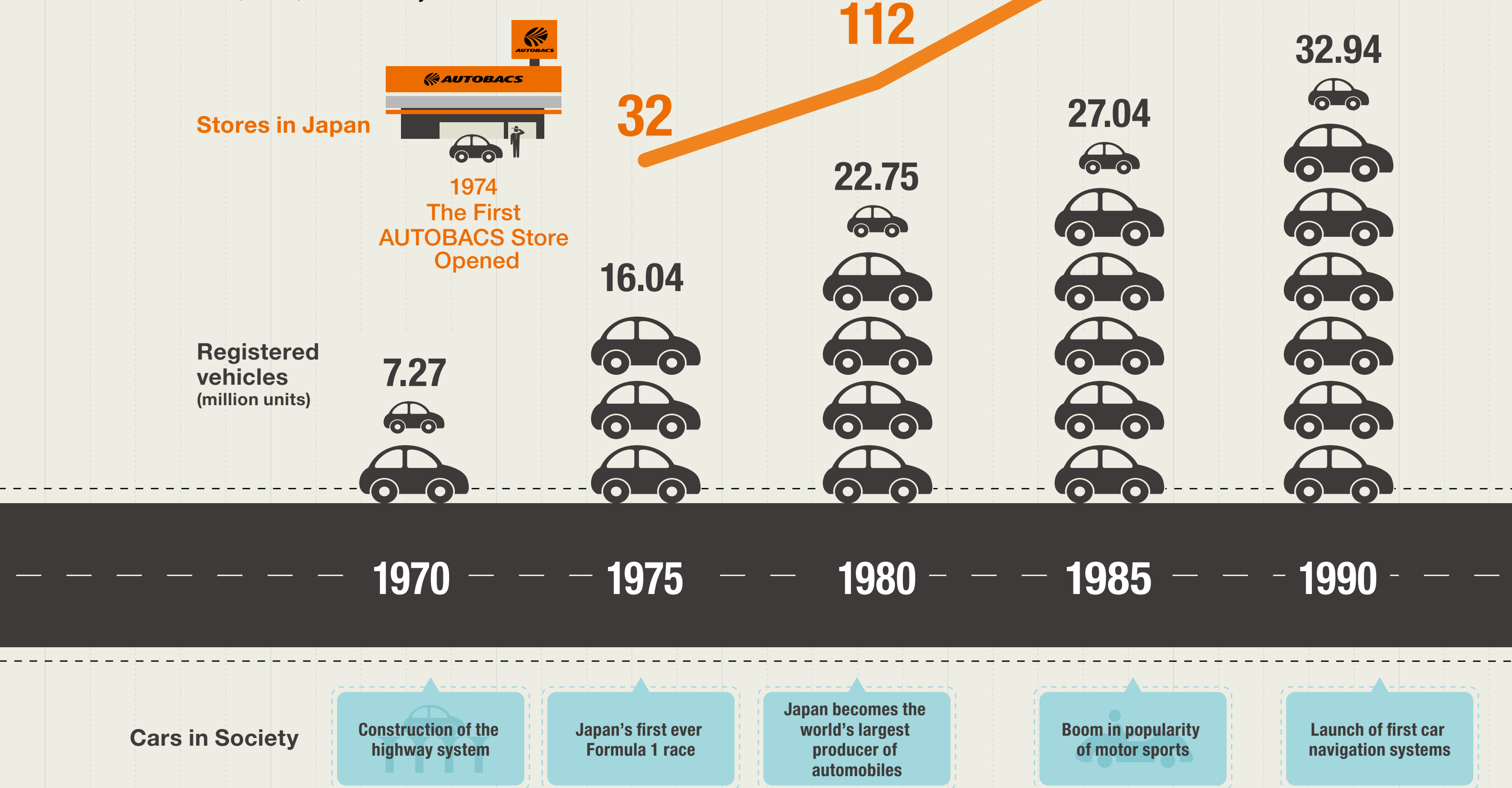
## Explanation of Names

Within this report, "AUTOBACS SEVEN" and the "Company" refer to the non-consolidated entity, while the "AUTOBACS Consolidated Group," the "AUTOBACS SEVEN Group," and the "AUTOBACS Group" refer to the consolidated entity.

# Growing Together with Japan's Car Society for over 40 Years

## We've always been there to help customers get the greatest enjoyment and convenience from the use of automobiles.

Ever since it arrived on the scene in 1974 as Japan's first specialty retailer offering a comprehensive selection of car goods, AUTOBACS has been supporting the development of the country's car-based society with innovative store formats, merchandise and services that correspond to the changing relationships between customers, cars, and society.




### '74 → Growth of Motorization and Increase of Private Vehicle Ownership

### Development of a One-Stop Store for Car Goods and Services

AUTOBACS opened its first store in 1974, just as high economic growth had given individuals the wherewithal to purchase their own cars. At a time when each item of merchandise still had its own distribution channel, customers jumped at the ability to buy everything they needed for their cars at one place and have it installed. With the popularity of such one-stop convenience, AUTOBACS soon embarked on the development of a franchise system that would cover the entire country. AUTOBACS was also a leader in offering private brand merchandise and made a game-changing move in 1977 when it introduced tires and oil under its own brand.


The first AUTOBACS Store (Daito City, Osaka Prefecture)

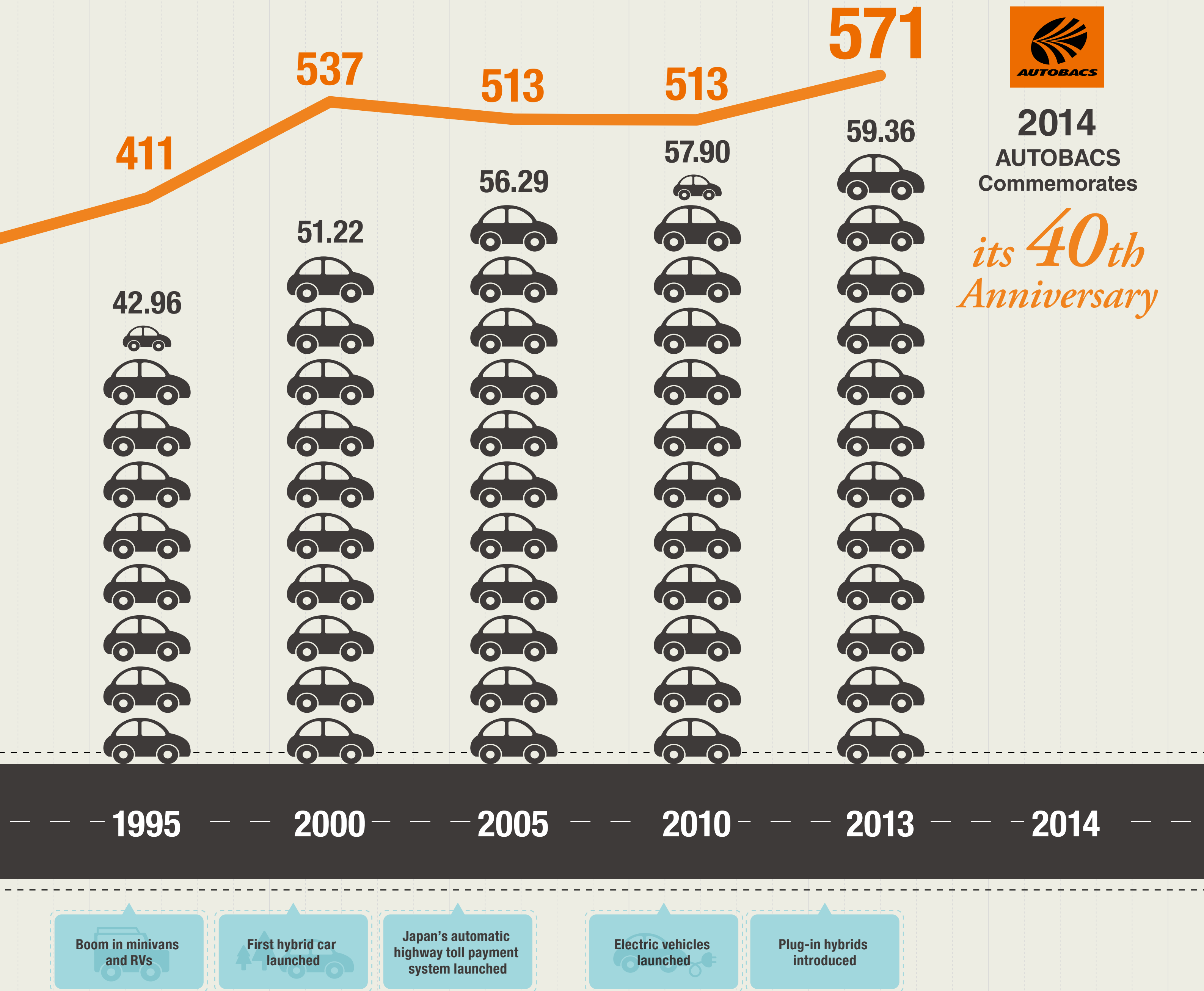
### '89 → Development of Japan's Car Society

### Responding to Diversifying Preferences with Stronger Merchandising

With greater and greater numbers of people owning cars, individuals began to demand that cars meet their own particular needs. It became the norm for consumers to choose the car that best fit their lifestyle, and selections of accessories, navigation systems, and other aftermarket merchandise expanded as a result. AUTOBACS enriched its merchandise offerings from its own unique perspective, steadily growing its business by responding to diversifying customer preferences with lifestyle-oriented merchandise displays and suggestions, and enhanced installation and other repair services, as well. Sales for the entire AUTOBACS Chain topped ¥100 billion for the first time in 1989, the same year AUTOBACS became the first in the industry to publicly list its shares.


Sponsorship of motor sports to promote car culture

## 2014 AUTOBACS Commemorates *its 40th Anniversary*




**'97 → From a Specialty Retailer of Car Goods, to a Total Solution Provider for Cars**

### Super AUTOBACS Stores

With the movement toward scale in retailing as a whole, we began to develop Super AUTOBACS stores to promote the lifestyle benefits of car ownership to everyone from those who had only recently become a car owner, to families, and enthusiasts. With expansive sales floors and service bay areas, Super AUTOBACS stores are designed to appeal to a broader range of customers by offering an even wider merchandise selection, additional attractions such as a CD department and restaurant where customers can get a light meal, and a wide variety of special events. AUTOBACS made a full-scale entry into the business of performing statutory safety inspections in this period to offer customers comprehensive solutions for their car-related needs.

The first Super AUTOBACS Store (Inage-ku, Chiba)

**'08 → Preparing for the Changes Surrounding the Car Society**

### 3 Core Businesses: Car Goods and Services, Statutory Safety Inspections, and Automobile Purchase and Sales

As maturation of the Japanese economy continues, amid rising consciousness of environmental and energy-conservation needs, downsized eco-friendly vehicles are gaining in popularity and the average service life of cars is rising. The profile of drivers, too, is shifting to include more women and older people. AUTOBACS is responding to these changes by enhancing inspection and maintenance services to let customers feel confident about driving for more years, even if without a keen understanding of technical details, buying and selling cars, and, of course, selling car goods as well. Through these three core businesses, we are transforming ourselves into a comprehensive provider of merchandise and services customers can easily access.

Moving ahead with installation of electric vehicle (EV) charging stands

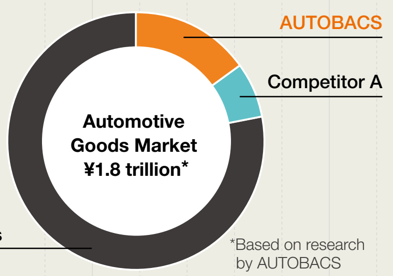
# Total Support for All Stages of Car Ownership

## Making the most of our strengths as the industry leader, we aim to be a valued part of the car society going forward.

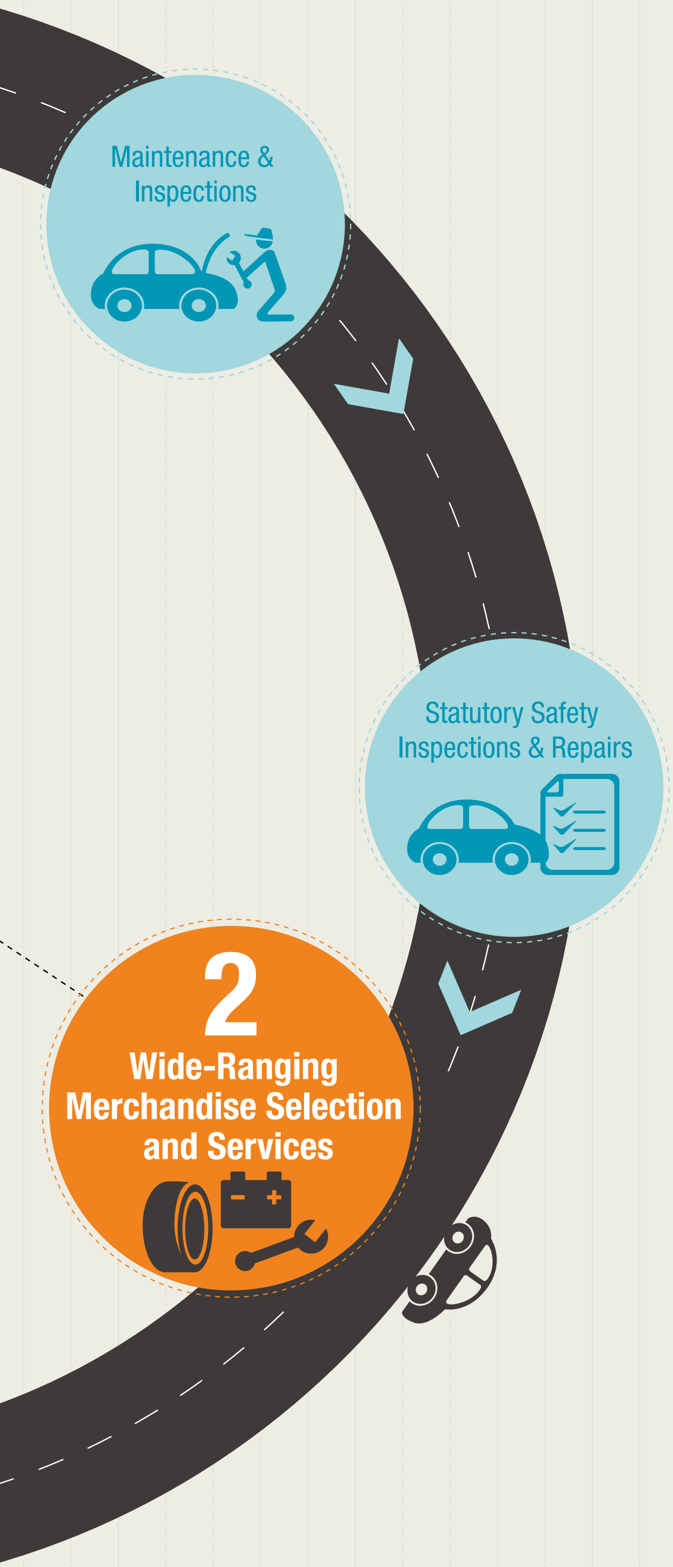
AUTOBACS offers customer convenience and reliability by being the one-stop solution for every automobile-related need from purchasing a vehicle, to getting the right merchandise, having cars inspected and maintained, and then finding a next vehicle. Making the most of our brand, store network, merchandise selection and people, our aim is to gain 100% customer support for our slogan "Anything about cars, you find at AUTOBACS."

AUTOBACS Supports Every Stage of the Customer's Car Ownership


**Share of the Automotive Goods Market**




The primary sales channels for car goods and services include specialty stores, car dealers, gas stations, tire shops, and home improvement centers. In recent years, sales of services and merchandise by competitors outside the industry have increased, and the numbers of gas stations and small and medium channels have declined.




## 1 Top-Level National Store Network

### With **571 stores**, we're always close to our customers.

With a store network that covers every one of Japan's prefectures, one of AUTOBACS' strengths is the convenience of being accessible to customers whenever they need us. Adding to our standard stores and Super AUTOBACS stores serving larger


areas, we have been opening compact stores over the past several years to serve smaller areas. Combining the strengths of all three types of stores, we support our customers with superior service.

## 2 Wide-Ranging Merchandise Selection and Services

### With merchandise offerings of **10,000–30,000** items and services, we help customers get more enjoyment from their cars, with greater convenience.

The overwhelming coverage of our merchandise offerings is one of our strengths. AUTOBACS carries everything from the most familiar name-brand merchandise, to innovative items aimed at maximizing

the enjoyment of cars in unexpected but extremely useful ways, and a vast array of private brand merchandise. A full range of inspection and maintenance services is another defining feature of AUTOBACS stores.

## 3 Plenty of Car Experts on Staff

### Approximately **3,700** nationally licensed mechanics and other car experts deliver safety and reliability.

AUTOBACS employs approximately 3,700 mechanics, safety inspectors, and others who have passed national certification examinations and are ready to provide customers with expert advice. We also have our own internal systems for certifying that

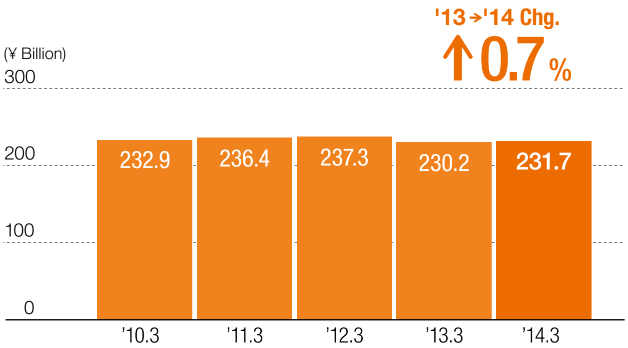
employees have attained certain levels knowledge regarding, for example, merchandise and basic automobile maintenance. These employees, as well, contribute to greater customer trust and satisfaction.

# Highlights of Financial Results

| AUTOBACS SEVEN Co., Ltd. and Consolidated Subsidiaries<br>Fiscal year ended on March 31 for each displayed year | Millions of yen<br>2011 | 2012 | 2013 | 2014 | Thousands of U.S. dollars (Note 1)<br>2014 |
|---|---|---|---|---|---|
| **Fiscal Year:** | | | | | |
| Net sales | ¥236,351 | ¥237,343 | ¥230,168 | ¥231,697 | $2,249,485 |
| Wholesale | 134,690 | 135,571 | 131,859 | 132,733 | 1,288,670 |
| Retail | 98,162 | 98,313 | 94,770 | 95,540 | 927,572 |
| Others | 3,499 | 3,459 | 3,539 | 3,422 | 33,223 |
| Operating income | 11,989 | 13,721 | 12,745 | 13,945 | 135,388 |
| Income before income taxes and minority interests | 11,501 | 15,217 | 13,915 | 16,086 | 156,175 |
| Net income | 6,180 | 8,403 | 7,590 | 9,786 | 95,010 |
| Net cash provided by operating activities | 15,375 | 20,844 | 10,741 | 12,072 | 117,214 |
| Net cash used in investing activities | (5,002) | (10,155) | (4,522) | 1,519 | 14,748 |
| Net cash used in financing activities | (11,790) | (11,573) | (14,861) | (11,166) | (108,408) |
| Free cash flows | 10,373 | 10,689 | 6,219 | 13,591 | 131,951 |
| Capital expenditures | 3,187 | 7,691 | 6,249 | 4,820 | 46,796 |
| Depreciation and amortization | 4,798 | 4,644 | 5,194 | 4,551 | 44,184 |
| **At Year-End:** | | | | | |
| Total assets | ¥207,795 | ¥217,949 | ¥205,527 | ¥201,481 | $1,956,126 |
| Equity | 147,505 | 145,626 | 142,862 | 143,979 | 1,397,854 |
| Interest-bearing liabilities | 11,920 | 10,452 | 8,342 | 6,771 | 65,737 |
| **Per Share Data (Yen and Dollars (Note 1)):** | | | | | |
| Basic net income (Note 2) | ¥59.32 | ¥84.28 | ¥81.22 | ¥107.71 | $1.05 |
| Cash dividends (Note 2) | 45.00 | 48.33 | 52.00 | 64.00 | 0.62 |
| Dividend payout ratio (%) | 75.9 | 57.3 | 64.0 | 59.4 | — |
| Dividend on equity (DOE) | 3.2 | 3.3 | 3.4 | 4.1 | — |
| Total shareholder return ratio (%) | 159.5 | 121.7 | 160.1 | 105.8 | — |
| **Management Indicators:** | | | | | |
| Operating income margin (%) | 5.1 | 5.8 | 5.5 | 6.0 | |
| Return on equity (%) | 4.1 | 5.7 | 5.3 | 6.8 | |
| Return on assets (%) | 3.0 | 3.9 | 3.6 | 4.8 | |
| Equity ratio (%) | 71.0 | 66.8 | 69.5 | 71.5 | |
| **Non-Financial Data:** | | | | | |
| Number of domestic stores | 513 | 530 | 552 | 571 | |
| Domestic stores operated by franchisees | 367 | 381 | 396 | 415 | |
| Number of overseas stores | 26 | 25 | 27 | 27 | |
| Overseas stores operated by franchisees | 9 | 9 | 9 | 10 | |
| Number of customer reward system active members (1,000) (Note 3) | 6,142 | 6,361 | 6,721 | 6,954 | |
| Number of employees | 4,459 | 4,469 | 4,678 | 4,466 | |
| Number of automobile mechanics (Note 4) | 2,860 | 3,101 | 3,394 | 3,653 | |
| Number of directors (of which, outside directors) | 8(3) | 8(3) | 8(3) | 8(3) | |
| Number of auditors (of which, outside auditors) | 5(3) | 4(3) | 4(3) | 4(3) | |
| Electricity usage (MW) (Note 5) | 13,657 | 11,298 | 10,646 | 7,515 | |
| $CO_2$ emissions (t-$CO_2$) (Note 5) | 6,170 | 5,268 | 6,021 | 4,787 | |

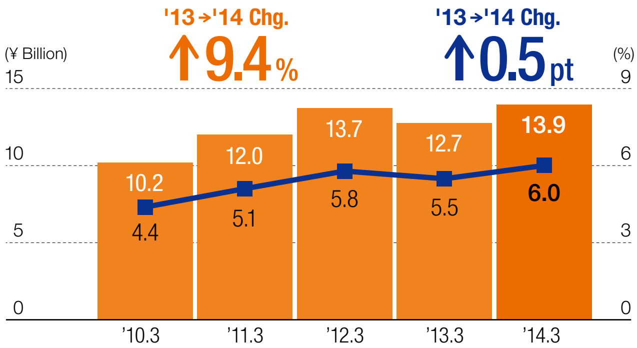
(Notes) 1. U.S. dollar amounts are converted at a rate of ¥103=US$1, which prevailed on March 31, 2014.
2. A 3-for-1 stock split was implemented on April 1, 2013. Figures predating this stock split have been adjusted to reflect its impacts.
3. The number of members who had used the system during the two years prior to the fiscal year end.
4. All chain employees who have obtained the Automobile Mechanic (Level 1, 2, or 3) national qualification.
5. Total for AUTOBACS SEVEN Co., Ltd.'s headquarters, regional business locations, directly managed stores, and logistics centers. (Does not include subsidiaries)

## Net Sales



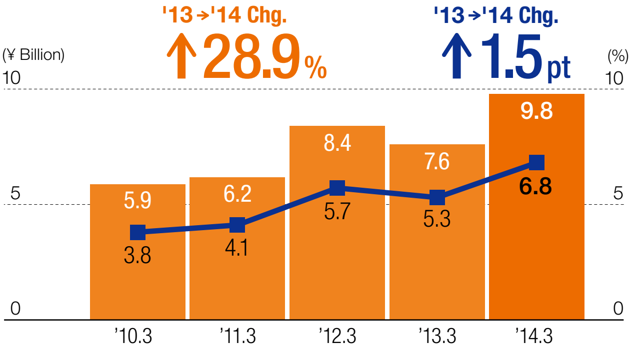

## Operating Income/Operating Income Margin

■ Operating income ■ Operating income margin



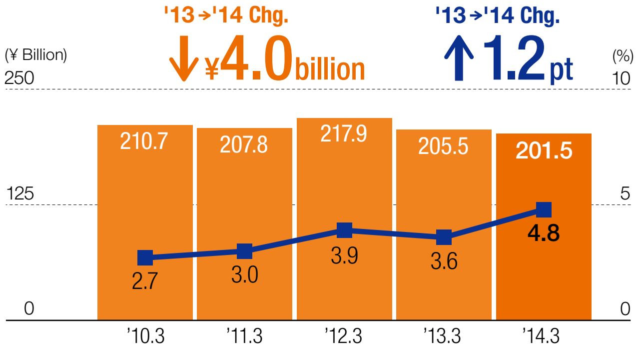

## Net Income/Return on Equity

■ Net income ■ Return on equity



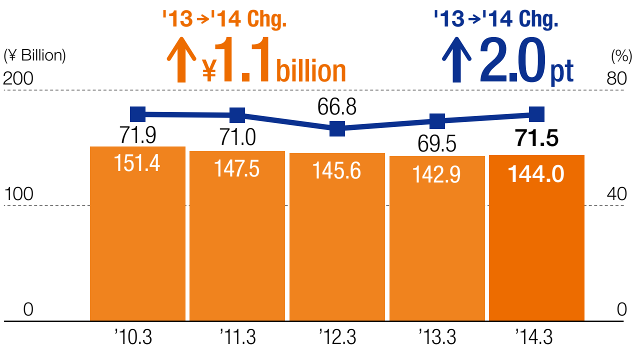

## Total Assets/Return on Assets

■ Total assets ■ Return on assets

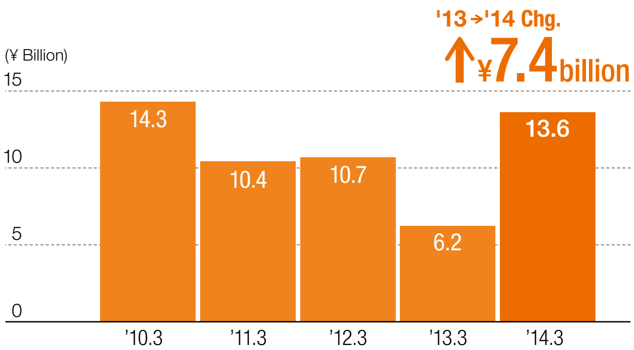



## Equity/Equity Ratio

■ Equity ■ Equity ratio

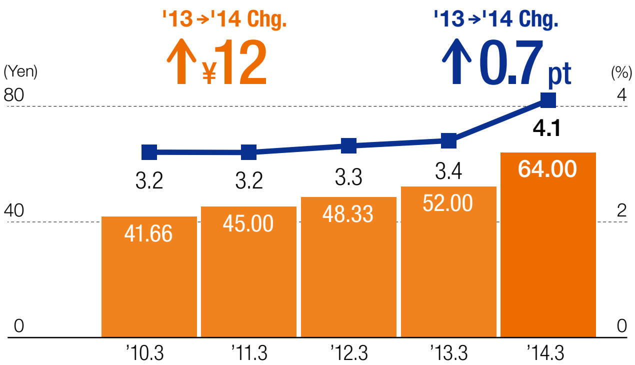



## Free Cash Flows




## Dividends per Share/Dividend on Equity (DOE)

■ Dividends per share ■ Dividend on equity (DOE)





Information the Company's business and financial condition are included in the online annual report.

**http://www.autobacs.co.jp/en/ir/ar2014/index.html**

# Responding to changes in the market and society, we aim to build a brand that stands on the solid support and faith of our stakeholders.

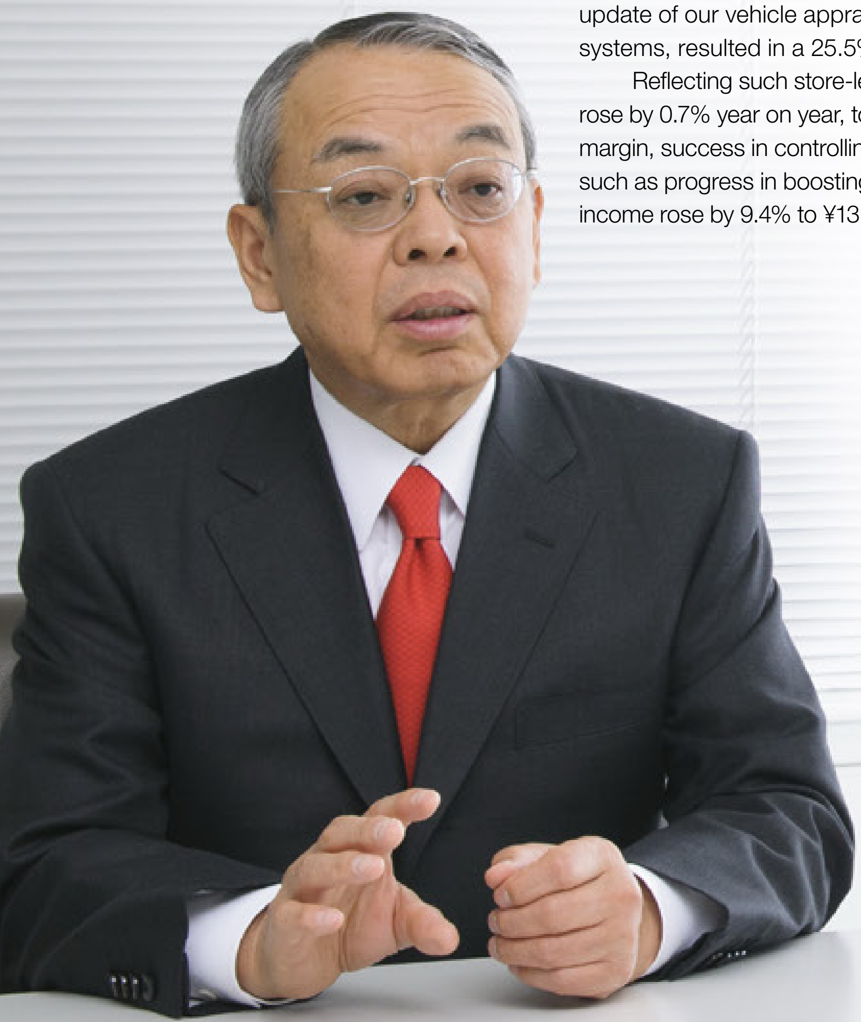
## Q1 How would you rate performance for the fiscal year just ended?

## A1 Despite adverse factors like the end of government subsidies for purchases of fuel-efficient vehicles, efforts to improve store profitability paid off in higher sales and profits.

The business environment for the fiscal year ended in March 2014 was characterized by lower overall demand in the first half, as new-car sales declined in the absence of subsidies for purchases of fuel-efficient cars, and a second-half demand surge driven by consumers rushing to buy new and used vehicles, and automotive goods, ahead of the April 1, 2014 consumption tax hike.

At an overall level, AUTOBACS Chain stores in Japan recorded a 1.3% year-on-year net sales decline in the automotive goods business. While sales of tires and wheels benefited from the strengthening of sales promotions and the sales system, their impact was outweighed by factors such as lower unit prices for car navigation systems. In the statutory safety inspections and maintenance business, meanwhile, steps like the implementation of stronger guidance to stores and an online reservation system for statutory safety inspections worked to increase the number of vehicles undergoing statutory safety inspections by 1.3%, to around 580,000. In the automobile purchase and sales business an increase in the number of franchises from 244 at the end of the previous fiscal year, to 359, together with an update of our vehicle appraisal system and improvements to our training and sales systems, resulted in a 25.5% leap in overall vehicle unit sales, to roughly 23,100.

Reflecting such store-level sales results, the Company's consolidated net sales rose by 0.7% year on year, to ¥231.7 billion. With the added impact of a higher gross margin, success in controlling selling, general and administrative expenses, and factors such as progress in boosting operating efficiency at store subsidiaries, operating income rose by 9.4% to ¥13.9 billion. Net income went up by 28.9% to ¥9.8 billion.



**Setsuo Wakuda**
Representative Director and
Chief Executive Officer

## Q2 What results were achieved under the AUTOBACS 2010 Medium-Term Business Plan, which ended in March 2014, and what are the remaining issues to deal with?

## A2 Operating income and ROE came in below targets, but I think we now have strong operations that will generate stable earnings.

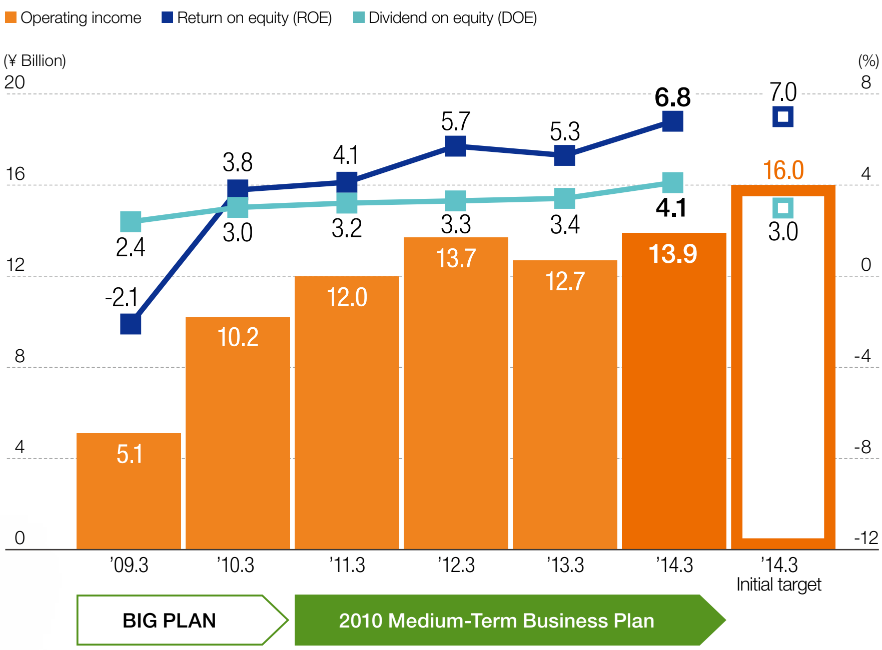
Under the AUTOBACS 2010 Medium-Term Business Plan, the Company, in focusing on implementing the key business strategy of improving store margins and market share in the domestic franchise chain business, has thoroughly strengthened operations. While it is unacceptable that we did not achieve our operating income and ROE targets, we have made the transition to a type of operation that is capable of generating stable earnings in any environment.

In more specific terms, the high-priority measures we implemented under our Measures to Boost Store Profitability in three key areas — sales space reforms, gross margin improvements through procurement and other changes, and reforms in personnel and operations — translated into better operating income margins at the store level, and higher sales of maintenance-related items and services. Steady expansion of our statutory safety inspections and maintenance, and automobile purchase and sales businesses, was another important outcome.

Meanwhile, under our Measures to Increase Market Share, we actively opened new stores mainly in small commercial areas, which we have not targeted for store openings in the past. The 82 stores we established over four years include three tire specialty stores. These are part of an experiment that we began in the fiscal year ended in March 2012 and is yielding hints for the future. We also proceeded to strengthen our online sales channel and achieved progress in gaining new customers.

Despite all we were able to achieve, however, we did not reach our target aftermarket share. Going forward, therefore, I believe it will be necessary to implement additional growth strategies focused on expanding earnings.

### AUTOBACS 2010 Medium-Term Business Plan Results



## AUTOBACS 2010 Medium-Term Business Plan Results and Evaluation

| Item | Major Initiatives and Objectives | Results | Evaluation |
|---|---|---|---|
| **1 Measures to Boost Store Profitability** | **Operating margin of 6.9% at existing AUTOBACS stores (5.2% for the FY ended March 2010)** | **Operating margin of 6.2% at existing AUTOBACS stores (+1.0 pt. vs. the FY ended March 2010)** | B |
| **Sales Space Renovation** | • Renovation of all existing AUTOBACS stores<br>• Improve store layout, displays and promotion tools | • Renovation of all existing AUTOBACS stores completed<br>• Renovation of 50 Super AUTOBACS stores undertaken | A |
| **Gross Income Improvement** | • Lower costs through procurement reforms | • Gross margins improved for a large number of product groups | A |
| **Personnel and Operational Reforms** | • Improve store operation efficiency and increase time spent serving customers<br>• Improve customer service and treatment, and increase the capabilities of store staff<br>• Improve technology level of service bays | • Store operation efficiency improved through operational changes, introduction of tablet PCs, etc.<br>• Customer service training conducted for all staff<br>• Training to improve strategic capabilities held for all store managers<br>• Store staffing optimized for all store subsidiaries<br>• New customer management system developed | A |
| **Expansion of the Vehicle Inspection Business** | • Increase number of stores certified to perform statutory safety inspections (299 as of FY ended March 2010)<br>• Increase number of vehicles inspected to 650,000 range (447,000 in FY ended March 2010) | • Number of stores certified to perform statutory safety inspections increased to 379<br>• Increased number of vehicles inspected to 580,000 range (+29.8% vs. FY ended March 2010) | B |
| **Expansion of Car Purchase and Sales Business** | • Increase the number for franchise stores buying and selling cars (188 as of FY ended March 2010) | • Increased the number for franchise stores buying and selling cars to 359<br>• Sold 23,100 cars (+58.2% vs. FY ended March 2010) | A |
| **2 Measures to Increase Market Share** | **Increase share of auto aftermarket to 18% (15.1% as of FY ended March 2010)** | **Share of auto aftermarket declined to 14.9% (-0.2% vs. FY ended March 2010)** | C |
| **New-Store Openings** | • Open 120 new stores over 4 years<br>• Improve store format development capabilities (Open stores that do not necessarily offer full lines of products and services) | • Opened 82 new stores<br>• Achieved further cost cuts in equipment, etc.<br>• Opened tire-specialty stores (4 stores in 4 years) Operating stores with small staffs of 4-5 | B |
| **Service Business Development** | • Develop several types of safety inspection and maintenance, and auto body businesses | • Auto body centers opened in Urayasu, Toda, and Fukuoka | B |
| **Multi-channel Strategy** | • Use the Internet, in-store terminals, and other means to offer customers multi-channel access | • Increased the number of items available on the AUTOBACS shopping site, AUTOBACS.COM<br>• Opened stores on Rakuten Ichiba, Amazon.co.jp, and Yahoo! Shopping | A |
| **3 Overseas Business** | • Make the overseas business profitable<br>• Test the Chinese market and set a direction | • Achieved profitability in the overseas business<br>• Testing of several types of stores underway in China<br>• Established a joint venture to wholesale car products in Indonesia<br>• Entered into an operational and capital alliance to develop business centered around the retailing of car products in Malaysia | A |
| **4 Headquarters Cost Efficiency Improvement** | • Continuously reduce headquarters costs and make operations more efficient | • Parent-only selling, general and administrative expense reduced from ¥28.6 billion, to ¥25.7 billion (for the FY ended March 2014) | A |
| **5 Financial Strategies** | • Create operating cash flow though active investment<br>• Strengthen shareholder returns (DOE of 3%)<br>• Achieve ROE of at least 7% (3.8% for the FY ended March 2010) | • Implemented high shareholder returns (DOE of at least 3%)<br>• Acquired treasury shares (¥22.5 billion acquired over 4 years)<br>• ROE 6.8% (+3.0 pt. vs. FY ended March 2010) | B |
| **6 CSR/Governance** | • Environmental and social contribution initiatives<br>• Move forward with compliance and risk management initiatives | • Began generating and selling electricity from solar energy in September 2013<br>• Obtained ISO 14001 certification for 8 business locations<br>• Conducting local community contribution activities on an ongoing basis<br>• Executive officers now have a shared understanding of risks and risk management<br>• Strengthened the compliance system at the franchise business | A |

Evaluation A: Achieved B: Partly achieved C: Not achieved

## Q3 How do you see the market going forward?

## A3 Japan’s automotive goods market will shrink over the medium to long term, but the overall aftermarket arena can be expected to enjoy stable demand.

We should expect to see factors like declining unit prices for car navigation systems and falling demand related to motor sports shrink Japan’s automotive goods market by another 2–3%. On the other hand, though, there has been little change in automobile ownership in Japan, and with the average service life of cars increasing, the overall aftermarket field — including statutory safety inspections and maintenance — can be expected to see stable demand.

In the past, the main players in the automotive goods aftermarket were gas stations and small- and medium-size maintenance and repair garages, but their numbers have now fallen drastically. We expect competition will intensify with car dealers in the middle and new entrants — including online services, telecom carriers, and other players — coming from outside the industry. AUTOBACS, with its brand, high customer traffic at its stores, and other differentiating strengths, is prepared for the competition. Developing our business by drawing on our strengths, we are committed to clearly demonstrating our competitive advantage.

## Q4 Could you provide an overview of the recently announced AUTOBACS 2014 Medium-Term Business Plan and explain the changes it is intended to bring about?

## A4 The new plan will implement medium- to long-term strategies with “Improving Profitability of AUTOBACS Business and Creating New Business for Growth” as the basic policy.

Based on our achievements under the previous medium-term plan, the 2014 Medium-Term Business Plan, which we have positioned as the start of a new stage for realizing growth over the medium to long term, aims to establish a three-pillar structure consisting of the domestic AUTOBACS business, where efforts will target earnings expansion, and new business and overseas business, both of which will be the focus of development efforts.

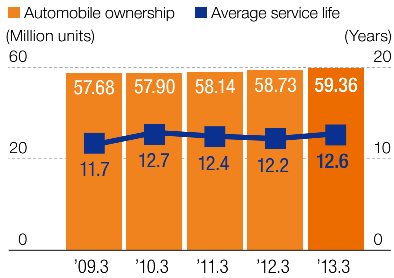
In the domestic AUTOBACS business, the objective will be to establish competitive advantage in the auto aftermarket. This will be done by enhancing convenience and security for customers, and here we aim to bolster our traditional customers with more people who are not so familiar with the details of cars, but would like to keep their current vehicles in top working order. Toward that end, we will undertake a transition to a “one-stop car goods and service” business that sell cars, provides maintenance services, and makes driving more fun.

In the new business portion of the plan, we will develop new business focusing on car-related fields where we can leverage our strengths. Attention will focus on developing new business emphasizing speed through M&A and alliances, and active investment of management resources will begin in the coming fiscal year.

Overseas business endeavors will target the ASEAN region, which is poised for growth, and will be open to achieving business expansion not only through our traditional store format but also wholesale and other related businesses.

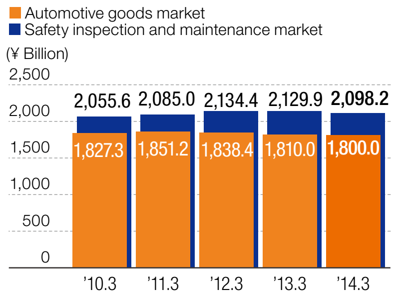
As performance targets, our aims are to achieve operating income of ¥18.0 billion, ROE of 8%, and DOE (Dividend on Equity ratio) of at least 3%, all by the end of the final fiscal year covered by the plan — the fiscal year ending March 31, 2018.

### Automobile Ownership and Average Service Life




Note: Automobile ownership data is for passenger cars; trucks, buses, motorbikes, etc. are not included.
Source: “Car Ownership Trends in Japan” (Automobile Inspection & Registration Information Association)

### Automotive Goods and Safety Inspection and Maintenance Markets




### 2014 Medium-Term Business Plan
(Covering the four years from April 2014 to March 2018)

**Basic Policy**

“Improving Profitability of AUTOBACS Business and Creating New Business for Growth”

**Three Pillars**

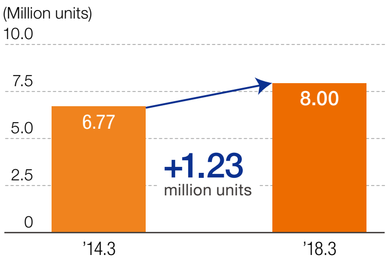
1. Domestic AUTOBACS business
2. New business
3. Overseas business

### Performance Targets (FY March 2018)

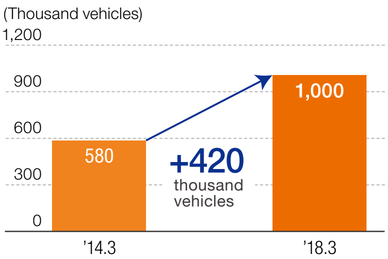
| | |
|---|---|
| **Operating income:** | ¥18.0 billion |
| **ROE:** | 8.0% |
| **DOE:** | At least 3.0% |

## Quantitative Targets in Key Areas*

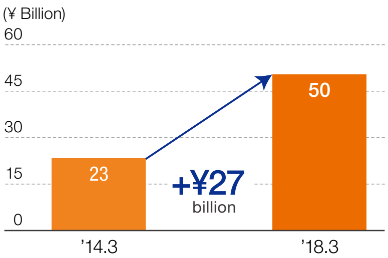
### Car Goods: Tire Unit Sales



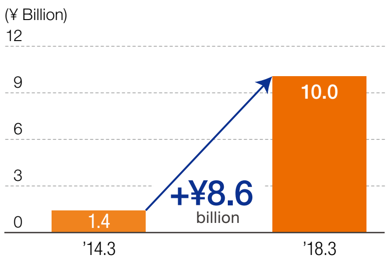

### Statutory Safety Inspection and Maintenance: Vehicles Inspected




### Automobile Purchase and Sales: Sales




### E-commerce: Sales




*Targets for AUTOBACS Chain stores in Japan

## Q5 What are the key measures for expanding the profitability of the domestic AUTOBACS business?

## A5 We will take steps focusing on four priorities to achieve further growth of the domestic AUTOBACS business.

Under the 2014 Medium-Term Business Plan, we will pursue measures along four priorities — Car goods and services, Statutory safety inspections and maintenance, Automobile purchase and sales, and E-commerce — for achieving further growth of the domestic AUTOBACS business.

In car goods and services, we will work to expand tire sales by adding sales locations through the establishment of new stores and using e-commerce solutions. Furthermore, to further strengthen our merchandising capabilities, we will revamp our private brand product strategy and develop reasonably priced products and services with reliable quality.

Regarding statutory safety inspections and maintenance, we will enlarge the number of vehicles inspected by increasing the number of service locations and enhancing customer convenience. Our goal is to perform inspections on 1 million vehicles during the final fiscal year of the plan. At present, the number of inspections performed annually differs significantly depending on the store, and performance will be improved where needed by continuing to provide advice to store management and using customer data to strengthen targeted marketing.

In automobile purchases and sales, we aim to steadily increase unit sales by displaying more vehicles at stores, updating the appraisal system, and adding to the number of stores handling vehicle purchases and sales. By the fiscal year ending March 2015, almost all of our stores will be handling vehicle purchases and sales, and we will increase customer awareness and vehicle unit sales by advertising, including through mass media, and strengthening sales promotions.

As for e-commerce, efforts will focus on increasing points of contact with new customers by enhancing product offerings and boosting awareness of the "AUTOBACS.COM" online shop, while also offering at-store installation services for goods purchased online, as well as other services that leverage our store network as a strength.

In addition to implementation of the measures above, we will move forward with store operation reforms and personnel development to more strongly link car goods and services, statutory safety inspections and maintenance, and automobile purchase and sales at each store, and transform ourselves into a one-stop car goods and service business with appropriate solutions for customer concerns and desires. In the domestic AUTOBACS business, we aim to achieve medium-to-long term growth by maintaining our brand as one for which "Anything about cars, you find at AUTOBACS" resonates to clearly differentiate ourselves from the competition.

## Q6 How will the overseas business be approached?

## A6 Partnerships with local companies, wholesale operations, and other measures emphasizing speed will be undertaken in the ASEAN region, which is poised for growth.

In our overseas business, we currently have operations in seven countries — France, Singapore, Thailand, China, Taiwan, Malaysia, and Indonesia — and, after profitability improvement initiatives, brought the business into the black as of the fiscal year just ended.

Going forward, business expansion efforts will focus on the ASEAN region and speed will be critical. While building an operational foundation through partnerships with local companies, we will also pursue vigorous expansion not only through store-based retail sales and services but also merchandise wholesaling and other related businesses. In the fiscal year just ended, we took initial steps toward that end by establishing an automotive goods wholesale joint venture with a local company in Indonesia, and entered into an operational and capital alliance with a Japanese company engaged in the wholesaling of car products in Malaysia to advance core retailing operations in that country.

## Q7 Could you take a moment to discuss your thoughts on CSR?

## A7 To continue to be a company that is beneficial to society, we pursue business activities that stress the importance of our relationships with our stakeholders.

For the AUTOBACS Group, CSR means practicing management that responds to economic, environmental, and social concerns, and being a company that is beneficial for society and helps customers get greater enjoyment from their cars. The AUTOBACS Group, therefore, pursues business activities that stress the importance of our relationships with customers, suppliers, investors, local communities, employees, governmental bodies, and all other stakeholders. Our impact on the environment is among our most pressing concerns, and we actively work to improve the environmental impacts of societies where cars are a major presence. For example, we strive to not only lower the environmental impacts of our own business operations but also promote the reuse of automobiles and parts, have installed charging stands for electric vehicles at our stores, and train our mechanics to properly service hybrid, electric, and other types of environmentally conscious vehicles.

As a foundation for our CSR approach, we continuously conduct compliance guidance and enlightenment activities for the entire Group and practice integrated risk management to ensure we can properly respond to the risks we face.

## Q8 What is the policy in terms of shareholder returns?

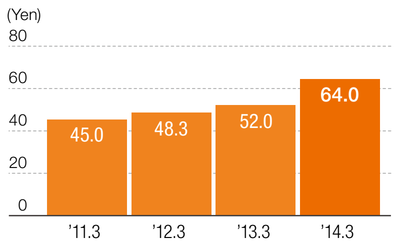
## A8 We strive to maintain a DOE of at least 3% and pay a stable dividend, as our earnings permit.

Under our financial strategy, we plan to vigorously undertake investments to maximize returns and expect to invest a total of ¥50.0 billion over a four-year period. With emphasis on capital efficiency, we aim to pay generous returns after considering the business environment and financial stability requirements.

As for our dividend policy, we will maintain a target DOE of at least 3% and pay a stable dividend as earnings permit. ROE is the indicator we place the greatest emphasis on and we will flexibly undertake investments or shareholder return measures including share buyback to boost ROE.

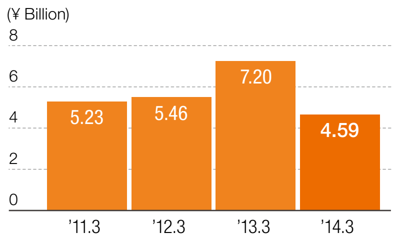
We intend to achieve medium- to long-term growth, and raise the corporate value of the AUTOBACS Group, by implementing our medium-term business plan, and will welcome the continued understanding and support of our investors and all of our other stakeholders going forward.

### Dividend Per Share




Notes
1. A 3-for-1 share split was implemented on April 1, 2013. Figures for prior fiscal years have been adjusted to reflect the impact of this split.
2. The dividend for the fiscal year ended March 31, 2014 includes a special dividend commemorating the 40th anniversary of AUTOBACS' founding.

### Treasury Shares Purchased



# Greater Availability, Enjoyment, and Convenience for Customers

# Eyes firmly fixed on the changing roles of cars in society, and working to firmly root ourselves in local communities

As the roles cars play in society change, AUTOBACS continues to create stores that are always close at hand, and offer one-stop solutions to all car-related needs — stores that provide customers with convenience, reliability, and enjoyment.
In addition, as an employer in local communities, we devote significant resources to personnel development and, through environmental consciousness and activities that contribute to local communities, strive to be a company that is supported and trusted as infrastructure for a society in which cars play important roles.

## 1 Helping Customers Get Greater Enjoyment from Their Cars

▶ Refer to p. 17 for more information.


Sales floors where goods are easy to find


Using tablet PCs to serve customers


Statutory safety inspection and maintenance service


Automobile purchase and sales


Private brand merchandise

- **Sales Space Renovation**
  Sales Floors that are Fun and Easy to Navigate
  Customer Service through Tablet PCs
- **Expansion of Merchandise and Service Lines**
  Expanded Line of Maintenance Services
  Increased the Number of Stores Dealing in Cars
- **Development of Private Brand Merchandise**
- **Multi-Channel Approach**
- **Quality Assurance**

## 2 Developing Car Professionals

▶Refer to p. 19 for more information.


Practical training


Employees in a training session


AUTOBACS Osaka Health Center


Strategy training for store managers

- **Education and Training for a More Capable Workforce**
- **Career Development Support**
- **Creating Friendly Work Environments**
- **Franchise Support**

## 3 To Reduce Our Environmental Burden

▶Refer to p. 21 for more information.


Solar panels


LED lighting


Use of collapsible shipping containers

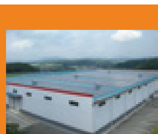

Buying and selling of used parts

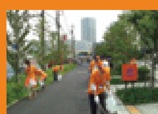
- **Promoting Energy Saving and Cutting Greenhouse Gases**
- **Resource–Saving Initiatives**

## 4 Contributing to Society as Member of Local Communities

▶Refer to p. 23 for more information.


Charging stand for EVs and PHVs


Megasolar power plant


Cleanup activity

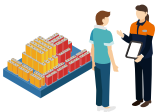

Extracurricular program at an elementary school ©GTA

- **Contributing to Local Communities through Our Stores**
- **Contributions to Local Communities**

# 1 Helping Customers Get Greater Enjoyment from Their Cars

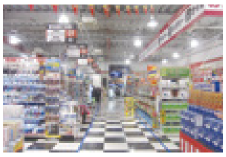
AUTOBACS wants to be more than an automotive goods retailer; our goals is to be the "go-to" place for everything related to cars. To be the one-stop place where customers can get answers for all of their car-related concerns and desires, we are moving forward with a wide range of initiatives that will make AUTOBACS the place to go for everything related to cars.

## Sales Space Renovation — To Create Stores that Are Exciting and Fun for Customers



### Sales Floors that Are Fun and Easy to Navigate

We spent four years to renovate the sales spaces at all of our stores to make the most of a broad array of merchandise offerings leaving no customer need unmet, and give customers a more comfortable, enjoyable shopping experience. We made sales floors brighter, organized merchandise displays by merchandise category, standardized in-store signage, and took other steps to provide customers with greater convenience, make purchasing easier, and contribute to greater sales and inventory efficiency at the store level.

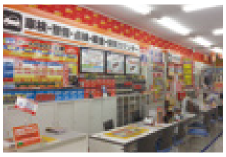


Sales floors where goods are easy to find

Space for special sales

### Customer Service through Tablet PCs

Not knowing whether a certain part will fit a particular car properly is one of the difficulties associated with buying automotive goods. AUTOBACS stores are now using tablet PCs to serve customers better with swift, accurate responses to their questions and desires, and ultimately increase customer satisfaction.



General Maintenance Counter

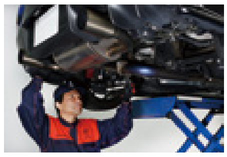
Using tablet PCs to serve customers

## Expansion of Merchandise and Service Lines — Enhanced Merchandise and Service Offerings to Support Every Stage of the Customer's Car Ownership

### Expanded Line of Maintenance Services

We offer customers a wide-ranging service selection including everything from oil and tire changes, to safety inspections, body repair and painting, statutory safety inspections and maintenance. Our General Maintenance Counters give customers a place where they can easily get advice on their concerns, and we use direct mailings and other approaches to encourage customers to bring their cars in for service at the recommended times.

Statutory safety inspection service desk



Performing a statutory safety inspection at a store certified to perform inspections

### Increased the Number of Stores Dealing in Cars

Responding to the needs of customers who consider buying another car as the time for statutory inspection for their current car approaches, AUTOBACS is moving ahead with efforts to offer car appraisal and purchase, and new and used car sales at all of its stores in Japan. As of March 31, 2014, these services were being offered at 359 stores, 60% of AUTOBACS locations. Plans are to be offering them at almost all of our stores by March 31, 2015.

Used car display

Rich inventory for customers to choose from in stores and on the Internet

### voice: Comments Sent by a Customer to the Customer Service Center

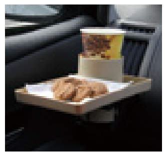
The other day, I had a 12-month inspection done at an AUTOBACS store (in Kanagawa Prefecture). I thought I'd been hearing something unusual from the engine, so I asked them to check it out, and they did. I made it to the store a little before closing, but they continued to work on my car even after closing time, found the source of the problem, and fixed it. I feel much better about driving my car now, and I'm very thankful for the service I received. I had been worried about the condition of my car, but now I have no concerns about driving it. My car is very important to me, so I'm very happy that it was fixed. I sent this message because I wanted to say once again how grateful I am. Thank you very much.

## Development of Private Brand Merchandise — High-Quality, High-Performance Merchandise at Affordable Prices

Drawing on its market-leading position in Japan, the wealth of know-how it has developed over the years, and relationships with its suppliers, AUTOBACS offers an incredibly wide range of private brand and exclusive car goods from tires and wheels, to oil, batteries, and accessories providing value in terms of price and performance. We currently offer approximately 1,000 of these items (SKU) that together comprise over 12% of total net sales. Going forward, we will revamp our PB merchandise strategy to offer customers goods with even more value than in the past.

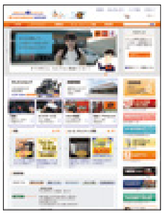

Tires


Microfiber cleaning cloths


Food tray

## Multi-Channel Approach — Developing Multiple Online Channels for Greater Customer Convenience

Adding to our own AUTOBACS.COM online shop, we are expanding our contacts with customers who purchase car goods via Internet shopping malls and other online channels. In addition, by inviting customers to have their online purchases installed at one of our stores, we are providing customers with greater convenience while also promoting synergies by increasing customer traffic at our stores.


AUTOBACS.COM (Established in January 2001)


AUTOBACS Rakuten Ichiba store (Opened in August 2012)


Amazon AUTOBACS store (Opened in June 2013)


AUTOBACS Yahoo! store (Opened in January 2014)

## Quality Assurance — Pursuing Product and Service Quality that Delivers Peace of Mind

The Company undertakes quality control guided by its Product Quality Control Regulations. Our quality control system covers not only private brand items, but also national brand items. Working closely with manufacturers and suppliers, we adopt a multifaceted approach to quality control, considering such aspects as the legality and safety of the products themselves and how they are used, as well as protection of consumers based on product liability laws.

### Assuring the Quality of PB Merchandise

Much of our private brand merchandise is manufactured at overseas plants. We ensure stable quality by monitoring production sites and offering advice. We inspect private brand items using the global Acceptable Quality Level (AQL) standard immediately before shipment from factories or on arrival at logistics centers.

### Ensuring the Safety of NB Merchandise

On rare occasions, we will find a defect with a national brand item. In such instances, in order to prevent recurrence, we implement every measure, extending to even our quality assurance systems and manufacturing processes, which includes the mandatory submission of an action plan by the manufacturer. We have also introduced the Defective Product Hotline on the Chain's online bulletin board to ensure that the relevant information is shared among the AUTOBACS Chain stores on a timely basis.

### Customer Service Assessments

To improve the quality of our customer service, we have an external research company perform secret shopper assessments twice a year at every one of our stores. Secret shoppers assess various aspects of our service quality, such as how we greet and interact with customers, and in-store merchandise information. Results are fed back to individual stores in an effort to continuously improve service.

### Personal Information Protection

The AUTOBACS Group, in order to properly manage the personal information of customers, implements organizational, physical, technological, and human measures to protect information. The Internal Control Department takes the lead in contacting other departments to regularly evaluate and improve personal information protection measures. It also works with department heads, who are responsible for information management in their areas, to ensure that information protection measures are being properly implemented.

# 2 Developing Car Professionals

The AUTOBACS Group, in order to provide customers with the best advice to help them get greater enjoyment and convenience from their cars, devotes a great deal of effort to developing personnel with expert knowledge and skills. By providing a friendly working environment and developing the potential of individual employees, we are honoring our responsibilities as an employer in local communities.

## Education and Training for a More Capable Workforce — Detailed Job-Level Training to Enhance Knowledge and Skills

AUTOBACS employs an education and training system that is organized by job-level and focuses mainly on store staff. In group training covering over 30 topics (conducted 678 times in fiscal 2014), e-learning, and on-the-job training, we set high expectations for employees. By translating learning achievements into internal qualifications based on test results and reflecting them in performance evaluations, we encourage employees to enhance their knowledge and skills, and ultimately improve the quality of service in our stores. We also devote significant effort to instruction-based and practical training to help mechanics and inspectors gain national qualifications, and are seeing a steady rise in employees who have.

Employees in a training session

### Status regarding Acquisition of Primary Professional Qualifications

| Qualification | Description | Certified Employees* | Vs. Previous Fiscal Year |
|---|---|---|---|
| **Internal** | | | |
| Car Life Advisor | Employees studying for this qualification gain knowledge of key items and services and how to interact with customers. Study is via e-learning. (10 Level-2 courses, 5 Level-1 courses, and final examination) | 18,269 | +64 |
| Merchandise Specialist | Employees studying for this qualification gain expert knowledge for recommending optimal merchandise, and acquire customer interaction skills. Enhanced training and a certification examination are conducted for those with Car Life Advisor qualifications. Seven courses of study are available, depending on merchandise group. | 5,257 | +1,084 |
| Mechanic | Employees studying for this qualification gain knowledge and skills necessary for working in a service bay. Training is performed via e-learning, video instruction, practical instruction, and group training, with a final examination. Four classes are available depending on career path. | 13,641 | +118 |
| **National** | | | |
| Automobile Mechanic | A national qualification gained based on practical experience and the passing of academic and practical skill examinations. | 3,653 | +259 |
| Automobile Inspector | Qualification earned by fulfilling requirements such as attending classes overseen by the Director of the District Transport Bureau and passing a final examination. | 1,265 | +56 |

*Numbers of employees with qualifications are for the entire AUTOBACS chain, as of March 31, 2014.

## Career Development Support — Various Support Systems to Help Employees Build Their Careers by Themselves

### Career Development System

Based on the belief that having all employees accumulate knowledge and experience, develop an understanding of various work settings, and deepen their knowledge of the company is vital for maximizing organizational capabilities, the AUTOBACS Group implements job rotations every few years. In a job rotation, superiors, acting as advisors, help individual employees identify their preferences and aptitudes, and take the lead in broadening and deepening their careers. Job rotations connect employee growth to invigoration of the organization as a whole.

### Cafeteria Plan

In addition to training that targets specific career levels, we have created a “Cafeteria Plan” under which employees can participate in correspondence courses or public seminars offered by outside education organizations, and receive support for obtaining national qualifications. The Cafeteria Plan helps employees take the lead in developing their own careers. Employees can receive up to ¥100,000 of financial support per year to take any of around 160 courses, and roughly 350 use this system in a typical year. Employees who pass a national qualification examination designated by the Company are paid incentive bonuses of up to ¥500,000.

### voice: Mid-Level Employee

Beginning with my assignment to a store when I joined the company, job rotation has allowed me to experience three types of positions, including ones in sales and personnel, over seven years. Along the way, I have broadened and deepened my career by discovering aptitudes I did not know I had and by coming to understand perspectives other than my own. In addition, by taking professional qualification training and seminars recommended by the Company, and correspondence courses and other education programs of my own choosing, I have been able to guide my own professional development. Looking to the future with a clear picture of what I should strive for personally, I aim to accomplish each day’s tasks on the way to my next step.

Naoto Chigira
Human Resources Department

## Creating Friendly Work Environments — Promoting Working Environments that Are Safe and Healthy for Individuals

### Worker Safety and Health

The AUTOBACS Group believes the health of employees is critical for its own continuous growth and works to promote good health for employees. We have, for example, established the AUTOBACS Osaka Health Center, where we hold health management training. This training is mandatory for employees who have received a diagnosis of a lifestyle-related or other disease in a regular physical examination and been instructed to participate by a physician. In addition, in store manager training, we stress the importance of maintaining safety in stores and preventing employees from working an excess number of hours, in an effort to maintain and improve working environments.


AUTOBACS Osaka Health Center

### Mental Health Care

Mental health checks are conducted by outside specialists for all employees, and there is a system employees can use to consult with outside cooperating institutions if they feel the need to.

### Child-Care Support for Employees

To help employees meet child-care responsibilities, we are enhancing support systems. As one example, we have extended the periods during which child-care leave can be taken and working hours can be reduced. As of March 31, 2014, 13 employees were making use of child-care-related support systems.

### Employing Older Adults

To transfer to younger employees the skills and experience of people near the end of long careers, the AUTOBACS Group actively hires older adults, including our own employees who have retired at the mandatory retirement age. During the fiscal year just ended, we hired six people (including our own rehires) over age 60, bringing the total number of such older employees to 42.

### Internal Reporting System

The AUTOBACS Group has implemented the "Orange Hotline," a group-wide internal reporting system to prevent and swiftly address misconduct or unethical actions by executives or employees. Internal and external contact points are available for people wanting to use the system.

## Franchise Support — Advancing Management Reforms to Expand the Market Shares of Individual Stores

### Support for Store Management

To make stores more attractive to customers, AUTOBACS is moving forward with sales space renovations for the entire chain, and pursuing improvements to accurately respond to customer needs, which differ by geographic area. Working with our partner franchisees, we identify examples of success at individual stores, and turn these into best practices. Our supervisors, whom we call "store counselors," then promote these best practices to individual stores, monitor implementation, and provide guidance for improvement. These efforts have paid off by making individual stores more attractive, and producing ongoing improvements in market share and profitability at the individual store level.

### Training to Enhance the Strategic Capabilities of Store Managers

Through its Chain Education Department, AUTOBACS helps franchisees improve their management. Strategy workshops, conducted for all store managers and assistant store managers, support strategy development at the individual store level, help to improve execution capabilities through the building of plan-do-check-act (PDCA) cycles and enhance organizational skills to boost results. We will continue to conduct these workshops to enhance the management capabilities of store executives going forward.

Strategy workshop for store managers

### voice: Store Counselor

To maintain and enhance the AUTOBACS brand at the store level and help franchisees improve their performance, I work on a daily basis to ensure the overall direction of the chain is reflected in key concerns for individual stores, and provide store management with advice for improving performance. Gathering information on problems and successes at the retail level and sharing this with relevant departments is another important role I play. It is important that I become a trusted advisor for store staff. I, of course, have to provide support that results in stores that customers are pleased with and are thankful to have, but I also want to be someone franchisees are pleased with and are thankful to have.

Shunya Isomura
Northern Kanto Area Operation Department, Kanto Region Headquarters

# 3 To Reduce Our Environmental Burden

As a company involved in a business related to cars, we continuously work to reduce the environmental impact of our business activities and, through the merchandise and services we offer, contribute to the development of a sustainable society in which cars are an important element.

## AUTOBACS SEVEN Environmental Policy

AUTOBACS SEVEN is committed to activities with considerations to environmental conservation in carrying out its business activities on sales of automotive related goods, statutory safety inspections and maintenance, and car sales.

1. **The Company will grasp the environment impacts of its business activities to determine the objectives, targets and plans for continuous improvement of environmental conservation activities.**
2. **The Company will comply with laws, regulations and other requirements pertaining to the environment.**
3. **The Company will put priority particularly on the following actions to reduce the relevant environmental impacts among those arising from its business activities.**
   (1) Promotion of energy saving practices and reduction of greenhouse gas emissions
   (2) Reduction of waste emissions and promotion of 3R activities
   (3) Purchases of environmentally friendly items
   (4) Development of environmentally-friendly goods and services and sales promotion of such merchandise and services at stores
4. **The Company will endeavor to prevent environmental pollution.**
5. **The Company will give education to and raise awareness among all its personnel so that they will proactively address the environmental and social issues in an attempt to build a sustainable society with harmony between people and cars.**

## voice: Environmental Manager

Making societies in which cars are an important element more vibrant through its business activities is the mission of AUTOBACS SEVEN. And because we are a company whose business involves cars, it is particularly important that we take initiatives to protect the environment.

The AUTOBACS Group undertakes environmental protection activities in line with its environmental policy. The Environmental Committee, composed of employees, leads environmental improvement activities and takes steps, such as announcing our headquarters' monthly electricity consumption to all employees in morning assemblies, to raise environmental awareness among individual employees.

Yoshiharu Yamada
General Manager, General Affairs Department

## Environmental Protection Targets and Results

| Area | | FY March 2014 Target | Results of Primary Initiatives for FY March 2014 | Plans for FY March 2015 |
|---|---|---|---|---|
| Expanded introduction of the environmental management system | | Acquire ISO 14001 certification for all principal business locations in Japan | Acquisition of certification for Chubu locations increased the national total to 8. | Acquisition of ISO 14001 certification at the Western Japan Logistics Center |
| Pursuit of energy efficiency and greenhouse gas reduction | Reduction of electricity usage (Reduce $CO_2$ emissions) | All locations: 3% YoY reduction | Thorough implementation of various energy-saving programs resulted in 5.6% YoY reduction | 5% reduction vs. FY March 2013 *Excluding some locations |
| | Reduction of gasoline usage | All locations: 3%+ YoY improvement in fuel economy | Adoption of energy-saving cars, and promotion of environmentally friendly driving of company cars resulted in a 6.0% YoY improvement | 5% improvement vs. FY March 2013 *Excluding some locations |
| Resource-saving initiatives | Reduction of waste | All locations: 1% YoY reduction in generation of landfill waste | Strict enforcement of separation rules resulted in a 17.8% YoY reduction | All locations: 1% reduction vs. FY March 2014 |
| | Reduction of copy paper usage | All locations: 5% YoY reduction | Distribution of information by electronic means instead of paper and use of tablet PCs resulted in a 9.8% YoY reduction | 2% reduction vs. FY March 2014 *Excluding some locations |
| | Reduction of cardboard usage | Western Japan Logistics Center: Reduce 28% vs. FY March 2012 | Use of collapsible containers for shipping and properly sized cardboard boxes resulted in a 42% reduction vs. FY March 2012 | Western Japan Logistics Center: 29% reduction vs. FY March 2012 |
| Procurement of environmentally friendly products | Procurement of green office products | All locations: Green procurement ratio of 66.7% or higher | Pursuit of green procurement in line with the Company's guidelines resulted in a green procurement ratio of 86.5% | Achieve a green procurement ratio of 75% or higher |
| Environmental communication | Environmental education for employees, and publicizing of activity programs | — | Circulation of education materials, and publicity through PR efforts by individual locations and departments | Continuation of initiatives |
| Contribution to local beautification | Neighborhood clean-ups | All locations: Implemented over 90% of activities planned for the year | Outperformed plans for the year | All locations: Participation by all company employees |

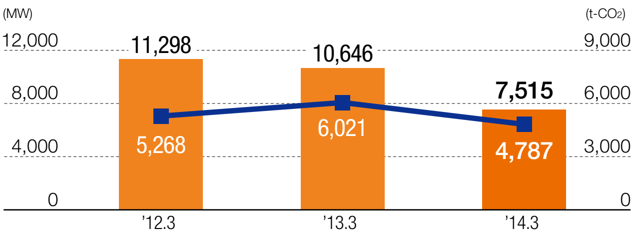
## Promoting Energy Saving and Cutting Greenhouse Gases

## Formulating Energy-Saving Measures and Cutting $CO_2$ Emissions

### Initiatives at AUTOBACS

For the fiscal year ended March 31, 2014, AUTOBACS' electricity consumption* declined by 29.4% year on year, to 7,515 MW, and total $CO_2$ emissions* fell by 20.9%, to 4,787t. The AUTOBACS Group has formulated energy-saving measures to be implemented over the coming 2-3 years. The programs we are implementing as a result include, for example, a commitment to "no overtime days" enabled by operational improvements and efficiencies.

**Electricity Consumption and $CO_2$ Emissions***




*Total for AUTOBACS SEVEN headquarters, offices, directly managed stores, and logistics centers

### Initiatives at AUTOBACS Stores

Setting the goal of reducing $CO_2$ emissions by 30% at existing stores of the same size, AUTOBACS installed energy-saving air conditioning systems, LED lighting, solar panels, and rooftop greenery at two test stores in the fiscal year ended March 31, 2011. Using the results of these tests, we are now considering installation of these technologies at new and existing stores.


Solar panels at the AUTOBACS Yamato Koriyama store

LED lighting at the AUTOBACS Yamato Koriyama store

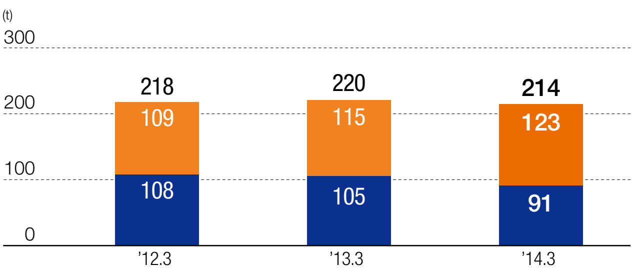
## Resource–Saving Initiatives

## Practicing the 3Rs for Effective Use of Limited Resources

### Reducing the Use of Containers and Packaging

During the fiscal year ended March 31, 2014, the Group reduced its use of shopping bags and other types of containers and packaging by 2.5% year on year, to 214t. Reduction in the use of shopping bags was accomplished in part by asking customers for their understanding and cooperation in using fewer bags. In addition, for AUTOBACS private brand items, we are gradually transitioning to packaging materials that weigh less or use more environmentally friendly materials.

**Container and Packaging Usage**




### Using Fewer Resources for Shipping by Employing Collapsible Containers

To reduce resources used for packaging, we are working to substitute reusable collapsible containers for cardboard, which is disposed of as waste, to ship products to stores.

### Waste Recycling Initiatives

**1. Waste Tires**
Special contractors shred the tires, which are mainly used for fuel at cement and paper plants, with some of the material also used in cement.

**2. Waste Oil**
Specialist contractors refine and recycle the oil, which is used mainly as boiler fuel.

**3. Waste Batteries**
Specialist contractors recycle the lead and plastics to create new batteries.

### Reducing Waste, Properly Processing, and Recycling

For the paper, plastic, and other types of general waste emanating from our stores and offices, we constantly remind employees to properly separate waste and strive to generate less waste. And for the waste resulting from the replacement work performed in our service pits, we commission licensed industrial waste management subcontractors to properly dispose of and recycle these materials. At the same time, we use our own systems to ensure proper waste processing by confirming that all waste is being handled in compliance with the law.

Collapsible shipping containers

### Promoting Reuse through Our Operations

We promote reuse by purchasing cars and parts from customers and selling them through our stores as used cars and used parts.

Buying and selling of used parts at the AUTOBACS Secohan Ichiba

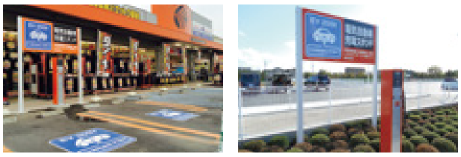
# 4 Contributing to Society as Member of Local Communities

AUTOBACS expands and improves the functions of its stores, so they can be trusted infrastructure for local residents. As a company that shares local community desires that cars be used properly, we also contribute to safety and security in the daily lives of local residents.

## Contributing to Local Communities through Our Stores | To be Infrastructure in Support of Local Residents

### Installing EV Charging Stands

Electric vehicles (EVs), which do not emit $CO_2$, are expected to play a significant role in fighting global warming. The AUTOBACS Group, therefore, is moving forward with the installation of EV charging stands in its store parking lots as a convenience for customers who visit our stores in an EV or plug-in hybrid vehicle (PHV), and to promote the use of these vehicles. As of March 31, 2014, charging stands had been installed at 72 AUTOBACS stores.



Charging stand for EVs and PHVs

### Assisting People Stranded in a Disaster

The AUTOBACS Group, at stores where it is practical to do so, has entered into agreements with local governments to assist people who become stranded in a disaster. Under these agreements, stores will provide people taking shelter at their locations with access to water and toilet facilities, and will use maps, radios, and other means to provide information on road conditions. As of March 31, 2014, 78 stores in eight prefectures were ready to provide the assistance mentioned above.

Sticker displayed at store entrances to let customers know the store will help them in times of disaster

### Miki Megasolar Power Plant Established

During the fiscal year just ended, AUTOBACS installed solar panels on a portion of dormant property at the site of its Western Japan Logistics Center and on some of the roof space of the center itself, and began selling the electricity generated. This is one example of how we effectively use our assets to promote the adoption of renewable energy.

Solar panels at the Western Japan Logistics Center

## Contributions to Local Communities | Pursuing Activities Rooted in Local Areas

In 2005, we began conducting cleanup activities in the area surrounding our headquarters, and, in the fiscal year ended March 2010, we instituted AUTOBACS Day — one day each week when the employees of each store clean the area around the store before opening time. On another front, we use our ARTA Project, for promoting motor sports, as the context for the "Yume wo Kanaeru" (Make Your Dreams Come True) extracurricular programs we hold for elementary and junior high school students. These are only a couple examples of locally based, locally oriented activities we are pursuing with the unique qualities of AUTOBACS.

Cleanup activity at a store

Extracurricular program at an elementary school ©GTA

### voice: Executive Officer in Charge

The AUTOBACS Group, as a business that functions as infrastructure for car-related needs, is constantly striving to be a good partner for, and earn the support of, customers, local residents, and society as a whole. In our core AUTOBACS business, in particular, we actively participate in local cleanup activities and area events through our stores. To help make daily life safer and more secure for local residents, we aim to promote the coexistence of AUTOBACS stores and local communities through initiatives in areas such as disaster planning and traffic safety.

Yugo Horii
Officer, Internal Control and Legal

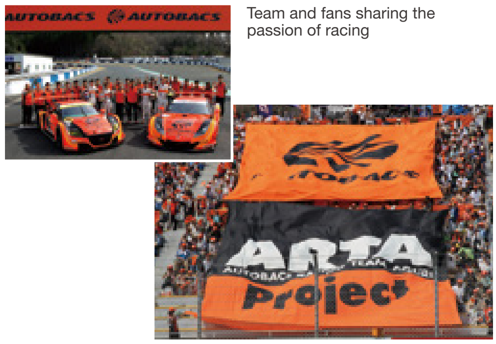
## Social Contribution Activities

# Communicating the Essential Fun of Cars to as Many People as Possible and Fostering Fans is Another of Our Missions

The AUTOBACS Group, through a wide range of activities that communicate the fun and joy to be gained from cars to a broad cross-section of society — children in particular — is fostering car fans and contributing to the development of car culture.

### Support for Motor Sports
### Using the Excitement and Passion of Racing to Increase the Number of People Who Love Cars

To help invigorate motor sports as a whole, AUTOBACS co-sponsors the SUPER GT series, Japan's most popular car races. In addition, since the establishment of the ARTA Project (AUTOBACS RACINGTEAM AGURI) in 1998, we have been pursuing activities on multiple fronts, such as discovering and developing Japanese drivers into world-class competitors and participating in domestic and overseas races, to use the passion of racing to create new fans.



Team and fans sharing the passion of racing

### Pavilion at KidZania
### Helping to Foster the Next Generation of Car Fans by Communicating to Children the Joy of Working with Cars

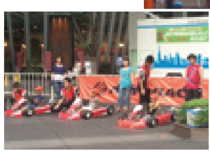
AUTOBACS created the Car Life Support Center pavilions at the KidZania Tokyo and Kidzania Koshien occupational theme parks for children. The purpose of these pavilions is to let children know the joy of working with cars, promote their understanding of safety and how cars function, and contribute to the future safety of a society heavily reliant on cars.


Service bay mockup where children can try their hands at changing a tire and other simulated car maintenance tasks

### Participation in the Marunouchi Kids Jamboree
### Communicating the Joy of Driving to Future Drivers

AUTOBACS participates in the Marunouchi Kids Jamboree sponsored by the Tokyo International Forum for children on summer vacation. At the 2013 event, which drew 300,000 visitors, we communicated the joy of driving through a race car exhibit and go-kart attraction for children and parents.


Race car exhibit


Go-kart-driving attraction

### Mt. Fuji Cleanup
### Ongoing Volunteer Cleanup of Areas Blighted by Tires and Other Illegally Dumped Items

Every autumn, since 2002, the AUTOBACS Group has carried out a volunteer cleanup activity in the area around the Aokigahara Forest at the base of Mt. Fuji. In carrying out the cleanup, volunteers, including participants from franchisees, collect illegally dumped items. That these include items such as tires and car batteries is an important aspect of this activity.


Cleanup activity at the base of Mt. Fuji

## Basic Concepts

Companies should seek to increase their corporate value over the medium to long term based on capital invested by the shareholders through fair business activities. Companies are expected to contribute to society as public institutions through business activities, considering their responsibility to customers, shareholders, employees, clients, communities, and all other stakeholders. Within this context, management is expected to pursue outstanding business practices. Toward that end, it must work to continuously develop the company, increase management transparency by being accountable for its actions, and fulfill its social responsibilities.

Based on this understanding, AUTOBACS SEVEN Co., Ltd. believes its highest duty is to preserve and strengthen the AUTOBACS brand by perpetually offering merchandise and services that please customers, while fulfilling our social responsibilities, to continuously earn the support and trust of all stakeholders. We, therefore, are also committed to the constant strengthening and improvement of our corporate governance.

## Corporate Governance System

AUTOBACS SEVEN is organized as a company with an Audit and Supervisory Board (a "company with Board of Company Auditors" as defined in Japan's Companies Act) and as such has a double-checking function consisting of the Board of Directors overseeing the execution of duties by board members and an auditing function performed by audit and supervisory board members. We have also taken the following measures to enhance corporate governance:

1) Introduction of officer system: Separation of business execution and oversight, clarification of management responsibilities
2) Ratio of outside directors above 30%: Enhancement of the oversight function
3) Establishment of committees primarily comprising outside directors: Ensuring of transparent, objective and sound management
4) Appointment of independent outside directors, as well as outside audit and supervisory board members: Protection of general shareholders' interests
5) Establishment of the Executive Committee and meetings comprised of the Company's officers: Ensuring of appropriate and swift decision making and forming of consensus among officers

The Company has eight directors, of whom three are outside directors, and of the three types of boards of directors presented by the sectional committee of the Financial System Council, the Board of Directors is classified as "a board of directors centering on outside directors." Meanwhile, the Company has a Corporate Governance Committee consisting of all outside directors and the representative director. The Company therefore has a hybrid corporate governance system, which is based on the system of a company with an Audit and Supervisory Board, but also has the function of a company with a committee system.

The Company has three independent outside directors and three independent outside audit and supervisory board members to protect the interests of general shareholders.

### Corporate Governance Framework of AUTOBACS SEVEN

| | | | |
|---|---|---|---|
| Configuration | | | Company with an Audit and Supervisory Board |
| Management and Business Execution Framework | Board of Directors | Chairman | Representative director |
| | | Member | Directors: eight (three outside directors, all of whom are independent directors, and five directors who are also executive officers)<br>Audit and supervisory board members: four (three outside members, all of whom are independent members) |
| | | Roles | Make decisions and report on the matters set out by laws and regulations or the Articles of Incorporation, and deal with important matters relating to the Company's business activities |
| | | No. of meetings held in FY2014 | 16 times (including 4 ad hoc meetings) |
| | Executive Committee | Chairman | Chief Executive Officer |
| | | Member | Executive Officers (Observers: audit and supervisory board members and outside directors) |
| | | Roles | • Prior deliberation of items to be decided by the Board of Directors • Formulate policies and plans for the entire company |
| | | No. of meetings held in FY2014 | 10 times |
| | Officers' Committee | Chairman | Chief Executive Officer |
| | | Member | Executive Officers (Observers: audit and supervisory board members and outside directors) |
| | | Roles | • Management, analysis and countermeasures relating to progress of business strategies<br>• Thorough implementation of policies, plans and strategies throughout the entire company |
| | | No. of meetings held in FY2014 | 12 times |
| Advisory Organ to the Board of Directors | Corporate Governance Committee | Chairman | Outside Director (chosen from the outside directors) |
| | | Member | Outside Directors and Representative Director (Observers: outside audit and supervisory board members) |
| | | Roles | • Discuss candidates for directors, audit and supervisory board members and executive officers<br>• Discuss remuneration system for directors and officers • Discuss other matters related to corporate governance |
| | | No. of meetings held in FY2014 | 7 times |
| | Risk Management Committee | Chairman | Representative Director |
| | | Member | Officers with directorships and officer responsible for internal control (Observers: audit and supervisory board members and outside directors) |
| | | Roles | Promote smooth and appropriate risk management |
| | | No. of meetings held in FY2014 | once |
| Auditing and Supervising by Audit and Supervisory Board Members and Internal Auditing System | Auditing and Supervising by Audit and Supervisory Board Members | Audit and supervisory board members | Four (three outside members, all of whom are independent members) |
| | | Employees assisting with the duties of audit and supervisory board members' | One staff employee (full-time) |
| | | No. of meetings held in FY2014 | 14 times (including 2 ad hoc meetings) |
| | Internal Auditing | Internal Auditing Organ | 9 (direct report to the CEO) |
| | | Roles | • Evaluate the internal control system • Audit business operations of the Company and its subsidiaries<br>• Report audit results to audit and supervisory board members, representative director & CEO and officers, and instruct departments responsible to correct inadequacies |
| | Cooperation | — | At the beginning of each fiscal year, the audit and supervisory board members consult with the independent auditor about an audit and supervising plan for the fiscal year. The audit and supervisory board members receive a progress report each month on audits of financial statements and reviews, and exchange information and opinions. The audit and supervisory board members check the audit plan developed by the Internal Auditing Organ at the beginning of the fiscal year.<br>The audit and supervisory board members receive a report on audit results from the Internal Auditing Organ once a quarter and express opinions on it. They also exchange information. |

# Directors and Auditors

## Directors

Front, from left: Kiomi Kobayashi, Setsuo Wakuda, Hironori Morimoto  Back, from left: Noriaki Shimazaki, Kozo Sumino, Hatsuo Odamura, Teruyuki Matsumura, Tatsuya Tamura

### Setsuo Wakuda

Representative Director and Chief Executive Officer, Chief AUTOBACS Chain Officer

### Hironori Morimoto

Director and Vice Chief Executive Officer, Head of Corporate Administration and Finance & Accounting

### Kiomi Kobayashi

Director and Vice Chief Executive Officer, Vice Chief AUTOBACS Chain Officer, Head of Chain Store Planning and Store Subsidiary Strategy

### Teruyuki Matsumura

Director and Senior Managing Executive Officer, Head of Merchandising and Merchandise Planning and E-Commerce

### Kozo Sumino

Director and Senior Executive Officer, Head of Merchandise Development

### Tatsuya Tamura

Director (Outside, Independent), Chairman of the Corporate Governance Committee

### Noriaki Shimazaki

Director (Outside, Independent), Member of the Corporate Governance Committee

### Hatsuo Odamura

Director (Outside, Independent), Member of the Corporate Governance Committee

## Audit and Supervisory Board Members

From left: Yuji Sakakura, Yasuhiro Tsunemori, Tomoaki Ikenaga, Toshiki Kiyohara

### Yasuhiro Tsunemori

Audit and Supervisory Board Member (Full-time)

### Toshiki Kiyohara

Audit and Supervisory Board Member (Full-time, Outside, Independent)

### Tomoaki Ikenaga

Audit and Supervisory Board Member (Outside, Independent)

### Yuji Sakakura

Audit and Supervisory Board Member (Outside, Independent)

## Interviews with Outside Directors

Tatsuya Tamura

Director (Outside, Independent),
Chairman, Corporate Governance Committee

**Q1 For several years now you've been involved in the management of AUTOBACS SEVEN. Compared to when you first joined the Board of Directors, do you think there have been any changes in the way the Board operates or discussions that take place in board meetings?**

During the first 2-3 years after I was appointed, I recall that in board meetings and Corporate Governance Committee meetings we discussed not only operational matters but also questions about how best to govern the company. We engaged in focused discussions of topics such as executive compensation and evaluation systems, and approaches for appointing directors and senior executives.

Lately, though, our discussions have become more wide-ranging, addressing topics like specific domestic or overseas strategies. I think what has happened is that the framework for the governance system has been built and that even outside directors are now able to concentrate on higher-level matters — such as strategy — that are of greater consequence to the company.

**Q2 Considering the current state of corporate governance at Japanese companies, are there any areas of governance at this company that pose challenges or require further improvement?**

The governance system at AUTOBACS SEVEN is already at a level that permits the coexistence of outside directors — expressing meaningful opinions from the perspective of investors and securities markets — and those whose views reflect intimate insider understanding of what it takes to operate the company.

If I were to mention any area for further improvement in governance, I think it would be diversity. For example, given that the number of female drivers is increasing, it might be advisable for the company to consider appointing women to upper management positions in the future.

Noriaki Shimazaki

Director (Outside, Independent), Chairman,
Corporate Governance Committee

**Q1 From your perspective as an outside director, what are the issues the company faces in implementing its 2014 Medium-Term Business Plan?**

The 2014 Medium-Term Business Plan puts forth some ambitious strategies for increasing the Company's corporate value through sustainable, stable growth. To achieve that goal, investment plans for increasing the profitability of existing businesses and nurturing new businesses have already been laid out, but properly implementing PDCA cycles for new investments and from the beginning to the end of projects is critical.

In other words, it is necessary to further elevate the operational quality of the AUTOBACS Group by, for example, properly identifying the risks of proactive business expansion, being of a mind to pursue commensurate returns on investment, and thoroughly managing risk.

**Q2 What will be your role in addressing these issues?**

I aim to draw on my experience as a director of a general trading company to help ensure that proper, reasonable decision making is possible particularly in the plan (P) and check (C) stages of the plan-do-check-act (PDCA) cycle. And in doing so, I plan to emphasize the perspective of an ordinary shareholder.

Hatsuo Odamura

Director (Outside, Independent),
Chairman, Corporate Governance Committee

## Q1 As a company pursuing business related to cars, what kind of relationship should AUTOBACS SEVEN be building with society?

With efforts by many people over many years, the annual number of traffic fatalities has come down. Still, though, with over 4,000 people a year losing their lives in traffic accidents, traffic safety remains a major issue for society.

AUTOBACS is one of the most familiar brands for drivers in Japan. If the AUTOBACS Group, therefore, leads activities that translate into greater traffic safety, it will earn even greater trust from drivers, and ultimately increase its corporate value.

## Q2 As a new outside director, what role do you think observers inside and outside the Company are expecting you to play?

I think I'm being expected to apply my experience in risk management and public safety at the National Police Agency and other places, and my experience in organizational management for risk management and public safety, to help manage risks, including those associated with antisocial forces, and oversee proper operational execution.

Of course, protecting the interests of ordinary shareholders, helping to increase corporate value, and contributing to the enhancement of corporate governance are also important roles.

## Profile

### Tatsuya Tamura

| | |
|---|---|
| April 1961: | Joined the Bank of Japan |
| May 1986: | Representative – Europe, Bank of Japan |
| February 1992: | Executive Director, Bank of Japan |
| April 1996: | Chairman, A. T. Kearney, Inc. |
| June 1996: | Adviser to the Board, Foreign and Colonial Pacific Investment Fund |
| April 1999: | Secretary, Keizai Doyukai (Japan Association of Corporate Executives) |
| June 1999: | Outside Director, ORIX Corporation |
| June 2000: | Outside Director, Suruga Bank Ltd. |
| May 2002: | Representative Director and President, Global Management Institute Inc. (current position) Auditor, Japan Center for Economic Research (current position) |
| June 2002: | Outside Director, Japan Telecom Co., Ltd. |
| March 2003: | Chairman, Japan Corporate Governance Network (non-profit organization; current position) |
| June 2003: | Outside Director, SKY Perfect Communications Inc. |
| October 2004: | Outside Director, Kanebo Cosmetics Inc. |
| June 2006: | Outside Director, Sanden Corporation |
| June 2008: | Outside Director, AUTOBACS SEVEN Co., Ltd. (current position) |
| June 2009: | Outside Director, Nipponkoa Insurance Co., Ltd. |
| June 2010: | Outside Corporate Auditor, Shinsei Bank, Limited (current position) |

### Noriaki Shimazaki

| | |
|---|---|
| April 1969: | Joined SUMITOMO CORPORATION |
| June 1998: | Director of SUMITOMO CORPORATION |
| April 2002: | Representative Director, Managing Director of SUMITOMO CORPORATION |
| January 2003: | Member of Business Accounting Council of Financial Services Agency |
| April 2004: | Representative Director, Senior Managing Director of SUMITOMO CORPORATION |
| April 2005: | Representative Director, Executive Vice President of SUMITOMO CORPORATION |
| July 2008: | Chairman, Sub-committee on Accounting of Nippon Keidanren |
| January 2009: | Trustee of International Financial Reporting Standards Foundation (IFRS Foundation) |
| July 2009: | Special Adviser of SUMITOMO CORPORATION |
| January 2010: | Member of the Management Advisory Committee, BNP Paribas Securities (Japan) Limited (current position) |
| June 2011: | Trustee of Financial Accounting Standards Foundation |
| June 2011: | Outside Director, AUTOBACS SEVEN Co., Ltd. (current position) |
| June 2011: | Chair of Self-regulation Board & Public Governor of Japan Securities Dealers |
| September 2013: | Association (current position) Advisor, IFRS Foundation Asia-Oceania Office (current position) |
| September 2013: | Advisor, The Japanese Institute of Certified Public Accountants (current position) |
| March 2014: | Member of the Management Advisory Committee, SBI Holdings, Inc. (current position) |

### Hatsuo Odamura

| | |
|---|---|
| April 1972: | Joined the National Police Agency |
| April 1982: | First Secretary, Embassy of Japan in Thailand |
| August 1992: | Director General, Saga Prefectural Police Headquarters |
| April 1998: | Director General, Nagano Prefectural Police Headquarters |
| August 1999: | Director General, Hiroshima Prefectural Police Headquarters |
| September 2001: | Director General, Kinki Regional Police Bureau |
| April 2002: | Director, International Affairs Department, Commissioner-General's Secretariat, National Police Agency |
| January 2004: | Director General, Imperial Guard Headquarters |
| January 2006: | Retired from the National Police Agency |
| February 2006: | Councilor, Japan Police Personnel Cooperative |
| June 2006: | Senior Director, Japan Urban Security Research Institute |
| December 2008: | Director General, Institute for Traffic Accident Research and Data Analysis |
| June 2014: | Outside Director, AUTOBACS SEVEN Co., Ltd. (current position) |

For more information on corporate governance, please refer to the website below.
**http://www.autobacs.co.jp/en/csr/co_gove_menu_en.html**

# AUTOBACS Chain Store Formats and Network

## Domestic (As of March 31, 2014)

### AUTOBACS


| | |
|---|---|
| Position: | Standard-type store |
| Annual sales per store: | ¥402 million |
| Floor space: | From 400 $m^2$ |
| Commercial area: | 5 km radius |

### Super AUTOBACS Type I

| | |
|---|---|
| Position: | Large format store (Flagship store) |
| Annual sales per store: | ¥1,897 million |
| Floor space: | From 1,650 $m^2$ |
| Commercial area: | 20 km radius |

### Super AUTOBACS Type II


| | |
|---|---|
| Position: | Large format store |
| Annual sales per store: | ¥911 million |
| Floor space: | 990 $m^2$ |
| Commercial area: | 10 km radius |

### AUTOBACS Secohan Ichiba

AUTOBACS Secohan Ichiba deals in used automotive goods, which are purchased from customers at AUTOBACS Chain stores and resold to retail customers. It also handles outlet products from manufacturers.

### AUTOBACS EXPRESS

The AUTOBACS EXPRESS is a gas station type store. The Group expects that many points of driver contact inherent to service stations will send new customers to neighboring AUTOBACS stores.

### AUTOBACS CARS

AUTOBACS CARS purchases and sells used vehicles, as well as selling new vehicles. With a few exceptions, sales areas are located inside AUTOBACS and Super AUTOBACS outlets.

## Overseas (As of March 31, 2014)

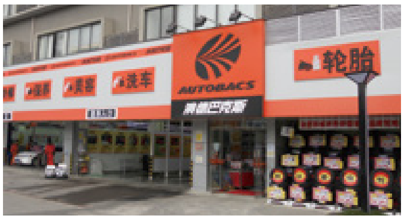
### France


| | |
|---|---|
| Stores operated by consolidated subsidiary: | 9 |
| Stores operated by franchisees: | 2 |

### Thailand

| | |
|---|---|
| Stores operated by consolidated subsidiary: | 4 |

### China




| | |
|---|---|
| Stores operated by consolidated subsidiary: | 1 |

### Singapore


| | |
|---|---|
| Stores operated by consolidated subsidiary: | 3 |

### Taiwan

| | |
|---|---|
| Stores operated by franchisees: | 6 |

### Malaysia

| | |
|---|---|
| Stores operated by franchisees: | 2 |

## Number of Stores

| | 2010.3 | 2011.3 | 2012.3 | 2013.3 | 2014.3 |
|---|---|---|---|---|---|
| **Domestic** | **511** | **513** | **530** | **552** | **571** |
| AUTOBACS | 395 | 430 | 430 | 455 | 478 |
| Super AUTOBACS Type I | 6 | 6 | 6 | 6 | 6 |
| Type II | 71 | 70 | 70 | 70 | 69 |
| AUTO HELLOES* | 8 | 5 | 1 | – | – |
| AUTOBACS Secohan Ichiba | 25 | 21 | 18 | 14 | 10 |
| AUTOBACS EXPRESS | 6 | 7 | 5 | 7 | 8 |
| **Overseas** | **26** | **25** | **27** | **27** | **27** |
| **Total** | **537** | **538** | **557** | **579** | **598** |

*In the fiscal year ended March 31, 2013, the AUTO HELLOES brand was integrated with the AUTOBACS brand.

# Corporate Profile/Share Information

## Corporate Profile (As of March 31, 2014)

| | |
|---|---|
| Name | AUTOBACS SEVEN Co., Ltd. |
| Headquarters | 6-52, Toyosu 5-chome, Koto-ku, Tokyo, Japan |
| Date of Foundation | August 1948 |
| Paid-in Capital | ¥33,998 million |
| Number of Employees | 4,466 |

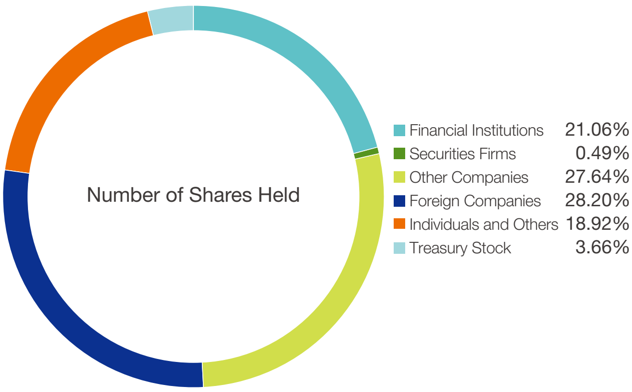
| | |
|---|---|
| Main Business Offices (As of April 1, 2014) | Northern Japan Region Headquarters (Sendai, Miyagi)<br>Kanto Region Headquarters (Ichikawa, Chiba)<br>Chubu Region Headquarters (Nagoya, Aichi)<br>Kansai Region Headquarters (Osaka, Osaka)<br>Southern Japan Region Headquarters (Fukuoka, Fukuoka) |

## Share Information (As of March 31, 2014)

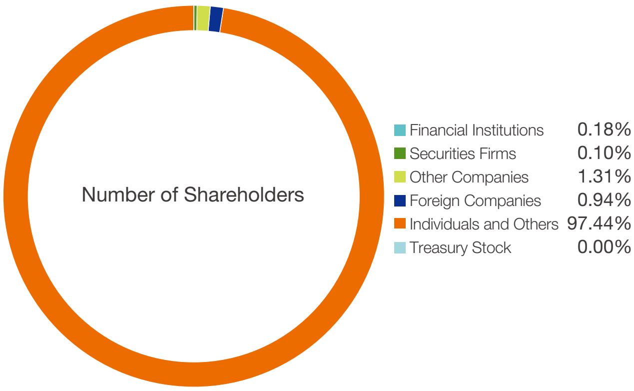
| | |
|---|---|
| Total Number of Authorized Shares | 328,206,900 shares |
| Common Stock Issued | 92,950,105 shares (including 3,403,912 of treasury stock) |
| Number of Shareholders | 26,498 |
| Share Trading Unit | 100 shares |

| | |
|---|---|
| Stock Listings | First Section of the Tokyo Stock Exchange |
| Independent Auditor | Deloitte Touche Tohmatsu LLC |
| Transfer Agent | The Sumitomo Mitsui Trust Bank, Limited<br>4-1, Marunouchi 1-chome, Chiyoda-ku |

### Breakdown of Shareholders (by Size of Shareholding)




### Breakdown of Shareholders (by Type)

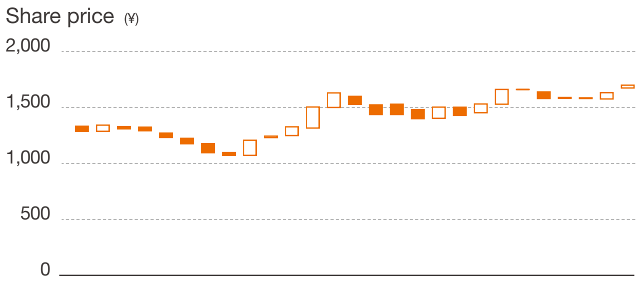


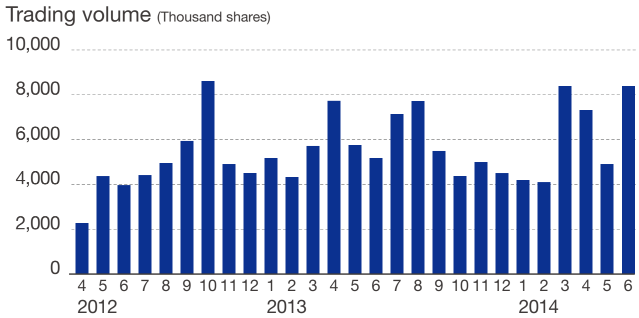

### Major Shareholders

| Name | Number of Shares Held (Thousands) | Shareholding Ratio (%) |
|---|---|---|
| Sumino Holdings, Ltd. | 7,473 | 8.34 |
| Ichigo Trust | 4,739 | 5.29 |
| Northern Trust Company (AVFC) Re Silchester International Investors International Value Equity Trust | 4,147 | 4.63 |
| The Yuumi Memorial Foundation for Home Health Care | 3,990 | 4.45 |
| The Master Trust Bank of Japan, Ltd.(Trust Account) | 3,364 | 3.75 |
| Japan Trustee Service Bank, Ltd. (Trust Account) | 2,554 | 2.85 |
| Northern Trust Company AVFC Re U.S. Tax Exempted Pension Funds | 2,430 | 2.71 |
| Sumisho Holdings, Ltd. | 2,400 | 2.68 |
| Hiroshi Sumino | 2,084 | 2.32 |
| Live Field Co., Ltd. | 2,000 | 2.23 |
| K Holdings, Ltd. | 2,000 | 2.23 |

Notes:
1. Shareholding ratio is calculated by deducting own shares from the total number of shares with voting rights.
2. Holdings of less than 1,000 shares have been omitted from the number of shares owned, and the shareholding ratio is rounded down to two decimal places.

### Share Price

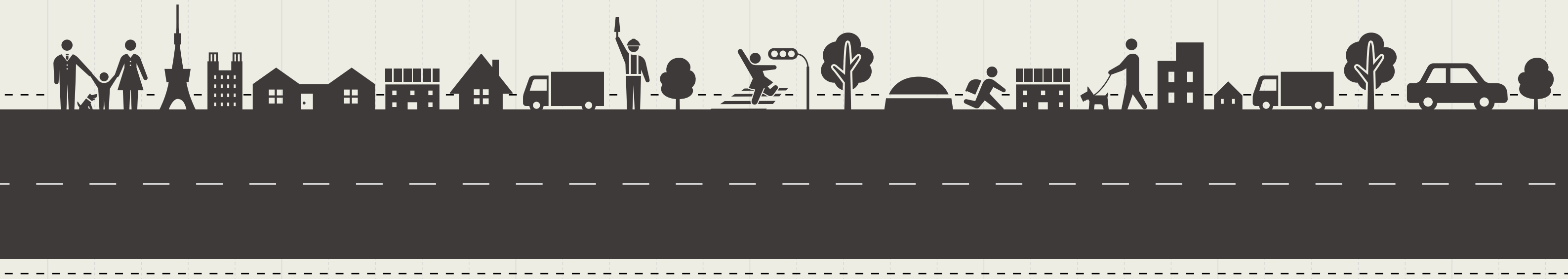



Note: A 3-for-1 stock split was implemented on April 1, 2013. Figures predating this stock split have been adjusted to reflect its impacts.

**AUTOBACS SEVEN CO., LTD.**

IR & PR Department, AUTOBACS SEVEN Co., Ltd.
NBF Toyosu Canal Front, 6-52, Toyosu 5-chome, Koto-ku, Tokyo, 135-8717
PHONE: +81-3-6219-8718 FAX: +81-3-6219-8762
E-mail: investors@autobacs.com
URL: http://www.autobacs.co.jp/en/



# Financial Section 2014

## Contents

# Consolidated Six-Year Summary

AUTOBACS SEVEN Co., Ltd. and Subsidiaries

| Fiscal year ended on March 31 for each displayed year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| | Millions of yen, except per share data | | | | | |
| FISCAL YEAR | | | | | | |
| Net sales: | | | | | | |
| Tires and wheels | **¥58,243** | ¥56,351 | ¥55,348 | ¥51,416 | ¥47,954 | ¥52,587 |
| Car electronics | **40,700** | 44,490 | 58,135 | 59,849 | 63,994 | 63,708 |
| Oil and batteries | **26,142** | 25,568 | 24,406 | 24,566 | 24,246 | 26,334 |
| Car exterior goods | **24,669** | 24,054 | 23,000 | 23,868 | 22,350 | 28,458 |
| Car interior goods | **22,752** | 23,481 | 21,735 | 21,540 | 21,071 | 23,674 |
| Motor sports goods | **13,775** | 14,040 | 13,516 | 14,451 | 15,377 | 17,383 |
| Services | **20,061** | 19,249 | 18,462 | 17,506 | 16,856 | 18,472 |
| Others | **25,355** | 22,931 | 22,736 | 23,155 | 21,089 | 28,528 |
| Total | **231,697** | 230,168 | 237,343 | 236,351 | 232,937 | 259,144 |
| Operating income | **13,945** | 12,745 | 13,721 | 11,989 | 10,171 | 5,090 |
| Income (loss) before income taxes and minority interests | **16,086** | 13,915 | 15,217 | 11,501 | 10,575 | (3,938) |
| Net income (loss) | **9,786** | 7,590 | 8,403 | 6,180 | 5,866 | (3,398) |
| Dividends paid | **¥5,763** | ¥4,762 | ¥4,706 | ¥4,555 | ¥4,023 | ¥4,547 |
| Consolidated dividend payout ratio | **59.4** | 64.0 | 57.3 | 75.9 | 77.2% | – |
| Amount of share buyback | **4,593** | 7,196 | 5,464 | 5,233 | 5,374 | 2,458 |
| Total return ratio | **105.8%** | 158.2% | 121.6% | 159.5% | 168.0% | - |
| Return (loss) on sales | **4.2%** | 3.3% | 3.5% | 2.6% | 2.5% | (1.3%) |
| Return (loss) on equity | **6.8%** | 5.3% | 5.7% | 4.1% | 3.8% | (2.1%) |
| Return (loss) on assets | **4.8%** | 3.6% | 3.9% | 3.0% | 2.7% | (1.5%) |
| Per share data (Yen): | | | | | | |
| Basic net income (loss) * | **¥ 107.71** | ¥81.22 | ¥84.28 | ¥59.32 | ¥53.99 | ¥(30.10) |
| Cash dividends | **64.00** | 52.00 | 48.33 | 45.00 | 41.66 | 33.33 |
| Net cash provided by (used in) operating activities | **12,072** | 10,741 | ¥20,845 | ¥15,375 | ¥18,949 | ¥7,028 |
| Net cash (used in) provided by investing activities | **1,519** | (4,523) | (10,156) | (5,002) | (4,694) | 4,543 |
| Net cash (used in) provided by financing activities | **(11,166)** | (14,862) | (11,574) | (11,790) | (12,187) | (9,259) |
| Capital expenditures | **4,820** | 6,249 | 7,691 | 3,187 | 3,061 | 4,870 |
| Depreciation and amortization | **4,551** | 5,194 | 4,644 | 4,798 | 5,207 | 6,347 |
| **AT YEAR-END** | | | | | | |
| Cash and cash equivalents | **45,384** | 42,833 | 51,402 | ¥52,317 | ¥53,786 | ¥51,749 |
| Current assets | **126,709** | 127,203 | 141,612 | 133,031 | 133,883 | 136,968 |
| Current liabilities | **44,034** | 45,021 | 55,650 | 40,649 | 41,521 | 44,842 |
| Current ratio | **287.8%** | 282.5% | 254.5% | 327.3% | 322.4% | 305.4% |
| Total assets | **201,481** | 205,527 | 217,949 | 207,795 | 210,652 | 224,168 |
| Equity | **143,979** | 142,862 | 145,626 | 147,505 | 151,397 | 154,763 |
| Equity ratio | **71.5**% | 69.5% | 66.8% | 71.0% | 71.9% | 69.0% |
| Total number of stores | **598** | 579 | 557 | 538 | 537 | 634 |
| Of which, overseas stores | **27** | 27 | 27 | 25 | 26 | 116 |
| Number of employees | **4,466** | 4,678 | 4,469 | 4,459 | 4,483 | 5,933 |

*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 2014

## OPERATIONAL REVIEW

### THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group ("the Group") consists of AUTOBACS SEVEN Co., Ltd. ("the Company"), 33 subsidiaries, and 8 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, AUTOBACS Secohan Ichiba, and AUTOBACS EXPRESS. In the automobile purchase and sales business, its brand is AUTOBACS CARS.

**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.

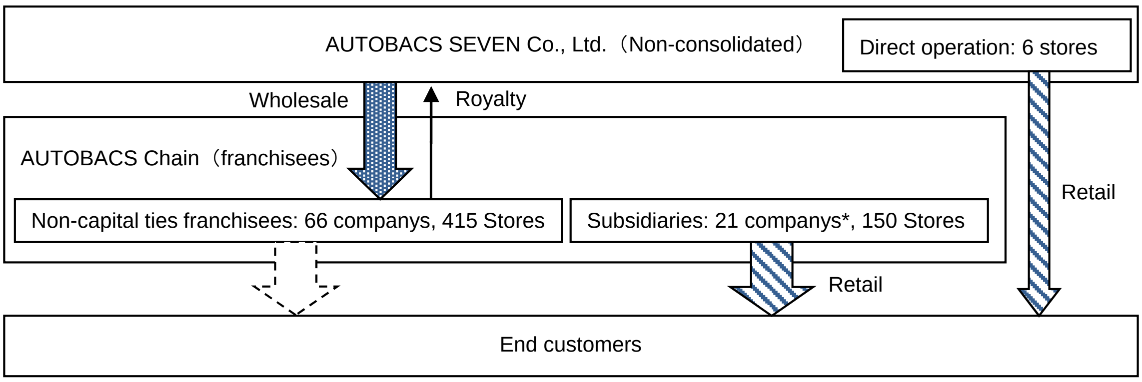
**• Retail Operations**

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.

**Basic business flow of AUTOBACS in Japan (fisical 2014)**




*Excluding one inactive company

| | Stores 2014 | | 2013 | |
|---|---|---|---|---|
| Stores included in consolidation (retail operations) | | | | |
| Directly managed stores | **6** | | 10 | |
| Consolidated subsidiaries (of which, overseas) | **167** | **(17)** | 164 | (18) |
| Subtotal | **173** | | 174 | |
| Stores not included in consolidation | | | | |
| Stores managed by franchisees, including stores of affiliates (of which, overseas) | **425** | **(10)** | 405 | (9) |
| Total stores (of which, overseas) | **598** | **(27)** | 579 | (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.

**• 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 41.)

**Sales by Store Type in Japan**

¥ million; Stores

| | | 2014 | 2013 |
|---|---|---|---|
| AUTOBACS | Sales | **192,377** | 192,456 |
| | Stores | **478** | 455 |
| Super AUTOBACS | Sales | **74,208** | 76,936 |
| | Stores | **75** | 76 |
| AUTOBACS C@RS | Sales | **23,043** | 17,276 |
| | Stores | **359** | 244 |
| AUTOBACS Secohan Ichiba | Sales | **1,736** | 2,016 |
| | Stores | **10** | 14 |
| AUTOBACS EXPRESS | Sales | **4,017** | 3,113 |
| | Stores | **8** | 7 |
| Total Sales | Sales | **295,381** | 291,797 |
| | Stores | **571** | 552 |

**Analysis of Operating Environment**

Japan's market for automotive parts and accessories has been shrinking since around fiscal 1997. It is estimated that retail sales in this market totaled ¥3,057 billion in fiscal 1997. In fiscal 2014, this market was estimated falling to approximately ¥1,800 billion*. This market shrinkage has stemmed mainly from reasons as follows.

1. Increased efforts by automakers to offer new vehicles with various equipment and accessories as standard features.
2. Fall in average selling prices of car electronics goods, such as car navigation system.
3. Decrease in average selling prices and prolonged replacement cycle of car parts, due mainly to downsizing and improved performance of automobile itself.
4. Declining of motor sports goods market, due to decrease in number of sports cars and diversification of young people's hobbys and interests.

These tendency of market shrinkage will be continue more or less a few percent per year, however, domestic statutory inspection and maintenance market in 2013**was ¥ 2,982 billion, decreased 1.5% year on year, and domestic sales of used car in 2013 *** was 5,660 thousand vehicles, increased 0.3% year on year. Both two markets had been relavely stable and larger than automotive parts and accessories market.

*1 Reference: AM+NETWORK, August 2001 and August 2012 issues. Figure of fiscal 2014 is estimated by the Company.

** Japan Automobile Service Promotion Association

*** Japan Automobile Dealers Association, Japan Mini Vehicles Association

## FISCAL 2014—OVERVIEW AND ACHIEVEMENTS

**Performance Overview**

During the consolidated fiscal year under review, the Japanese economy began showing signs of positive developments with clear trends of a weaker yen and higher stock prices on the back of monetary easing and stimulus packages. However, consumer spending remained uncertain, mainly reflecting the sluggish growth of personal income. With respect to the domestic consumption of automotive goods and services, overall demand declined in the first half of the year in reaction to strong sales of new cars that were recorded in the previous year due to the impact of government subsidies for the purchase of fuel efficient cars. In the second half of the year, with the peaking of this reactionary impact, as well as the last-minute demand in anticipation of the higher consumption tax from April 2014, overall demand for new and used cars and automotive goods increased.

**•Overview of the Domestic AUTOBACS Chain Business**

For the consolidated fiscal year under review, overall sales for Japanese businesses in the AUTOBACS chain (including franchise outlets) declined by 0.6% year on year on a same-store basis, and increased by 1.2% year on year on an overall store basis.

Sales in the automotive goods segment declined year on year. To offset the continued fall in the unit prices of car navigation devices, from the beginning of the fiscal year under review the Group strove to increase sales across the entire AUTOBACS chain, mainly of tires. However, sales remained sluggish in the first half of the year, primarily due to stagnant demand for tire changes. In response to these results, the Group further strengthened its sales promotion measures and sales structure in the second half of the year, particularly for fuel-efficient tires and studless snow tires. As a result, partly reflecting the nationwide snowfall and last-minute demand before the consumption tax hike, sales of tires and wheels rose from the previous fiscal year, improving the earnings of both the Group and the entire AUTOBACS chain. Meanwhile, the number of unit sales of car navigation devices stood at almost the same level as the previous fiscal year, but sales were down, largely attributable to declining unit prices. Sales of merchandise, including interior accessories and car sport items, also declined, mostly reflecting a decline in sales of new cars in the first half of the fiscal year under review.

In its statutory safety inspections and maintenance segment, the number of statutory safety inspections being carried out remained high in the first half of the fiscal year under review as a result of the continued receipt of telephone bookings and the start of the receipt of bookings at statutory safety inspection contact centers, in addition to the provision of guidance to stores, focusing on those with low sales of statutory safety inspections. However, the number of statutory safety inspections being carried out was sluggish in the second half of the year, partly due to the fact that the number of cars subject to the second statutory safety inspection was decreased because the fifth anniversary of the collapse of Lehman Brothers, when there was a drop in the number of cars sold, fell in the second half under review, as well as the progress of replacements for new or used cars. As a result, the number of statutory safety inspections carried out in the fiscal year under review increased by 1.3% year on year, to about 580,000.

In the automobile purchases and sales business segment, the number of vehicles sold to auto auctions and other used car dealers rose by 32.5% year on year, given an increase in the number of vehicles purchased, mainly reflecting the effects of updating the vehicle assessment system and providing training on the system in stores. Moreover, by strengthening its sales system and increasing the number of cars on display in stores, the Group achieved a 20.0% year-on-year increase in the number of cars sold through the retail channel. As a result, the total number of vehicles sold increased by 25.5% year on year, to approximately 23,100. The number of CARS franchise stores rose from 244 as of the end of the previous fiscal year to 359 as of the end of March 2014.

Domestic store openings and closures resulted in a net increase of 19 stores, from 552 stores at the end of March 2013 to 571 stores, as 25 new stores were opened, five stores were closed and also opened through scrap and build, and six stores were closed.
*AUTOBACS and Super AUTOBACS and AUTOBACS C@RS and AUTOBACS Secohan Ichiba and AUTOBACS EXPRESS

**Domestic Store Consolidation**

| | Stores | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Year Ended March 2014 | | | | | | |
| | | First Half | | | Second Half | | | |
| | March 31, 2013 | New stores | S&B* relocation | Stores closed | New stores | S&B* relocation | Stores closed | March 31, 2014 |
| AUTOBACS | 455 | +14 | +2/-1 | -1 | +9 | +3/-3 | | 478 |
| Super AUTOBACS | 76 | | | -1 | | | | 75 |
| AUTOBACS Secohan Ichiba | 14 | | | -2 | | | -2 | 10 |
| AUTOBACS EXPRESS | 7 | | -1 | | +2 | | | 8 |
| Total (Japan) | 552 | +14 | +2/-2 | -4 | +11 | +3/-3 | -2 | 571 |

* S&B: scrap and build

**Progress of the AUTOBACS 2010 Medium-Term Business Plan**

The Group has executed a number of initiatives including business and financial strategies and CSR and corporate governance activities under the AUTOBACS 2010 Medium-Term Business Plan, which ended in fiscal year March 2014.

In terms of existing store reform—a key policy with the aim of strengthening the domestic business—the Group has carried out sales floor remodeling in 374 AUTOBACS stores over the last four years. Consequently, improved results were achieved, attributable to the effects of the sales floor remodeling in many of the stores.

With respect to new store openings, the Group opened an accumulated total of 82 new stores in the four years from April 2010, which was short of its initial plan of opening 120 stores.

(Business strategy)

Under its business strategy, the Group continually emphasized the strengthening of the domestic franchise business and took steps to improve the earnings of the existing AUTOBACS stores.

In existing store reform, to maximize the benefit of the sales floor remodeling that was completed in fiscal year March 2011 and to enhance its presentation capabilities on the sales floor, the Group took initiatives such as the proactive distribution of information about hot items and the standardization of the sales floors. The Group also took steps to further improve its store operating efficiency by reviewing the allocation of staff members, strengthening cooperation between staff members and introducing tablet terminals to certain stores. As a result, many stores improved their earnings and store operating efficiency as initially planned. For stores with comparatively little improvement, the Group analyzed the underlying factors for each store in detail, and implemented unique measures to respond to the relevant factors, while introducing the practices of stores that successfully generated strong results to other stores. Through these initiatives, the Group strove to achieve improvements in both store performance and customer convenience.

Moreover, using the know-how developed through the remodeling of the sales floors of AUTOBACS stores, the Group launched the remodeling of Super AUTOBACS ("SA") stores from fiscal year March 2013 as part of its commitment to improving the profitability of SA stores. To differentiate SA stores from competing stores, the Group has been carrying out the remodeling by taking into account the customer attributes and area characteristics in each store location while being sure to take advantage of the strength of Super AUTOBACS. The Group had remodeled the sales floors of 50 SA stores by fiscal year March 2014, and the remodeled stores have shown improved performance in the same manner as AUTOBACS stores.

In terms of human resources reform, the Group has been continuing to focus on training. It provided customer service training to the staff members of the existing stores while also continuing to carry out training of the staff members of new stores and newly recruited employees. Moreover, the Group provided training to store managers and assistant managers with the aim of improving the managerial capabilities and leadership of the store executives.

With regard to new stores, the Group opened 25 new stores in fiscal year Mach 2014 with the aim of improving customer convenience and attracting more customers. It also facilitated the opening of stores in areas where the Group had not previously aggressively opened stores, and accelerated the pace of opening new stores by using properties already furnished with equipment. The Group also managed to further reduce the costs of opening stores by reviewing construction materials, store fixtures and service bay equipment.
Moreover, the Group opened three new tire specialty stores (in Nagareyama-shi, Chiba Prefecture, Akiruno-shi, Tokyo and Sendai-shi, Miyagi Prefecture), with the stores' experimental operations having been carried out in Yamaguchi Prefecture since fiscal year March 2012. This is one of the challenges that the Group is taking on for its future growth, alongside the development of the Auto Body Repair and Painting Centers in three locations (Urayasu-shi, Chiba Prefecture, Toda-shi, Saitama Prefecture, and Fukuoka-shi, Fukuoka Prefecture), a new service framework. The Group is committed to developing these stores in the future by making the most of the AUTOBACS brand dynamics.

With respect to CRM Strategy Implementation that commenced in earnest in the fiscal year ended March 31, 2013, the Group has been pursuing initiatives to further strengthen ties between customers and the AUTOBACS Group by taking into account changes in customers' feelings about cars and the trends of the market environment in the future. It is now taking steps to develop a new customer system through which the Group will be able to identify customers' interests and preferences based on their existing purchasing history, and propose merchandise and services that are suitable for individual customers.

Strengthening e-commerce is positioned as one of the pillars supporting the future growth of the AUTOBACS Group. Accordingly, the Group focused on further expanding its sales channels by opening new stores on Amazon and Yahoo Shopping, in addition to improving and strengthening the functions of the Group's own online shopping site and opening a store in Rakuten Ichiba, an Internet shopping mall. Through the Internet sales channel, the Group has attracted a large number of customers who have not previously used the stores of the AUTOBACS Group, resulting in new customers being gained. The Group is also gaining the synergy effects of the physical stores and Internet stores, as customers can visit the physical stores to fit merchandise purchased through the Internet stores in their cars.

Overseas, the Group has been focusing on the ASEAN region, where future growth is anticipated. It opened one store in each of Malaysia and Taiwan. Moreover, the Group established a joint venture company in Indonesia in July 2013, which will be engaged mainly in the automotive goods and services wholesale business, with PT. Central Sole Agency, a company belonged to the Indo Mobile Group, a leading auto-related business group in Indonesia. The Group also started business operation in September 2013 in Malaysia, focusing mainly on the automotive retail business that is expected to attract strong demand through a business alliance and capital participation with JX Nippon Oil & Energy Trading Corporation and Malaysian Harvest Sdn. Bhd. The Group will continue to strive to further expand its earnings in the future from a long-term perspective.

(Financial Strategy)

In terms of its financial strategy, to increase operational cash flow, the Group made aggressive business investments, mainly by opening 28 new stores and carrying out the relocation of four stores, both in Japan and overseas.
Further, with the aim of improving capital efficiency, and based on a policy of increasing shareholder returns, a total of 3 million shares of its own stock were purchased for approximately 4.6 billion yen. As for dividends, the Group maintained a consolidated ratio of dividend on equity (DOE) of at least 3%, and it distributed steady and sustainable dividends in line with its business performance.

(CSR and Governance)

The AUTOBACS Group positions CSR activities as an important management issue, and it has continued to take initiatives to operate its businesses in an environmentally friendly manner. Accordingly, in September 2013, the Group launched the electricity sales business based on solar power generation by utilizing premises and a certain area of the building rooftops in its Western Japan Logistics Center. It is also continually striving to reduce electricity consumption, the amount of copy paper used and waste in its offices nationwide. Moreover, the head office and stores routinely cleaned up their neighborhood areas and participated in tree-planting activities as a contribution to the local communities. Going forward, the Group will continue to exert comprehensive efforts to carry out environmental conservation initiatives.
In an effort to strengthen risk management, with the aim of improving the accuracy of the risk management of the AUTOBACS Group, the Group

has been striving to ensure that officers who are familiar with the situation on store floors share information about the nature of risks and the Group's response. It has also sought to strengthen risk management, primarily by improving the compliance structure of the franchise outlets.

## FINANCIAL REVIEW

### 1. INCOME AND EXPENSES

**Net Sales**

In fiscal 2014, ended March 31, 2014, consolidated net sales amounted to ¥231,697 million increased by 0.7% from fiscal March 2013.

¥ Million (Percentage of net sales)

| | 2014 | | 2013 | | Increase (Decrease) |
|---|---|---|---|---|---|
| Wholesale operations | **132,734** | **(57.3%)** | 131,859 | (57.3%) | 874 |
| Retail operations | **95,541** | **(41.2%)** | 94,770 | (41.2%) | 771 |
| Others | **3,422** | **(1.5%)** | 3,539 | (1.5%) | (117) |
| Total | **231,697** | **(100.0%)** | 230,168 | (100.0%) | 1,529 |

**• Wholesale Operations**

Most of the revenue in the wholesale operations segment derives from sales to franchisees. In fiscal 2014, segment sales increased by 0.7% year on year to ¥132,734 million. Car sales, tire and wheels, and oils and batteries increased, though car electronics goods, car interior goods were decreased.

**• 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 2014, sales of retail operations increased by 0.8% year on year to ¥95,541 million. Sales of tires and wheels, car sales, car exterior goods increased, though sales decreased in line with lower unit prices of car navigation devices.

**• Others**

Sales from other businesses decreased by 3.3% to ¥3,423 million, mainly due to an increase in real estate rental income from domestic franchise operators.

**Gross Profit**

Gross profit was ¥76,907 million, up by 1.6% from a year earlier as a result of higher gross profit due mainly to strong sales of tires and wheels. And the gross margin also improved from 33.0% to 33.2%.

**SG&A Expenses**

Selling, general and administrative (SG&A) expenses were ¥62,962 million, same level as last fiscal year. Though sales advertisement expenses increased due to the strengthening of sales promotion, however, depreciation and commissions paid were decreased.

¥ Million

| | 2014 | 2013 | Increase (Decrease) |
|---|---|---|---|
| Personnel expenses | **29,721** | 29,190 | 531 |
| Employee compensation | **23,717** | 23,415 | 302 |
| Sales promotion expenses | **11,200** | 10,762 | 438 |
| Equipment expenses | **12,404** | 12,888 | (484) |
| Land and building rent | **6,101** | 6,106 | (5) |
| Depreciation | **3,727** | 4,359 | (632) |
| Administrative expenses | **9,636** | 10,145 | (509) |
| Provision for allowance for doubtful receivables | **6** | 83 | (77) |
| Total | **62,962** | 62,985 | (23) |

Personnel expenses increased by 1.8% to ¥29,721 million, and constituted 47.2% of SG&A expenses. This change was mainly because of an increase in employee compensation in overseas subsidiaries due to the change of exchange rate.

Sales promotion expenses increased by 4.1% to ¥11,200 million, or 17.8% of SG&A expenses. This was mainly due to increase of advertisement expenses along with strengthening of sales promotion in second half.

Equipment expenses decreased by 3.8% to ¥12,404 million, representing 19.7% of SG&A expenses. This was mainly attributable to a decrease in depreciation cost following investment in information systems.

Administration expenses decreased by 5.0% to ¥9,636 million, representing 15.3% of SG&A expenses. This was mainly due to a decrease in commissions paid for law firms.

As a result of the above factors, operating income increased by 9.4% to ¥13,945 million.

**Number of Employees by Segment**

| | Number of Employees | | | | |
|---|---|---|---|---|---|
| | 2014 | | 2013 | | Increase (Decrease) |
| The Company | **1,066** | **(28)** | 1,177 | (94) | (111) |
| Domestic Store Subsidiaries | **2,525** | **(888)** | 2,614 | (920) | (89) |
| Overseas Subsidiaries | **659** | **(1)** | 670 | (-) | (11) |
| Subsidiaries for Car Goods Supply and Other | **146** | **(35)** | 149 | (13) | (3) |
| Subsidiaries for Supporting Functions | **70** | **(21)** | 68 | (21) | 2 |
| Total | **4,466** | **(978)** | 4,678 | (1,048) | (212) |

Note: These figures show the number of regurar full-time employees.

**Other Income and Expenses**

In other items, other income—net was ¥2,141 million, down from other income–net of ¥1,170 million in the previous fiscal year. The main factor behind this was a gain on sale of investment securities of ¥133 million, an impairment loss on fixed assets of ¥470 million.

**Income Taxes**

Income taxes for the period were ¥6,273 million. The income tax burden changed from 45.6% of last fiscal year to 38.9% due to reversal of differed tax asset associated with amicable settlement of lawsuit in USA.

**Net Income**

Net income increased by 28.9% from the previous year to ¥9,786 million, bringing basic net income per share to ¥107.71. Financial indicators all worsened; net income ratio improved from 3.3% in the previous year to 4.2%, ROA improved from 3.6% to 4.8%, and ROE improved from 5.3% in the previous year to 6.8%.

## 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 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 fell by 1.9% year on year, to 183,758 million yen. In wholesale operations for franchise outlets, sales fell by 0.1%, almost unchanged from the previous fiscal year, reflecting higher sales of tires, wheels and car exterior items such as tire chains, as well as cars and fuel, which almost offset the decline in car electronics sales. In retail operations, sales declined by 38.4% year on year, chiefly reflecting the transfer of directly managed stores to domestic store subsidiaries. Gross profit decreased by 4.7% year on year, to 39,001 million yen, reflecting a decline in gross profit attributable to the transfer of directly managed stores, in addition to a decline in the gross margin of car electronics, car interior merchandise and other goods, despite an improvement in the gross margin thanks to the effects of a sales increase and a gross profit reform for wheels and tires. Selling, general and administrative expenses declined by 5.6% year on year, to 25,670 million yen, reflecting a decline in depreciation expenses for information systems and paid commissions, as well as a decrease in store management costs attributable to the transfer of directly managed stores to domestic store subsidiaries, despite a rise in personnel expenses as a result of the acceptance of staff members from domestic store subsidiaries, an increase in selling expenses as a result of initiatives to strengthen advertising through mass media and sales promotions in stores in the second half of the fiscal year under review, and other factors. As a result, operating income decreased by 2.9% year on year, to 13,330 million yen.

**Domestic Store Subsidiaries**

Sales increased by 4.3% year on year, to 81,391 million yen, and operating income was 555 million yen, a substantial improvement from an operating loss of 789 million yen for the previous fiscal year. The higher sales were attributable to stronger sales of mainly tires and wheels, given the implementation of store sales system and sales promotion, as well as the impact of the conversion of franchise outlets into subsidiaries and the takeover of directly managed stores, despite a decline in sales of car electronics. Gross profit rose from the previous fiscal year, mainly reflecting an improvement in the gross margin of merchandise, such as tires, car electronics and car interior merchandise. Selling, general and administrative expenses in terms of the ratio to sales declined year on year, mainly reflecting the effects of efficient store operation including the optimization of personnel distribution in stores, despite a rise in expenses, which was attributable to the conversion of franchise outlets into subsidiaries and the takeover of directly managed stores, as well as the effects of initiatives to strengthen sales promotions in the third quarter of the fiscal year under review.

**Overseas Subsidiaries**

Sales rose by 18.1% year on year, to 10,373 million yen. Operating income amounted to 12 million yen, compared with an operating loss of 72 million yen for the previous fiscal year. In the earnings of subsidiaries in China was the main contributor to the improvement in the operating income of overall overseas subsidiaries. Looking to the conditions for each country on a local currency basis, in France, amid the economic slowdown in Europe, sales declined due to escalating price competition with competitors, while sales of seasonal winter goods remained brisk. However, the scale of the operating loss declined from the previous fiscal year, mainly reflecting the effects of initiatives to improve the gross margin and control expenses. In China, one store was closed at the end of October 2013, however the extent of the operating loss was reduced, given a rise in the sales of wheels, oil and other goods in the existing store (one store) and a decline in expenses as a result of the closure of the store. In Thailand, sales declined and operating loss increased, because certain stores were forced to suspend their operations or shorten operating hours as a result of the antigovernment demonstrations that commenced in November 2013. In Singapore, business remained steady with the ratio of operating income to net sales at the 11% level, although operating income declined slightly from the previous fiscal year, mainly reflecting the decline in sales due to intensified competition with competitors.

**Opening and Closing of Stores Overseas**

| | Stores | | | |
|---|---|---|---|---|
| | | Year Ended March 2014 | | |
| | March 31, 2013 | First Half | Second Half | March 31, 2014 |
| France | 11 | | | **11** |
| China | 2 | | -1 | **1** |
| Taiwan | 6 | | | **6** |
| Thailand | 4 | | | **4** |
| Singapore | 3 | | | **3** |
| Malaysia | 1 | 1 | | **2** |
| Total | 27 | 1 | -1 | **27** |

**Subsidiaries for Car Goods Supply, etc.**

Sales increased by 5.7% year on year, to 15,174 million yen, chiefly thanks to the brisk sales of Palster K.K., which undertakes sales of wholesale oil and other merchandise. As a result, operating income rose by 56.7% year on year, to 255 million yen.

<Subsidiaries for Supporting Functions>

Sales declined by 6.7% year on year, to 3,147 million yen, partly due to a decline in sales of the leasing of store equipment to franchise companies, while operating income increased by 3.8% year on year, to 432 million yen, almost unchanged from the previous fiscal year.

**Information about Sales and Profit (Loss)**

| | ¥ Million | | | | | |
|---|---|---|---|---|---|---|
| | Year Ended March 2014 | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Others | Subsidiaries for Supporting Functions | Total |
| Sales | | | | | | |
| Sales to external customers | 132,739 | 79,928 | 9,975 | 8,183 | 872 | 231,697 |
| Intersegment sales or transfers | 51,019 | 1,463 | 398 | 6,992 | 2,276 | 62,148 |
| Total | 183,758 | 81,391 | 10,373 | 15,175 | 3,148 | 293,845 |
| Segment profit | 13,330 | 555 | 12 | 255 | 433 | 14,585 |

**Details of Adjustments to Consolidated Operating Income**

The amount of adjustments from the aggregated amount of segments' operating income to consolidated operating income decreased 68 million yen year on year, to 640 million yen. Major items contributing to the change in adjustments to consolidated amounts from the previous fiscal year included a decline in the amount of amortization of goodwill, which was attributable to the change of franchise companies into subsidiaries.

**Reconciliation of Published Figures and Aggregate of Reportable Segments**

| Net sales | 2014 | 2013 |
|---|---|---|
| | ¥ Million | |
| Total reportable segments | **293,845** | 291,868 |
| Elimination of intersegment transactions | **(62,148)** | (61,700) |
| Net sales in consolidated financial statements | **231,697** | 230,168 |

| Operating Income | 2013 | 2012 |
|---|---|---|
| | ¥ Million | |
| Total reportable segments | **14,585** | 13,454 |
| Elimination of intersegment transactions | **(526)** | (383) |
| Inventories | **(253)** | (298) |
| Allowance for point cards | **(18)** | (36) |
| Amortization of goodwill | **(105)** | (263) |
| Fixed assets | **256** | 179 |
| Others | **6** | 92 |
| Operating Income in consolidated financial statements | **13,945** | 12,745 |

## FINANCIAL POSITION

### 1. BALANCE SHEET ITEMS

**Current Assets**

Current assets decreased by ¥492 million year on year to ¥126,709 million. The main factors were decreases in cash and cash equivalents and trade notes and accounts.

**Property and Equipment, Investments and Other Assets**

Net property and equipment was ¥41,002 million, decreased by ¥451 million year on year. The buildings and structures increased in line with new store openings, but accumulated depreciation also increased, as a result, total net property and equipment was decreased.
Total investments and other assets increased by ¥3,234million from the previous period to ¥28,177 million. The decrease was mainly due to the reversal of differed tax assets associated with amicable settlement of lawsuit in USA.

**Current Liabilities**

Total current liabilities were down by ¥986 million to ¥44,033 million. The main factors in this were decreases in trade notes and accounts, allowance for business restructuring and income taxes payable.

**Long-term Liabilities**

Total long-term liabilities decreased by ¥4,120 billion to ¥13,084 million. The main factor behind this was decrease in long-term debt.

**Equity**

Total equity including minority interests increased by ¥1,062 billion, 0.7%, to ¥144,363 million. The main factors behind this were increase of treasury stock.

## 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 2014 decreased by ¥359 million year on year to ¥12,002 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, 2014 were down by ¥910 million from the previous year-end to ¥17,709 million.

## CASH FLOWS

**Cash Flows from Operating Activities**

Net cash provided by operating activities was ¥12,072 million. The main factors for increasing cash were income before income taxes and minority interests of ¥16,086 million, depreciation and amortization of ¥4,423 million. The main factors decreasing cash were income taxes paid of ¥4,939 million and a decrease in other payable and accruals of ¥4,188 million.

**Cash Flows from Investing Activities**

Net cash gained in investing activities was ¥1,519 million. The main factors for increase were capital expenditures of ¥4,820 million and payments into time deposits of ¥1,278 million, and main decrease factor were proceeds from withdrawal of time deposits of ¥6,408 million and disposal of investment securities of ¥1,145 million. Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a net inflow of ¥13,591 million.

**•Capital Expenditures**

In fiscal 2014, capital expenditures amounted to ¥4,820 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 2014 is shown below.

**Major Capital Expenditures in Fiscal 2014**

| | ¥ Million |
|---|---|
| Opening new stores | 2,064 |
| Scrap and build or relocation of stores | 200 |
| Purchase of land for store locations | 0 |
| POS system development and IT investments | 1,229 |
| Other | 1,327 |
| Total | 4,820 |

**Capital Expenditures by Segments**

| | ¥ Million | | |
|---|---|---|---|
| | **2014** | 2013 | Increase (Decrease) |
| The Company | **4,072** | 4,959 | (887) |
| Domestic Store Subsidiaries | **220** | 258 | (38) |
| Overseas Subsidiaries | **108** | 153 | (45) |
| Subsidiaries for Car Goods Supply and Others | **25** | 52 | (27) |
| Subsidiaries for Supporting Functions | **395** | 825 | (430) |
| Total | **4,820** | 6,249 | (1,429) |

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

**Cash Flows from Financing Activities**

Net cash used in financing activities was ¥11,166 million. This was mainly due to ¥4,949 million for dividends paid, ¥4,593 million for purchase of treasury stock and ¥1,588 million for repayment of long-term debt.

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥45,384 million, increased by ¥2,551 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 ¥12,072 million, net cash gained in investing activities of ¥1,519 million, and net cash used in financing activities of ¥11,166 million.

**Basic Policy on Distribution of Profits, Dividends for Fiscal 2014 and Fiscal 2015**

The Company positions shareholder returns as one of the most important management issue. To describe the Company's thinking on profit appropriation, the basic policy is to maintain sustainable and stable dividends with a DOE (consolidated ratio of dividend on equity) target of at least 3%, while taking into consideration financial results and stability and ensuring cash flow sufficient for business continuity. The Company plans to set a commemorative dividend at 10 yen per share for the 40th anniversary of the year-end dividend, in addition to year-end dividend of

27 yen per share. Consequently, the annual dividend will be 64 yen per share and the consolidated ratio of dividend on equity (DOE) will be 3.4%.
The Company plans to pay an annual dividend of 60 yen per share for the fiscal year ending March 31, 2015, with 30 yen per share each for intermediate and year-end dividends, by taking into consideration its dividend policy.

## 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. AUTOBACS SEVEN Co., Ltd. Annual Report 2012 10

(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

# Consolidated Balance Sheet

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
March 31, 2014

| ASSETS | Millions of yen 2014 | Millions of yen 2013 | Thousands of U.S. dollars (Note 1) 2014 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents (Note 16) | **¥45,384** | ¥42,833 | **$440,622** |
| Time deposits with an original maturity over three months (Note 16) | **291** | 5,365 | **2,825** |
| Marketable securities (Notes 3 and 16) | **802** | 1,001 | **7,787** |
| Receivables (Note 16): | | | |
| Trade notes and accounts | **21,543** | 23,681 | **209,155** |
| Associated companies | **988** | 1,127 | **9,592** |
| Other | **25,255** | 20,206 | **245,194** |
| Allowance for doubtful receivables | **(172)** | (213) | **(1,670)** |
| Investments in lease (Notes 4 and 16) | **12,002** | 12,361 | **116,524** |
| Inventories | **16,384** | 16,576 | **159,068** |
| Deferred tax assets (Note 14) | **1,980** | 1,950 | **19,223** |
| Prepaid expenses and other current assets | **2,252** | 2,316 | **21,864** |
| Total current assets | **126,709** | 127,203 | **1,230,184** |
| **PROPERTY AND EQUIPMENT:** | | | |
| Land (Notes 5 and 8) | **22,849** | 22,920 | **221,835** |
| Buildings and structures (Notes 5 and 8) | **41,035** | 40,150 | **398,398** |
| Furniture and equipment (Note 5) | **18,847** | 18,866 | **182,981** |
| Lease assets (lessee) (Note 15) | **443** | 435 | **4,301** |
| Construction in progress | **398** | 253 | **3,864** |
| Total | **83,572** | 82,624 | **811,379** |
| Accumulated depreciation | **(42,570)** | (41,171) | **(413,301)** |
| Net property and equipment | **41,002** | 41,453 | **398,078** |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities (Notes 3 and 16) | **6,035** | 6,366 | **58,592** |
| Investments in associated companies (Note 16) | **1,798** | 1,391 | **17,456** |
| Rental deposits and long-term loans (Notes 7 and 16) | **17,767** | 18,748 | **172,495** |
| Goodwill (Note 6) | **880** | 867 | **8,544** |
| Software | **3,968** | 3,846 | **38,524** |
| Deferred tax assets (Note 14) | **1,375** | 3,583 | **13,350** |
| Other | **1,947** | 2,070 | **18,903** |
| Total investments and other assets | **33,770** | 36,871 | **327,864** |
| **TOTAL** | **¥201,481** | ¥205,527 | **$1,956,126** |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY | Millions of yen 2014 | 2013 | Thousands of U.S. dollars (Note 1) 2014 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Short-term borrowings (Notes 8 and 16) | **¥209** | ¥642 | **$2,029** |
| Current portion of long-term debt (Notes 8 and 16) | **4,329** | 1,665 | **42,029** |
| Payables (Note 16): | | | |
| Trade notes and accounts | **17,556** | 21,603 | **170,447** |
| Associated companies | **1,346** | 1,195 | **13,068** |
| Other | **12,698** | 11,004 | **123,282** |
| Income taxes payable (Note 16) | **1,818** | 2,578 | **17,650** |
| Accrued expenses | **3,043** | 2,803 | **29,544** |
| Allowance for business restructuring | **195** | 988 | **1,893** |
| Other current liabilities (Note 10) | **2,840** | 2,543 | **27,573** |
| Total current liabilities | **44,034** | 45,021 | **427,515** |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt (Notes 8 and 16) | **3,651** | 7,549 | **35,446** |
| Liability for retirement benefits (Note 9) | **342** | 417 | **3,320** |
| Rental deposits received (Note 7): | | | |
| Associated companies | **1,023** | 1,079 | **9,932** |
| Other | **5,941** | 6,067 | **57,680** |
| Deferred tax liabilities (Note 14) | **49** | 65 | **476** |
| Other liabilities (Note 10) | **2,078** | 2,028 | **20,175** |
| Total long-term liabilities | **13,084** | 17,205 | **127,029** |
| Total liabilities | **57,118** | 62,226 | **554,544** |
| **COMMITMENTS AND CONTINGENT LIABILITIES** (Notes 8, 9 and 15) | | | |
| **EQUITY** (Notes 11 and 20)**:** | | | |
| Common stock, authorized, 328,207 thousand shares; issued, 92,950 thousand shares in 2014 and 97,950 thousand shares in 2013 | **33,999** | 33,999 | **330,087** |
| Capital surplus | **34,278** | 34,278 | **332,796** |
| Retained earnings | **78,679** | 80,438 | **763,874** |
| Treasury stock at cost, 3,431 thousand shares in 2014 and 5,428 thousand shares in 2013 | **(5,166)** | (7,231) | **(50,155)** |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities (Note 3) | **1,589** | 1,272 | **15,427** |
| Foreign currency translation adjustments | **600** | 106 | **5,825** |
| Total | **143,979** | 142,862 | **1,397,854** |
| Minority interests | **384** | 439 | **3,728** |
| Total equity | **144,363** | 143,301 | **1,401,582** |
| **TOTAL** | **¥201,481** | ¥205,527 | **$1,956,126** |

Note. Shares have been restated, as appropriate, to reflect a three-for-one stock split effected April 1, 2013.

# Consolidated Statement of Income and Comprehensive Income

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
Year Ended March 31, 2014

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 |
| **NET SALES** (Note 12) | **¥231,697** | ¥230,168 | ¥237,343 | **$2,249,485** |
| **COST OF GOODS SOLD** | **154,790** | 154,438 | 160,306 | **1,502,815** |
| Gross profit | **76,907** | 75,730 | 77,037 | **746,670** |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES** (Note 13) | **62,962** | 62,985 | 63,316 | **611,282** |
| Operating income | **13,945** | 12,745 | 13,721 | **135,388** |
| **OTHER INCOME (EXPENSES):** | | | | |
| Interest and dividend income | **189** | 175 | 197 | **1,835** |
| Interest expense | **(88)** | (122) | (163) | **(854)** |
| Commission income | **470** | 437 | 434 | **4,563** |
| Impairment losses on fixed assets (Note 5) | **(470)** | (89) | (51) | **(4,563)** |
| Loss on arrangement of stores | | | (74) | |
| Foreign exchange (loss) gain, net | **(53)** | 534 | (51) | **(515)** |
| Lease revenue—system equipment | **1,292** | 1,202 | 1,230 | **12,544** |
| Lease cost—system equipment | **(1,158)** | (1,144) | (1,266) | **(11,243)** |
| Reversal of allowance for business restructuring | | | 11 | |
| Other—net | **1,959** | 177 | 1,229 | **19,020** |
| Other income (expenses)—net | **2,141** | 1,170 | 1,496 | **20,787** |
| **INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS** | **16,086** | 13,915 | 15,217 | **156,175** |
| **INCOME TAXES** (Note 14): | | | | |
| Current | **4,311** | 5,912 | 6,934 | **41,854** |
| Deferred | **1,962** | 435 | (122) | **19,049** |
| Total | **6,273** | 6,347 | 6,812 | **60,903** |
| **NET INCOME BEFORE MINORITY INTERESTS** | **9,813** | 7,568 | 8,405 | **95,272** |
| **MINORITY INTERESTS** | **27** | (22) | 2 | **262** |
| **NET INCOME** | **9,786** | 7,590 | 8,403 | **95,010** |
| **MINORITY INTERESTS** | **(27)** | 22 | (2) | **(262)** |
| **NET INCOME BEFORE MINORITY INTERESTS** | **9,813** | 7,568 | 8,405 | **95,272** |
| **OTHER COMPREHENSIVE INCOME (LOSS)** (Note 17)**:** | | | | |
| Unrealized gain on available-for-sale securities | **315** | 1,217 | 27 | **3,058** |
| Foreign currency translation adjustments | **499** | 417 | (136) | **4,845** |
| Share of other comprehensive income of associates | **2** | 3 | 4 | **19** |
| Total other comprehensive income (loss) | **816** | 1,637 | (105) | **7,922** |
| **COMPREHENSIVE INCOME** | **¥10,629** | ¥9,205 | ¥8,300 | **$103,194** |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | |
| Owners of the parent | **10,597** | 9,197 | 8,293 | **102,883** |
| Minority interests | **32** | 8 | 7 | **311** |

| | Yen | | | |
|---|---|---|---|---|
| **PER SHARE OF COMMON STOCK** (Notes 2. S and 18)**:** | | | | |
| Basic net income | **¥107.71** | ¥81.22 | ¥84.28 | **$1.05** |
| Cash dividends applicable to the year | **64.00** | 52.00 | 48.33 | **0.62** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
Year Ended March 31, 2014

| | Thousands | | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Accumulated other comprehensive income | | | | |
| | Issued Number of Shares of Common Stock | Number of Shares of Treasury Stock | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Total | Minority Interests | Total Equity |
| **BALANCE, APRIL 1, 2011** | 112,363 | 9,630 | ¥33,999 | ¥34,278 | ¥89,985 | ¥(10,637) | ¥22 | ¥(142) | ¥147,505 | ¥458 | ¥147,963 |
| Net income | | | | | 8,403 | | | | 8,403 | | 8,403 |
| Retirement of treasury stock | (9,608) | (9,608) | | | (10,607) | 10,607 | | | | | |
| Purchase of treasury stock | | 4,806 | | | | (5,466) | | | (5,466) | | (5,466) |
| Appropriations: | | | | | | | | | | | |
| Cash dividends, ¥46.67 per share | | | | | (4,707) | | | | (4,707) | | (4,707) |
| Net changes of items | | | | | | | 30 | (139) | (109) | 110 | 1 |
| **BALANCE, MARCH 31, 2012** | 102,755 | 4,828 | 33,999 | 34,278 | 83,074 | (5,496) | 52 | (281) | 145,626 | 568 | 146,194 |
| Net income | | | | | 7,590 | | | | 7,590 | | 7,590 |
| Retirement of treasury stock | (4,805) | (4,805) | | | (5,464) | 5,464 | | | | | |
| Purchase of treasury stock | | 5,405 | | | | (7,199) | | | (7,199) | | (7,199) |
| Appropriations: | | | | | | | | | | | |
| Cash dividends, ¥50.00 per share | | | | | (4,762) | | | | (4,762) | | (4,762) |
| Net changes of items | | | | | | | 1,220 | 387 | 1,607 | (129) | 1,478 |
| **BALANCE, MARCH 31, 2013 （as previously reported）** | 97,950 | 5,428 | 33,999 | 34,278 | 80,438 | (7,231) | 1,272 | 106 | 142,862 | 439 | 143,301 |
| Cumulative effect of accounting change | | | | | 64 | | | | 64 | | 64 |
| **BALANCE, MARCH 31, 2013 （as restated）** | 97,950 | 5,428 | 33,999 | 34,278 | 80,502 | (7,231) | 1,272 | 106 | 142,926 | 439 | 143,365 |
| Net income | | | | | **9,786** | | | | **9,786** | | **9,786** |
| Retirement of treasury stock | **(5,000)** | **(5,000)** | | | **(6,660)** | **6,660** | | | | | |
| Purchase of treasury stock | | **3,003** | | | | **(4,595)** | | | **(4,595)** | | **(4,595)** |
| Appropriations: | | | | | | | | | | | |
| Cash dividends, ¥54.00 per share | | | | | **(4,949)** | | | | **(4,949)** | | **(4,949)** |
| Net changes of items | | | | | | | **317** | **494** | **811** | **(55)** | **756** |
| **BALANCE, MARCH 31, 2014** | **92,950** | **3,431** | **¥33,999** | **¥34,278** | **¥78,679** | **¥(5,166)** | **¥1,589** | **¥600** | **¥143,979** | **¥384** | **¥144,363** |

Note. Shares and per share figures have been restated, as appropriate, to reflect a three-for-one stock split effected April 1, 2013.

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated other comprehensive income | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Total | Minority Interests | Total Equity |
| **BALANCE, MARCH 31, 2013 （as previously reported）** | $330,087 | $332,796 | $780,952 | $(70,204) | $12,350 | $1,029 | $1,387,010 | $4,262 | $1,391,272 |
| Cumulative effect of accounting change | | | 621 | | | | 621 | | 621 |
| **BALANCE, MARCH 31, 2013 （as restated）** | 330,087 | 332,796 | 781,573 | (70,204) | 12,350 | 1,029 | 1,387,631 | 4,262 | 1,391,893 |
| Net income | | | 95,010 | | | | 95,010 | | 95,010 |
| Retirement of treasury stock | | | (64,660) | 64,660 | | | | | |
| Purchase of treasury stock | | | | (44,611) | | | (44,611) | | (44,611) |
| Appropriations: | | | | | | | | | |
| Cash dividends, $0.52 per share | | | (48,049) | | | | (48,049) | | (48,049) |
| Net changes of items | | | | | 3,077 | 4,796 | 7,873 | (534) | 7,339 |
| **BALANCE, MARCH 31, 2014** | **$330,087** | **$332,796** | **$763,874** | **$(50,155)** | **$15,427** | **$5,825** | **$1,397,854** | **$3,728** | **$1,401,582** |

Note. Per share figures have been restated, as appropriate, to reflect a three-for-one stock split effected April 1, 2013.

See notes to consolidated financial statement.

# Consolidated Statement of Cash Flows

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
Year Ended March 31, 2014

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| **OPERATING ACTIVITIES:** | | | | |
| Income before income taxes and minority interests | **¥16,086** | ¥13,915 | ¥15,217 | **$156,175** |
| Adjustments for: | | | | |
| Income taxes paid | **(4,939)** | (8,320) | (5,625) | **(47,951)** |
| Depreciation and amortization | **4,551** | 5,194 | 4,644 | **44,184** |
| Impairment losses on fixed assets | **470** | 89 | 51 | **4,563** |
| Increase (decrease) in allowance for business restructuring | **6** | (102) | (11) | **58** |
| (Gain) loss on sale of investment securities | **(134)** | 468 | (71) | **(1,301)** |
| Litigation settlement paid | **(859)** | | | **(8,340)** |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in receivables | **(6,925)** | 2,264 | (6,223) | **(67,233)** |
| Decrease in investments in lease | **269** | 948 | 484 | **2,612** |
| Decrease in inventories | **436** | 210 | 135 | **4,233** |
| (Decrease) increase in other payables and accruals | **(4,188)** | (2,798) | 9,109 | **(40,660)** |
| Other | **7,299** | (1,127) | 3,135 | **70,864** |
| Net cash provided by operating activities | **12,072** | 10,741 | 20,845 | **117,204** |
| **INVESTING ACTIVITIES:** | | | | |
| Payments into time deposits | **(1,278)** | (13,331) | (10,836) | **(12,408)** |
| Proceeds from withdrawal of time deposits | **6,408** | 13,093 | 7,227 | **62,214** |
| Capital expenditures | **(4,820)** | (6,249) | (7,691) | **(46,796)** |
| Proceeds from sales of fixed assets | **22** | 224 | 80 | **214** |
| Acquisition of investment securities | **(1)** | (2,156) | (2,391) | **(10)** |
| Disposition of investment securities | **1,146** | 2,927 | 355 | **11,126** |
| Proceeds from sales of marketable securities | | 1,500 | 6,840 | |
| Payments for marketable securities | | (499) | (4,544) | |
| Payments for advances and rental deposits | **(435)** | (899) | (843) | **(4,223)** |
| Collection of advances and rental deposits | **838** | 910 | 1,084 | **8,136** |
| Purchase of affiliates' stock | **(387)** | | | **(3,757)** |
| Proceeds from acquisition of subsidiaries' stock resulting in change in scope of consolidation | | 141 | | |
| Proceeds from sales of subsidiaries' stock resulting in change in scope of consolidation | | | 233 | |
| Payments for acquisition of subsidiaries' stock resulting in change in scope of consolidation | | (257) | | |
| Other | **26** | 73 | 330 | **252** |
| Net cash used in investing activities | **1,519** | (4,523) | (10,156) | **14,748** |
| **FINANCING ACTIVITIES:** | | | | |
| Decrease in short-term borrowings | **(433)** | (5) | (25) | **(4,204)** |
| Repayment of long-term debt | **(1,588)** | (5,069) | (2,753) | **(15,417)** |
| Proceeds from long-term debt | **520** | 2,470 | 1,380 | **5,049** |
| Purchase of treasury stock | **(4,593)** | (7,196) | (5,464) | **(44,592)** |
| Proceeds from issuance of subsidiary stock | | | 138 | |
| Dividends paid | **(4,949)** | (4,762) | (4,706) | **(48,049)** |
| Other | **(123)** | (300) | (144) | **(1,194)** |
| Net cash used in financing activities | **(11,166)** | (14,862) | (11,574) | **(108,407)** |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **126** | 75 | (30) | **1,223** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **2,551** | (8,569) | (915) | **24,768** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **42,833** | 51,402 | 52,317 | **415,854** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **45,384** | ¥42,833 | ¥51,402 | **440,622** |
| | | | | |
| **ACQUISITION OF SUBSIDIARIES:** | | | | |
| Fair value of assets acquired | | ¥1,600 | | |
| Liabilities assumed | | (1,277) | | |
| Goodwill | | 274 | | |
| Acquisition cost | | 597 | | |
| Cash and cash equivalents held by subsidiaries | | 481 | | |
| Cash paid for capital | | ¥(116) | | |
| | | | | |
| **SALES OF SUBSIDIARIES:** | | | | |
| Assets by sales | | | ¥425 | |
| Liabilities by sales | | | (251) | |
| Goodwill | | | 24 | |
| Gain on sales of subsidiaries' stocks | | | 63 | |
| Sales cost | | | 261 | |
| Cash and cash equivalents held by subsidiaries | | | (28) | |
| Cash received for sales | | | ¥233 | |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of AUTOBACS SEVEN Co., Ltd. (the “Company”) and its subsidiaries (together the “Companies”) 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 generally accepted accounting principles in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS).

In preparing the 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 and rearrangements have been made in the consolidated financial statements for the years ended March 31, 2013 and 2012, to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2014.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### A. CONSOLIDATION POLICY

The consolidated financial statements of March 31, 2014, include the accounts of the Company and all subsidiaries (33 in 2014, 35 in 2013, and 36 in 2012).

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 Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in all associated companies (8 in 2014, 7 in 2013 and 2012) are accounted for by the equity method. The cost in excess of net assets of the subsidiaries and associated companies at the time of acquisition, which cannot be specifically assigned to individual assets, is amortized on the straight-line basis over 20 years.

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

### B. UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income.

### C. UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN ASSOCIATED COMPANIES FOR THE EQUITY METHOD

In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material:
(1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity;
(3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (5) exclusion of minority interests from net income, if contained in net income.

### D. BUSINESS COMBINATIONS

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, 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."

The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

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 allocation.

### E. 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, certificates of deposit, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

### F. 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.

All marketable securities held by the Companies are classified as held-to-maturity debt securities or available-for-sale securities.

The cost of securities sold is determined based on the average method.

Nonmarketable available-for-sale securities are stated at cost determined by the average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

The Company reviews the fair value of its investment securities on a regular basis to determine if the fair value of any individual security has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value. The resulting realized loss is included in the consolidated statement of income and comprehensive income in the period in which the decline was deemed to be other than temporary.

Hybrid financial instruments, from which an embedded derivative cannot be separated, are stated at fair value and gains or losses are recognized in the consolidated statement of income and comprehensive income.

### G. INVENTORIES

Inventories before distribution to stores or franchisees are stated at the lower of cost, determined by the moving average method, or net selling value.

Inventories held at stores are stated at the lower of cost, determined by the moving average method, or net selling value.

(Accounting Change)

Prior to April 1, 2013, the Companies' merchandise for the retail business were costed using the retail method. Effective April 1, 2013, however, the Companies changed the method of costing for merchandise for the retail business to the moving average method.

The accounting policy change was made in association with the full-scale operation of a new product management system that was launched on April 1, 2013, to manage the profitability of products meticulously and address customer needs more appropriately.
Due to the full-scale launch of a new product management system on April 1, 2013, it became impossible to obtain some of the detailed shipping/receiving records for previous fiscal years, which also made it practically impossible to compute the cumulative effect of the new accounting method being retrospectively applied as of April 1, 2012. Therefore, the cumulative effect of this change in accounting policy reflected in the balance as of April 1, 2013, was computed based on the difference between the book value of the merchandise as of April 1, 2013, which was costed by the moving average method, and that as of March 31, 2013, which was costed by the retail method. However, the effect of this change is insignificant.

The effect of this change on "inventories", "cost of goods sold", profit and loss at each stage and per-share information is also insignificant.

### H. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost.

Depreciation is principally computed by the declining-balance method over the estimated useful lives of the assets. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

Estimated useful lives are as follows:

| | |
|---|---|
| Buildings and structures: | 3 to 45 years |
| Furniture and equipment: | 2 to 20 years |
| Lease assets: | 5 to 50 years |

### I. LONG-LIVED ASSETS

The Companies review their 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 would be recognized if the carrying amount of an asset or asset group exceeds the sum of 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 or asset group 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.

### J. GOODWILL

Goodwill is amortized on a straight-line basis over 20 years.

### K. PURCHASED SOFTWARE

Purchased software was recorded as other assets and is amortized over 5 to 10 years.

### L. RETIREMENT AND PENSION PLAN

The Company and subsidiaries adopt a defined contribution pension plan and non-savings-defined benefits pension plan to appropriate retirement benefits for employees.

The Company and certain subsidiaries sponsor a defined contribution pension plan. The Company also sponsors a domestic contributory welfare pension plan of an automobile-related company group. The Company cannot estimate the amount of the plan assets corresponding to the Company’s contribution reasonably and treats them as the same as the defined contribution pension plan.

The Companies recorded expenses for the defined contribution pension plan and the welfare pension plan when the contribution was made. Some subsidiaries accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at each balance sheet date by the simplified method.

In some subsidiaries, retirement allowances for directors are recorded to state the liability at the amount that would be required if all directors retired at each balance sheet date. Certain subsidiaries revised their compensation plan in April 2005 and no additional provisions have been recorded for retirement benefits to be paid to those directors since April 2005.

In May 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009. This accounting standard is effective for the end of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard, effective March 31, 2014. As a result, the contents of the note as of March 31, 2014 were changed.

### M. 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 the 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 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 in each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

Overview of the asset retirement obligations:

For the most part, these comprise obligations to return land used for stores to its original condition under real estate lease contracts.

Method of calculating amounts of asset retirement obligations:

The amount of asset retirement obligations is calculated using either the period of an applicable real estate lease contract or the useful life of property and equipment as the expected period of use, and the interest rate of government bonds for that period on the date of calculation as the discount rate.

### N. ALLOWANCE FOR BUSINESS RESTRUCTURING

The allowance for business restructuring is stated in amounts based on the estimation of potential losses from the Company's previous investments.

### O. LEASE ACCOUNTING

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

**Lessee**

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 note 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 standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue be accounted for as operating lease transactions.

**Lessor**

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee be recognized as investments in lease.

**Recognition of revenues**

Revenue and cost of finance leases are recognized when each lease payment becomes due.

### P. INCOME TAXES

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income and comprehensive 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.

### Q. FOREIGN CURRENCY ITEMS

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at each balance sheet date.

The foreign exchange gains and losses from those translations are recognized in the consolidated statement of income and comprehensive income to the extent that they are not hedged by forward exchange contracts. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

### R. FOREIGN CURRENCY FINANCIAL STATEMENTS

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical exchange rates. Differences arising from such translations are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

### S. 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, retroactively adjusted for stock splits.
Diluted net income per share is not disclosed because the effect of potential common shares is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income and comprehensive income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

On April 1, 2013, the Company effected a three-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors' meeting held on February 27, 2013. All prior years' shares and per share figures have been restated to reflect the impact of the stock split, and to provide data on a basis comparable to the years ended March 31, 2013. Such restatements include calculations regarding the Company's weighted-average number of common shares, EPS, and cash dividends per share.

## T. DERIVATIVES AND HEDGING ACTIVITIES

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Currency swap contracts and interest rate swap contracts are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, and

(2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The currency swap contracts employed to hedge foreign exchange exposures for import transactions are measured at fair value and the unrealized gains/losses are recognized in income.

## U. 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.

## 3. MARKETABLE AND INVESTMENT SECURITIES

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **CURRENT:** | | | |
| Debt securities | **¥802** | ¥1,001 | **$7,787** |
| **NON-CURRENT:** | | | |
| Equity securities | **¥6,035** | ¥5,561 | **$58,592** |
| Debt securities | | 805 | |
| Total | **¥6,035** | ¥6,366 | **$58,592** |

The carrying amounts and aggregate fair values of marketable and investment securities for which market quotations were available as of March 31, 2014 and 2013, were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| **March 31, 2014** | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | **¥3,506** | **¥2,535** | **¥107** | **¥5,934** |
| Debt securities | **801** | **1** | | **802** |

| | Millions of yen | | | |
|---|---|---|---|---|
| March 31, 2013 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥3,513 | ¥2,057 | ¥114 | ¥5,456 |
| Debt securities | 1,805 | 1 | | 1,806 |

| March 31, 2014 | Thousands of U.S. dollars Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | **$34,039** | **$24,611** | **$1,039** | **$57,611** |
| Debt securities | **7,776** | **10** | | **7,786** |

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2014 and 2013, were as follows:

| | Carrying amount Millions of yen 2014 | 2013 | Thousands of U.S. dollars 2014 |
|---|---|---|---|
| Securities classified as: | | | |
| Available-for-sale: | | | |
| Equity securities | **¥101** | ¥105 | **$981** |

Proceeds from sales of available-for-sale securities for the years ended March 31, 2014, 2013 and 2012, were ¥146 million ($1,417 thousand), ¥525 million and ¥291 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended March 31, 2014 and 2012, were ¥134 million ($1,301 thousand) and ¥6 million, respectively. Gross realized losses on these sales for the years ended March 31, 2013 and 2012, were ¥468 million and ¥8 million, respectively.

## 4. INVESTMENTS IN LEASE

A breakdown of investments in lease as of March 31, 2014 and 2013, was as follows:

| | Millions of yen 2014 | 2013 | Thousands of U.S. dollars 2014 |
|---|---|---|---|
| Gross lease receivables | **¥14,340** | ¥14,743 | **$139,223** |
| Unearned interest income | **(2,483)** | (2,547) | **(24,107)** |
| Asset retirement obligations | **145** | 165 | **1,408** |
| Investments in lease | **¥12,002** | ¥12,361 | **$116,524** |

The Company leases store buildings, which are constructed by the Company, to its franchisees under noncancelable lease terms generally over 20 years. In certain cases, the Company receives non-interest-bearing rental deposits from the lessees and such rental deposits are refunded to the lessees when the lease term expires.

A finance subsidiary of the Company also leases equipment to the franchisees under noncancelable lease agreements over five to six years.

Maturities of investment in lease for finance leases that deem not to transfer ownership of the leased property to the lessee as of March 31, 2014, were as follows:

| Year Ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | **¥1,953** | **$18,961** |
| 2016 | **2,080** | **20,194** |
| 2017 | **1,794** | **17,418** |
| 2018 | **1,517** | **14,728** |
| 2019 | **1,291** | **12,534** |
| 2020 and thereafter | **5,705** | **55,388** |
| Total | **¥14,340** | **$139,223** |

## 5. LONG-LIVED ASSETS

The Companies reviewed their long-lived assets for impairment for the years ended March 31, 2014, 2013 and 2012, and, as a result, recognized an impairment loss of ¥470 million ($4,563 thousand), ¥89 million, and ¥51 million, respectively, on rental assets, stores and idle assets. The carrying amount of the relevant fixed assets was written down to the recoverable amount. The recoverable amount of those fixed assets was measured at the net selling price determined by quotations from real estate appraisers and their value in use and the discount rate used for computation of the present value of future cash flows was the Company's weighted-average cost of capital. The net sales value of leased assets is calculated based on the estimated sales prices.

Impairment losses of long-lived assets and the weighted-average cost of capital for the years ended March 31, 2014, 2013 and 2012 were as follows:

| | Millions of yen 2014 | 2013 | 2012 | Thousands of U.S. dollars 2014 |
|---|---|---|---|---|
| Land | **¥71** | ¥30 | ¥31 | **$689** |
| Buildings and structures | **392** | 51 | 20 | **3,806** |
| Furniture and equipment | **7** | 8 | | **68** |
| Other | | | | |
| Total | **¥470** | ¥89 | ¥51 | **$4,563** |

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Weighted-average cost of capital | **8.50%** | 10.02% | 11.06% |

## 6. GOODWILL

Goodwill as of March 31, 2014 and 2013, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Consolidation goodwill | **¥105** | ¥151 | **$1,020** |
| Purchased goodwill | **775** | 716 | **7,524** |
| Total | **¥880** | ¥867 | **$8,544** |

## 7. RENTAL DEPOSITS AND LONG-TERM LOANS

A breakdown of rental deposits and long-term loans as of March 31, 2014 and 2013, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **RENTAL DEPOSITS TO:** | | | |
| Lessors for distribution facilities and stores of the Companies | **¥9,513** | ¥9,260 | **$92,359** |
| Lessors for stores of franchisees | **6,883** | 8,030 | **66,825** |
| Lessors for office and other facilities | **1,313** | 1,329 | **12,748** |
| Total rental deposits | **17,709** | 18,619 | **171,932** |
| **LOANS TO:** | | | |
| Franchisees | **93** | 280 | **903** |
| Other | | | |
| Total loans | **93** | 280 | **903** |
| Allowance for doubtful receivables | **(35)** | (151) | **(340)** |
| Total | **¥17,767** | ¥18,748 | **172,495** |

The Companies' operations are conducted in freestanding buildings, a substantial portion of which have been constructed to the Company's specifications and are leased to the Company under noncancelable lease terms generally over 20 years. The lease terms are renewable upon expiration. Usually, the Company provides funds to the lessors in whole or in part for the construction costs of the leased buildings in the form of rental deposits which are non-interest-bearing.

Rental deposits are refundable over the lease term or are refundable upon expiration of the lease term. If the Company cancels the lease agreements during the lease term, the outstanding rental deposits are not refunded. The Company has not experienced significant loss from the forfeiture of rental deposits as a result of cancellation of the lease agreements before expiration.

The Company has leased certain store buildings for which the Company has made rental deposits to lessors and subleased such stores to franchisees. The Company also receives non-interest-bearing rental deposits from the sublessees. Such rental deposits received are presented in long-term liabilities in the consolidated balance sheets. Some of the above-mentioned leases were accounted for as operating leases and rent expense paid to the lessors and rental income from sublessees have been set off in the consolidated statement of income and comprehensive income.

## 8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2014 and 2013, consisted of notes to banks and other. The annual interest rates applicable to the short-term borrowings at March 31, 2014 and 2013, ranged from 0.9% to 1.5% and from 0.8% to 1.5%, respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Bonds | **¥65** | ¥135 | **$631** |
| Loans from banks and other, due serially to 2018 with interest rates ranging from 0.3% to 2.1% (2014) and from 0.5% to 2.3% (2013) and other: | | | |
| Unsecured | **6,498** | 7,566 | **63,087** |
| Lease obligations | **1,417** | 1,513 | **13,757** |
| Total | **7,980** | 9,214 | **77,475** |
| Less current portion | **4,329** | 1,665 | **42,029** |
| Long-term debt, less current portion | **¥3,651** | ¥7,549 | **35,446** |

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

| Year Ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | **¥4,329** | **$42,029** |
| 2016 | **2,176** | **21,126** |
| 2017 | **246** | **2,388** |
| 2018 | **177** | **1,718** |
| 2019 | **121** | **1,175** |
| 2020 and thereafter | **931** | **9,039** |
| Total | **¥7,980** | **$77,475** |

As of March 31, 2014, buildings and land of ¥271 million ($2,631 thousand) were pledged as collateral for payables, short-term borrowings and long-term debt. As is customary in Japan, the Companies maintain substantial deposit balances with banks with which they have borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

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

## 9. RETIREMENT AND PENSION PLAN

The Company and subsidiaries adopt a defined contribution pension plan and non-savings-defined benefits pension plan to appropriate retirement benefits for employees.

The Company and certain subsidiaries sponsor a defined contribution pension plan. The Company also sponsors a domestic contributory welfare pension plan of an automobile-related company group (Osaka Automobile Maintenance Employee Pension Fund). The Company cannot estimate the amount of the plan assets corresponding to the Company's contribution reasonably and treats them as the same as the defined contribution pension plan. In the unfunded employee retirement payment plans, some subsidiaries accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at each balance sheet date by the simplified method.

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 retirement payment from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, compared with termination by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The domestic contributory welfare pension plan of an automobile-related company group covers substantially all of its Japanese employees. The benefits of the welfare pension plan are based on years of service and on the average compensation during years of service and subject to governmental regulations. The welfare plan consists of a basic component, which has been specified by the Japanese government's welfare pension regulations, and an additional component established by the automobile-related company group.

The Companies have a retirement payment plan for directors. The liability for retirement benefits for directors at March 31, 2014 and 2013, is ¥152 million ($1,476 thousand) and ¥195 million, respectively. The retirement benefits for directors are paid subject to the approval of the shareholders.

**Year Ended March 31, 2014**

(1) Details of the defined contribution pension plan were as follows:

Required contribution amounts to the defined contribution pension plan for the year ended March 31, 2014, were ¥274 million ($2,660 thousand).

(2) Details of the welfare pension plan under which required contribution amounts were treated as retirement benefit expenses were as follows:

Required contribution amounts to the welfare pension plan as of March 31, 2014, were ¥372 million ($3,612 thousand).

The funded status of the entire plan:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Most recent period | **Most recent period** |
| Plan assets | **¥26,596** | **$258,214** |
| Retirement benefit obligations under the welfare plan | **37,824** | **367,224** |
| Difference | **¥(11,228)** | **$(109,010)** |

The main factors for the difference were prior service costs (¥6,935 million ($67,330 thousand) in the most recent period), and losses carried forward (¥4,293 million ($41,680 thousand) in the most recent period). The Company has paid special contributions as prior service cost over 20 years. The amounts of special contributions made and charged to income were ¥168 million ($1,631 thousand) for the years ended March 31, 2014.

Ratio of the Company's payment contributions for the entire plan:
24.7% (April 1, 2012 to March 31, 2013)
The ratio of payment contributions does not correspond to the Company's actual share of plan assets.

(3) Details of the defined benefits pension plan were as follows:
The changes in defined benefit obligation in accordance with the simplified method for the year ended March 31, 2014, were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2014** | **2014** |
| Balance at beginning of year | **¥221** | **$2,146** |
| Net periodic retirement benefit costs | **30** | **291** |
| Benefits paid | **(13)** | **(126)** |
| Amount of the partial transfer of the defined benefit pension plans to the defined contribution pension plans | **(52)** | **(505)** |
| Others | **3** | **29** |
| Balance at end of year | **¥189** | **$1,835** |

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

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2014** | **2014** |
| Unfunded defined benefit obligation | **¥189** | **$1,835** |
| Net liability for defined benefit obligation | **¥189** | **$1,835** |

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2014** | **2014** |
| Liability for retirement benefits | **¥189** | **$1,835** |
| Net liability for defined benefit obligation | **¥189** | **$1,835** |

Net periodic retirement benefit cost:
Net periodic retirement benefit costs in accordance with the simplified method for the year ended March 31, 2014, were ¥30 million ($291 thousand).

(Special Dissolution of Pension Fund for Employees)
The board of representatives of the Osaka Automobile Maintenance Employee Pension Fund decided to dissolve the Fund at a meeting held on November 19, 2013, based on the conclusion that efficient administration of the Fund will become difficult in the future in view of the Fund's worsened finances, attributable to factors including an increase in the number of pension recipients.

The dissolution of the Fund is anticipated to generate costs. However, the estimated costs in connection with the dissolution and their estimated impact on the Company's operating results are impossible to calculate rationally at this point because many factors remain uncertain.

Year Ended March 31, 2013
Details of the welfare pension plan under which required contribution amounts were treated as retirement benefit expenses were as follows:

The funded status of the entire plan:

| | Millions of yen |
|---|---|
| | Previous period |
| Plan assets | ¥24,313 |
| Retirement benefit obligations under the welfare plan | 35,955 |
| Difference | ¥(11,642) |

The main factors for the difference were prior service costs (¥6,219 million in the previous period), and losses carried forward (¥5,423 million in the previous period). The Company has paid special contributions as prior service cost over 20 years. The amounts of special contributions made and charged to income were ¥171 million and ¥166 million for the years ended March 31, 2013 and 2012, respectively.

Ratio of the Company's payment contributions for the entire plan:
24.6% (April 1, 2011 to March 31, 2012)
The ratio of payment contributions does not correspond to the Company's actual share of plan assets.

The liability (asset) for employees' retirement benefits at March 31, 2013, consisted of the following:

| | Millions of yen |
|---|---|
| | 2013 |
| Projected benefit obligation | ¥247 |
| Fair value of plan assets | (25) |
| Net liability | ¥222 |

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, were as follows:

| | Millions of yen | Millions of yen |
|---|---|---|
| | 2013 | 2012 |
| Service cost | ¥32 | ¥27 |
| Contribution of contributory welfare pension plan | 387 | 371 |
| Contribution pension plan and other | 267 | 240 |
| Additional retirement benefits | | |
| Net periodic retirement benefit costs | ¥686 | ¥638 |

Assumptions used for the computation of liability for retirement benefits are not presented because the simplified method is applied.

## 10. ASSET RETIREMENT OBLIGATIONS

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| Balance at beginning of year | **¥1,984** | ¥1,824 | **$19,262** |
| Additional provisions associated with the acquisition of property and equipment | **41** | 129 | **398** |
| Reconciliation associated with passage of time | **37** | 35 | **359** |
| Reduction associated with settlement of asset retirement obligations | **(37)** | (14) | **(359)** |
| Other | **(19)** | 10 | **(184)** |
| Balance at end of year | **¥2,006** | ¥1,984 | **$19,476** |

## 11. EQUITY

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

**a. Dividends**

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirement.

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

**b. Increases/decreases and transfer of common stock, reserve and surplus**

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

On April 1, 2013, the Company effected a three-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors' meeting held on February 27, 2013.

**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, which were previously presented as a liability, are now 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.

## 12. SALES

The Companies sell automobile-related products primarily to domestic customers directly or to franchisees, including certain affiliates with which the Companies have franchise agreements.

Net sales made to franchisees for the years ended March 31, 2014, 2013 and 2012, aggregated to approximately 57%, 57% and 57% of the consolidated net sales, respectively.

## 13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of "Selling, general and administrative expenses" for the years ended March 31, 2014, 2013 and 2012, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| Year Ending March 31 | 2014 | 2013 | 2012 | 2014 |
| Employee salaries and allowances | **¥23,717** | ¥23,415 | ¥23,835 | **$230,262** |
| Net periodic retirement benefit costs | **672** | 680 | 638 | **6,524** |
| Rent payment | **6,101** | 6,106 | 6,104 | **59,233** |
| Depreciation | **3,727** | 4,359 | 3,937 | **36,184** |
| Provision for allowance for doubtful receivables | **6** | 83 | 43 | **58** |

## 14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0%, 38.0% and 41.0% for the years ended March 31, 2014, 2013 and 2012, respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| **DEFERRED TAX ASSETS:** | | | |
| Receivables | **¥173** | ¥1,526 | **$1,680** |
| Accrued enterprise taxes | **128** | 222 | **1,243** |
| Accrued bonuses | **256** | 298 | **2,485** |
| Inventories | **1,015** | 922 | **9,854** |
| Depreciation and impairment loss | **4,429** | 4,444 | **43,000** |
| Provision for business restructuring | **67** | 374 | **651** |
| Investments | **112** | 584 | **1,087** |
| Other accounts payable | **985** | 964 | **9,563** |
| Tax loss carryforwards | **2,585** | 2,532 | **25,097** |
| Other | **924** | 1,212 | **8,971** |
| Less valuation allowance | **(5,325)** | (5,610) | **(51,699)** |
| Deferred tax assets | **5,349** | 7,468 | **51,932** |
| **DEFERRED TAX LIABILITIES:** | | | |
| Property and equipment | **493** | 402 | **4,786** |
| Undistributed earnings of associated companies | **366** | 296 | **3,553** |
| Effect of application of accounting standard for leased assets | | 275 | |
| Unrealized gains on available-for-sale securities | **850** | 681 | **8,253** |
| Other | **334** | 353 | **3,243** |
| Deferred tax liabilities | **2,043** | 2,007 | **19,835** |
| Net deferred tax assets | **¥3,306** | ¥5,461 | **$32,097** |

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2013 and 2012, and the actual effective tax rates reflected in the accompanying consolidated statements of income and comprehensive income was as follows:

| | 2013 | 2012 |
|---|---|---|
| Normal effective statutory tax rate | 38.0% | 41.0% |
| Expenses not deductible for income tax purposes | 0.5 | 0.6 |
| Per-capita inhabitants' tax | 0.6 | 0.5 |
| Changes in valuation allowance | 5.8 | (0.3) |
| Amortization of goodwill | 0.6 | 0.1 |
| Effect of tax rate reduction | | 3.4 |
| Other—net | 0.1 | (0.5) |
| Actual effective tax rate | 45.6% | 44.8% |

For the year ended March 31, 2014, a reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income and comprehensive income is not presented herein as it is less than 5 – 100ths of the normal effective statutory tax rate.

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38% to 36%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥102 million ($990 thousand) and to increase income taxes—deferred in the consolidated statement of income and comprehensive income for the year then ended by ¥102 million ($990 thousand).

At March 31, 2014, certain subsidiaries have tax loss carryforwards aggregating approximately ¥10,582 million ($102,738 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 |
|---|---|---|
| 2015 | **¥170** | **$1,650** |
| 2016 | **85** | **825** |
| 2017 | **77** | **748** |
| 2018 | **463** | **4,495** |
| 2019 | **210** | **2,039** |
| 2020 | **73** | **709** |
| 2021 | **436** | **4,233** |
| 2022 | **1,081** | **10,495** |
| 2023 and thereafter | **7,987** | **77,544** |
| Total | **¥10,582** | **$102,738** |

## 15. LEASES

The Companies lease certain machinery, computer equipment, office space, and other assets.

Total rental expenses for the years ended March 31, 2014, 2013 and 2012, were ¥6,405 million ($62,184 thousand), ¥6,442 million and ¥6,462 million, respectively, including ¥354 million ($3,437 thousand), ¥366 million and ¥368 million of lease payments under finance leases.

Pro forma information of leased property that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended March 31, 2014 and 2013, was as follows:

| | As of March 31,2014 | | As of March 31, 2013 | | |
|---|---|---|---|---|---|
| | Millions of yen | | Millions of yen | | |
| | Building and Land | Total | Equipment | Building and Land | Total |
| Acquisition cost | **¥4,552** | **¥4,552** | ¥5 | ¥4,552 | ¥4,557 |
| Accumulated depreciation | **3,158** | **3,158** | 4 | 2,946 | 2,950 |
| Net leased property | **¥1,394** | **¥1,394** | ¥1 | ¥1,606 | ¥1,607 |

| | As of March 31,2014 | |
|---|---|---|
| | Thousands of U.S. dollars | |
| | Building and Land | Total |
| Acquisition cost | **$44,194** | **$44,194** |
| Accumulated depreciation | **30,660** | **30,660** |
| Net leased property | **$13,534** | **$13,534** |

Obligations under finance lease contracts:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| Due within one year | **¥269** | ¥254 | **$2,612** |
| Due after one year | **1,571** | 1,840 | **15,252** |
| Total | **¥1,840** | ¥2,094 | **$17,864** |

Depreciation expense and interest expense under finance lease contracts:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 |
| Depreciation expense | **¥213** | ¥223 | ¥225 | **$2,068** |
| Interest expense | **100** | 114 | 128 | **971** |
| Total | **¥313** | ¥337 | ¥353 | **$3,039** |

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statement of income and comprehensive income, were computed by the straight-line method and the interest method, respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| Due within one year | **¥3,475** | ¥3,610 | **$33,738** |
| Due after one year | **23,323** | 25,862 | **226,437** |
| Total | **¥26,798** | ¥29,472 | **$260,175** |

## 16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE

(1) Companies' policy for financial instruments

The Companies procure their funds mainly through loans from banks, as necessary, in accordance with a capital investment plan. Temporary reserve funds are invested mainly in highly safe financial assets.

(2) Nature and extent of risks arising from financial instruments

Trade notes and accounts receivable, which are operating receivables, are exposed to the credit risks of the customers.

Marketable and investment securities are mainly composed of held-to-maturity debt securities and available-for-sale securities, including listed stocks, and they are exposed to market risks.

Short-term loans and long-term loans are provided for franchisees and are exposed to the credit risks of the franchisees.

Most of the Companies' store buildings are based on their unique specifications. They are leased and subleased to franchisees. Rental deposits are mainly composed of deposits provided to the lessors as contractually agreed and are exposed to the credit risks of the lessors.

Investments in lease are mainly the portion of the above-mentioned store buildings that are company-owned assets leased to the franchisees, and they are exposed to the credit risks of the franchisees.

Trade notes and accounts, which are operating liabilities, are mostly due within one month.

Borrowings and bonds are made mainly in order to finance operating capital and capital investment, and the redemption dates fall within a period of five years after the balance sheet date.

(3) Risk management for financial instruments

*Credit risk management (risk relating to default of agreements of the counterparties)*

The Company aims to quickly recognize or mitigate any concerns over the collection of operating receivables and loans resulting from the deterioration of financial positions and other factors, as defined in the Management Regulations for Receivables. Specifically, each business division regularly monitors the financial positions of the main counterparties and manages the due dates and the balances on a counterparty-by-counterparty basis. Similar management is also conducted at subsidiaries in accordance with the Company's Management Regulations for Receivables.

As for held-to-maturity debt securities and debt securities such as bonds in available-for-sale securities, the credit risk is insignificant since the Company only holds debt securities with high ratings in accordance with the Fund Management Policy.

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

For marketable and investment securities, the Company confirms the fair values and the financial positions of the issuers (counterparties) on a regular basis and continuously reviews the holding status by taking the financial position and market condition into consideration.

The foreign currency and interest rate exposures are not presented herein as the amounts are immaterial.

*Liquidity risk management relating to financing (default risk on due date)*

The Company manages liquidity risk by securing necessary liquidity and ensuring that cash flow plans are formulated and updated in a timely fashion by the divisions in-charge based on the reports made by each division. For the subsidiaries, financing is mostly made by the Companies' financing system under which the funds are provided from the Company.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead.

(a) Fair values of financial instruments

| March 31, 2014 | Millions of yen Carrying amount | Fair value | Unrealized gain/(loss) | Thousands of U.S. dollars Carrying amount | Fair value | Unrealized gain/(loss) |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | ¥45,384 | ¥45,384 | | $440,622 | $440,622 | |
| Time deposits with an original maturity over three months | 291 | 291 | | 2,825 | 2,825 | |
| Marketable securities | 802 | 802 | | 7,787 | 7,787 | |
| Receivables | 47,786 | 47,591 | ¥(23) | 463,941 | 462,048 | $(223) |
| Allowance for doubtful receivables | (172) | | | (1,670) | | |
| Investments in lease | 11,857 | 13,948 | 2,091 | 115,116 | 135,417 | 20,301 |
| Investment securities | 5,934 | 5,934 | | 57,612 | 57,612 | |
| Investments in associated companies | 1,022 | 407 | (615) | 9,922 | 3,951 | (5,971) |
| Rental deposits and long-term loans | 17,767 | 16,717 | (1,050) | 172,495 | 162,301 | (10,194) |
| Total | ¥130,671 | ¥131,074 | ¥403 | $1,268,650 | $1,272,563 | $3,913 |
| Payables | ¥31,600 | ¥31,600 | | $306,797 | $306,797 | |
| Short-term borrowings and current portion of long-term debt | 4,538 | 4,638 | ¥100 | 44,058 | 45,029 | $971 |
| Income taxes payable | 1,818 | 1,818 | | 17,650 | 17,650 | |
| Long-term debt | 3,651 | 3,967 | 316 | 35,446 | 38,514 | 3,068 |
| Total | ¥41,607 | ¥42,023 | ¥416 | $403,951 | $407,990 | $4,039 |

Note. The difference of the above investments in lease and the amount of consolidated balance sheets is asset retirement obligations.

| March 31, 2013 | Millions of yen Carrying amount | Fair value | Unrealized gain/(loss) |
|---|---|---|---|
| Cash and cash equivalents | ¥42,833 | ¥42,833 | |
| Time deposits with an original maturity over three months | 5,365 | 5,365 | |
| Marketable securities | 1,001 | 1,001 | |
| Receivables | 45,014 | 44,790 | ¥(11) |
| Allowance for doubtful receivables | (213) | | |
| Investments in lease | 12,196 | 14,595 | 2,399 |
| Investment securities | 6,261 | 6,261 | |
| Investments in associated companies | 992 | 389 | (603) |
| Rental deposits and long-term loans | 18,748 | 17,701 | (1,047) |
| Total | ¥132,197 | ¥132,935 | ¥738 |
| Payables | ¥33,802 | ¥33,802 | |
| Short-term borrowings and current portion of long-term debt | 2,307 | 2,404 | ¥97 |
| Income taxes payable | 2,578 | 2,578 | |
| Long-term debt | 7,549 | 7,973 | 424 |
| Total | ¥46,236 | ¥46,757 | ¥521 |

Note. The difference of the above investments in lease and the amount in the consolidated balance sheets is asset retirement obligations.

Cash and cash equivalents, time deposits with an original maturity over three months

The fair value of cash and time deposits with an original maturity over three months approximates their carrying amount because of their short-term nature. Thus, the carrying amount of these items is used as fair value. Cash equivalents are measured based on market prices at the exchange or by the prices obtained from financial institutions.

Receivables, investments in lease, rental deposits and long-term loans

The fair value of these accounts is measured at the present values of their future cash flows classified by a term of a specified length and by risk category as per credit risk management, at a rate, which has the credit spread added to appropriate indices such as government bond yields.

Please see Note 7 for a breakdown of rental deposits and long-term loans.

Marketable securities, investment securities, and investments in associated companies

While the fair values of equity securities, etc. are measured by market prices at exchange, the fair values of debt securities are measured based on market prices at the exchange or by the prices obtained from financial institutions. Please refer to Note 3 for matters regarding securities by holding purpose.

Payables and income taxes payable

The fair value of these items approximates their carrying amount because of their short-term nature. Thus, the carrying amount is used as fair value.

Short-term borrowings and long-term debt

The fair value of these accounts is measured at the present values calculated by discounting the combined total of principal and interest by an assumed interest rate for similar new borrowings or lease transactions.

(b) Financial instruments whose fair values cannot be reliably determined

| | Carrying amount | | |
|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars |
| | 2014 | 2013 | 2014 |
| Investments in equity instruments that do not have a quoted market price in an active market | **¥877** | ¥504 | **$8,514** |

(5) Maturity analysis for financial assets and securities with contractual maturities

| | Millions of yen | | | |
|---|---|---|---|---|
| **March 31, 2014** | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents | **¥45,384** | | | |
| Time deposits with an original maturity over three months | **291** | | | |
| Marketable securities | **800** | | | |
| Receivables | **42,248** | **¥5,285** | **¥253** | |
| Investments in lease | **1,500** | **5,438** | **3,421** | **¥1,498** |
| Rental deposits and long-term loans | **2,638** | **6,150** | **3,401** | **5,578** |
| Total | **¥92,861** | **¥16,873** | **¥7,075** | **¥7,076** |

| | Millions of yen | | | |
|---|---|---|---|---|
| March 31, 2013 | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents | ¥42,833 | | | |
| Time deposits with an original maturity over three months | 5,365 | | | |
| Marketable securities | 1,000 | | | |
| Receivables | 39,959 | ¥4,886 | ¥169 | |
| Investments in lease | 1,319 | 5,474 | 3,764 | ¥1,640 |
| Investment securities | | 800 | | |
| Rental deposits and long-term loans | 2,744 | 6,086 | 3,926 | 5,992 |
| Total | ¥93,220 | ¥17,246 | ¥7,859 | ¥7,632 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| **March 31, 2014** | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents | **$440,622** | | | |
| Time deposits with an original maturity over three months | **2,825** | | | |
| Marketable securities | **7,767** | | | |
| Receivables | **410,174** | **$51,311** | **$2,456** | |
| Investments in lease | **14,563** | **52,796** | **33,213** | **$14,544** |
| Rental deposits and long-term loans | **25,612** | **59,709** | **33,019** | **54,155** |
| Total | **$901,563** | **$163,816** | **$68,688** | **$68,699** |

Please see Note 8 for annual maturities of short-term borrowings and long-term debt.

## 17. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014, 2013 and 2012, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 |
| Unrealized gain on available-for-sale securities: | | | | |
| Gains arising during the year | **¥602** | ¥1,340 | ¥22 | **$5,845** |
| Reclassification adjustments to profit or loss | **(118)** | 532 | 15 | **(1,146)** |
| Amount before income tax effect | **484** | 1,872 | 37 | **4,699** |
| Income tax effect | **(169)** | (655) | (10) | **(1,641)** |
| Total | **¥315** | ¥1,217 | ¥27 | **$3,058** |
| | | | | |
| Foreign currency translation adjustments: | | | | |
| Adjustments arising during the year | **¥499** | ¥424 | ¥(138) | **$4,845** |
| Reclassification adjustments to profit or loss | | (5) | 2 | |
| Amount before income tax effect | **499** | 419 | (136) | **4,845** |
| Income tax effect | **0** | (2) | | **0** |
| Total | **¥499** | ¥417 | ¥(136) | **$4,845** |

| Share of other comprehensive income in associates: | | | | |
|---|---|---|---|---|
| Gains arising during the year | **¥2** | ¥3 | ¥4 | **$19** |
| Total other comprehensive income | **¥816** | ¥1,637 | ¥(105) | **$7,922** |

## 18. NET INCOME PER SHARE

EPS for the years ended March 31, 2014, 2013 and 2012, was as follows:

| | Millions of yen | Thousands | Yen | U.S. dollars |
|---|---|---|---|---|
| **March 31, 2014** | Net income | Weighted-average shares | EPS | |
| Basic EPS: | | | | |
| Net income available to common shareholders | **¥9,786** | **90,860** | **¥107.71** | **$1.05** |

| | Millions of yen | Thousands | Yen |
|---|---|---|---|
| March 31, 2013 | Net income | Weighted-average shares | EPS |
| Basic EPS: | | | |
| Net income available to common shareholders | ¥7,590 | 93,450 | ¥81.22 |

| | Millions of yen | Thousands | Yen |
|---|---|---|---|
| March 31, 2012 | Net income | Weighted-average shares | EPS |
| Basic EPS: | | | |
| Net income available to common shareholders | ¥8,403 | 99,700 | ¥84.28 |

Note. Shares and per share figures have been restated, as appropriate, to reflect a three-for-one stock split effected April 1, 2013.

## 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 Company's reportable segments are the components of the Company about which separate financial information is available. These segments are subject to periodic examination to enable the Company's Board of Directors to decide how to allocate resources and assess performance. The Companies operate the AUTOBACS franchise chain consisting of businesses in automotive goods, safety inspections and maintenance services, and automobile purchase and sales business. The Companies comprise segments made up of groups of companies based on wholesale division and retail division functions for these businesses. The Companies have five reportable segments: “the Company,” “domestic store subsidiaries,” “overseas subsidiaries,” “subsidiaries for car goods supply and others,” and “subsidiaries for supporting functions.”

The main business lines of each segment are described below.

| | 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 | - |
| The automobile purchase and sales business | Wholesale-Retail | Retail | - | Retail | - |
| Others | Lease business | - | - | - | Lease business-Others |

Note. “Others” of subsidiaries for supporting functions are loan credit business, nonlife insurance agency and office work representation business.

(2) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

Segment income for each reportable segment is presented on an operating income basis. Internal sales and transfers between segments are based, for the most part, on prevailing market prices. Among the assets of the reportable segments, the goodwill associated with overseas subsidiaries is tested for impairment as a nonamortized asset in the overseas subsidiary's financial statements, while in the consolidated financial statements it is amortized using the straight-line method. In addition, some store buildings, POS systems and other items are subject to lease transactions between segments. The asset and expense items of the reportable segments and their amounts are adjusted as shown below.

| | Reportable segment | | | |
|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Subsidiaries for Supporting Functions | Consolidated Financial Statement |
| Assets | Investments in Lease | - | Investments in Lease | Property, Equipment and Intangible assets |
| Cost | Cost of goods sold | Rent payment and Lease payment | Cost of goods sold | Depreciation |
| Amortized method | Interest method | - | Interest method | Declining balance method and Straight-line method |

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies".

(3) Information about sales, profit (loss), assets and other items is as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | | | | |
| | Reportable segment | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Sales | | | | | | |
| Sales to external customers | **¥132,739** | **¥79,928** | **¥9,975** | **¥8,183** | **¥872** | **¥231,697** |
| Intersegment sales or transfers | **51,019** | **1,463** | **398** | **6,992** | **2,276** | **62,148** |
| Total | **183,758** | **81,391** | **10,373** | **15,175** | **3,148** | **293,845** |
| Segment profit | **13,330** | **555** | **12** | **255** | **433** | **14,585** |
| Segment assets | **187,913** | **21,938** | **10,418** | **4,974** | **29,444** | **254,687** |
| Other: | | | | | | |
| Depreciation | **2,056** | **317** | **257** | **38** | **14** | **2,682** |
| Amortization of goodwill | | **15** | | | **7** | **22** |
| Share of associates accounted for using equity method | **848** | | | | | **848** |
| Increase in property, equipment and intangible assets | **4,064** | **315** | **108** | **25** | | **4,512** |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Reportable segment | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | 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 (loss) | 13,735 | (789) | (72) | 163 | 417 | 13,454 |
| Segment assets | 196,532 | 22,747 | 9,508 | 4,750 | 26,883 | 260,420 |
| Other: | | | | | | |
| Depreciation | 2,166 | 334 | 226 | 45 | 12 | 2,783 |
| Amortization of goodwill | | 15 | | | 7 | 22 |
| Share of associates accounted for using equity method | 462 | | | | | 462 |
| Increase in property, equipment and intangible assets | 4,153 | 314 | 153 | 53 | 6 | 4,679 |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Reportable segment | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Sales | | | | | | |
| Sales to external customers | ¥140,755 | ¥80,785 | ¥8,850 | ¥5,973 | ¥980 | ¥237,343 |
| Intersegment sales or transfers | 54,846 | 929 | 248 | 6,631 | 2,403 | 65,057 |
| Total | 195,601 | 81,714 | 9,098 | 12,604 | 3,383 | 302,400 |
| Segment profit | 13,590 | 435 | 86 | 112 | 431 | 14,654 |
| Segment assets | 208,931 | 23,772 | 9,007 | 3,907 | 27,787 | 273,404 |
| Other: | | | | | | |
| Depreciation | 1,825 | 353 | 240 | 33 | 14 | 2,465 |
| Amortization of goodwill | | 15 | | | 7 | 22 |
| Share of associates accounted for using equity method | 505 | | | | | 505 |
| Increase in property, equipment and intangible assets | 5,178 | 497 | 127 | 16 | 30 | 5,848 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | | | |
| | Reportable segment | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Sales<br>Sales to external customers | **$1,288,728** | **$776,000** | **$96,845** | **$79,446** | **$8,466** | **$2,249,485** |
| Intersegment sales or transfers | **495,330** | **14,204** | **3,864** | **67,884** | **22,097** | **603,379** |
| Total | **1,784,058** | **790,204** | **100,709** | **147,330** | **30,563** | **2,852,864** |
| Segment profit | **129,417** | **5,388** | **117** | **2,476** | **4,204** | **141,602** |
| Segment assets | **1,824,398** | **212,990** | **101,146** | **48,291** | **285,864** | **2,472,689** |
| Other: | | | | | | |
| Depreciation | **19,961** | **3,078** | **2,495** | **369** | **136** | **26,039** |
| Amortization of goodwill | | **146** | | | **68** | **214** |
| Share of associates accounted for using equity method | **8,233** | | | | | **8,233** |
| Increase in property, equipment and intangible assets | **39,456** | **3,058** | **1,049** | **243** | | **43,806** |

(4) Reconciliation of published figures and aggregate of reportable segment

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| **Net sales** | **2014** | 2013 | 2012 | **2014** |
| Total reportable segments | **¥293,845** | ¥291,868 | ¥302,400 | **$2,852,864** |
| Elimination of intersegment transaction | **(62,148)** | (61,700) | (65,057) | **(603,379)** |
| Net sales of consolidated financial statements | **¥231,697** | ¥230,168 | ¥237,343 | **$2,249,485** |

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| **Income** | **2014** | 2013 | 2012 | **2014** |
| Total reportable segments | **¥14,585** | ¥13,454 | ¥14,654 | **$141,602** |
| Amortization of goodwill | **(105)** | (263) | (77) | **(1,019)** |
| Inventories | **(253)** | (298) | (325) | **(2,456)** |
| Fixed assets | **256** | 179 | 8 | **2,485** |
| Allowance for point card | **(18)** | (36) | (83) | **(175)** |
| Elimination of intersegment transaction | **(526)** | (383) | (477) | **(5,107)** |
| Others | **6** | 92 | 21 | **58** |
| Income of consolidated financial statements | **¥13,945** | ¥12,745 | ¥13,721 | **$135,388** |

| Assets | Millions of yen 2014 | 2013 | 2012 | Thousands of U.S. dollars 2014 |
|---|---|---|---|---|
| Total reportable segments | **¥254,687** | ¥260,420 | ¥273,404 | **$2,472,689** |
| Elimination of intersegment transaction | **(46,117)** | (48,504) | (48,199) | **(447,738)** |
| Fixed assets | **(3,299)** | (3,333) | (3,787) | **(32,029)** |
| Amortization of goodwill | **(4,102)** | (3,398) | (3,141) | **(39,825)** |
| Inventories | **(1,461)** | (1,441) | (1,570) | **(14,184)** |
| Investments in associates accounted for using the equity method | **950** | 929 | 848 | **9,223** |
| Others | **823** | 854 | 394 | **7,990** |
| Assets of consolidated financial statements | **¥201,481** | ¥205,527 | ¥217,949 | **$1,956,126** |

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total reportable segments | | | Adjustment | | | Consolidated total | | |
| Other items | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| Depreciation | **¥2,682** | ¥2,783 | ¥2,465 | **¥1,387** | ¥1,576 | ¥1,471 | **¥4,069** | ¥4,359 | ¥3,936 |
| Amortization of goodwill | **22** | 22 | 22 | **105** | 263 | 77 | **127** | 285 | 99 |
| Investments in associates accounted for using the equity method | **848** | 462 | 505 | **950** | 929 | 848 | **1,798** | 1,391 | 1,353 |
| Increase in property, equipment and intangible assets | **4,512** | 4,679 | 5,848 | **308** | 1,570 | 1,843 | **4,820** | 6,249 | 7,691 |

(Note) The adjustment amounts for other items are as follows:

1. Depreciation and the increase in property and equipment and intangible assets are principally the adjustment amount for intersegment lease transactions on the consolidated financial statements.
2. The adjustment amount for amortization of goodwill is principally the amount for amortization of goodwill recorded for the Company and overseas subsidiaries (see Note 2.B).
3. The adjustment amount for investments in associates accounted for using the equity method is the adjustment amount according to the equity method (see Note 2.C).

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Total reportable segments | Adjustment | Consolidated total |
| Other items | 2014 | 2014 | 2014 |
| Depreciation | **$26,039** | **$13,466** | **$39,505** |
| Amortization of goodwill | **214** | **1,019** | **1,233** |
| Investments in associates accounted for using the equity method | **8,233** | **9,223** | **17,456** |
| Increase in property, equipment and intangible assets | **43,806** | **2,990** | **46,796** |

**Related Information**

1. Information by product and service

The Companies have omitted this information as external sales of the Companies' main business of automotive goods and service sales account for more than 90% of the net sales recorded in the consolidated statement of income and comprehensive income.

2. Information by geographic region

The Companies have omitted this information because sales to external customers within Japan account for more than 90% of the net sales recorded in the consolidated statement of income and comprehensive income and property and equipment within Japan accounts for more than 90% of the property and equipment reported in the consolidated balance sheet.

3. information by major customer

The Companies have omitted this information because no sales to any specific external customer represented 10% or more of net sales reported on the consolidated statement of income and comprehensive income.

| | Millions of Yen 2014 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | **¥404** | | **¥66** | | | **¥470** |

| | Millions of Yen 2013 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | ¥57 | | ¥32 | | | ¥89 |

| | Millions of Yen 2012 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | ¥15 | | | ¥36 | | ¥51 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | **$3,922** | | **$641** | | | **$4,563** |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | | **¥15** | | | **¥7** | **¥105** | **¥127** |
| Goodwill at March 31, 2014 | | | **¥4,982** | | | **(4,102)** | **880** |

(Note) The adjustment amounts are as follows:

1. The adjustment amount for amortization of goodwill is principally the amount for amortization of goodwill recorded for the Company and overseas subsidiaries (see Note 2.B)
2. The adjustment amount for goodwill is principally the amount for amortization of goodwill and impairment loss in the past recorded for overseas subsidiaries (see Note 2.B).

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | | ¥15 | | | ¥7 | ¥263 | ¥285 |
| Goodwill at March 31, 2013 | | 15 | ¥4,246 | | 7 | (3,401) | 867 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | | ¥15 | | | ¥7 | ¥77 | ¥99 |
| Goodwill at March 31, 2012 | | 30 | ¥3,862 | | 13 | (3,141) | 764 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | | **$146** | | | **$68** | **$1,019** | **$1,233** |
| Goodwill at March 31, 2014 | | | **$48,369** | | | **(39,825)** | **8,544** |

## 20. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The general shareholders' meeting held on June 24, 2014 resolved the following appropriations of retained earnings as of March 31, 2014:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year-end cash dividends, ¥27 ($0.3) per share | **¥2,418** | **$23,476** |
| Commemorative cash dividends, ¥10 ($0.1) per share | **¥895** | **$8,689** |

b. Purchase of Treasury Stock

At the Board of Directors' meeting held on May 8, 2014, the Board approved the repurchase of common stock up to a maximum of 3,000,000 shares to the aggregate amount of ¥5,400 million ($52,427 thousand).

On May 27, 2014, the Company repurchased 2,028,200 shares of common stock for ¥3,422 million ($33,223 thousand) in the market.

c. Cancellation of Treasury stock

At the Board of Directors' meeting held on May 8, 2014, the Board approved the cancellation 3,000,000 shares of treasury stock and carried it out on May 15, 2014.

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan

Tel:+81 (3) 6720 8200
Fax:+81 (3) 6720 8205
www.deloitte.com/jp

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
AUTOBACS SEVEN Co., Ltd.:

We have audited the accompanying consolidated balance sheet of AUTOBACS SEVEN Co., Ltd. and its subsidiaries as of March 31, 2014, and the related consolidated statements of income and 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 AUTOBACS SEVEN Co., Ltd. and its subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

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

Deloitte Touche Tohmatsu LLC

June 24, 2014

Member of
**Deloitte Touche Tohmatsu Limited**