# for Customer Delight

Anything about cars, you find at AUTOBACS

AUTOBACS SEVEN

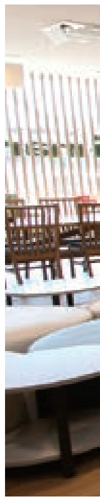
Annual Report
2017

Friendly



# To Enhance the Joy and Enrichment Cars Bring to Daily Life

AUTOBACS offers an expanding range of lifestyle goods and services to enhance the joy and enrichment cars bring to all manner of occasions, and creates stores where customers always feel welcome and free to ask for car-related advice.



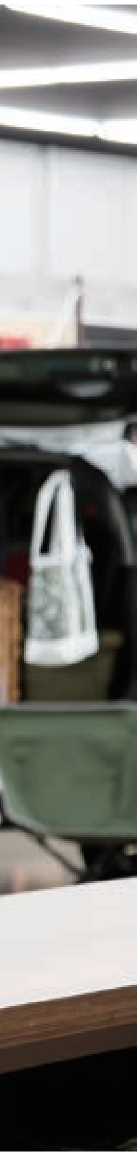
## 01 Fun, Convenient Products For Outings and Leisurely Drives

The newly established "GO OUT" section featuring products to make weekend camping trips and outings even better. (AUTOBACS GARAGE FUCHU)

# 02

## Letting Customers Relax While Their Cars Are Being Washed

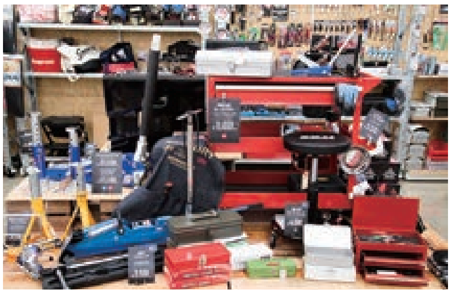
An urban-style members-only, reservation-only store offering a manual car-washing service at the entrance and emphasizing maintenance services.
(Smart+1 IBARAKI NISHI STORE)



# 03

## New Ways to Enjoy Car Interiors and Garages

Goods that enhance the enjoyment cars bring to various aspects of daily life.
(AUTOBACS GARAGE FUCHU)



# 04

## Making Outings Better with the Latest Gadgets

Bluetooth speakers and other gadgets to make outings even better.
(AUTOBACS GARAGE FUCHU)


# 05

## Product Displays Organized by Purpose and Application

Product displays created for select offerings of goods for particular purposes and applications. This new store format seeks to enhance convenience by also employing a reservation system to eliminate waiting times for pit services. (AUTOBACS YURIHONJO STORE)

# 06

## Reducing the Frustration of Selecting Products for Customers Unfamiliar with the Details of Cars

Customers unfamiliar with the details of cars can receive recommendations for the tires, oil, batteries, wipers, and other products best suited for their needs. Part replacement notifications are now being provided on an experimental basis. (AUTOBACS GARAGE FUCHU)

Professional



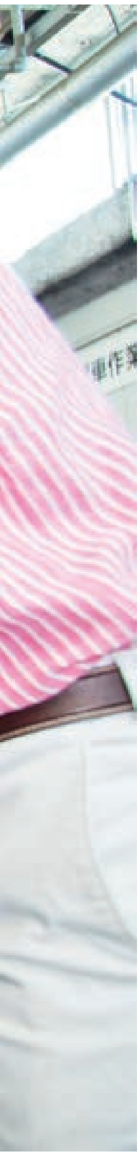
07

## Expert Pit Services by Technical Specialists

AUTOBACS customers have access to a broad range of services by technical specialists, who are certified automobile mechanics and have AUTOBACS internal qualifications as specialists in areas such as product installation and performance of statutory safety inspections and maintenance. (Photo: AUTOBACS GARAGE FUCHU)

# Peace of Mind and Confidence For Everything Related to Cars

AUTOBACS is the one-stop solution to customers' needs for everything from automotive goods, to statutory safety inspections and maintenance, and car purchases. We make sure that every individual AUTOBACS employee provides the highest quality service, so customers can have peace of mind and confidence when they come to AUTOBACS.



## 08 Optimal Automotive-Good Recommendations by Car Life Advisors

Car Life Advisors, specialized staff with internal qualifications, provide appropriate advice based on performance, price, vehicle make and model, and other information to help customers purchase the right products.

## 09 Speedy Car Appraisals

AUTOBACS' patented car appraisal system produces car purchase appraisals in about 30 minutes. To assure customers they can rely on the appraisal, we present them with a formal estimate valid for five days.

## 10 Products that Mean Convenience and Peace of Mind for Customers

"AQ." is a private brand of merchandise AUTOBACS offers as a standard for basic, reliable products. Separately, we have also begun to offer safety devices for purposes such as preventing sudden acceleration, and warning of impending collisions.


## 11 Online and Telephone Reservations to Eliminate Waiting Times

Our reservation systems increase customer convenience by eliminating waiting times for services such as statutory safety inspections and oil changes.

## 12 Customer-Oriented Service Menu

AUTOBACS offers an extensive service menu with offerings such as manual car washes and ¥500 pit services to increase customer convenience and peace of mind.

## Philosophy

# AUTOBACS is committed to doing everything possible to make customers' car-centric lifestyles as joyful as they can be.

AUTOBACS SEVEN operates the AUTOBACS retail chain. In terms of both number of stores and market share, AUTOBACS has established itself as Japan's largest specialty retailer of goods and services for cars. Paying attention to the needs of individual customers and striving to create compelling products and services, we offer new value that enriches and adds enjoyment to customers' car-centric lifestyles. We aim to achieve ongoing growth for the entire AUTOBACS Group by being a professional, friendly presence for customers.

## AUTOBACS Chain Management Mission

The mission of the AUTOBACS chain 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 specialty store chain providing joy and solutions for automobiles, the AUTOBACS chain will "earn" customers' genuine trust in the brand message, "Anything about cars, you find at AUTOBACS."

## Group Vision (from the 2017 Medium-Term Business Plan)

- **Turnaround of the Domestic AUTOBACS Business**
  Promote car-centric lifestyles through new products and new business formats
- **Development of Future Growth Drivers**
  New Business: Stores specializing in used car purchases, BtoB business, imported car dealerships, and others
  Overseas Business: Retailing, service, and wholesale businesses suited to the needs of individual countries

# for Customer Delight

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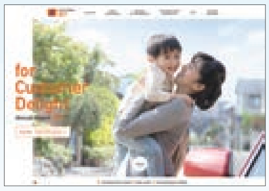
### Online Annual Report

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.




http://www.autobacs.co.jp/en/ir/ar2017/index.html

### 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 Company Group, please refer to the online version of the annual report.

### Explanation of Names

Within this report, "AUTOBACS SEVEN Co., Ltd.," "AUTOBACS SEVEN" and "the Company" refer to the non-consolidated entity, while "the Company Group" refers to the consolidated entity. "AUTOBACS" is a brand name, but also refers to individual retail stores and the entire retail chain of the AUTOBACS SEVEN Group.

# We constantly work to enhance our corporate value by helping to enrich the joy and sense of security customers gain from their car-centric lifestyles.

Recycling and applying capital in pursuit of sustainable increases in corporate value

## Capital Inputs

Inputs

**Financial Capital**
- Funds used for business operations

**Instrumental Capital**
- Nationwide store network
- Distribution infrastructure

**Human Capital**
- Skills, capabilities, and qualifications of staff and franchisees

**Intellectual Capital**
- The AUTOBACS brand
- Development of stores, merchandise, and services
- Store operation know-how
- Information assets

**Societal and Relationship Capital**
- Supplier and franchisee relationships built on trust
- Relationships with local communities and car culture leaders

**Natural Capital**
- Resources obtained from the natural world

## Business Model

AUTOBACS Chain

### AUTOBACS SEVEN and its Franchisees Working as One to Create Value

**AUTOBACS SEVEN (FC Headquarters)**
- Marketing
- Store development/deployment
- MD/product and service development
- Purchasing, distribution, and wholesale
- Support/guidance for franchisees

**Franchisees (AUTOBACS Stores)**
- Merchandise/service provision
- Store operation

**Convenience and Peace of Mind for Customers**
**Greater Enjoyment from Cars**

Automotive Goods

Statutory Safety Inspections and Maintenance

Automobile Purchase and Sales

## Value creation results = Corporate value defined broadly

Outcomes

**Financial Capital**
- Generation of cash flow for growth investments
- ROE improvement
- Establishment of a solid financial base

**Instrumental Capital**
- Building of stores and a supply chain placing equal emphasis on customer satisfaction and productivity

**Intellectual Capital**
- Enhancement of support for, and trust in, the brand
- Advancement of development know-how
- Accumulation of information assets and advancing sophistication in their application

**Human Capital**
- Development of the next generation of leaders
- Development of human resources with a broad range of expertise
- Development of franchisees
- Fostering of an organizational culture that makes the most of diversity

**Societal and Relationship Capital**
- Deepening of cooperation with suppliers and franchisees
- Elevation of trust among local communities and car culture opinion leaders

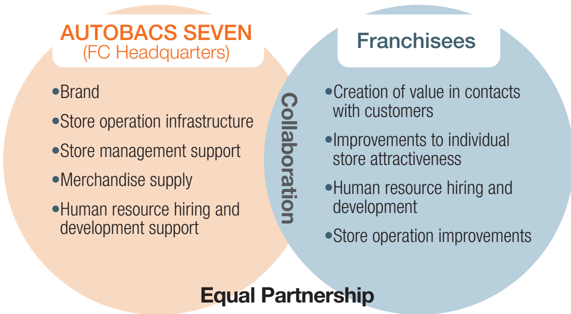
**Natural Capital**
- Lowering of environmental impact
- Building of a recycling-oriented society

Within the evolving relationship between automobiles and individuals, as well as society at large, our corporate value derives from our ability to continuously provide customers with goods and services that enhance the convenience, peace of mind, and enjoyment they get from their cars. Applying not only the financial and other types of capital on our balance sheet but also the brand and knowledge we have developed over many years, the skills of our people, and other kinds of capital not expressed in numbers, we achieve greater corporate value by creating new value for customers.

## The Key Characteristics of AUTOBACS SEVEN's Business Model

### Working Together with Franchisees to Satisfy Customers

The business model for the domestic AUTOBACS business is based on a franchise organization with 601 stores operated by 81 franchisees, including 18 consolidated subsidiaries. Serving as the franchise headquarters, AUTOBACS SEVEN provides the approach for providing value to customers, while franchisees deliver value in contacts with individual customers. Both sides of this robust partnership, bound by common principles, share information on problems and successes as they work to improve customer satisfaction. This corporate culture and organization is the strength of the AUTOBACS chain.




## Providing Value to Customers

### Comprehensive Support to Bring a Sense of Security and Enrichment to Car-Centric Lifestyles

From the purchase of an automobile, to the provision of automotive goods, statutory safety inspections and maintenance services, and help with selling an existing car and purchasing the next, AUTOBACS provides answers for the full range of customers' car-related needs and desires. By developing and providing compelling products and services, we help customers gain a greater sense of joy and enrichment from their cars.

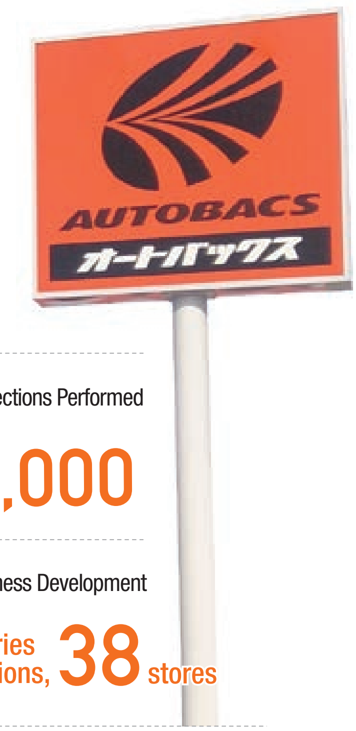
Value for Customers

**Professional & Friendly presence**

Professional: Peace of mind, Confidence

Friendly presence: Enjoyment, Enrichment, Welcoming Atmosphere

## AUTOBACS by the Numbers




| | |
|---|---|
| Number of Domestic Stores | 601 stores |
| Share of the Automotive Goods Market (Japan) | No.1 |

| Chain Store Sales (Japan) | Active Members | Stock Keeping Units at Stores | Statutory Inspections Performed |
|---|---|---|---|
| ¥262.0 billion | 8.30 million | 10,000 to 30,000 | 646,000 |

| Automobiles Sold | Automobile Mechanics | Car Life Advisors | Overseas Business Development |
|---|---|---|---|
| 29,000 | Approx. 3,800 | Approx. 10,000 | 6 countries or regions, 38 stores |

## The Year at AUTOBACS SEVEN

April-June ESG

### Support for Earthquake Victims in Kumamoto

Kumamoto was struck by a devastating earthquake on April 14, 2016, and from the following day through June, AUTOBACS provided water, food, and other emergency supplies, conducted fundraising activities (raising approximately ¥2.8 million), made its own fund contributions (including ¥1.0 million from employees), and donated other resources including five mini trucks.

Press Release http://www.autobacs.co.jp/images/data/news/2016/05/20/6HCX2B.pdf

May Other

### Canceled Treasury Shares

(2.9 million shares)

June Domestic AUTOBACS Business

### Introduced Year of Free Anshin 3-Star Repairs with a Statutory Safety Inspection


AUTOBACS began offering a new service in which Maintenance Members who bring their cars in for a statutory safety inspection are given a year's worth of tire, window glass, and bumper repairs at no charge. Members may use this service for one year following the safety inspection and at any AUTOBACS Group store in Japan.

See P24 for more information.

June Domestic AUTOBACS Business

### AUTOBACS Selected by Tire Purchasers as the No. 1 Retailer of Fuel-Efficient Tires in Japan for Three Years Running.


August New Business

### Basic Agreement to Acquire Motoren Tochigi Corp.

AUTOBACS reached a basic agreement with Motoren Tochigi Corp. to acquire all of the outstanding shares of the latter, which operates five authorized BMW dealerships and other businesses in Tochigi Prefecture. The agreement for the actual transfer of shares is scheduled to be signed in December. This transaction will expand AUTOBACS' operation of authorized BMW dealerships, which began with Ikebukuro BMW in 2015.


See P28 for more information.

August Domestic AUTOBACS Business

### Chosen by Customers as the No. 1 Retailer for Studless Tires for Two Years Running.


September Overseas Business

### Capital and Business Alliance with a Malaysian Tire Wholesaler/Retailer

AUTOBACS entered into an alliance with the Kit Loong Group, the largest tire wholesaler, and manufacturer and retailer of fixtures for automobile maintenance, in Malaysia. Malaysia is a country experiencing outstanding economic growth and growing car ownership, and AUTOBACS aims to expand its business interests in that country.

See P29 for more information.

Press Release

http://www.autobacs.co.jp/images/data/news/2016/09/16/20dnjc.pdf

2016-

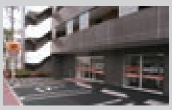
Apr. May Jun. Jul. Aug. Sep. Oct.

### 1st Quarter

New Stores

Japan: 3; Overseas: 1

(Total Stores Japan: 601; Overseas: 34)



AUTOBACS Used Car Purchase Store MATSUBARA

AUTOBACS SATOSHO Store

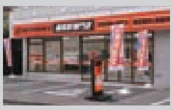
AUTOBACS CHARAN Store (Thailand)

### 2nd Quarter

New Stores

Japan: 2; Overseas: 1

(Total Stores Japan: 597; Overseas: 34)



AUTOBACS Used Car Purchase Store KOGANEI

AUTOBACS Used Car Purchase Store SEIJO-GAKUEN MAE

AUTOBACS LAT PHRAO 101 Store (Thailand)

November Domestic AUTOBACS Business

## Birth of a New Type of AUTOBACS Store Anchored by a Gas Station

AUTOBACS opened a new type of store in Tatebayashi, Gunma Prefecture. Anchored by a self-service gas station, this new store offers automotive goods, statutory safety inspections and maintenance, and a drive-through carwash.

See P25 for more information.

Press Release http://www.autobacs.co.jp/images/data/news/2016/11/01/o9wSFw.pdf

December Domestic AUTOBACS Business

## Introduction of a Sudden Acceleration Prevention Device

Japan has experienced a rash of accidents resulting from mistaken use of the accelerator rather than the brake. The “Pedal no Mihariban” device was developed to prevent such accidents. The device works by electrically controlling the accelerator to prevent accidental acceleration, and gives priority to the brake when both the brake and accelerator are depressed at the same time. The “Pedal no Mihariban” device can be used on over 100 models of cars produced in Japan.

See P23 for more information.

December Domestic AUTOBACS Business

## Two New Stores Designed to Eliminate Shopping Inconveniences

Two stores, with merchandise organized by purpose or application, were opened. These stores also offer a reservation system for pit services to eliminate waiting time, and feature other innovations, as well, to make shopping easier and more convenient.

See P25 for more information.

Press Release http://www.autobacs.co.jp/images/data/news/2016/12/22/WTbFz8.pdf

2017-

February Other

## Bought back Company Shares

(1.5 million shares for approx. ¥2.71 billion)

February Domestic AUTOBACS Business

## New “Smart+1” Store Format Launched to Specialize in Manual Car Washing and Maintenance

“Smart+1” stores provide services on a reservation-only basis to make the most effective use of time. These stores also suggest appropriate maintenance goods to customers unfamiliar with the details of cars and provide other functional, convenient services, such as reminders when it is time to wash a car, change oil, or perform other such maintenance work.

See P25 for more information.

Press Release http://www.autobacs.co.jp/images/data/news/2017/02/08/hJmk72.pdf

March Domestic AUTOBACS Business

## Establishment of Chain Growth Co., Ltd.

All of the outstanding shares of Support-A Co., Ltd. were acquired to establish Chain Growth Co., Ltd., which will specialize in the training and retention of automobile mechanics.

See P33 for more information.

Press Release http://www.autobacs.co.jp/images/data/news/2017/01/31/B83vW9.pdf

March Domestic AUTOBACS Business

## Establishment of ABT Marketing Co., Ltd.

ABT Marketing Co., Ltd. was established as both a subsidiary of AUTOBACS and a joint venture with CCC Marketing Co., Ltd., a subsidiary of Culture Convenience Club Co., Ltd., operator of TSUTAYA retail stores and the T Point loyalty point program.

See P24 for more information.

March Domestic AUTOBACS Business

## First AUTOBACS AWARDS Ceremony Held

The AUTOBACS AWARDS recognize stores and individual employees for outstanding customer service. Selections are based on Customer Voice Program survey data and other feedback. Five stores and 17 individual employees were recognized for their efforts at the initial award ceremony.

Nov. Dec. Jan. Feb. Mar.

### 3rd Quarter

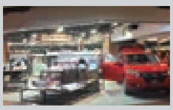
New Stores

Japan: 6; Overseas: 2

(Total Stores Japan: 600; Overseas: 36)

AUTOBACS KAWAGOE Store

AUTOBACS AWASE-MALL Store



AUTOBACS TSM Bandung Store (Indonesia)

### 4th Quarter

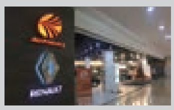
New Stores

Japan: 6; Overseas: 3

(Total Stores Japan: 601; Overseas: 38)

AUTOBACS CARS AEON MALL MAKUHARI NEW CITY

AUTOBACS FUKUOKA SHINGU Store



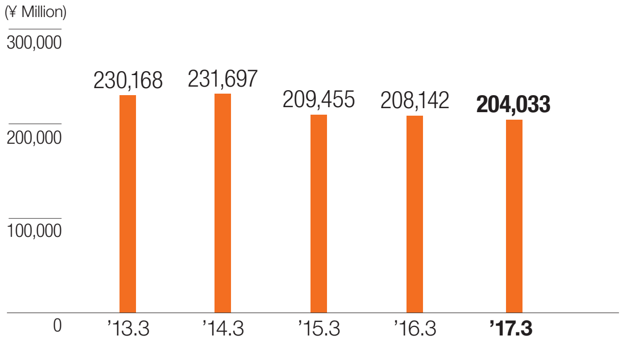
AUTOBACS Supermal Karawaci Store (Indonesia)

# Highlights of Financial Results

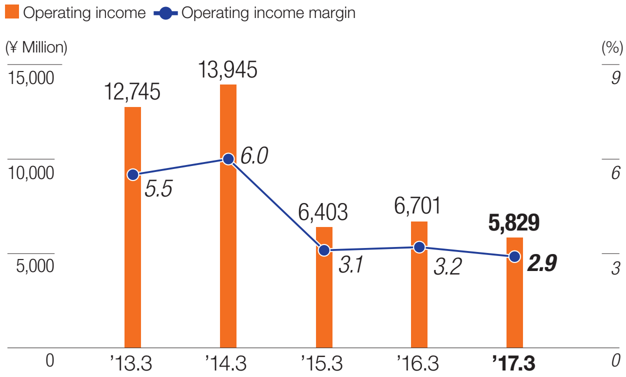
| AUTOBACS SEVEN Co., Ltd. and Consolidated Subsidiaries<br>Fiscal year ended on March 31 for each displayed year | Millions of yen<br>2014 | 2015 | 2016 | 2017 | Thousands of U.S. dollars (Note 1)<br>2017 |
|---|---|---|---|---|---|
| **Fiscal Year:** | | | | | |
| Net sales | ¥231,697 | ¥209,455 | ¥208,142 | **¥204,033** | **$1,821,723** |
| Wholesale | 132,733 | 124,279 | 117,848 | **115,637** | **1,032,473** |
| Retail | 95,540 | 82,039 | 87,310 | **85,566** | **763,982** |
| Others | 3,422 | 3,136 | 2,984 | **2,830** | **25,268** |
| Operating income | 13,945 | 6,404 | 6,701 | **5,829** | **52,045** |
| Income before income taxes and minority interests | 16,086 | 9,053 | 7,558 | **4,474** | **39,956** |
| Profit attributable to owners of parent | 9,786 | 4,610 | 4,371 | **3,015** | **26,929** |
| Net cash provided by operating activities | 12,072 | 11,829 | 10,564 | **9,488** | **84,714** |
| Net cash used in investing activities | 1,519 | (2,403) | (4,984) | **(7,147)** | **(63,821)** |
| Net cash used in financing activities | (11,166) | (12,618) | (11,154) | **(7,457)** | **(66,580)** |
| Free cash flows | 13,591 | 9,426 | 5,580 | **2,341** | **20,902** |
| Capital expenditures | 4,820 | 6,127 | 5,895 | **4,842** | **(43,241)** |
| Depreciation and amortization | 4,551 | 4,805 | 4,012 | **4,384** | **39,143** |
| **At Year-End:** | | | | | |
| Total assets | ¥201,481 | ¥186,532 | ¥180,454 | **¥176,708** | **$1,577,750** |
| Equity | 143,979 | 138,338 | 131,455 | **127,079** | **1,134,634** |
| Interest-bearing liabilities | 6,771 | 6,860 | 6,296 | **8,282** | **73,946** |
| **Per Share Data (Yen and Dollars (Note 1)):** | | | | | |
| Basic net income | ¥107.71 | ¥52.83 | ¥51.60 | **¥36.00** | **$0.32** |
| Cash dividends | 64.00 | 60.00 | 60.00 | **60.00** | **0.54** |
| Dividend payout ratio (%) | 59.4 | 113.6 | 116.3 | **166.7** | **—** |
| Dividend on equity (DOE) (%) | 4.1 | 3.7 | 3.8 | **3.9** | **—** |
| Total shareholder return ratio (%) | 105.8 | 222.2 | 235.4 | **255.7** | **—** |
| **Management Indicators:** | | | | | |
| Operating income margin (%) | 6.0 | 3.1 | 3.2 | **2.9** | |
| Return on equity (%) | 6.8 | 3.3 | 3.2 | **2.3** | |
| Return on assets (%) | 4.8 | 2.5 | 2.4 | **1.7** | |
| Equity ratio (%) | 71.5 | 74.3 | 72.8 | **71.9** | |
| **Non-Financial Data:** | | | | | |
| Number of domestic stores | 571 | 584 | 599 | **601** | |
| Domestic stores operated by franchisees | 415 | 423 | 433 | **444** | |
| Number of overseas stores | 27 | 27 | 33 | **38** | |
| Overseas stores operated by franchisees | 10 | 10 | 12 | **17** | |
| Active Members (1,000) (Note 2) | 6,954 | 8,587 | 8,541 | **8,301** | |
| Number of employees | 4,466 | 4,263 | 4,347 | **4,200** | |
| Number of automobile mechanics (Note 3) | 3,653 | 3,780 | 3,781 | **3,788** | |
| Number of directors (of which, outside directors) | 8(3) | 8(3) | 8(3) | **8(3)** | |
| Number of auditors (of which, outside auditors) | 4(3) | 4(3) | 4(3) | **4(3)** | |
| Electricity usage (MW) (Note 4) | 7,515 | 7,097 | 6,810 | **7,076** | |
| $CO_2$ emissions (t-$CO_2$) (Note 4) | 4,787 | 4,503 | 4,060 | **4,489** | |

(Notes) 1. U.S. dollar amounts are converted at a rate of ¥112=US$1, which prevailed on March 31, 2017.
2. Beginning with the fiscal year ended March 31, 2015, "active members" is defined as the number of customers who made a purchase within the past year.
3. All chain employees who have obtained the Automobile Mechanic (Level 1, 2, or 3) national qualification.
4. Total for AUTOBACS SEVEN Co., Ltd.'s headquarters, regional business locations, directly managed stores, and logistics centers. (Does not include subsidiaries)

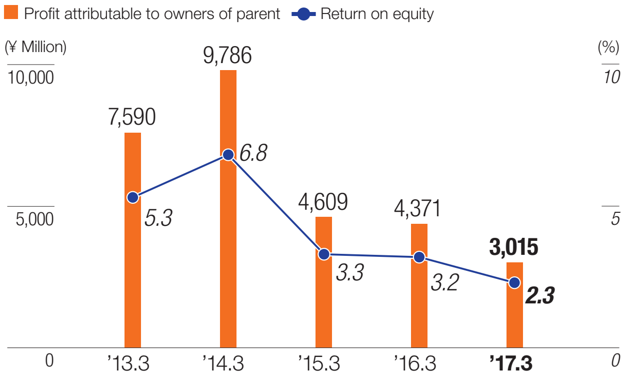
## Net Sales



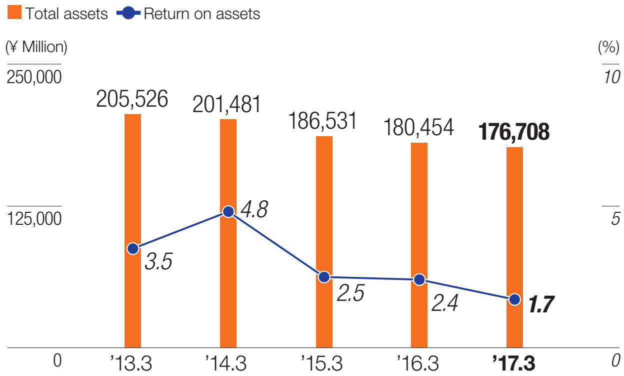

## Operating Income/Operating Income Margin



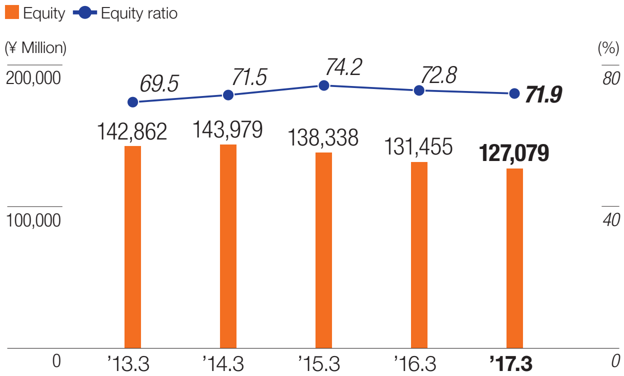

## Profit Attributable to Owners of Parent/Return on Equity



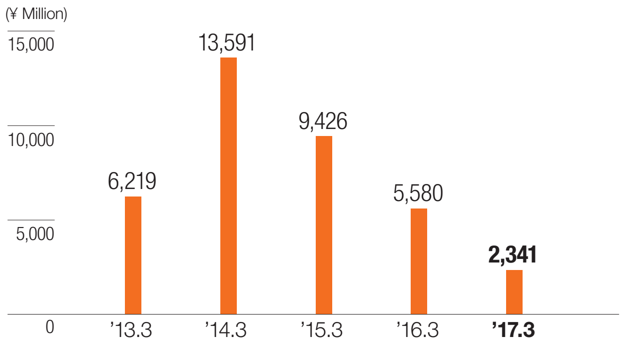

## Total Assets/Return on Assets



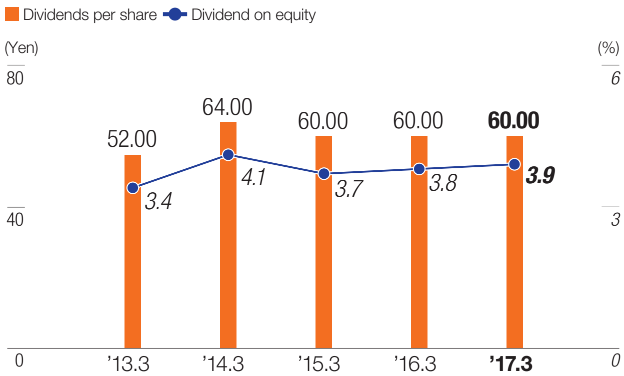

## Equity/Equity Ratio




## Free Cash Flows




## 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/ar2017/index.html**

CEO Q&A

# for Customer Delight

**Kiomi Kobayashi**

Representative Director and
Chief Executive Officer

## Implementing our new business plan, we are looking to the future of motorized societies and proposing new ways for cars to bring enjoyment to everyday life.

Let me begin by expressing our most sincere appreciation for the extraordinary, ongoing support we receive from our shareholders and other investors. During my first year as the chief executive officer, I engaged in dialogues with each of the department heads, frontline employees, franchisees, customers, investors, and others across the broad range of our stakeholders. I did this in an effort to bring fresh, bold ideas to our efforts to reform the Company Group.

These conversations gave me a tangible sense of matters such as changes in our business environment and expectations for the Company Group. They also provided me with countless opportunities to take note of things that had not been so obvious to me before.

One of the most worrisome was the fading of the sense of excitement that both employees and customers used to have about AUTOBACS. Restoring that sense of excitement is a matter of great urgency. Our recently formulated 2017 Medium-Term Business Plan (covering the fiscal years ending March 31, 2018 to March 31, 2020) provides a roadmap for doing so.

In implementing this new plan, we will respond to expectations by making AUTOBACS into an even greater source of compelling ideas for enhancing the enjoyment cars can bring to everyday life. We look forward to the ongoing support of our stakeholders as we push ahead with this effort.

## Q1 What is your evaluation of performance for the fiscal year ended March 2017?

**Our results reflect the scale of the challenges we faced, but I believe the year was one in which we made the fundamental changes that were needed for a new start.**

For the fiscal year ending March 2017, the Company Group recorded net sales of ¥204.0 billion, down 2.0% year on year, operating income of ¥5.8 billion, down 13.0%, and profit attributable to owners of parent of ¥3.0 billion, down 31.0%.

The primary reason for the decline in net sales was a 2.0% year-on-year decrease in sales of automotive goods at domestic stores. Factors such as lower demand for winter/summer seasonal tire changes, due to the record warm winter in the previous fiscal year, resulted in lackluster first-half sales. In the second half, sales promotion efforts amplified in anticipation of greater demand for winter products led to a rebound in sales of mainly tires, oil, and batteries. The recovery, however, was not enough to make up for the drop in first-half sales. Furthermore, concentrated efforts to increase the inventory efficiency of franchisees resulted in lower sales for the Company, which wholesales goods to the AUTOBACS retail chain, and ultimately for the Company Group.

As for earnings, amid the decline in sales, domestic store subsidiaries moved ahead with earnings-enhancement initiatives, so even as gross profit fell 1.2% year on year, the gross margin improved by 0.2 percentage points. SG&A expenses included an increase in depreciation expenses related to logistics center improvements, but also advertising and promotion, and sales promotion, expenses that management improvements held down to about the previous year's level. Operating income, however, declined despite such expense management efforts. Extraordinary losses of ¥2.6 billion, including items such as fixed asset impairment losses on land and buildings related to facilities for the benefit of employees and to stores, contributed to a decline in net income.

Though results were not what we had hoped for, I believe the year, as the first fiscal year covered by our new Medium-Term Business Plan, was one in which we were able to clearly identify issues going forward and lay the groundwork for our next steps.

One particularly important achievement was the streamlining of AUTOBACS retail chain operations. We achieved progress, for example, in reducing franchisee inventories and in improving the profitability of domestic store subsidiaries, a significant concern, to the point where the subsidiaries are now in the black. Furthermore, regarding the statutory safety inspections and maintenance, and automobile purchase and sales, operations, both of which are growth areas, our results continued on an upward path. This is the result of our actions to date taking hold and nationwide television commercials boosting awareness of our offerings in Japan. Meanwhile, in automotive goods, positive results were seen, for instance, from enhanced lines of dash cams and other high-profile goods and from expanded sales efforts for Pedal no Mihariban, a device to prevent accidents from sudden acceleration (accidents in which the accelerator is mistaken for the brake), and other safety products. Greater attention to initiatives such as these is emphasized in our new business plan, and I believe we have achieved a degree of progress toward that end.

### Results for the Fiscal Year Ended March 31, 2017

(¥ Billion)

| | Fiscal 2017 | YoY Chg. |
|---|---|---|
| Net Sales | 204.0 | (2.0%) |
| Oper. Inc. | 5.8 | (13.0%) |
| Profit attributable to owners of parent | 3.0 | (31.0%) |
| ROE (%) | 2.8 | (0.9pt) |

### Net Sales of Domestic AUTOBACS Chain Stores (All operations)*

(¥ Billion)

| | Fiscal 2017 | YoY Chg. |
|---|---|---|
| Automotive goods | 209.8 | (2.0%) |
| Statutory safety inspection and maintenance | 18.3 | +6.0% |
| Automobile purchase and sales | 29.2 | +9.6% |
| Other | 4.6 | +6.0% |
| Total for all stores | 262.0 | (0.2%) |

* Includes net sales attributable to franchise stores.

## Q2 At this point, what are the key issues for achieving a recovery in results?

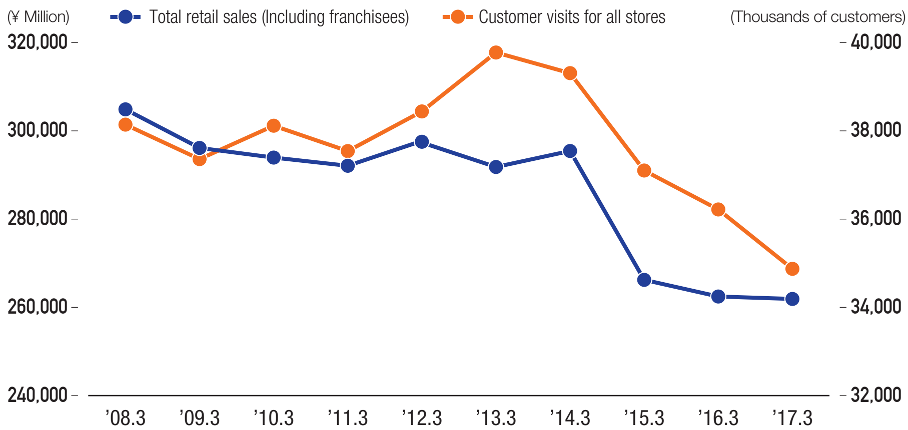
**The decline in customer traffic at domestic AUTOBACS stores is a key issue, and our top priority is to make our stores more attractive for customers.**

At present, domestic AUTOBACS chain stores as a whole are seeing their sales trend lower, primarily because of declining customer traffic. Over the past 10 years, 20- and 30-year-olds have declined as a percentage of our Maintenance Members, so increasing the presence of young people and families in our customer base is a key issue over the medium-to-long term.

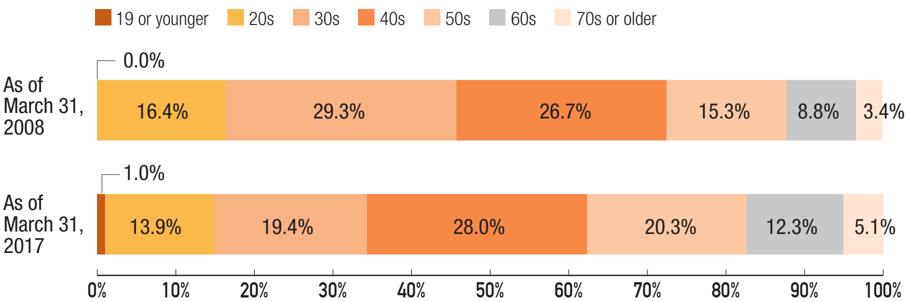
I think this is happening because of macro developments, such as the aging of Japanese society as a whole and the fact that younger generations are losing interest in cars as other things compete for their attention; and because of changes in our business environment, as exemplified by intensifying competition from car dealerships, internet retailers, and others entering our industry. But I also think we are not performing adequately in terms of offering compelling products and services that are keeping up with changes in customer preferences and lifestyles. In addition, given the growth of internet retailing and SNS usage, we also have to diversify the approaches we use to generate customer traffic.

Given that understanding, the Company Group's top priority is to increase customer traffic by making all of our stores, and their product and service offerings, more attractive - in other words, to revive the competitiveness of the domestic AUTOBACS business. The Company Group's business environment is experiencing a rapid progression of big changes, such as the growing use of electric and electronic technologies in cars, the growth of the car-sharing economy and other new markets, and the diversification of our customer base and customer needs, as women and the elderly come to make up a larger percentage of drivers. Such rapid and large-scale changes are expected to continue, and turning them into growth opportunities will require first of all that we clearly define the value we are offering from the customer's perspective and differentiate ourselves from the competition.

**Past 10 Years of AUTOBACS Chain Store Sales and Customer Visits**




**Maintenance Members by Age**



## Q3 What is AUTOBACS aspiring to be in differentiating itself from the competitors?

### We aim to be a professional, friendly presence as a retailer offering lifestyle products and services.

In reviving the competitiveness of the domestic AUTOBACS business, one of the directions we will pursue is a transition to a retailer that offers lifestyle products and services. Lifestyle products and services will be a new core business, adding to the value we offer through statutory safety inspections and maintenance, and it will provide a second avenue by which we will strive to increase customer traffic.

"Lifestyle products and services" enable customers to gain greater enjoyment from car-centric lifestyles. Cars are not only a mode of transportation; they provide the backdrop for life settings - road trips, casual drives, and time with family and friends. Imagining, creating, and offering products and services customers need to gain even greater enjoyment from such occasions is the role and appeal of AUTOBACS.

The goods we offer can be broken down into largely two types - discretionary goods, such as interior accessories and car navigation devices; and essential goods, such as tires, oil, and batteries. The key in offering them is to achieve the right balance. We aim to do this through two approaches. One is to provide customers with a selection of discretionary goods that are fun and will make customers want to come to our stores; the other is to redouble our efforts to make it as easy and convenient as possible for customers to purchase essential goods.

To communicate the new value arising from these initiatives to as many customers as possible, we will focus on getting customers to see the AUTOBACS chain primarily as a professional and friendly presence. We want customers to be completely at ease in relying on us as car professionals and to feel that we are a friendly organization they can freely consult on car-related matters. By being that kind of store, and having that kind of staff, we will strengthen our connections to our customers and create relationships that encourage customers to visit our stores time and time again.

## Q4 What are the key points of the new Medium-Term Business Plan?

### Reviving the competitiveness of the domestic AUTOBACS business, nurturing drivers of future growth, and reforming our cost structure to build a platform for new growth.

Under the 2017 Medium-Term Business Plan (covering the fiscal years ending March 31, 2018 to March 31, 2020), we will focus on reviving the competitiveness of the domestic AUTOBACS business and on nurturing drivers of future growth, while also moving forward with cost structure reforms. Our goal is to achieve a rapid improvement in earnings and build a platform for medium- to long-term growth. As a checkpoint for growth, we are targeting consolidated operating income of ¥12.0 billion and consolidated ROE of 7.0% for the fiscal year ending March 2020.

In the domestic AUTOBACS business, we will move forward with concrete measures for offering lifestyle products and services from three perspectives – Know the customer, change products and sales approaches, and change customer contact points.

To "know the customer," we will analyze customer needs and purchase behavior, and undertake marketing campaigns to promote compelling products and services. As one new initiative, we established ABT Marketing Co., Ltd. as a joint venture with a subsidiary of Culture Convenience Club Co., Ltd. (CCC) in March 2017. This new company will analyze customer membership data from both AUTOBACS SEVEN and CCC, and undertake promotional campaigns based on factors such as geographic region, car model, customer age, and gender to expand the number of customer segments served and serve each at a more detailed level.

To "change products and sales approaches," we will vigorously pursue the development of new products. Given the diversification of roles cars have come to play in customers' lives, we will offer products that enhance enjoyment and a sense of prosperity in terms of various themes, such as outdoor activities, car interiors, and garages. As one step along those lines, we established JACK&MARIE, Japan's first car-centric lifestyle brand in June 2017. JACK&MARIE products are being offered through a retail channel separate from AUTOBACS stores, while JKM and GORDON MILLER products are being offered as derivative brands within the AUTOBACS chain. Apart from this particular initiative, we will also focus on offering products with the latest technical advances in categories such as safety and security, car electronics, and IoT.

To "change customer contact points," we will develop new retail approaches. This means developing stores with a world view and atmosphere appropriate for offering lifestyle products and services, but also taking low-cost steps such as placing a carwash at store entrances or developing reservation-based specialized stores to increase customer contact points and make it easier for customers to purchase essential goods and services for their cars.

Adding to the above, we will also work to strengthen fundamental store earnings capability through steps such as building a structure for stable earnings from statutory safety inspections and maintenance, making store management more labor efficient, and achieving greater cost efficiency.

## Q5 What are your ideas regarding growth drivers?

**Core operations for new growth will be nurtured by moving forward with the strengthening of new-business* and overseas-business initiatives.**

For the Company Group, which draws nearly 90% of its consolidated net sales from its core domestic AUTOBACS business, the nurturing of future growth drivers is a high priority. New-business* and overseas-business initiatives will play leading roles in this effort.

Among new businesses, the used car purchasing, and BtoB, businesses are being viewed as particularly important, and steps, including the reallocation of human resources, will be taken to strengthen them.

The used car purchasing business, which opened its first store in March 2016, now has a total of nine stores specializing in the purchase of used cars, and vigorous efforts are being made to develop this new business. In urban areas with few AUTOBACS stores, we will accelerate store openings with minimal initial investments by using third-party retail facilities that are already sufficiently equipped for doing business.

The BtoB business, a new undertaking, will wholesale goods handled by AUTOBACS to not only domestic store subsidiaries and franchisees but also home-improvement and discount stores, automobile repair businesses, used car dealers, and other retail outlets. The aims in doing this are to broaden retail opportunities and to leverage synergies with the domestic AUTOBACS business, by increasing sales volume to lower the cost of goods.

Regarding overseas business, we will continue to focus on the ASEAN region as we build a business model tailored to the sales channels and needs of individual countries and regions. At the same time, by developing wholesale, as well as retail and service businesses, we will seek to make the most of scale advantages, just as we aim to do in the BtoB business.

* Beginning with the first quarter of the fiscal year ending March 31, 2018, this reporting segment is being referred to as the "used car buying, dealer and BtoB business."

## Q6 What are the key points for enhancing the Company's ability to implement the new Medium-Term Business Plan?

**In addition to strengthening our organizational capabilities, we are paying particular attention to skill enhancement for employees dealing directly with customers.**

In enhancing our ability to implement the various measures included in our Medium-Term Business Plan, strengthening our fundamental organizational capabilities is essential. In April 2017, therefore, we introduced a managing executive officer system to strengthen and accelerate implementation capabilities, and created the position of Head of Corporate Administration to lead cost structure reforms for the group.

In addition, because the awareness and motivation of individual employees is important for AUTOBACS to be a professional, friendly presence for customers, we will continue to focus on the development and invigoration of human resources.

Toward that end, we established Chain Growth Co., Ltd. in March 2017. Plans call for this new company to lead activities such as the education of automobile mechanics at the training facility, provision of mechanics to chain stores, and human resource consulting for franchisees. To create a culture of rewarding high-performing employees, we held the AUTOBACS Awards ceremony in March to recognize stores and employees that emerged in customer feedback as excelling in customer service. The strength of the AUTOBACS brand relies on the actions of employees in face-to-face contact with customers. Going forward, we aim to be meticulous in taking measures that help us to create rewarding workplaces.

## Q7 Lastly, what is your message for shareholders and other investors?

**Expect much from AUTOBACS as we offer new excitement for the motorized society going forward.**

Having designated the two years comprising the first half of the period covered by the 2017 Medium-Term Business Plan as a seed-sewing, development phase for creating the new AUTOBACS, we will use this time to build appeal and a foundation for great achievements during the harvesting phase.

Five and ten years in the future, car-centric lifestyles will have undergone much greater change than they have to date, for example, as electric automobiles gain popularity and driverless vehicles become a reality. For the Company Group, offering products and services for new lifestyles within a new motorized society is our role, and a growth opportunity.

AUTOBACS has a history of achieving growth by offering car-centric lifestyle products and services ahead of their time. Car navigation systems, for example, are now ubiquitous, but AUTOBACS was the first retailer to realize their potential and actively promote them at a time when they were still very expensive. Because of that, customers chose to purchase these products at AUTOBACS when prices became more affordable and widely accessible.

It is in our DNA to identify value in underappreciated products and then take it upon ourselves to create a market for them. And it is through such initiatives that every one of our staff members have felt the excitement of working here and passed that excitement on to customers. As the motorized society moves forward, we will strive to achieve solid growth by continuing to be the first to bring customers new products and services, and we will actively return the fruits of our efforts to shareholders and other investors.

We look forward to the ongoing support of our shareholders and other investors as we move forward along this path.

# Message from the Head of Corporate Administration

## Focusing on cost structure reform and enhancing asset and capital efficiency, we will maximize shareholder value.

**Isao Hirata**

Director and Senior Managing Executive Officer,
Head of Corporate Administration

### Role of the Corporate Executive Officer

## Overseeing Management Departments, and Advancing the Strengthening of Management Fundamentals and Reform of the Cost Structure

I am Isao Hirata and I was recently appointed to the newly created position of Head of Corporate Administration as part of the organizational changes implemented in 2017. There are two reasons why this new position was established.

The first is that we have not had centralized management of general affairs, accounting, and other management departments, and it was not clear whether responsibility for reforms of these departments rested with each individual department or with the chief executive officer. To address this situation, we divided the administrative departments into two groups - one for human resources, general affairs, and IT strategies, and another for accounting, finance, and legal affairs – and appointed an executive officer to be in charge of each. On top of that we created the position of Head of Corporate Administration, which I have been appointed to, to bear overall responsibility for the management of administrative departments. We are confident that this new system, by giving us a group-wide perspective on people, non-human resources, finances, information, and other management resources, will allow us to achieve optimal resource usage at a group level and ultimately result in fundamentally stronger management.

The second reason we created the position of Head of Corporate Administration was to clarify directions to be taken in addressing the Company Group's perennial issues with regard to reforming earnings and cost structures. A look at our performance over recent years shows that SG&A expenses remaining constant, even as sales have declined, has resulted in a downward trend in operating income (See Graph 1). Restructuring SG&A and other expenses requires a detailed review, and reduction, of expenses that have been regarded as fixed. Furthermore, it is also important for us to change the way we think, so that we are able to emphasize efficiency while satisfying our customers. As the executive officer in charge of administrative departments and the chief financial officer, I am fully aware of the responsibilities I have been entrusted with and will spare no effort in leading initiatives in the areas I have mentioned.

### Cost Structure Reform

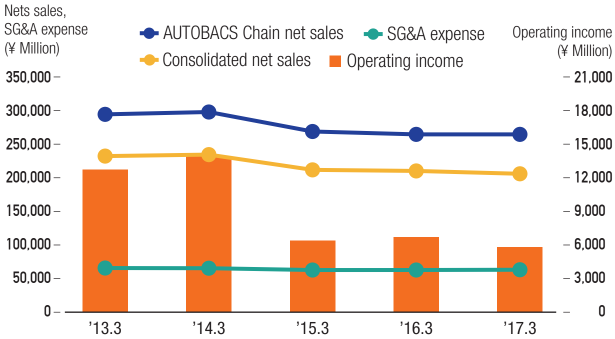
## Increasing Gross Profit and Lowering the SG&A Percentage to Achieve Consolidated Operating Income of ¥12.0 Billion

Our 2017 Medium-Term Business Plan calls for the achievement of ¥12.0 billion in consolidated operating income for the fiscal year ending March 2020, the final year covered by the plan.

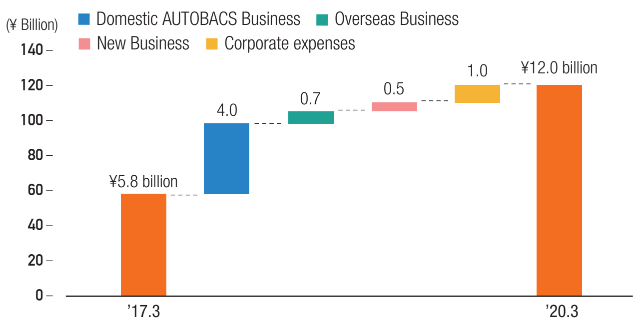
Efforts to reform the cost structure would be meaningless if they amounted to simple across-the-board cuts that undermined our ability to earn. It is important to cut costs that should be cut but also to spend more when that is warranted. Increasing sales and cutting the cost ratio, through implementation of our growth strategy, will result in higher gross profit. And efficient use of IT and sales-promotion expenditures, together with realignment of human resources to lower the SG&A percentage, will lead to greater operating income for the entire group and a robust corporate organization.

To achieve our objectives, specific quantitative targets

**Graph 1: Past 5 Years of Business Performance**




**Graph 2: Operating Income Expansion by Business**



have been established for each of our businesses (See Graph 2), and we in the management departments will vigorously advance structural reforms aimed at achieving the targets for each business. Toward that end, we will, of course, collect and analyze the data that will shine a light on current business cost structures and provide the indicators for working out improvement measures. But we will also work from other directions, as well, effectively applying IT, designing a personnel system that promotes the optimal use of human resources, and taking other steps as necessary.

With regard to the management departments themselves, we are planning ¥1.0 billion in expense cuts. We aim to achieve this target as early as possible by undertaking measures such as efficiency initiatives, IT cost reductions, and purchasing reforms.

### Increasing Asset and Capital Efficiency

## Managing with Emphasis on Asset Efficiency to Achieve a Consolidated ROE of 7.0%

In working to achieve increases in corporate value over the medium-to-long term, AUTOBACS focuses on ROE as an indicator of capital efficiency. Our 2017 Medium-Term Business Plan calls for the achievement of a consolidated ROE of 7.0%, but we see this as simply a checkpoint on the way to double digit ROE in the future.

Earnings growth, resulting from the implementation of growth strategies and cost structure reforms, will be most important in increasing ROE, but it is also essential to monitor how effectively assets are being used. In managing the performance of each of our businesses, therefore, we will refer to ROA as a practical indicator of business profitability and asset usage efficiency, and evaluate our progress based on guidelines including concrete KPIs. ROA targets will differ by business, but the management approach will emphasize asset efficiency, as indicated, for example, by inventory levels and appropriateness of assets, and whether earnings commensurate with investments made and assets applied can be expected. Throughout the group, assets will be reviewed and those that cannot be applied appropriately will be disposed of.

Regarding the capital structure, our aim is to continue with the current level (equity ratio of 70% or higher), while maintaining a sound financial base enabling dynamic financial strategies.

### View on Cash Flow and Shareholder Returns

## Maintain a High, Stable Level of Dividends While Also Actively Investing for Growth

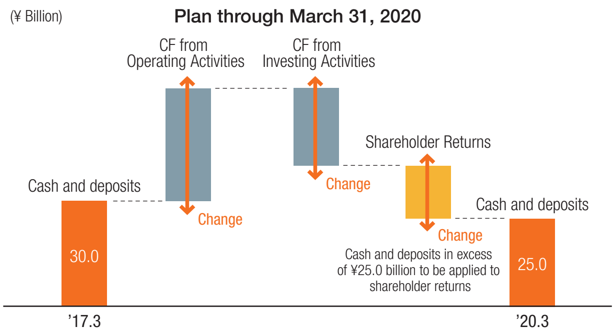
For AUTOBACS, paying returns to shareholders is a top management priority. Our dividend policy has been to maintain a consolidated DOE of 3% or higher. Based on that policy, we set the per-share dividend at ¥60 (DOE of 3.9%) for the fiscal year ended March 2017.

For the fiscal year ending March 2018, the first year covered by the 2017 Medium-Term Business Plan, our basic policy on returns to shareholders is to keep returns at a high level by increasing earnings - in other words, we remain committed to paying a stable dividend. Nevertheless, the policy of maintaining a DOE of 3.0% or higher, included in medium-term business plans adopted beginning in 2008, was established with the intent of keeping dividends at a stable level even as income fluctuated with the implementation of reforms, and using cash on hand as efficiently as possible. Now, with cash on hand lower than in the past, we have decided to adjust our dividend policy to accommodate earnings growth strategies.

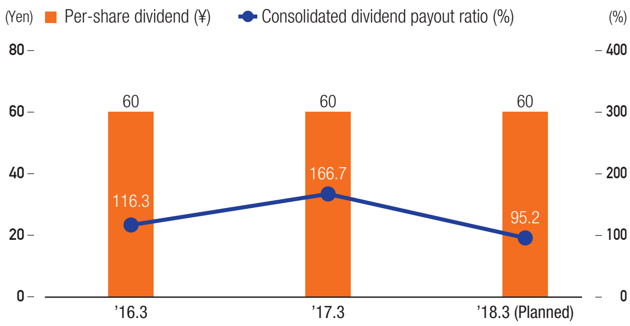
To steadily implement the measures included in the Medium-Term Business Plan, it is imperative that we invest for purposes such as implementing store reforms, developing new businesses, and accelerating overseas business initiatives, and we are planning to make investments totaling approximately ¥21.0 billion over the three fiscal years covered by the Medium-Term Business Plan. A certain level of cash on hand must also be maintained to enable timely M&A undertakings. It is our intent, therefore, to pay shareholder returns from resources consisting of free cash flow - the difference between cash flow from operating activities and cash flow from investing activities – and cash and deposits in excess of ¥25.0 billion, reduced from ¥30.0 billion as a result of efficient capital management (See Graph 3).

Under the new Medium-Term Business Plan, therefore, the indicator for payment of returns to shareholders has been changed from DOE to the consolidated dividend payout ratio, with dividend amounts to be determined, in principle, based on a payout ratio of 50-100% and consideration of business performance. As for purchases of our own shares, these will be conducted as necessary and to the extent permitted by cash flow and liquidity on hand.

Graph 3: Views on Cash Flow and Shareholder Returns




Graph 4: Shareholder Returns



## New Medium-Term Business Plan

# Reform and Creation for Strong Growth

Under our new Medium-Term Business Plan, which covers the three fiscal years beginning with the one ending March 31, 2018, our top priorities are to revitalize the competitiveness of the domestic AUTOBACS business and develop future growth drivers to address medium-to-long term changes in our business environment. By also advancing reforms in our cost structure, we aim to improve our earnings performance in the near term and achieve new growth.

### Consolidated Group Vision (to be achieved by March 31, 2020)

By turning around the domestic AUTOBACS business and reforming our cost structure, we will improve our business performance and achieve consolidated ROE in excess of our weighted average cost of capital. Furthermore, we envision that our revitalized domestic AUTOBACS business and newly developed key earnings sources will enable us to record even higher earnings and consolidated ROE under our next Medium-Term Business Plan.

### Basic Directions

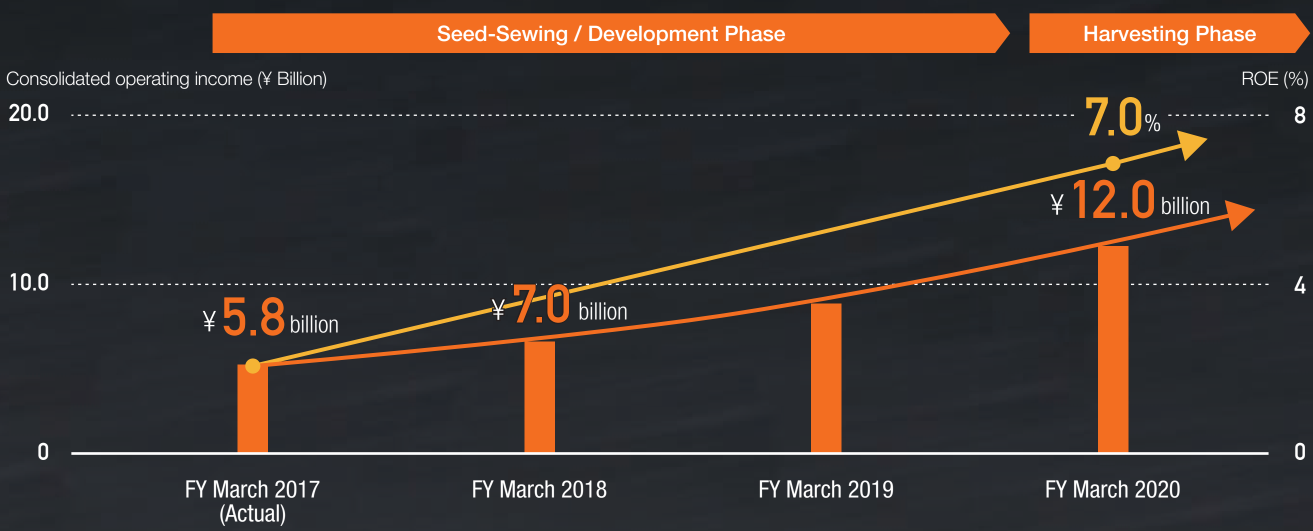
1. Revitalize the competitiveness of the domestic AUTOBACS business
2. Reform the cost structure and increase asset efficiency
3. Make new businesses and overseas businesses into growth drivers
4. Create workplaces that are invigorating for employees
5. Achieve stable, high-level returns to shareholders by increasing earnings

### Management Targets (Fiscal year ended March 31, 2020)

**Consolidated operating income** ¥12.0 billion

**Consolidated ROE** 7% or higher

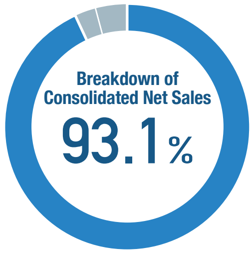
### Growth Vision



# Strategies and Measures by Business

## Domestic AUTOBACS Business

Details presented on p23-27




| | |
|---|---|
| Automotive goods | 81.7% |
| Statutory safety inspection and maintenance | 3.6% |
| Automobile purchase and sales | 7.8% |

### Improve profitability by creating new value and revitalizing existing stores

#### Creating New Markets and a New AUTOBACS

**1. Know our customers**

Identify needs and develop markets by analyzing customer feedback and applying big data

**2. Change products and sales approaches**

Develop new lifestyle products and services, and create retail spaces for them

**3. Change customer contact points**

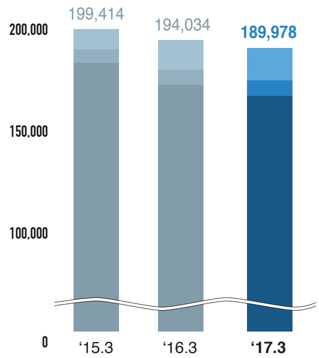
Remodel stores with a worldview that expresses a lifestyle, and develop business formats that respond to the needs of local customers

#### Revitalize Existing Stores – Improve earnings and strengthen ability to execute

- **Expand stable earnings from statutory safety inspection and maintenance, and automobile purchase and sales, operations**
- **Eliminate waste and establish efficient operations at the individual store level**
- **Human resource development**

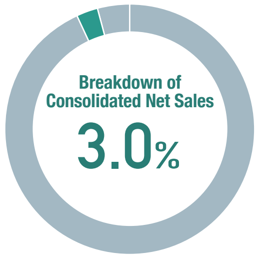
**Net Sales by Business** (¥ Million)

- Automotive goods
- Statutory safety inspection and maintenance
- Automobile purchase and sales




## New Business*

Details presented on p28




### Create new core earnings sources by strengthening and nurturing businesses

#### Strengthening of Ongoing Initiatives, and Undertaking of New Initiatives

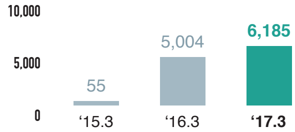
- Expand earnings from imported car dealerships
- Increase awareness that stores specializing in automobile purchases will purchase vehicles at customer locations, and increase the earnings contribution of the automobile purchase business

#### New Initiatives

- Work with consolidated subsidiaries to expand the BtoB business
- Offer car-related services for newly identified customer needs

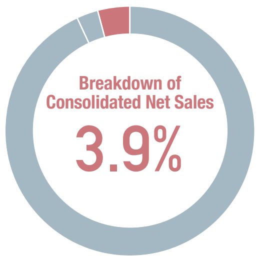
* Beginning with the first quarter of the fiscal year ending March 31, 2018, this reporting segment is being referred to as the "used car buying, dealer and BtoB business."

**Net Sales** (¥ Million)




## Overseas Business

Details presented on p29-32

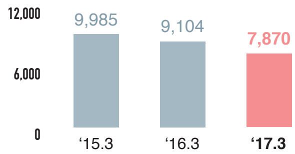



### Strengthen earnings power through business development suited to conditions in each country

#### Expand earnings in both the retailing and services business and the wholesale business

- Develop business by changing partners and channels in line with local business customs and needs
- Offer PB and exclusive merchandise
- Strengthen competitiveness through joint purchasing

**Net Sales** (¥ Million)

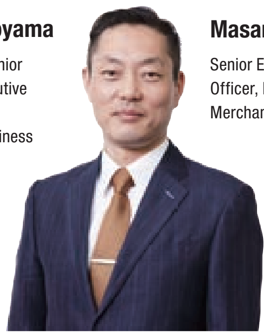


## Product, Service, and Business Format Development

# Offering New Value

**The domestic AUTOBACS business aims to make changes in its products, services, and business format to increase customer traffic and earnings. By implementing specific measures to know our customers, change our products and how we sell them, and change customer contact points, we will create new markets, and a new AUTOBACS.**

**Naoyuki Koyama**
Director and Senior Managing Executive Officer, Head of AUTOBACS Business Planning



**Masaru Sasaki**
Senior Executive Officer, Head of Merchandising

### New Product Development

### Give Rise to New Product Categories and Create New Markets

In our 2017 Medium-Term Business Plan, we state that we will go beyond the existing product categories to offer new value that benefits from technical advancements and responds to the change in driver demographics and the rising number of customers who are focused on value from experiences, rather than ownership of products.

Products that offer safety and peace of mind are one example. In December 2016, we introduced Pedal no Mihariban, a device we developed in collaboration with a manufacturer to prevent accidents caused by mistaking the accelerator for the brake. Sales of this product are rising steadily, particularly among older drivers, and we will move forward with the development of follow-on products. As car-related lifestyle products, we will also offer goods that use sophisticated design to brighten the mood of car interiors, products for camping and other leisure activities, gadgets that are useful in a car, at home, or away from home, and other items that bring a sense of enjoyment and richness to various types of occasions. Furthermore, with internet access from cars opening up a wide array of driving safety possibilities, and the potential to provide unprecedented information and convenience, we intend to develop new car electronics and IoT-related devices and services that harness these opportunities for customers.

In our stores, we will increase our use of displays providing concrete images of the benefits these products can bring, and incorporate the use of experiential events, to communicate compelling value to customers.

### Japan's First Car-Related Lifestyle Brand JACK&MARIE

AUTOBACS has established JACK&MARIE as a car-related lifestyle brand. With growing numbers of people turning to nature and valuing experiences, more and more attention is being paid to camping and the outdoors, surfing, undertaking do-it-yourself activities and the like. And though cars are often used on occasions such as these, no retailers had seriously set out to offer consumers car-related lifestyle goods and services. Seeing this untapped demand, we began to offer car-related lifestyle goods through the ZOZOTOWN shopping site in June 2017, and now we are planning to move forward with the establishment of a store in a shopping center known for its collection of popular retail shops. JACK&MARIE derivative brands, including JKM and GORDON MILLER, will be offered in AUTOBACS stores to enhance the attractiveness of these retail outlets.

## Development of a New Market by Creating a New Product Category

### Creation of a New Product Category

#### Existing Product Categories

**Automotive Goods**

- Tires
- Oil
- Batteries
- Car interior goods and car-washing goods
- Auto sports
- Car electronics

**Services**

Statutory safety inspections and maintenance | Automobile purchase and sales

**Goods for Safety and Peace of Mind**

Goods that Make Driving Safer

Sudden acceleration prevention device | 360-degree dash cam

**New Car Electronics and IoT-Related Goods**

IoT-based and Other Services to Support Older Drivers

**Upgrade of Existing Product Categories**

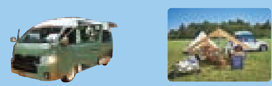
High-end and Other Products Appealing to Customers Looking for Something Better

**Lifestyle Goods**

Goods that Add Enjoyment to Occasions that Include Cars

The second brand goods of JACK&MARIE

Bluetooth speakers | Action cameras | Inverted umbrellas



Campers | JACK&MARIE goods (New brand)

JACK & MARIE

GO FOR A RIDE

Based on the key concept that JACK and MARIE love cafés, nature, and a lifestyle built around their car, AUTOBACS will offer products and services that help to make memorable occasions for people who love the outdoors.

### Marketing from the Customer's Perspective

## Using Customer Feedback to Enhance Product Development and Service Quality

As a part of our "know our customers" initiative, we implemented the Customer Voice Program in October 2015 to use receipt barcodes to conduct surveys on what customers thought about the stores where they had shopped. Feedback was collected on a store-by-store basis, and action was taken to improve individual stores based on customer satisfaction ratings of face-to-face customer service, other services products, and the physical stores themselves. In addition, customer opinions will be analyzed and applied for purposes such as product development.

## Establishment of a Joint Venture with CCC Marketing Co., Ltd. Market Development Using Data on Registered Customers of CCC Marketing and AUTOBACS

To increase our customer traffic, we joined with CCC Marketing Co., Ltd. to form a joint venture, ABT Marketing Co., Ltd., in March 2017. This new company will analyze combined data on 15 million AUTOBACS Maintenance Members and 60 million CCC Group T Point members to elicit optimal sales promotion approaches based on characteristics such as age, gender, residence, car model, and purchasing tendencies. It is expected that this work will enable AUTOBACS to efficiently develop new customers.

### Strengthening of the Statutory Safety Inspections and Maintenance, and Automobile Purchase and Sales Businesses

## Enhancement of Service Convenience and Added Value to Secure Stable Earnings

Statutory safety inspections must be performed on a regular basis and are a significant time and financial burden for customers. AUTOBACS, therefore, is enhancing its services in this area, with an emphasis on convenience and peace of mind. We are offering greater convenience by strengthening our online and telephone reservation service, performing 15-minute inspections to efficiently cover the legally required inspection items, and recommending post-inspection maintenance plans. Our Free Anshin 3-Star Repairs, which we began offering in July 2016, offers peace of mind. With this industry-first service, AUTOBACS Maintenance Members who bring their cars in for statutory safety inspections can receive free tire, window glass, and bumper repairs, up to a certain monetary value, during the year following the inspection. By combining warranties for repair work, with two years of free Maintenance Member status, which carries with it rights to receive 10 maintenance services at no charge, we are using ongoing peace mind following a statutory inspection to differentiate ourselves from the competition.

Turning to the automobile purchase business, which continues to grow, we aim to further strengthen our store-based purchase appraisals and boost customer awareness through ongoing television commercials to realize a whole new level of growth and enhance our profit margin. In addition, we will move forward with initiatives such as AUTOBACS store-based sales of vehicles purchased through our used car purchase stores, a new operation we are working to expand.

### Development of New Business Formats

## Conversion of Existing Stores to Ones Offering Lifestyle Goods and Services, and Development of Low-Cost, Special-Purpose Stores

AUTOBACS is presently moving ahead with the opening of stores manifesting a professional and friendly image. To begin with, we remodeled an existing AUTOBACS store to create AUTOBACS GARAGE FUCHU, an experimental store in Tokyo, in June 2017. Offering a much smaller line of products than found at traditional AUTOBACS stores, this new store, with its café-like interior, seeks to engender in customers a sense of joy and prosperity through themes such as "leisure outings," "interiors & fragrances," "smart & safe," and "gadgets & sound." Furthermore, for customers unfamiliar with the details of cars, we offer maintenance advice. In the case of tires, for example, we provide concrete suggestions regarding tire manufacturers, sizes, and replacement timing, and then provide the customer with a notification when replacement is necessary.

For customers living outside of metropolitan areas, we will open a new kind of store that features more focused product and service offerings and can be operated at low cost. The Smart+1 store we opened in Ibaraki City, Osaka Prefecture, in February 2017, for example, is the first of its kind. Featuring a manual car washing service at the entrance and members-only maintenance services, this store allows customers to have their cars washed and serviced by professionals on a reservation basis, while they relax in the store's café. In addition to Smart+1 stores, we will also open AUTOBACS stores operating on a reservation-only basis, stores combined with gas stations, and stores specializing in statutory safety inspections, which will provide inspection estimates and reservation-only service.

Regarding e-commerce, our plans call for improving the AUTOBACS app, and revamping the AUTOBACS.COM e-commerce website to make it easier to understand and simpler to use. We will also strengthen connections to store-based reservation and installation services to further our omni-channel retailing efforts.

### Expansion of Customer Contact Points through New Business Formats and E-commerce

**Existing Business Formats**

AUTOBACS

Super AUTOBACS

Expand offerings of lifestyle products through existing business formats, as well, and apply success models in new business formats.

Remaking of Certain Operations

**New Business Format 1: Lifestyle stores**

AUTOBACS GARAGE
(Experimental lifestyle store)

JACK&MARIE
(Offer products through the ZOZOTOWN e-commerce site*)

* Actual brick-and-mortar stores also planned

**New Business Format 2: Stores (low-cost operation) offering select products and services**

Smart+1

Reservation-only AUTOBACS

Statutory safety inspection depots

AUTOBACS stores paired with gas stations

**E-commerce Site Update (Strengthening of omni-channel approach)**

- Tap the online-purchaser customer segment
- Offer online reservations for various services
- Offer reservation-based installation services for online purchases to drive customers to stores
- Turn online product searches into customer store visits


## Store Operations

# Revitalizing the Store Earnings Platform

As the franchise headquarters, we lead 12 sales divisions across Japan in working with 81 franchisees (including 18 store subsidiaries) to implement new measures and improve store earnings power. Starting from a base of gross profit enhancement measures that have produced results at stores in recent years, we will move forward with support based on the local characteristics and issues of individual stores to build a robust earnings platform.

**Eiichi Kumakura**

Director and Senior Executive Officer, Head of Western Japan Region Headquarters

**Shinichi Fujiwara**

Senior Executive Officer, Head of Eastern Japan Region Headquarters

### Toward a New AUTOBACS

## Offer New Products and Services with Maintenance as a Fundamental Model

The store earnings platform consists of consumables, such as tires, oil, and batteries; automotive goods, including car-washing products and interior accessories; and various pit services led by statutory safety inspections and maintenance. The AUTOBACS chain is now working to supplement these goods and services with retail space devoted to lifestyle and safety goods, and is moving to implement sales approaches for goods and services that customers will want for the convenience they offer. As the management headquarters for store operations, we are endeavoring to strengthen store physical and human resources to achieve these aims. We are doing so for all 600 stores, based on the characteristics of individual geographic areas. Our overall mission is to have customers feel that AUTOBACS is a convenient place to shop and that they are glad they came - every time they visit one of our stores. We aim to build customer relationships in which we present customers with professional, friendly stores and staff, and customers come back to us time and time again.

### Initiatives to Improve Store Earnings Power

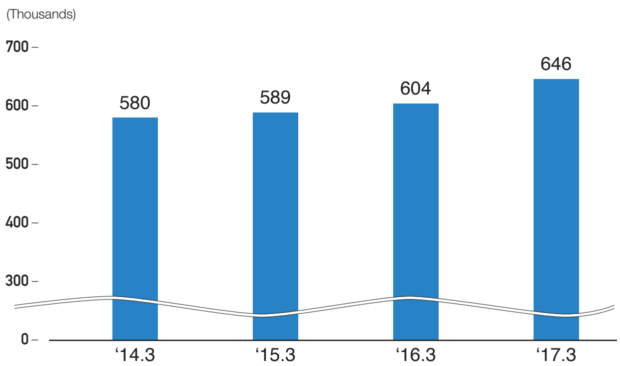
## Moving to Improve Customer Satisfaction and Store Operational Efficiency

Revamping store operations is critical for fundamentally improving retail spaces and human resource allocations, as well as offering new goods and services. At present, we are working to improve existing-store operations in ways that increase customer contact points. More specifically, this means placing the customer service counter in an area clearly visible from the store entrance, properly responding to the desires of customers, having service counter personnel adjust the allocation of sales floor staff and limit the amount of time spent on administrative and other work that does not involve serving customers directly. In service pits, which install products and perform maintenance work, we are striving to reduce customer waiting times by increasing work efficiency. This is being accomplished by managing time more precisely through measures such as revising staff allocations and moving cars into and out of the service pits more efficiently. These changes are being implemented to ensure that store operations treat customers as their top priority to further enhance customer satisfaction.

## Increasing Earnings Power by Strengthening the Statutory Safety Inspections and Maintenance, and Automobile Purchase and Sales, Operations and Strictly Managing Inventory

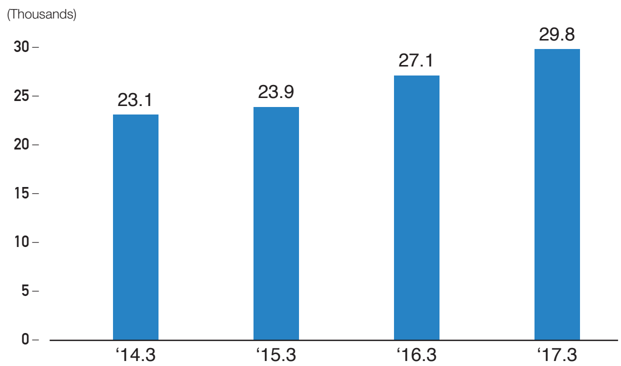
To turn ourselves into an organization that can steadily generate earnings, we will focus on increasing the profitability of the statutory safety inspection and maintenance, and automobile purchase and sales, operations and on improving gross profit by strictly managing inventory. Regarding the statutory safety inspection and maintenance operations, we are already seeing positive results from stores that have implemented 15-minute inspections. These are intended to enhance customer convenience and increase the number of inspections performed, and we plan to introduce them at more stores going forward. Regarding the automobile purchase and sales operations, the key to increasing profitability lies in the purchase of vehicles from individual customers. In addition to efforts to attract more customers and provide support for appraisal staff training, therefore, we will also proceed with steps such as the introduction of a new system that simplifies the management of transaction negotiations. As for inventory management, we plan to have all franchisee stores adopt the inventory optimization measures that store subsidiaries have successfully implemented. In addition to the above, efforts to improve earnings power will also include thorough cost-cutting through sales promotion efficiency, expense cutting, and other initiatives.

### Statutory Safety Inspections Performed




* All domestic AUTOBACS chain stores

### Automobiles Purchased and Automobiles Sold




* All domestic AUTOBACS chain stores

## Example of Initiatives for Strengthening Store Earnings Power

**CASE** **Inventory Optimization**

### Improving Inventory Turnover Rate and Gross Margin through Strict Inventory Management

Inventory optimization is an effort to improve the merchandise freshness of a retail space by eliminating dead stock and excess inventory. Inventories of merchandise with high turnover rates are increased, while those of merchandise with low turnover rates are decreased, to improve the gross margin.

AUTOBACS has examined and improved inventory levels by cutting dead stock, potential dead stock, and excess inventories, and by revising order volumes based on merchandise inventory turnover rates. As a result, we have succeeded in reducing inventories, maintaining sales levels, and improving the gross margin.

Through the two years ended March 31, 2017, we implemented the inventory management approach described above at leading subsidiary stores. Beginning with the fiscal year ending March 2018, we will expand its use to all subsidiary stores and franchisee stores outside of the consolidated group.

### Illustration Improvements Achieved at Leading Subsidiary Stores

**Inventory reduction percent**

Year-on-Year Results for Fiscal Year Ended March 31, 2017 **–16.4 %**

**Inventory turnover rate**

Year-on-Year Results for Fiscal Year Ended March 31, 2017 **+0.51 times**

**Gross profit on automotive goods**

Year-on-Year Results for Fiscal Year Ended March 31, 2017 **+4.2 %**

# Developing Future Key Earnings Sources

Under the new medium-term business plan, new business initiatives are an important theme for diversifying the business portfolio and achieving ongoing growth. With the used car buying, dealer, and BtoB businesses as core operations, we will build new key earnings sources in car-related fields where the AUTOBACS Group's strengths can be applied and synergies with the domestic AUTOBACS business can be leveraged.

**Teruyuki Matsumura**
Director and Senior Managing Executive Officer, Head of Overseas Business and New Business Development

### Used Car Buying Business

## Achieve Rapid Business Expansion by Accelerating Openings of Specialist Car Purchase Stores

In the used car buying business, the specialist car purchase stores that have been developed mainly by AUTOBACS directly managed stores will be positioned as a new business and store openings will be accelerated. In metropolitan areas, properties already equipped to do business will be used to open stores at low cost, and the Company will open additional stores by leasing space within existing franchise stores. Store openings will be accelerated by deploying employees who have gained experience performing purchase appraisals at Group stores. Ready appraisal and purchasing of automobiles at customers' homes, workplaces, or other locations will be used as a point of differentiation from the competition.

### Imported Car Dealer Business

## Expand Based on Earnings Growth of BMW Dealerships

The imported car dealer business, which the Company entered by acquiring a BMW dealership in Ikebukuro, Tokyo, in April 2015, was expanded to a total of seven locations through the acquisition of Motoren Tochigi Corp., a BMW dealer in Tochigi Prefecture, in December 2016. For the fiscal year ended March 31, 2017, this business recorded a profit of approximately ¥100 million. Going forward, efforts to improve the quality of management and increase earnings will continue, with a view toward adding dealerships for BMW and other imported cars.

### BtoB Business

## Leverage the Group's Strengths to Wholesale Automotive Goods to Third-Party Businesses

As a new initiative under the 2017 Medium-Term Business Plan, we will strengthen our efforts to wholesale merchandise to not only franchisees but also home-improvement centers, discount stores, automobile repair businesses, used car dealers, and other retail outlets. Through this endeavor, we will create new earnings opportunities and leverage synergies with the domestic AUTOBACS business by increasing sales volume to lower the cost of goods. Cores International, Inc. and Palstar K.K., two AUTOBACS Group operating subsidiaries, are already wholesaling merchandise to customers other than AUTOBACS stores, and these channels will be used for business expansion. In addition, e-commerce will be used to develop sales of parts to BtoB customers.

# Strengthening the Business Platform

The Company Group has positioned overseas business as a medium-to-long term earnings contributor. Adding to substantial business operations already established in France, the Company Group is moving forward with the construction of a business platform anchored by the ASEAN region, which continues to enjoy economic growth. Through capital and business alliances, and joint ventures, with leading local retail, service, and wholesale enterprises, we will expand earnings by implementing measures emphasizing speed, while limiting risk.

**Yugo Horii**

Director and Senior Executive Officer, Office of the President and Overseas Business Planning

Strengthening Retailing and Services Business Earnings Power

## Focusing on Developing Store Models for Local Markets and Improving Service Quality

For overseas AUTOBACS stores, earnings power will be strengthened by developing store models tailored to local customer segments and needs, while emphasizing fundamentals in the form of detailed product lines and maintenance services provided by installation pits.

In France, for example, where we are operating large stores, as in Japan, people tend to keep cars over long periods. Therefore, with the market in a mature stage, we aim to increase the gross margin by strengthening our e-commerce efforts and expanding service revenue. In contrast, however, in Thailand and Malaysia, were economic expansion is driving growth in automotive-related markets, raising brand awareness and working aggressively to gain new customers is key. In these markets, therefore, we are accelerating openings of small-scale stores in small market areas adjacent to a flagship store, with the goal of establishing area dominance. Offering Japanese-quality pit services is critical for the competitive differentiation necessary to establish the AUTOBACS brand. Toward that end, therefore, we aim to boost added value by, for example, building systems that include standardization and education for enhancing and maintaining quality, and offering an expanded range of pit services and compelling products.

Development of Wholesale Business

## Expand Business Opportunities and Lower Costs by Strengthening Local Procurement of Parts and Automotive Goods

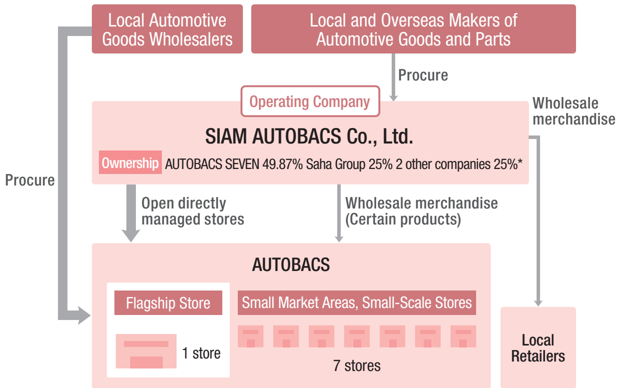
In recent years, our network expansion through alliances and business activities with local companies has led many local suppliers and retail and service businesses to approach us about wholesale purchases. Given this growth in wholesale business opportunities, the Company Group will use know-how developed in the domestic AUTOBACS business to establish and develop an overseas wholesale business. In taking this action, our higher aims will be to: 1) Develop an earnings source that does not rely on the speed of store openings in the retail and services business and 2) Increase the volume of goods we handle to lower merchandise unit costs and improve overall overseas earnings.

Regarding repair parts and consumables, we will move ahead with efforts to procure internationally competitive merchandise and apply the logistics resources of local partners. As for the wholesale of automotive goods such as tires, oil, and accessories, we aim to collaborate with a Chinese trading company (involved mainly in the export of goods to Japan) to develop private-brand products for local markets and to pursue actions such as procurement of products for exclusive sale. During the fiscal year ended March 2017, we entered into a capital and business alliance with the Kit Loong Group, a large tire wholesaler and retailer in Malaysia, to further our wholesale business. Going forward, we will continue to use capital and business alliances, and M&A, to achieve overseas business expansion.

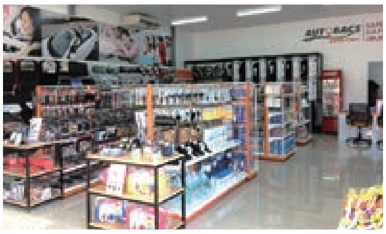
## Overseas Business Models

### CASE 1 Thailand Achieving Dominance with Flagship and Small-Scale Stores

Having opened our first store in 2000, we established the subsidiary SIAM AUTOBACS in 2006 as a joint venture with a group of local companies, including the Saha Group, a major purveyor of consumer goods. In the capital, Bangkok, SIAM AUTOBACS operates a network of small-scale stores in small market areas adjacent to new residential areas and shopping malls. With its operations anchored by the Pattanakan flagship store, SIAM AUTOBACS differentiates itself by offering mainly maintenance goods but also Japanese-brand accessories. As of March 31, 2017, the company had a total of eight directly managed stores. Going forward, it plans to expand its store network to at least 10 locations to strengthen its dominance, and to begin wholesaling merchandise to local retailers.

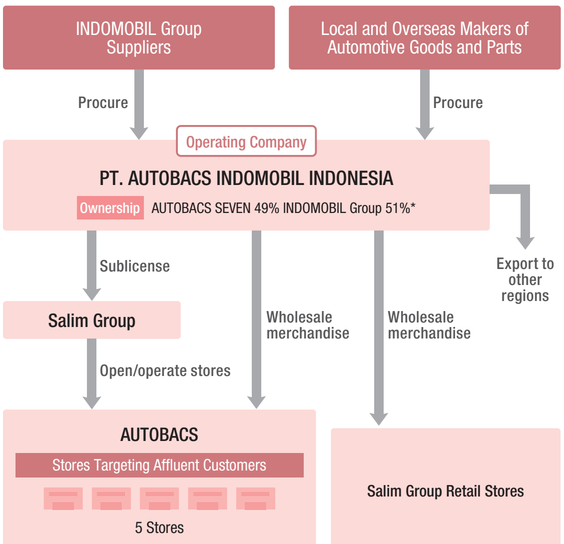


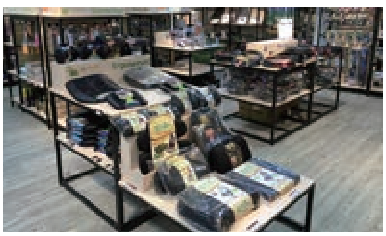




### CASE 2 Indonesia Opening Stores That Appeal to the Affluent and Strengthening Wholesale Operations

AUTOBACS INDOMOBIL INDONESIA is a joint venture established in 2013 with the INDOMOBIL Group, a major player in the Indonesian market for automotive-related businesses. Under a sublicensing agreement with AUTOBACS INDOMOBIL INDONESIA, Salim Group, a major Indonesian retailing enterprise, opens and operates local AUTOBACS stores characterized by their small size and upscale atmosphere to appeal to an affluent customer segment. These stores, five in total as of March 31, 2017, included shopping mall locations offering automotive accessories. AUTOBACS INDOMOBIL INDONESIA is leading the development of a wholesale business in which it is handling not only Japanese-brand merchandise from AUTOBACS SEVEN but also popular automotive goods procured through the INDOMOBIL Group's network. AUTOBACS INDOMOBIL INDONESIA is working to expand its wholesale business as it wholesales this merchandise to AUTOBACS stores and retail outlets operated by the Salim Group.



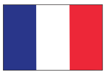



* Ownership data in all cases is as of March 31, 2017.

## Developments by Country

# 38 Stores in Six Countries

As of March 31, 2017, there were 38 overseas AUTOBACS stores. This number reflects a net gain of five stores after the addition of seven new stores, one relocation, and two closings during the fiscal year. In total, overseas business activities finished the year with an operating loss of ¥178 million, versus operating income of ¥30 million for the year earlier. Various factors, including lower income at the French subsidiary and higher expenses related to store openings in Thailand contributed to the loss. Looking ahead, we aim to improve business performance by continuing with efforts to strengthen business platforms on a country-by-country basis.

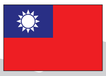
1

## France

| | |
|---|---|
| Number of stores | 11 (Subsidiary: 9 Franchise: 2) |
| First store opened in | 2001 |
| Operating company | AUTOBACS FRANCE S.A.S. |
| Ownership percentage | AUTOBACS SEVEN: 100% |
| Operating loss | ¥88 million (FY ended March 2017) |

### Current Status and Future Direction

Store openings are underway through a joint venture with a local company. At present, the subsidiary has established area dominance with large stores located outside the ring road encircling Paris. In the fiscal year ended March 2017, economic stagnation resulted in lower sales and put the subsidiary in the red with an operating loss. Efforts to strengthen earnings power will focus on creating a more robust EC site and increasing services revenue as a percent of sales.



2

## Taiwan

| | |
|---|---|
| Number of stores | 6 (Franchise: 6) |
| First store opened in | 1991 |
| Operating company | Franchisee |
| Ownership percentage | – |

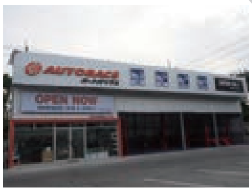
### Current Status and Future Direction

In Taiwan, AUTOBACS stores are operated by a Japan-based franchisee and are similar to AUTOBACS stores in Japan. The Company will continue to supply merchandise and provide store management support from Japan, as it uses existing stores to develop its business.

3

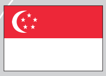
## Thailand

| | |
|---|---|
| Number of stores | 8 (Subsidiary: 8) |
| First store opened in | 2000 |
| Operating company | SIAM AUTOBACS Co., Ltd. |
| Ownership percentage | AUTOBACS SEVEN: 49.87% |
| Operating loss | ¥123 million (FY ended March 2017) |



### Current Status and Future Direction

In Thailand, where operations consist of a flagship store and small-scale stores in small market areas in the capital, Bangkok, two new stores were opened and one was relocated/updated to strengthen the store network. To establish area dominance, the store network will be expanded to at least 10 locations, with management focusing on raising shares of local markets and increasing profitability.



4

## Singapore

| | |
|---|---|
| Number of stores | 2 (Subsidiary: 2) |
| First store opened in | 1995 |
| Operating company | AUTOBACS VENTURE SINGAPORE PTE, LTD. |
| Ownership percentage | AUTOBACS SEVEN: 93.75% |
| Operating income | ¥91 million (FY ended March 2017) |

### Current Status and Future Direction

In Singapore, where car ownership is expensive, AUTOBACS stores similar to those in Japan are being opened to target the upper-middle-income socioeconomic class. During the fiscal year ended March 2017, store renovations, and closings of unprofitable locations, together with intensified sales promotions, kept earnings performance steady. Moving forward, stores will be opened within gas stations and efforts will be made to develop the business of wholesaling merchandise to local retailers and gas stations.

## 5 Malaysia

| | |
|---|---|
| Number of stores | 4 (Subsidiary: 2 Franchise: 2) |
| First store opened in | 2012* |
| Operating company | AUTOBACS MALAYSIA SDN. BHD. |
| Ownership percentage | AUTOBACS SEVEN: 100% |
| Operating loss | ¥54 million (FY ended March 2017) |

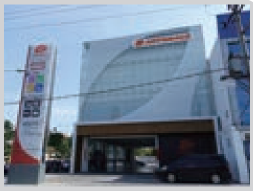
### Current Status and Future Direction

Store development in Malaysia is being pursued through a subsidiary and a Japan-based franchisee. During the fiscal year ended March 31, 2017, business format experiments, focusing on maintenance services, were carried out at stores opened in the previous fiscal year. Results will be applied in the planned opening of up to 10 stores mainly in Johor, one of the most developing states of Malaysia. The wholesale of AUTOBACS SEVEN private-brand merchandise to tire stores operated by the Kit Loong Group will also be pursued. A capital and business alliance was formed with the Kit Loong Group during the fiscal year.

* Opened by a Japan-based franchisee.

## 6 Indonesia

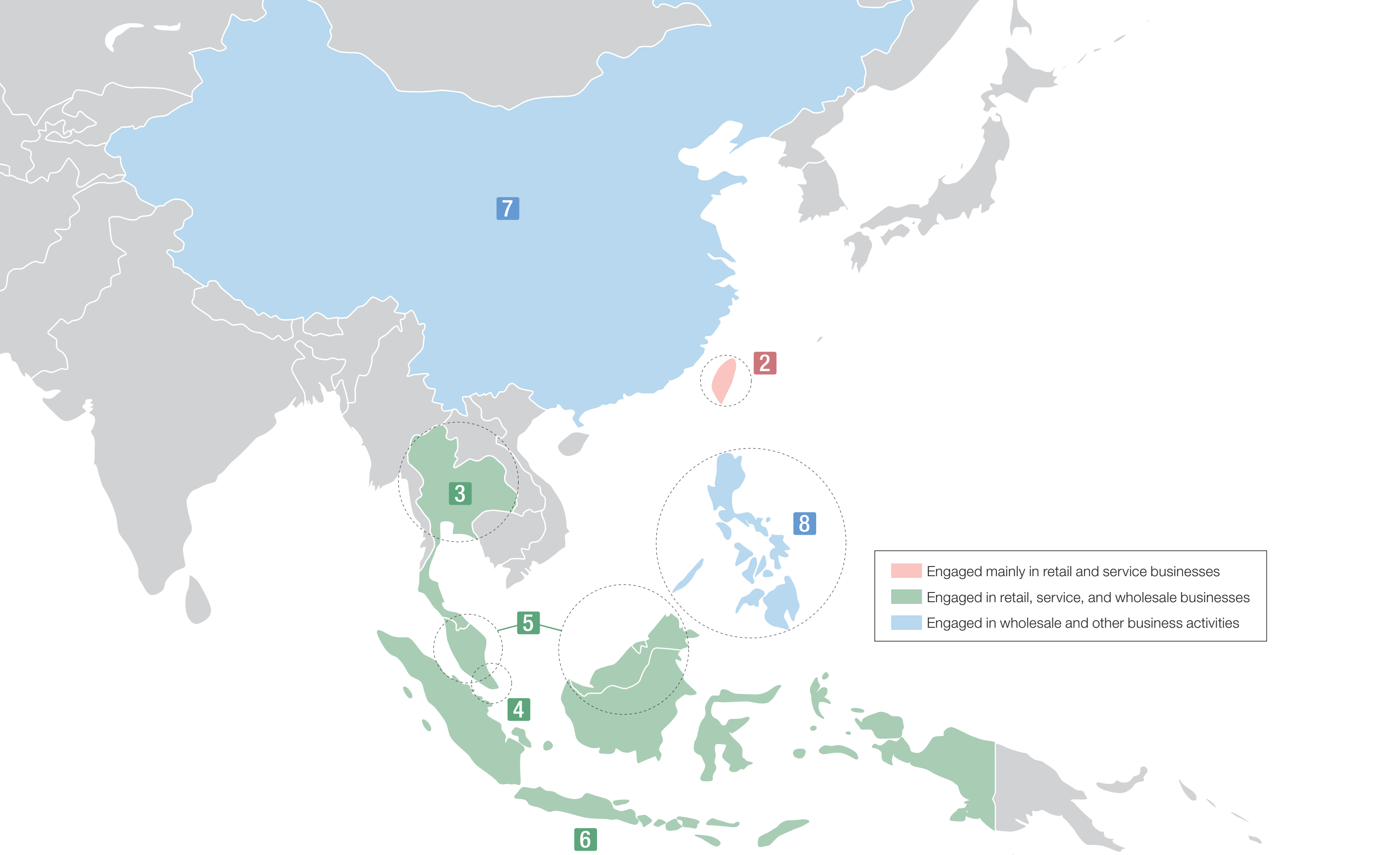
| | |
|---|---|
| Number of stores | 5 (Sublicensed stores: 5) |
| First store opened in | 2015 |
| Operating company | PT. AUTOBACS INDOMOBIL INDONESIA |
| Ownership percentage | AUTOBACS SEVEN: 49.00% |



### Current Status and Future Direction

In Indonesia, where store development is focusing on affluent customers, the joint venture formed with INDOMOBIL Group* has entered into a sublicensing agreement with Salim Group, a major Indonesian retailing enterprise. During the fiscal year ended March 31, 2017, Salim Group added three new stores to the two opened the previous fiscal year, bringing the total to five. With plans to focus on wholesaling led by the joint venture, INDOMOBIL Group and Salim Group will apply their strengths to support this effort.

* A prominent local automotive-related company group with which the Company entered into a business collaboration in August 2013.




## 7 China

### Current Status and Future Direction

In China, where operations were originally established in 2004, all stores were closed by the end of the fiscal year ended March 2015 to overhaul the retail business. The automotive goods trading business, which remains in operation, recorded an operating loss of ¥2 million for the fiscal year ended March 31, 2017. Supplies of merchandise to Japan and other parts of Asia will be strengthened as efforts to develop the trading business continue.

## 8 Philippines

### Current Status and Future Direction

In January 2016, AUTOBACS entered into a capital and business collaboration with the Motech Group, a local provider of automobile maintenance services. Under Philippine law, it is not possible for the Company Group itself to open stores. The direction going forward, therefore, is to wholesale certain products to local stores under brand licensing agreements and to provide assistance in store network development. Other businesses, mainly wholesaling of merchandise mainly to the Motech Group, will also be developed.

# Reinforcing and Expanding Our Ability to Increase Corporate Value

## Supporting Franchisees

Helping Partners Grow

**Key Initiatives**

- Support for Strengthening Individual Stores
- Franchisee Human Resource Development Support

The Company, as the franchise headquarters, supports the establishment and implementation of annual plans based on directions set by the headquarters. We do this by deploying counselors, from two sales headquarters – one for the eastern half of the country and another for the western half - to sales divisions in 12 areas across Japan. To help strengthen their operations, counselors visit individual stores once or twice a week to provide guidance on managing sales floors and operating stores in ways that suit local characteristics. Counselors also examine successful initiatives and turn these into best practices. The Company holds regular meetings to strengthen ties with franchise executives and store managers. And Chain Growth Co., Ltd., established in March 2017, provides franchisees with assistance in hiring and human resource development. More specifically, Chain Growth conducts training for store managers and staff, trains automobile mechanics at its training facilities, deploys automobile mechanics to AUTOBACS chain stores, and performs human resource consulting for franchisees.

**Counselors (SV)**

As of March 31, 2017 **109**

**Franchisee Store Manager Training Participants**

Fiscal year ended March 31, 2017 **700**

### Franchisee Store Manager Training

- Seminars on Strengthening Store Strategy Management Capabilities
- Store Management Cycle Training
- Operation Seminars

### Committees for Franchise Affairs

| Committee | Purpose | Meeting Frequency | Meeting Location |
|---|---|---|---|
| FC Managers' Committee | Reinforcement of chain policy understanding, discussion of key issues for the business period, etc. | 2 times a year | Tokyo |
| Business Direction Committee | Sharing of sales policies, reinforcement of merchandise and sales promotion policy understanding, etc. | 2 times a year | 1 in East Japan, 1 in West Japan |
| Meetings for Reinforcing Understanding of Merchandise Policies | Sharing of sales management direction, detailed discussion of issues and responses for the fiscal year or for sales campaigns | 2 times a year | 6 locations across Japan |
| Area Committee | Sharing of opinions and information between the area representative and franchisee managers | 3 times a year | 1 in East Japan, 1 in West Japan |

## Human Resource Development

Developing Car Professionals

**Key Initiatives**

- Education and Training for Store Staff
- Creating Friendly Work Environments
- Career Development Support
- Advancing the Careers of Women

The Company has created e-learning and a multilayered stratified education and training system mainly for store staff. In addition, we tie performance evaluations to Group internal qualifications and automobile mechanic and other publicly recognized qualifications to enhance knowledge and skills, boost employee motivation, and increase store service quality. To help Company Group employees shape their own careers, we have created an environment that includes elements such as periodic (every few years) job rotations and career-based stratified training to help individual employees understand their desires and aptitudes.

In our efforts to create comfortable work environments, the Health Promotion Council, led by the representative director and chief executive officer, and the Health Management Office, as the implementing organ, lead employee health improvement initiatives, which have been praised by outside parties. And to create better working environments for women, we are moving to expand childcare support and regularly conduct workshops to gain feedback directly from female employees.

**Number of Group Training Sessions Conducted**

Fiscal year ended March 31, 2017 **226**

**Employees with Car Life Advisor qualifications**

As of March 31, 2017 **9,892**

**Automobile Mechanics**

As of March 31, 2017 **3,788**

**Automobile Inspectors**

As of March 31, 2017 **1,558**

Assigned the highest DBJ Employees' Health Management Rating for two consecutive years. This rating system is one of the criteria used by the Development Bank of Japan to determine funding conditions.

Certified as a White 500 company under the Health and Productivity Management Organization Recognition Program sponsored by Japan's Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

For more details, please visit our website.
https://www.autobacs.co.jp/en/csr/index.html

Growth in nonfinancial capital is essential for achieving ongoing increases in corporate value. The Company Group, therefore, is constantly working to strengthen its support for franchisees, develop human resources, practice environmentally friendly management, and contribute to society.

## Environmentally Friendly Management

To Create a Society in which People and Cars are in Harmony with the Environment

**Key Initiatives**

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

The Company has established its policy on the environment and created an environmental management system. To lower the environmental impact of our business activities, we formulate specific plans and targets, and assess our progress in achieving these to gain the improvement we seek. To save energy, the Company Group employs various measures, such as no-overtime days made possible by operational and efficiency improvements. And in our stores, we have taken steps, such as adopting LED lighting and using a heat-reflecting coating on roofs, that achieve environmental benefits cost-effectively. Our efforts to use resources more efficiently have included measures such as reducing the use of shopping bags and redesigning the packaging for our private-brand merchandise to reduce our use of packaging materials. And for our service pits, we have engaged a legally compliant industrial waste company to properly dispose of or recycle tires, oil, and other waste materials, and we use our own methods to confirm that this work is performed as promised.

**$CO_2$ Emissions Reduction***

Fiscal year ended March 31, 2017 **4,489 t-$CO_2$**

(10.6% year-on-year increase)

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

**Container and Packaging Usage***

Fiscal year ended March 31, 2017 **153 t**

(23.8% year-on-year decrease)

*AUTOBACS chain and headquarters


Example of a store using LED lighting and solar panels (AUTOBACS Yamato Koriyama)

At our Western Japan logistics Center (Miki City, Hyogo Prefecture), we are operating a mega solar project with solar panels on a portion of open land and on some of the roof space of the center itself.

## Social Contributions

As a Group Moving Forward Together with Local Communities

**Key Initiatives**

- Contributing to Local Communities
- Contributing to Car Culture
- Other Social Contribution Activities

To have stores function as necessary infrastructure for local residents, we devote significant attention to contributing to local communities. We are, for example, installing electric vehicle (EV) charging stands at our stores, and working with local governments to develop ways for our stores to assist people who become stranded during a disaster. We engage in activities such as cleanups in areas around our stores to be better local citizens. To contribute to car culture, we have created experiential attractions at the KidZania Tokyo and KidZania Koshien occupational theme parks for children. We also support motorsports and other activities. Since establishing the ARTA Project (AUTOBACS RACING TEAM AGURI) in 1998, we have endeavored to develop globally competitive Japanese race drivers, participated in racing events in Japan and abroad, and worked from other angles as well to communicate the thrill of racing and create more motorsports fans.

**Number of Stores with EV Charging Stands**

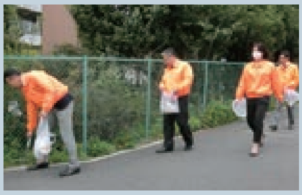
As of June 30, 2017 **103**

**Stores that Have Agreed to be Aid Stations* During Times of Disaster**

As of June 30, 2017 **359**

*These stores have entered into agreements with local governments to provide access to tap water and toilets, and road and other information, to people stranded in a disaster.

Charging stand for EVs



Cleanup activity near a store

At AUTOBACS' Car Life Support Center pavilions at KidZania Tokyo and KidZania Koshien, kids can get a feel for the work of an automobile mechanic, changing tires and experiencing other activities in a service pit created for children.

2017 marks 20 years of ARTA (AUTOBACS RACING TEAM AGURI) racing activities.

# Fulfilling Oversight and Checks and Balances Responsibilities, while Providing Objective Advice and Recommendations to Contribute to Ongoing Growth

**Noriaki Shimazaki**
Senior Independent Director

**Among the Company's nine directors, three are independent outside directors. Based on a request by a major shareholder, we have appointed a senior independent director to lead dialogues as a representative of the independent outside directors. Following is an interview of the senior independent director, Mr. Noriaki Shimazaki, on his thoughts regarding the Company Group's corporate governance and the 2017 Medium-Term Business Plan.**

## Q1 What are your views on the roles of outside directors?

The most important role of an outside director is to oversee, and act as a check and balance on, the Board of Directors and especially the directors who have concurrent executive responsibilities, that of president being the most important. It is also vital for outside directors to express their opinions on the nomination of a person to become the company president. By participating in the nomination process, outside directors are able to contribute to corporate value through careful consideration of the fitness of individuals for this critical position.

In addition to this oversight function, it is important for outside directors to apply the knowledge and experience they have developed through their careers to provide third-party advice that supports company growth.

It is especially important for outside directors to provide advice when management has undertaken significant risk to enter a new business. This advice should focus on maintaining ongoing growth and address various issues, such as whether the company can expect earnings commensurate with the risk taken and whether the new business is progressing as expected.

## Q2 How would you assess the corporate governance of the Company Group?

The governance of the Company Group, given its business activities and size, is properly designed and functioning as intended. The Board of Directors, for example, consists of nine members, three of whom are from outside the Company. Moving early on to reform its governance, the Company has had multiple outside directors since the fiscal year ended March 31, 2006, and can be called a governance leader for its initiative in drawing on the rich knowledge and experience of third parties to improve its management.

In addition, about one week prior to every month's scheduled Board of Directors meeting, the Company also holds Executive Committee meetings where directors with executive responsibilities discuss particularly important matters. Outside directors also participate in these meetings, as observers, and actively contribute their opinions. The results of these meetings are then used to shape the final agenda item to be submitted for consideration at the Board of Directors meeting. This two-step deliberation process allows for ample time to discuss the matters at hand and make decisions.

## Q3 How would you assess the contents of the 2017 Medium-Term Business Plan?

In the past, the Company has focused significant attention on strengthening its governance, but has come up a bit short in taking on challenges for achieving business growth. The Company Group has an abundance of outstanding people, extremely solid finances, and a robust network. The 2017 Medium-Term Business Plan draws on these strengths and provides a clear roadmap for expanding the business of the entire group and enhancing earnings power. It presents to stakeholders a clear picture of the direction management will take.

In formulating the current Medium-Term Business Plan, intensive review meetings were held on two occasions, giving company officers, including outside officers, abundant time to discuss plan details from many perspectives. To help ensure active discussion, I, as an outside director, was chosen to chair these meetings. And the outside officers, including me, delved deeply into matters such as strategies, and levels of quantitative targets, for enhancing core businesses, and conditions with regard to returns to shareholders. I personally was most concerned with the question of whether the plan was truly achievable. I led discussions of details such as specific initiatives for achieving earnings targets, who would lead those initiatives, and whether the initiatives were realistic. With discussions such as these having contributed to the formulation of the Medium-Term Business Plan, I am convinced that it provides the Company Group with a solid roadmap going forward.

## Q4 Are there any significant matters that the Medium-Term Business Plan should address but does not?

Though it goes without saying, planning does not end with the formulation of a plan. For each year of the plan, the PDCA cycle is applied to regularly review implementation status and results to ensure target achievement and lay the groundwork for the following year's plan management. It is critical that this process be followed throughout the three years covered by the Medium-Term Business Plan. At this stage, the plan has been thoroughly discussed and formulated. Next comes implementation by management and frontline employees. And for the cycle to work, it is necessary for frontline employees to be fully committed to following the path set forth in the plan. This is absolutely essential.

It is critical to communicate current issues and goals, and strategies and directions for achieving goals, directly to not only employees but also franchise owners, store managers, and other frontline employees. At the same time, it is necessary to carefully listen to what these people have to say and reflect their views in management. I believe there is nothing more important than using this process to produce results and create a virtuous cycle that increases the motivation of frontline employees. As for outside directors, we must listen to status reports in monthly Board of Directors meetings and, if problems arise in plan implementation, press the officer in charge for an explanation of causes and solutions, and provide advice as necessary.

In addition to applying the PDCA cycle, I think it is important for all of the Group's officers and employees to be eager to take up challenges, as an entrepreneur would, and to think by themselves and take initiative. At present, work is moving forward to put in place incentive and other performance-linked systems, and I expect that these initiatives will ultimately foster the kind of culture the Company Group should have.

As I mentioned earlier, the Company Group has a wealth of management resources in terms of its people, capital, and network. As an outside director, I will vigorously support efforts that organically link these resources and enable the Company Group to achieve sustainable growth.

### Noriaki Shimazaki **Professional background**

| | |
|---|---|
| April 1969 | Joined SUMITOMO CORPORATION |
| June 1998 | Director of SUMITOMO CORPORATION |
| April 2002 | Representative Director, Managing Director of SUMITOMO CORPORATION |
| January 2003 | Member of the Business Accounting Council of the 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 the International Financial Reporting Standards (IFRS) Foundation |
| July 2009 | Special Adviser of SUMITOMO CORPORATION |
| June 2011 | Trustee of the Financial Accounting Standards Foundation |
| June 2011 | Outside Director, AUTOBACS SEVEN Co., Ltd. (current position) |
| September 2013 | Advisor, IFRS Foundation Asia-Oceania Office (current position) |
| September 2013 | Advisor, The Japanese Institute of Certified Public Accountants (current position) |
| June 2014 | Chairman, XBRL Japan Inc. (current position) |
| June 2015 | Outside Director, UKC Holdings Corporation (current position) |
| June 2016 | Outside Director, Nomura Holdings, Inc. (current position) |
| June 2016 | Director, Nomura Securities Co., Ltd. (current position) |
| June 2016 | Outside Director, Loginet Japan., Co., Ltd. (current position) |
| July 2016 | Director, Kamikawa Taisetsu Sake Brewery Co., Ltd. (current position) |

# Strengthening Governance for Sustainable Growth in Corporate Value

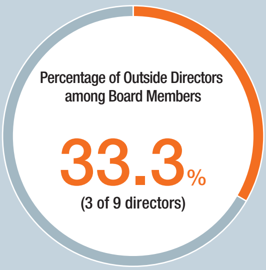
A company seeks to achieve increases in corporate value over the medium-to-long term by pursuing aboveboard business activities with capital entrusted to it by shareholders. As an entity recognized in law, it is expected to contribute to society through business activities reflecting consideration of responsibilities to customers, shareholders, employees, suppliers, local communities, and all other stakeholders. Company managers must engage in business activities that effectively contribute to the company's role in society; their actions must be in the interest of the company's ongoing development and of accountability, to ultimately promote management transparency and the fulfillment of responsibilities to society.

With these ideas as a conceptual foundation, the Company strives to maintain the support and trust of all of its stakeholders. Starting from our number one priority - underpinning and enhancing the AUTOBACS brand by perpetually offering goods and services that please customers, while also living up to our social responsibilities - we constantly strive to strengthen and improve our corporate governance.

## Corporate Governance Key Points (as of June 27, 2017)

### Strengthening the Supervisory Function

Actively Appointing Outside Directors and Audit and Supervisory Board Members





Having a Board of Directors with more than 30% of its members from outside the Company strengthens the oversight function and secures transparency and objectivity in decision-making.

### Securing Transparency and Objectivity in Appointments and Remuneration

Establishment of the Corporate Governance Committee as a Consultative Body for the Board of Directors

Consists of all outside directors, plus the representative director. Chair is a outside director.


The Corporate Governance Committee promotes management transparency and objectivity by acting as a consultative body to the Board of Directors on matters concerning the appointment and remuneration of directors and senior executive officers.

### Separation of Execution and Supervisory Functions

Adoption of an Executive Officer System to Clarify Management Responsibility

To maintain and enhance the supervisory function of directors, an executive officer system has been adopted to separate business execution and supervisory functions.

### Protecting Returns to General Shareholders

Selection of Only Qualified Independent Individuals as Outside Directors and Audit and Supervisory Board Members

By selecting only individuals who meet the requirements for "Independent Directors/Auditors," as that term is used by the Japan Exchange Group, to serve as outside directors and Audit and Supervisory Board members, we are not only ensuring the independence of outside directors and outside Audit and Supervisory Board members but also protecting returns to general shareholders.

### Swift and Proper Decision-Making and Consensus Formulation

Proper Sharing and Discussion of Information among Directors and Officers

To enable swift and proper discussion and decision-making by the Board of Directors, the various committees comprised of officers provide the Board of Directors with appropriate information on management issues and business performance.

## Recent History to Strengthen Corporate Governance

**FY ended March 2006**
- Outside directors: 2 out of 10 total directors
- Establishment of the Nomination Advisory Committee (Integrated into the Corporate Governance Committee in April 2010)

**FY ended March 2009**
- Outside directors: 4 out of 9 total directors
- Outside Audit and Supervisory Board members: 3 out of 5 total members
- Establishment of the Corporate Governance Committee
- Establishment of the Risk Management Committee
- Establishment of the Executive Committee, and other types of committees, to strengthen the business execution framework

**FY ended March 2010**
- Formulation of the Corporate Governance Policy

**FY ended March 2011**
- Outside directors: 3 out of 8 total directors
- Revision of the Management Philosophy
- Formulation of the Outside Director and Audit and Supervisory Board Member Requirements

**FY ended March 2012**
- Outside Audit and Supervisory Board members: 3 out of 4 total members

**FY ended March 2016**
- Establishment of the position of Senior Independent Director
- Establishment of the Independent Executive Liaison Group
- Establishment of the Director Evaluation Committee

## Corporate Governance System

The Company has adopted the "Company with an Audit and Supervisory Board" organizational format (as defined under Japan's Companies Act), which features redundant management oversight in the form of business activity supervision by the Board of Directors and audits by Audit and Supervisory Board members.

As of June 27, 2017, the Company, with three outside directors on its nine-member Board of Directors, is considered to have a Board of Directors in which outsiders play a central role. Given that the Company has also established a Corporate Governance Committee consisting of all of the outside directors and the representative director, the Company's corporate governance system is a hybrid combining the features of a Company with an Audit and Supervisory Board and a "Company with Committees" (as defined under Japanese law).

### Management and Business Execution Framework

**1) Board of Directors**

Chaired by the representative director, the Board of Directors consists of nine members (6 who are also officers, and 3 outside directors) and, in principle, meets once a month. The Board of Directors makes decisions on matters specified in laws and regulations or in the articles of incorporation, and important matters concerning the Company's business activities. It also receives reports on such matters as required. To strengthen the oversight function, efforts are made to maintain a Board of Directors with outside directors comprising over 30% of sitting directors. In addition, to protect returns to general shareholders, independence is stressed in selecting outside directors. Efforts are made to ensure the best possible decisions are made to increase corporate value over the medium-to-long term.

**2) Executive Committee**

The Executive Committee, which is chaired by the chief executive officer and comprised of senior executive officers, meets, in principle, once a month. The executive committee discusses inherent risks, possible responses, and other aspects of matters scheduled to be taken up by the Board of Directors and reports on these discussions and their results to the Board. It also develops companywide policies and plans. Outside directors and Audit and Supervisory Board members, acting as observers, attend meetings of the Executive Committee and express their opinions as necessary.

**3) Other Committees**

Committees with memberships including officers with differing responsibilities and representatives of various business segments are established to discuss policies and management matters affecting the entire company; confirm business performance and progress in implementing the medium-term business plan; and confirm implementation progress, analyze, and make recommendations regarding strategies concerning particular operations. In principle, such committees meet one or two times a month.

### Consultative Bodies

**1) Corporate Governance Committee**

The Corporate Governance Committee is chaired by an outside director and consists of outside directors and the representative director. In principle, it meets once a month to discuss candidates for director, statutory auditor, and senior executive officer positions, the remuneration system for directors and officers, and other governance-related matters. The committee submits its findings and recommendations on these matters to the Board of Directors.

**2) Risk Management Committee**

With the representative director as its chair, the Risk Management Committee is comprised of directors with officer responsibilities and officers responsible for internal control functions. In principle, the committee meets once a year to set a direction that will promote efficient, proper pursuit of risk management.

### Auditing System

**1) Internal Audits**

A staff of nine auditors evaluates the internal control system and continuously performs audits to determine whether the business activities of the Company and its subsidiaries are in compliance with the law and regulations, and internal rules and manuals. Assessments and audit results are reported to the representative director, Audit and Supervisory Board members, and officers as appropriate, and corrective measures and guidance are provided to departments where deficiencies are identified.

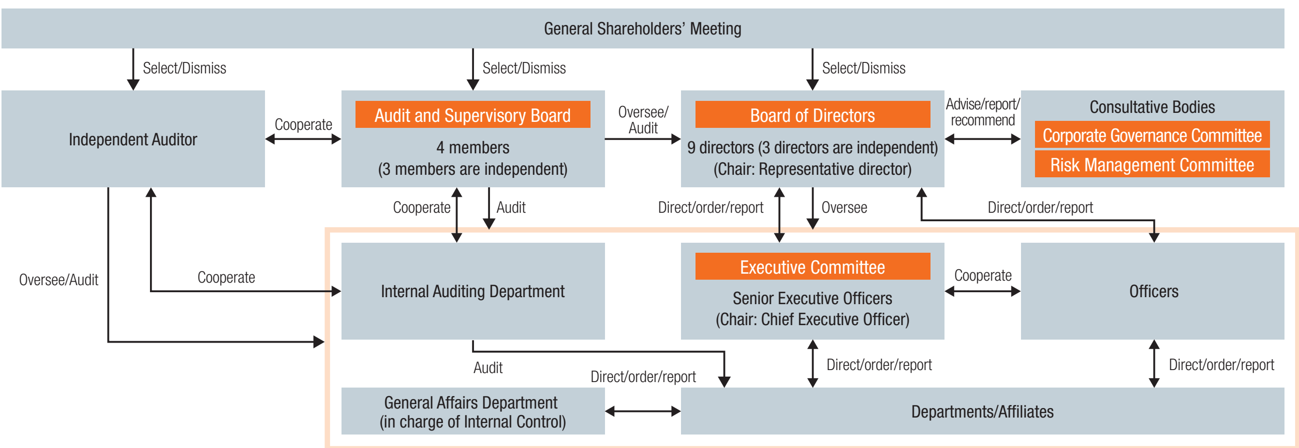
**2) Audits by Audit and Supervisory Board Members**

The Audit and Supervisory Board consists of four members, three of whom are outside members. The Audit and Supervisory Board sets an audit direction and establishes an audit plan. Reports are received from each Audit and Supervisory Board member on the progress and results of their work, and from the Board of Directors and the independent auditor on the progress of activities they are pursuing. Detailed explanations are requested as needed. Each Audit and Supervisory Board member attends important meetings to monitor the performance of duties by directors and officers.

**3) Independent Audits**

The Company has engaged Deloitte Touche Tohmatsu LLC to perform independent audits.

## Corporate Governance Framework



# Corporate Governance

## Nomination of Inside Directors

### Basic Policy

In nominating directors, only those who understand the importance of trust-based relationships with franchise stores, suppliers, employees and others involved in the AUTOBACS franchise chain, and who have the will and capabilities to increase corporate value and the common benefit of shareholders over the medium-to-long term are considered.

### Nomination Process

Possible candidates for director are submitted to the Corporate Governance Committee for consideration. After receiving feedback from the Corporate Governance Committee, the Board of Directors makes the final nominations of persons to be put forth as director candidates. Persons being considered for nomination as an inside director are interviewed by the Corporate Governance Committee, which then considers their suitability as candidates for those positions.

## Outside Directors and Outside Audit and Supervisory Board Members

### Nominations

In principle, outside directors and Audit and Supervisory Board members are nominated from among a set of candidates put forth by a third-party institution. At present, nominees for the positions of outside director and outside Audit and Supervisory Board member are comprised of individuals, including one woman, with professional backgrounds spanning a wide spectrum. All outside directors meet the requirements for independence specified in law and in the Company's own rules. Each of the outside directors is possessed of experience and knowledge in various fields and is actively contributing to Board of Directors discussions from his or her own independent, objective perspective.

### Appointment of a Senior Independent Director

The Company, in order to broaden the dialogue with shareholders and other investors, has appointed a senior independent director.

#### Reasons for Nomination as an Inside Director

| Name | Position | Reasons for Nomination |
|---|---|---|
| **Kiomi Kobayashi**<br>Re-nomination | Representative Director and Chief Executive Officer, Chief AUTOBACS Chain Officer | Kiomi Kobayashi has contributed to the development of the Company's business over many years, for example, strengthening new-store-openings and marketing capabilities, and helping to establish a foundation for overseas businesses, at the AUTOBACS business. He is possessed of experience and a track record that are indispensable for leading the Company as its chief executive. |
| **Teruyuki Matsumura**<br>Re-nomination | Director and Senior Managing Executive Officer, Head of Overseas Business and New Business Development | In the AUTOBACS business, Teruyuki Matsumura has been engaged in expanding the automobile purchase and sales, and statutory safety inspections and maintenance, operations, and has contributed to the development of business by strengthening relationships with franchisees. He has also amassed experience and a track record of performance in building foundations for new-business and overseas– business operations. |
| **Isao Hirata**<br>Re-nomination | Director and Senior Managing Executive Officer, Head of Corporate Administration | Isao Hirata has built a systems platform integrating business strategy and IT strategy, and as the head of corporate planning and IR, has demonstrated leadership in building relationships with investors and other stakeholders, and in formulating the Company's business plans. He is well experienced and has built a solid track record in fundamentally strengthening the Company's management. |
| **Naoyuki Koyama**<br>Re-nomination | Director and Senior Managing Executive Officer, Head of AUTOBACS Business Planning | Naoyuki Koyama has demonstrated leadership in both the reconstruction of the foundation for overseas business and the development of new business formats and products for the domestic AUTOBACS business. He has experience and a solid track record in creating new business packages for the domestic AUTOBACS business. |
| **Eiichi Kumakura**<br>Re-nomination | Director and Senior Executive Officer, Head of Western Japan Region Headquarters | In addition to building an outstanding track record in the merchandise and sales areas of the domestic AUTOBACS business, Eiichi Kumakura has contributed significantly to the enhancement of relationships with franchisees and is possessed of experience and an outstanding record of achievement in rapidly advancing reforms in the domestic AUTOBACS business. |
| **Yugo Horii**<br>Re-nomination | Director and Senior Executive Officer, Office of the President and Overseas Business Planning | Yugo Horii has made significant contributions in management and administration. These include many years of endeavor in legal affairs and the construction of internal control systems for the AUTOBACS Group. In addition, he is possessed of experience and an outstanding track record in the building of foundations for pursuing retail and service operations and wholesale operations in the overseas business. |

#### Reasons for Nominations of Outside Directors and Outside Audit and Supervisory Board Members

| Name | Other Key Positions Concurrently Held | Reason for Nomination | Attendance Record |
|---|---|---|---|
| **Noriaki Shimazaki**<br>Outside Director<br>(Independent) | Advisor, IFRS Foundation Asia-Oceania Office; Advisor, The Japanese Institute of Certified Public Accountants; Chairman, XBRL Japan Inc.; Outside Director, UKC Holdings Corporation; Outside Director, Nomura Holdings, Inc.; Director, Nomura Securities Co., Ltd.; Outside Director, Loginet Japan Co., Ltd.; Director, Kamikawa Taisetsu Sake Brewery Co., Ltd. | Noriaki Shimazaki has extensive business experience and knowledge across a broad array of fields, including accounting and finance, personal development, risk management, and management strategy. He has many years of experience in corporate management and in public service roles, charged with monitoring and supervision responsibilities, mainly in accounting. | 16 times/16 times |
| **Hatsuo Odamura**<br>Outside Director<br>(Independent) | Advisor, TAITO CORPORATION | With extensive knowledge and experience in crisis management (including eradication of antisocial forces) and organizational management accumulated through his long career in law enforcement, and professional experience in areas related to road traffic, Hatsuo Odamura is extremely knowledgeable of the transportation-related aspects of society. | 16 times/16 times |
| **Yoshiko Takayama**<br>Outside Director<br>(Independent) | Managing Director, J-Eurus IR Co., Ltd.; Director, Japan Corporate Governance Network; Member of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, Financial Services Agency and Tokyo Stock Exchange, Inc.; President, Japan Board Review Co., Ltd. | In addition to her experience as a consultant in the fields of finance and M&A, Yoshiko Takayama has experience and a record of achievement as a corporate consultant, contributing, for example, to the evaluation of boards of directors, in connection with the fields of IR and corporate governance, and the pursuit of IR activities. | 16 times/16 times |
| **Toshiki Kiyohara**<br>Outside Audit and Supervisory Board Member<br>(Independent) | — | Toshiki Kiyohara has experience as a corporate representative director, and the Company would like for him to apply his experience in strengthening its oversight function. | 16 times/16 times |
| **Tomoaki Ikenaga**<br>Outside Audit and Supervisory Board Member<br>(Independent) | Partner, Anderson Mori & Tomotsune; Independent Member of the Oversight Committee, Moody's Japan K.K.; Independent Member of the Oversight Committee, Moody's SF Japan K.K. | Tomoaki Ikenaga has a wealth of experience and knowledge as a lawyer. The Company looks forward to having Mr. Ikenaga apply his expert knowledge of internal controls and compliance in audits of the Company. | 16 times/16 times |
| **Yuji Sakakura**<br>Outside Audit and Supervisory Board Member<br>(Independent) | Representative Director, Relations Japan Corporation; Audit & Supervisory Board Member (Outside), UKC Holdings Corporation | Based on his many years of financial experience, mainly in international finance and capital markets, at a general trading company, Yuji Sakakura is possessed of wide-ranging knowledge of finance, accounting, and capital markets. | 16 times/16 times |

Dialogues with shareholders and other investors are led by the Representative Director and Chief Executive Officer. The appointment of a senior independent director will promote the constructive development of this dialogue.

## Establishment of a Liaison Group for Outside Directors and Audit and Supervisory Board Members

The Company has established the Liaison Group for Outside Directors and Audit and Supervisory Board Members, which is chaired by the senior independent director and includes only outside directors and outside Audit and Supervisory Board members among its participants. The group is intended to be a vehicle for outside directors and outside Audit and Supervisory Board members to share information and enhance communication among themselves, and it is expected to be a venue for the development of a common understanding of, and exchange of information on, governance and other management matters at the Company. The group, which, in principle, meets several times a year, held its first meeting in December 2015.

### Independence Requirements for Outside Directors and Audit and Supervisory Board Members *Excerpted

The Company's independent directors and independent Audit and Supervisory Board members are outside directors and outside Audit and Supervisory Board members as defined in Japan's Companies Act and Ordinance for Enforcement of the Companies Act. They also fulfill the following requirements for independence. Independence shall be considered to have been lost at the time any of the following requirements for independence are violated.

1. No conflict of interest with the Company nor any affiliate of the Company (referred to below as "the Group" or "Group"), nor with specified companies.
2. During the most recent five fiscal years, including the current fiscal year, no marital relationship to a Group director with executive or management responsibilities, nor to a Group executive of similar authority, and no relatives within the second degree, nor person sharing a household, serving in such a capacity.
3. No marital relationship to someone with a conflict of interest with the Group, nor with specified companies, and no relatives within the second degree, nor person sharing a household, having a conflict of interest with the Group or specified companies.
4. No other circumstances that would prevent the fulfillment of the duties of an independent director or independent Audit and Supervisory Board member.

Full text
http://www.autobacs.co.jp/en/csr/co_gove_system_en.html

# Remuneration for Members of the Board of Directors, and Audit and Supervisory Board Members

## Director Remuneration

**1) Basic Policy**

The basic policy on determining director remuneration is to secure as AUTOBACS SEVEN directors outstanding individuals who will work to maintain and increase the corporate value of the Company Group, which comprises a franchise system, and contribute to the effective functioning of the business oversight function.

**2) Remuneration Standards**

Standards for remuneration shall be set by considering third-party survey data on executive remuneration, and taking into account the Company's position in the industry and factors such as difficulty of achieving targets and specific roles of individuals.

**3) Remuneration Composition and Basic Concepts**

Remuneration for the Company's directors is composed of "fixed remuneration," as the basic element, and "performance-based remuneration," which varies depending upon changes in evaluation indicators for achievement of plan targets that are primarily quantitative.

Performance-based remuneration is based on performance in achieving objectives of the business plan for the fiscal year. The ratio of performance-based remuneration to total remuneration is designed to rise with the rank of the officer. However, given the nature of performance-based remuneration, outside directors, who have no management or executive responsibilities, are ineligible for performance-based remuneration and receive only fixed remuneration.

**4) Remuneration Determination Process**

The objectivity and transparency of the Company's director remuneration system and remuneration amounts are secured by having the Corporate Governance Committee, which is chaired by an outside director and is comprised of all of the outside directors and the representative director, deliberate and provide input on these matters.

## Remuneration for Audit and Supervisory Board Members

Remuneration for the Company's Audit and Supervisory Board members is determined by the Audit and Supervisory Board members, within an overall remuneration amount approved at a general shareholders' meeting. Considering their role as independent individuals with the authority to oversee the directors in the fulfillment of their duties, remuneration for Audit and Supervisory Board members is composed of only fixed remuneration.

**Total Remuneration for the Fiscal Year ended March 2017**

| Category | | Total Remuneration Amount (Millions of yen) | Fixed Remuneration | | Performance-based Remuneration | |
|---|---|---|---|---|---|---|
| | | | Recipients (Individuals) | Amount (Millions of yen) | Recipients (Individuals) | Amount (Millions of yen) |
| Director | Total for Directors | 274 | 12 | 272 | 5 | 2 |
| Director | Subtotal for Outside Directors | 36 | 3 | 36 | — | — |
| Audit and Supervisory Board Member | Total for Audit and Supervisory Board Members | 66 | 5 | 66 | — | — |
| Audit and Supervisory Board Member | Subtotal for Outside Audit and Supervisory Board Members | 41 | 3 | 41 | — | — |
| Total | | 340 | 17 | 339 | 5 | 2 |

Note
1. Total annual remuneration for all directors: ¥480 million (Resolution approved at the ordinary general shareholders' meeting held June 28, 2006)
2. Total annual remuneration for all Audit and Supervisory Board members: ¥120 million (Resolution approved at the ordinary general shareholders' meeting held June 28, 2006)
3. The information above also applies to three outside directors and one Audit and Supervisory Board member who stepped down from their positions as of the 69th ordinary general shareholders' meeting, held June 21, 2016.

# Corporate Governance

## Facilitating the Exercise of Voting Rights

TTo enable participation by as many shareholders as possible, the Company avoids days when large numbers of other companies have scheduled their general shareholders' meetings when scheduling its own. The 70th ordinary general shareholders' meeting was held on Tuesday, June 27, 2017.

Efforts are made to send general shareholders' meeting notifications three weeks ahead of the meeting date to give shareholders ample time to make attendance arrangements. For the 70th ordinary general shareholders' meeting, notifications were sent 21 days in advance of the meeting date. Furthermore, meeting notifications were posted on the Company's website, TDNET, and on an electronic voting platform on May 31, mainly for the convenience of institutional investors in Japan and abroad.

Use of an electronic voting platform (accessible via personal computer and some types of cell phone) was instituted beginning with the 62nd ordinary general shareholders' meeting held in June 2009. In addition, an English-language version of the meeting notification is prepared and posted on the electronic voting platform and the Company's website at the same time the Japanese version is posted, and voting results are translated into English and posted on the Company's website.

## Dialogue with Investors

The Company engages in constructive dialogue with shareholders through venues such as the general shareholders' meeting and results briefings, and discloses information in a timely, appropriate manner on the Company's corporate website. Regarding institutional investors, the Company engages in dialogue by, for example, participating in results briefings by investment securities firms and holding briefings when interim and full-year results are announced.

### Investor Dialogue Data

**Analysts and Institutional Investors**

- Regular briefings: Held after announcements of interim and year-end results
- Small group meetings and one-on-one meetings: Held basically every quarter

* Includes presentations by the representative director

**Overseas Investors**

- Regular briefings
  Meetings in Europe: Held 1 during FY 2016
  Teleconference with U.S. investors: Held 1 during FY 2016

* Includes presentations by the representative director

## Compliance

The Company is moving forward with the strengthening of its compliance structure and is stressing to employees of the parent company, subsidiaries, and all AUTOBACS Group stores, including franchise stores, the importance of pursuing business activities that are legally and ethically irreproachable.

Respect for the law and corporate ethics is a given. With that as a fundamental premise, the Code of Conduct and Guidelines for Action have been established in response to the legitimate expectations of all stakeholders and serve as fundamental principles in efforts to reinforce compliance understanding and conduct education initiatives for employees of not only the Company but also franchisees.

To check compliance conditions, meetings of the Compliance Administration Committee, comprised of representatives of departments with compliance promotion responsibilities, are convened monthly to determine whether any activities inconsistent with the Code of Conduct or Guidelines for Action have taken place. A system for rapidly responding to any problems that come to light has been established.

## Risk Management

The Company, in addition to a risk management system for properly identifying and evaluating risks and implementing proper controls, has also adopted a comprehensive risk management posture integrating crisis management focused on limiting the extent of damage, and minimizing damage and losses, caused by a major event.

The Risk Management Committee, which is chaired by the representative director and chief executive officer, sets the direction for risk management for the fiscal year and, based on that direction and provisions concerning risk management, takes steps to smoothly and appropriately advance risk management activities.

The Risk Management Committee identifies key risk-related issues for each fiscal year and monitors measures to address them. The Risk Management Committee, the General Affairs and Internal Control Department, Legal Department, Corporate Audit Department and Customer Relations Department cooperate to assist monitoring by the Risk Management Committee. In addition, the officer in charge of general affairs reports to the Board of Directors on serious incidents and responses to them, as set forth in the rules for reporting on serious incidents, and shares these reports with the Audit and Supervisory Board and other relevant bodies within the Company.

### Evaluating the Board of Directors

The Company evaluated the effectiveness of the Board of Directors to determine whether it is properly fulfilling its role, and to promote its ongoing improvement by analyzing and evaluating issues concerning effectiveness of the Board of Directors.

As a result, it was determined that the Company's Board of Directors is for the most part functioning properly. In particular, the evaluation found that the composition and setting of agendas for the Board of Directors are appropriate and that proper oversight is being performed through constructive, thorough discussions within an atmosphere allowing open, active debate. As an issue going forward, it was determined that there is a need to enhance the oversight function by engaging in thorough discussion based on monitoring of progress in implementing medium- to long-term management policies and strategies.

**Evaluation Process**

1. All directors and Audit and Supervisory Board members provide multiple-choice and written responses to evaluation questions.
2. Analysis and issue identification by the Corporate Governance Committee
3. Sharing of findings with, and discussion of responses by, the Board of Directors

## Directors and Audit and Supervisory Board Members

### Directors

Kiomi Kobayashi

Representative Director and
Chief Executive Officer,
Chief AUTOBACS Chain Officer

Teruyuki Matsumura

Director and Senior Managing
Executive Officer,
Head of Overseas Business and
New Business Development

Isao Hirata

Director and Senior Managing
Executive Officer,
Head of Corporate
Administration

Naoyuki Koyama

Director and Senior Managing
Executive Officer,
Head of AUTOBACS Business
Planning

Eiichi Kumakura

Director and Senior
Executive Officer,
Head of Western Japan Region
Headquarters

Yugo Horii

Director and Senior
Executive Officer,
Office of the President and
Overseas Business Planning

Noriaki Shimazaki

Director (Outside, independent)

Hatsuo Odamura

Director (Outside, independent)

Yoshiko Takayama

Director (Outside, independent)

### Audit and Supervisory Board Members

Kozo Sumino

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)

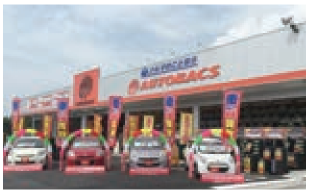
Yuji Sakakura

Audit and Supervisory
Board Member
(Outside, independent)

# AUTOBACS Chain Store Formats and Network

## Domestic
(As of March 31, 2017)

### AUTOBACS



| Position | Standard-type store |
|---|---|
| Annual sales per store | Approx. ¥0.3 billion |
| Floor space: | From 400m² |
| Commercial area | 5 km radius |

### Super AUTOBACS Type I

| Position | Large format store (Flagship store) |
|---|---|
| Annual sales per store | Approx. ¥1.6 billion |
| Floor space: | From 1,650m² |
| Commercial area | 20 km radius |

### Super AUTOBACS Type II

| Position | Large format store |
|---|---|
| Annual sales per store | Approx. ¥0.8 billion |
| Floor space: | From 990m² |
| 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

Stores that purchase used cars and sell new and used cars, and stores that specialize in appraisal and purchasing of used cars either at the store or at the customer's location. Stores specializing in the purchase of used cars are opened primarily in urban areas.

## Overseas
(As of March 31, 2017)

### France


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

### Thailand


| | |
|---|---|
| Stores operated by consolidated subsidiary | 8 |

### Singapore


| | |
|---|---|
| Stores operated by consolidated subsidiary | 2 |

### Taiwan

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

### Malaysia

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

### Indonesia

| | |
|---|---|
| Stores operated by franchisees | 5 |

### Philippines


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

## Number of Stores

| | March 31, 2013 | March 31, 2014 | March 31, 2015 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|---|---|
| **Domestic** | **552** | **571** | **586** | **599** | **601** |
| AUTOBACS | 455 | 478 | 492 | 498 | 495 |
| Super AUTOBACS Type I | 6 | 6 | 6 | 6 | 6 |
| Super AUTOBACS Type II | 70 | 69 | 69 | 69 | 68 |
| AUTOBACS Secohan Ichiba | 14 | 10 | 10 | 9 | 9 |
| AUTOBACS EXPRESS | 7 | 8 | 8 | 12 | 11 |
| AUTOBACS CARS | – | – | 1 | 5 | 12 |
| **Overseas** | **27** | **27** | **27** | **33** | **38** |
| **Total** | **579** | **598** | **613** | **632** | **639** |

# Corporate Profile/Share Information

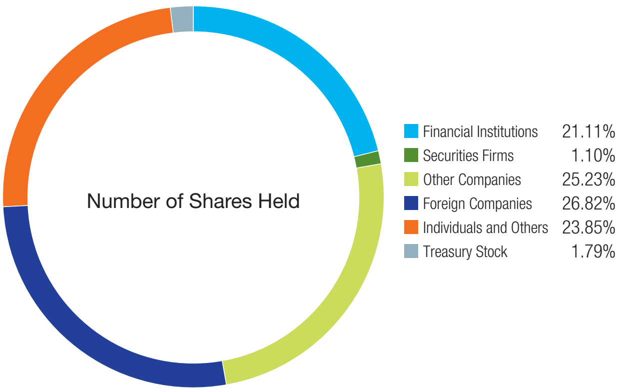
## Corporate Profile (As of March 31, 2017)

| | |
|---|---|
| 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 (Consolidated) | 4,200 |
| Main Business Offices | East Japan Sales Headquarters (Ichikawa, Chiba)<br>West Japan Sales Headquarters (Kita-ku, Osaka City)<br>East Japan Logistics Center (Ichikawa, Chiba)<br>West Japan Logistics Center (Miki, Hyogo) |

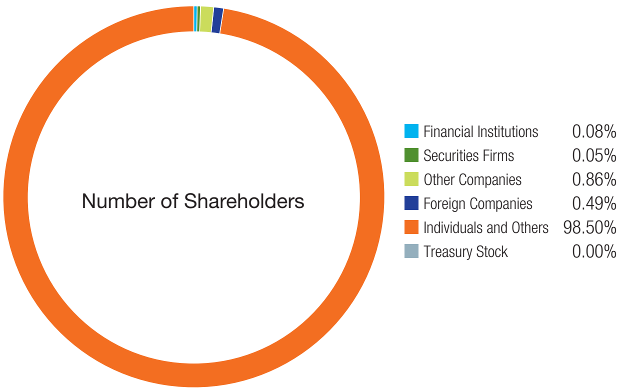
## Share Information (As of March 31, 2017)

| | |
|---|---|
| Total Number of Authorized Shares | 328,206,900 shares |
| Common Stock Issued | 84,050,105 shares (including 1,505,911 of treasury stock) |
| Number of Shareholders | 53,989 |
| 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)

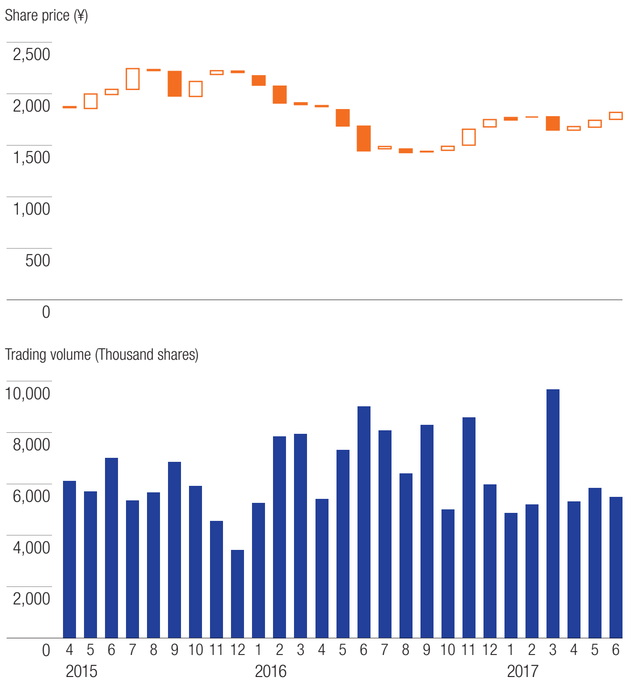



### Major Shareholders

| Name | Number of Shares Held (Thousand shares) | Shareholding Ratio (%) |
|---|---|---|
| Northern Trust Company (AVFC) Re Silchester International Investors International Value Equity Trust | 6,353 | 7.69 |
| Sumino Holdings, Ltd. | 4,268 | 5.17 |
| The Yuumi Memorial Foundation for Home Health Care | 3,990 | 4.83 |
| Northern Trust Company (AVFC) Re U.S. Tax Exempted Pension Funds | 3,847 | 4.66 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 3,036 | 3.67 |
| Japan Trustee Service Bank, Ltd. (Trust Account) | 3,030 | 3.67 |
| K Holdings, Ltd. | 2,800 | 3.39 |
| Northern Trust Company (AVFC) Account Non-treaty | 2,255 | 2.73 |
| The Master Trust Bank of Japan, Inc. (Retail Trust account 820079252) | 1,800 | 2.18 |
| Foreman Kyoei, Ltd. | 1,560 | 1.88 |

Notes:
1. The shareholding ratio is calculated by deducting treasury 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



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 2017

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# Consolidated Six-Year Summary

AUTOBACS SEVEN Co., Ltd. and Subsidiaries

Millions of yen, except per share data

| Fiscal year ended on March 31 for each displayed year | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| FISCAL YEAR | | | | | | |
| Net sales: | | | | | | |
| Tires and wheels | ¥48,047 | ¥49,295 | ¥53,713 | ¥58,243 | ¥56,351 | ¥55,348 |
| Car electronics | 31,908 | 33,938 | 33,090 | 40,700 | 44,490 | 58,135 |
| Oil and batteries | 24,780 | 24,550 | 24,309 | 26,142 | 25,568 | 24,406 |
| Car exterior goods | – | 22,145 | 22,442 | 24,669 | 24,054 | 23,000 |
| Car interior goods | 48,087 | 15,979 | 19,936 | 22,752 | 23,481 | 21,735 |
| Motor sports goods | 20,827 | 12,324 | 12,894 | 13,775 | 14,040 | 13,516 |
| Used car and new car sales | 15,915 | – | – | – | – | – |
| Services | – | 20,143 | 17,573 | 20,061 | 19,249 | 18,462 |
| Others | 14,467 | 29,769 | 25,498 | 25,355 | 22,931 | 22,736 |
| Total | 204,033 | 208,143 | 209,455 | 231,697 | 230,168 | 237,343 |
| Operating income | **5,829** | 6,702 | 6,404 | 13,945 | 12,745 | 13,721 |
| Income before income taxes and minority interests | **4,474** | 7,559 | 9,053 | 16,086 | 13,915 | 15,217 |
| Net income attributable to owners of the parent | **3,015** | 4,372 | 4,610 | 9,786 | 7,590 | 8,403 |
| | | | | | | |
| Dividends paid | **¥5,042** | ¥5,117 | ¥5,910 | ¥4,949 | ¥4,762 | ¥4,707 |
| Consolidated dividend payout ratio | **166.7%** | 117.6% | 113.6% | 59.4% | 64.0% | 57.3% |
| Amount of share buyback | **¥2,715** | ¥5,249 | ¥5,054 | ¥4,593 | ¥7,196 | ¥5,464 |
| Total return ratio | **255.7%** | 238.3% | 222.2% | 105.8% | 158.2% | 121.6% |
| | | | | | | |
| Return on sales | **1.5%** | 2.1% | 2.2% | 4.2% | 3.3% | 3.5% |
| Return on equity | **2.3%** | 3.2% | 3.3% | 6.8% | 5.3% | 5.7% |
| Return on assets | **1.7%** | 2.4% | 2.5% | 4.8% | 3.6% | 3.9% |
| | | | | | | |
| Per share data (Yen): | | | | | | |
| Basic net income * | **¥36.00** | ¥51.60 | ¥52.80 | ¥ 107.71 | ¥81.22 | ¥84.28 |
| Cash dividends | **60.00** | 60.00 | 60.00 | 64.00 | 52.00 | 48.33 |
| | | | | | | |
| Net cash provided by (used in) operating activities | **¥9,488** | ¥10,565 | ¥11,829 | ¥12,072 | ¥10,741 | ¥20,845 |
| Net cash (used in) provided by investing activities | **(7,147)** | (4,985) | (2,403) | 1,519 | (4,523) | (10,156) |
| Net cash (used in) provided by financing activities | **(7,457)** | (11,154) | (12,618) | (11,166) | (14,862) | (11,574) |
| | | | | | | |
| Capital expenditures | **¥4,842** | ¥5,896 | ¥6,127 | ¥4,820 | ¥6,249 | ¥7,691 |
| Depreciation and amortization | **4,384** | 4,013 | 4,805 | 4,551 | 5,194 | 4,644 |
| | | | | | | |
| **AT YEAR-END** | | | | | | |
| Cash and cash equivalents | **¥31,388** | ¥36,759 | ¥42,218 | ¥45,384 | ¥42,833 | ¥51,402 |
| Current assets | **102,159** | 107,655 | 113,425 | 126,709 | 127,203 | 141,612 |
| Current liabilities | **37,263** | 35,482 | 34,530 | 44,034 | 45,021 | 55,650 |
| Current ratio | **274.2%** | 303.4% | 328.5% | 287.8% | 282.5% | 254.5% |
| Total assets | **¥176,708** | ¥180,455 | ¥186,532 | ¥201,481 | ¥205,527 | ¥217,949 |
| Equity | **127,079** | 131,456 | 138,338 | 143,979 | 142,862 | 145,626 |
| Equity ratio | **71.9%** | 72.8% | 74.2% | 71.5% | 69.5% | 66.8% |
| | | | | | | |
| Total number of stores | **601** | 632 | 611 | 598 | 579 | 557 |
| Of which, overseas stores | **38** | 33 | 27 | 27 | 27 | 27 |
| Number of employees | **4,200** | 4,347 | 4,263 | 4,466 | 4,678 | 4,469 |

*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 2017

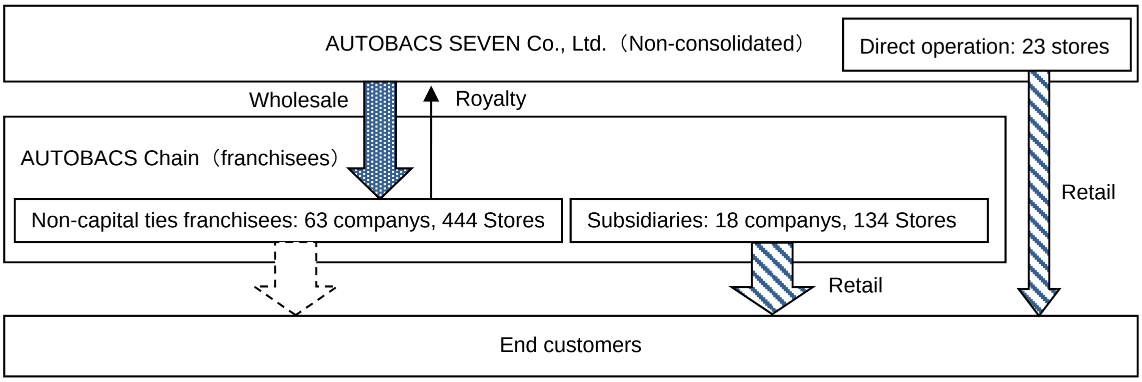
## OPERATIONAL REVIEW

### 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 C@RS (CARS).

**Basic business flow of domestic AUTOBACS chain in Japan (End of March, 2017)**




**Number of Stores Included or not Included in Consolidation**

| Stores | 2017 | | 2016 | |
|---|---|---|---|---|
| Stores included in consolidation (retail operations) | | | | |
| Directly managed stores | 23 | | 11 | |
| Consolidated subsidiaries (of which, overseas) | 155 | (21) | 179 | (24) |
| Subtotal | 178 | (21) | 190 | (24) |
| Stores not included in consolidation | | | | |
| Stores managed by franchisees, including stores of affiliates (of which, overseas) | 461 | (17) | 442 | (9) |
| Total stores (of which, overseas) | 639 | (38) | 632 | (33) |

**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 53.)

**Sales by Store Type in Japan**

¥ million; Stores

| | | 2017 | 2016 |
|---|---|---|---|
| AUTOBACS | Sales | **165,033** | 166,849 |
| | Stores | **495** | 498 |
| Super AUTOBACS | Sales | **62,217** | 63,708 |
| | Stores | **74** | 75 |
| AUTOBACS C@RS* | Sales | **29,242** | 26,673 |
| | Stores | **468** | 480 |
| AUTOBACS Secohan Ichiba | Sales | **1,324** | 1,414 |
| | Stores | **9** | 9 |
| AUTOBACS EXPRESS | Sales | **4,249** | 3,804 |
| | Stores | **11** | 12 |
| Total Sales | Sales | **262,065** | 262,450 |
| | Stores | **589** | 594 |

*Sales of AUTOBACS C@RS basically consist of the sales of new and used cars sold from stores of AUTOBACS Chain. Those sales include retail sales to end user, sales to franchiser (FC headquarters) and sales to the used car dealers.

**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 ¥3,565 billion in fiscal 1997. In fiscal 2014, this market was estimated falling to approximately ¥1,695 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, Japnaese domestic automobile maintenance market in 2016**was ¥ 5,394 billion, decreased 2.2% year on year, and domestic resistered number of used car in 2016 *** was 6,810 thousand vehicles, increased 1.4% year on year. Both two markets had been larger than automotive parts and accessories market.

* Reference: AM+NETWORK, August 2001 issues. Figure of fiscal 2017 is estimated by Yano Research Institute Ltd .

** Japan Automobile Service Promotion Association

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

## FISCAL 2017—OVERVIEW AND ACHIEVEMENTS

**Business Environment**

During the consolidated fiscal year under review, the Japanese economy was on a gradual recovery path, supported mainly by government-led economic policies and improved corporate earnings. However, the economic outlook remained uncertain, primarily reflecting the effects of the decelerating growth in emerging economies, Britain's exit from the EU, and the change of government in the United States. As for the domestic consumption of automotive goods and services, sales of new automobiles recovered with the introduction of new models by automobile manufacturers. In addition, demand for winter goods expanded, thanks to heavy snowfall nationwide.

**Domestic AUTOBACS business**

For the consolidated fiscal year under review, total sales for the domestic businesses in the AUTOBACS chain (including franchise outlets) declined by 1.1% year on year on a same-store basis and by 0.2% year on year on an overall-store basis.

In the automotive goods and services segment in the domestic AUTOBACS chain, sales of car interior accessories and car navigation systems remained sluggish throughout the fiscal year under review, but those of consumable goods, such as tires, oil and batteries, recovered in the latter half of the fiscal year. The Group bolstered the lineups mainly for high-profile car video recorders and new models of car navigation systems and added new car interior accessories, among other things, to the lineups of the private brand "AQ." (Autobacs Quality). In addition, "Pedal Watcher (accelerator controller)," a device that prevents accidents caused by errors in the use of the accelerator and brake by a driver, saw strong sales. Moreover, positive sales were recorded for snow tires and chains, attributable to strengthened sales promotion measures in anticipation that the demand for winter goods would increase year on year.

In the statutory safety inspection and maintenance services segment, a new service called "Three Star Compensation" was launched for customers who have commissioned the Company to perform statutory safety inspections, and TV commercials were aired nationwide to boost recognition of the new service. Despite being faced with a challenging business environment in which the number of vehicles subject to statutory inspection was limited until the second quarter, however reflecting an increase in the number from September, the number of vehicles that underwent statutory safety inspection and maintenance services increased by 6.8% year on year, to approximately 646,000 units.

In the automobile purchase and sales segment, sales to used car dealers by means such as auto auctions grew. This reflected an increase in the number of vehicles purchased due to the fact that the Company strengthened the purchasing of vehicles by each store by broadcasting TV commercials nationally in the same manner as for the services relating to statutory safety inspection, as well as the opening of stores specializing in purchases of used cars. As a result, sales of both new and used cars came to approximately 29,800 units, representing a year-on-year increase of 9.9%.

In terms of the number of domestic store openings and closings, seventeen new stores were opened, one store was opened as a result of the change of the business model, one store was relocated, and fifteen stores were closed, resulting in an increase of two stores, with the total number of stores rising from 599 as of the end of March 2016, to 601.
The number of CARS franchise stores at the end of the fiscal year under review decreased from 480 as of the end of the previous fiscal year, to 468, reflecting the closure of some stores as a result of profitability and sales structure considerations of each store.

**Domestic Store Consolidation**

| | Stores | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Year Ended March 2017 | | | | | | |
| | | First Half | | | Second Half | | | |
| | March 31, 2016 | New stores | S&B* relocation | Stores closed | New stores | S&B* relocation | Stores closed | March 31, 2017 |
| AUTOBACS | 498 | +2 | +1/−1 | −7 | +7 | +1 | −6 | **495** |
| Super AUTOBACS | 75 | | | | | | −1 | **74** |
| AUTOBACS Secohan Ichiba | 9 | | | | | | | **9** |
| AUTOBACS EXPRESS | 12 | | | | | | −1 | **11** |
| AUTOBACS C@RS | 5 | +3 | | | +5 | −1 | | **12** |
| Total (Domestic) | 599 | +5 | +4/−4 | −7 | +12 | +1/−1 | −8 | **601** |

* S&B: scrap and build

**Overseas business**

In the overseas business, the Company is expanding its businesses with the aim of improving profits in France and developing future key earnings drivers mainly in the ASEAN region. Looking at the situation in major countries, the business environment in France remained challenging following the terrorist attack in September 2015, but began to be more positive in the latter half of the consolidated fiscal year under review. Under these circumstances, operating income declined year on year due to a decrease in sales, despite continued efforts to enhance the electronic commerce website, improve the gross margin by increasing the ratio of sales of services triggered by the start of tire sales, and cut costs. In Thailand, the Company is working tirelessly to establish a business model for operating small stores that capitalize on customers' needs for maintenance in areas surrounding these stores. The Company opened two new stores and relocated one store in Thailand. In Malaysia, the Company is experimenting with different business models centered on the maintenance services offered at the stores that opened in the previous fiscal year. The Company's business in Singapore performed well, partly reflecting the renovation of certain stores and the closure of unprofitable stores as well as the aggressive implementation of sales promotion measures. In Indonesia, the Company opened three stores based on a business model for responding to local customers' needs.

As a result of seven new store openings, one store relocation and two store closures, the total number of stores outside Japan stood at 38 compared to 33 as of the end of March 2016.

**New businesses**

As for new businesses, operating income improved significantly year on year at the subsidiary that operates the imported car dealer business. This improvement was mainly attributable to expanded service revenues, the ongoing initiative of developing employees that commenced in the previous fiscal year, the strengthening of target management, and the share transfer of all shares of Motoren Tochigi Corp. in January 2017.

## FINANCIAL REVIEW

### 1. INCOME AND EXPENSES

**Net Sales, Gross Profit**

The Group's sales during the consolidated fiscal year under review decreased by 2.0% year on year, to 204,033 million yen, gross profit declined by1.2% year on year, to 66,162 million yen.

**SG&A Expenses, Operating Income**

Selling, general, and administrative (SG&A) expenses increased by 0.1% to ¥60,333 million. Operating income decreased by 13.0% to ¥5,829 million.

| | ¥ Million | | |
|---|---|---|---|
| | **2017** | 2016 | Increase (Decrease) |
| Personnel expenses | **28,535** | 28,551 | (16) |
| Employee compensation | **22,681** | 22,734 | (61) |
| Sales promotion expenses | **10,678** | 10,930 | (252) |
| Equipment expenses | **11,334** | 11,244 | 90 |
| Land and building rent | **5,294** | 5,350 | (56) |
| Depreciation | **3,603** | 3,367 | 234 |
| Administrative expenses | **9,787** | 9,539 | 247 |
| Provision for allowance for doubtful receivables | **10** | 32 | (21) |
| Total | **60,333** | 60,266 | (66) |

Personnel expenses decreased by 0.1% to ¥28,535 million. This change was mainly due to decrease in employee salary associated with transfer of stores to the franchisee company outside the consolidated group..

Sales promotion expenses decreased by 2.3 % to ¥10,678 million. This was mainly due to decrease of sales promotion expenses by reconsidering of promotion methods.

Equipment expenses increased by 0.8% to ¥11,334 million. This was mainly attributable to increase of depreciation associated with refurbishment of the logistics centers.

Administrative expenses increased by 2.6% to ¥9,787 million. There was no special factor for the change.

**Number of Employees by Segment**

| | Number of Employees | | | | |
|---|---|---|---|---|---|
| | **2017** | | 2016 | | Increase (Decrease) |
| The Company | **1,009** | **(25)** | 935 | (35) | 74 |
| Domestic Store Subsidiaries | **2,246** | **(733)** | 2,565 | (824) | (319) |
| Overseas Subsidiaries | **576** | **(2)** | 545 | (1) | 31 |
| Subsidiaries for Car Goods Supply and Other | **312** | **(51)** | 229 | (44) | 83 |
| Subsidiaries for Supporting Functions | **76** | **(23)** | 73 | (21) | 3 |
| Total | **4,219** | **(834)** | 4,347 | (928) | (128) |

Note: These figures show the number of regurar full-time employees, and part-time workers are indicated in ( ).

**Other Income and Expenses**

In other items, other income—net was ¥1,354 million, decreased from ¥857 million in the previous fiscal year. The main factor behind this was an impairment loss for non-current assets related to welfare facilities and land and buildings for stores, a loss on sales of shares of subsidiaries, a loss on retirement of non-current assets related to the refurbishment of Eastern Japan Logistics Center.

**Income Taxes**

Income taxes for the period were ¥1,477 million.

**Net Income Attributable to Owners of the Parent**

Net income attributable to owners of the parent decreased by 31.0% from the previous year to ¥3,016 million, bringing basic net income per share to ¥36.0. Financial indicators all worsened; net income ratio declined from 2.1% in the previous year to 1.5%, ROA declined from 2.4% to 1.7%, and ROE declined from 3.2% in the previous year to 2.3%.

## 2. SEGMENT INFORMATION

The Group's segments are as follows:

**The Company:** The Company operates wholesale trade, selling of automobile-related goods, etc., (major products include tires and wheels and car electronics) to franchisees, and retail trade, selling and providing installation services for automobile-related goods, primarily to general consumers (major store brands are AUTOBACS, Super AUTOBACS 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 in fiscal 2017

**Non-consolidated**

Sales fell by 3.3% year on year, to 153,054 million yen, and operating income declined by 27.0% year on year, to 5,164 million yen. Although sales of winter goods increased in the second half as a result of snowfall, wholesale sales to stores decreased over the entire fiscal year under review. This reflected a decline in sales of tires and wheels, car accessories and other items at domestic AUTOBACS franchise stores and the improvement of inventory efficiency at domestic AUTOBACS franchise stores. Meanwhile, the ratio of gross profit to sales for the full fiscal year stood at around the same level as a year earlier, recording 20.5% (compared to 20.6% a year ago), owing to measures to improve the gross margin ratio, despite the decline in sales. As for selling, general, and administrative expenses, efforts were made to reduce advertising expenses and other expenses, while expenses associated with the replacement of facilities in the Eastern Japan and Western Japan Logistics Centers increased.

**Domestic Store Subsidiaries**

Sales decreased by 3.1% year on year, to 66,444 million yen, while the operating income improved by 1,244 million yen year on year, to 270 million yen. The segment continued to make an effort in the same manner as previous terms to enhance inventory efficiency, improve the gross margin ratio and achieve the efficient use of expenses. As a result, sales in the second half recovered and the segment recorded a significant year-on-year increase in operating income to regain profitability.

**Overseas Subsidiaries**

Sales fell by 13.5% year on year, to 7,871 million yen, while an operating loss of 178 million yen was recorded (compared to operating income of 30 million yen for the previous fiscal year). This mainly reflected the deterioration in revenue of the French subsidiary and an increase in pre-emptive expenses related to the opening of a store in Thailand.

### Opening and Closing of Stores Overseas

| | Stores | | | |
|---|---|---|---|---|
| | | Year Ended March 2017 | | |
| | March 31, 2016 | First Half | Second Half | March 31, 2017 |
| France | 11 | | | **11** |
| Taiwan | 6 | | | **6** |
| Thailand | 6 | 1 | 1 | **8** |
| Singapore | 3 | | −1 | **2** |
| Malaysia | 5 | | −1 | **4** |
| Indonesia | 2 | | 3 | **5** |
| Philipines | 0 | | 2 | **2** |
| Total | 33 | 1 | 4 | **38** |

### Subsidiaries for Car Goods Supply and Others

Sales increased by 5.7% year on year, to 22,467 million yen, and operating income rose by 448.7% year on year, to 101 million yen. This was attributable to improvements in the profits of the subsidiary operating the imported car dealer business and the one undertaking the wholesale of oil and other merchandise. In addition to the above, the acquisition of shares of Motoren Tochigi Corp. contributed to the increases in sales and operating income.

### Subsidiaries for Supporting Functions

Sales decreased by 8.3% year on year, to 2,938 million yen, and operating income declined by 12.6%, to 350 million yen.

### Information about Sales and Profit (Loss)

| | ¥ Million | | | | | |
|---|---|---|---|---|---|---|
| | Year Ended March 2017 | | | | | |
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Others | Subsidiaries for Supporting Functions | Total |
| Sales | | | | | | |
| Sales to external customers | 114, 490 | 65, 320 | 7, 623 | 15, 775 | 825 | 204, 033 |
| Intersegment sales or transfers | 38, 564 | 1, 124 | 248 | 6, 692 | 2, 113 | 48, 741 |
| Total | 153, 054 | 66, 444 | 7, 871 | 22, 467 | 2, 938 | 252, 774 |
| Segment profit | 5, 164 | 270 | (178) | 101 | 350 | 5, 707 |

### Details of Adjustments to Consolidated Operating Income

The adjusted amount from the aggregate amount of the operating income of all segments to the consolidated operating income was plus 121 million yen. This was mainly attributable to the realization of unrealized profits as a result of a decrease in inventories for the products wholesaled from the Company to the domestic store subsidiaries.

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

| | ¥ Million | |
|---|---|---|
| Net sales | **2017** | 2016 |
| Total reportable segments | **252, 774** | 260, 410 |
| Elimination of intersegment transactions | **(48, 741)** | (52, 267) |
| Net sales in consolidated financial statements | **204, 033** | 208, 143 |

| | ¥ Million | |
|---|---|---|
| Operating Income | **2017** | 2016 |
| Total reportable segments | **5, 707** | 6, 550 |
| Amortization of goodwill | **(177)** | (133) |
| Inventories | **368** | 206 |
| Fixed assets | **310** | 507 |
| Allowance for point membership program | **(11)** | (16) |
| Elimination of intersegment transactions | **(489)** | (480) |
| Others | **121** | 67 |
| Operating Income in consolidated financial statements | **5, 829** | 6, 702 |

# FINANCIAL POSITION

## 1. BALANCE SHEET ITEMS

**Current Assets**

Current assets decreased by ¥5,495 million year on year to ¥102,160 million. The main factors were decreases in cash and cash equivalents, and Inventories.

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

The buildings and structures was ¥42,176 million, decreased by ¥ 90 million year on year. This was due to an impairment loss for welfare facilities and land and buildings for stores.

Total investments and other assets increased by ¥1,838 million from the previous period to ¥32,372 million. Although, the company exchanged equipments and facilities in western and eastern Japan logistics center, however investment for softwares for strengthening of next generation store operation system decreased compare to last fiscal year.

**Current Liabilities**

Total current liabilities were increased by ¥1,781 million to ¥37,263 million. The main factors in this were increase in short-term borroings and payables and decreases in current portion of long-term debt.

**Long-term Liabilities**

Total long-term liabilities decreased by ¥1,173 million to ¥12,052 million. There were few changes and no special factors to be explained.

**Equity**

Total equity including minority interests decreased by ¥4,354 billion to ¥127,292 million. The main factors behind this were decrese in retained earnings.

## 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 2017 decreased by ¥64 million year on year to ¥9,126 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, 2017 were down by ¥842 million from the previous year-end to ¥15,357 million.

## CASH FLOWS

**Cash Flows from Operating Activities**

Net cash provided by operating activities was ¥9,488 million. The main factors for gaining cash were income before income taxes of ¥4,475 million and increase in depreciation and amortization of ¥4,384 million. The main factors decreasing cash were decrease in income taxes paid of ¥3,147 million and account receivable of ¥2,391 million.

**Cash Flows from Investing Activities**

Net cash useded in investing activities was ¥7,148 million. The main factors for decrease were the spending of ¥1,603 million by acquisition of subsidiary stock which causes the change of consolidation range and capital expenditures of ¥4,843 million and payments of loans receivables. Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a net inflow of ¥2,340 million.

**Capital Expenditures**

In fiscal 2017, capital expenditures amounted to ¥4,842 million. These investments were associated mainly with buildings and facilities for new store openings and exchange of equipments and facilities of eastern and wetern Japan logistics centers. A breakdown of capital expenditures (including intangible fixed assets) in fiscal 2017 is shown below.

**Major Capital Expenditures in Fiscal 2017**

| | ¥ Million |
|---|---|
| Opening new stores | 617 |
| Scrap and build or relocation of stores | 82 |
| Purchase of land for store locations | 14 |
| IT investments such as POS system development | 444 |
| Other | 2,302 |
| Total | 3,459 |

**Capital Expenditures by Segments**

| | ¥ Million | | |
|---|---|---|---|
| | 2017 | 2016 | Increase (Decrease) |
| The Company | **3,405** | 4,415 | (1,010) |
| Domestic Store Subsidiaries | **305** | 230 | 74 |
| Overseas Subsidiaries | **396** | 242 | 154 |
| Subsidiaries for Car Goods Supply and Others | **410** | 257 | 153 |
| Subsidiaries for Supporting Functions | **327** | 751 | (424) |
| Total | **4,843** | 5,896 | (1,053) |

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

**Cash Flows from Financing Activities**

Net cash used in financing activities was ¥11,154 million. This was mainly due to ¥5,042 million for dividends paid, ¥ 2,713 million for purchase of treasury stock..

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥31,389 million, decreased by ¥5,190 million from a year earlier.

**Basic Policy on Distribution of Profits, Dividends for Fiscal 2017 and Fiscal 2017**

The Company positions shareholder returns as one of the most important management issues and makes efforts to increase its corporate value through sustainable profit growth. The Company's basic policy on profit distribution is to maintain the consolidated ratio of dividend on equity (DOE) at 3% or higher while ensuring sufficient cash on hand for business continuity, taking into account the management environment, financial stability and earnings conditions.

For the fiscal year under review, the Company is distributing a year-end dividend of 30 yen per share as initially planned. Consequently, the annual dividend is 60 yen per share, and the consolidated ratio of dividend on equity (DOE) is 3.9%.

For the fiscal year ending March 31, 2017, the Company plans to distribute an annual dividend of 60 yen per share, with 30 yen per share each for intermediate and year-end dividends, by taking its dividend policy into consideration.

## 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, 2017

| ASSETS | Millions of yen 2017 | Millions of yen 2016 | Thousands of U.S. dollars (Note 1) 2017 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents (Note 17) | **¥31,389** | ¥36,579 | **$280,259** |
| Time deposits with an original maturity over three months (Note 17) | **132** | 473 | **1,178** |
| Receivables (Note 17): | | | |
| Trade notes and accounts | **19,078** | 18,858 | **170,339** |
| Associated companies | **1,027** | 857 | **9,170** |
| Income taxes receivable | **504** | | **4,500** |
| Other | **20,831** | 19,051 | **185,991** |
| Allowance for doubtful receivables | **(70)** | (112) | **(625)** |
| Investments in lease (Notes 5 and 17) | **9,126** | 9,730 | **81,482** |
| Inventories (Note 9) | **15,317** | 17,213 | **136,759** |
| Deferred tax assets (Note 15) | **2,288** | 2,320 | **20,429** |
| Prepaid expenses and other current assets | **2,538** | 2,686 | **22,661** |
| Total current assets | **102,160** | 107,655 | **912,143** |
| **PROPERTY AND EQUIPMENT:** | | | |
| Land (Notes 6 and 9) | **22,188** | 22,450 | **198,107** |
| Buildings and structures (Notes 6 and 9) | **41,171** | 42,127 | **367,598** |
| Furniture and equipment (Note 6) | **17,222** | 16,600 | **153,768** |
| Lease assets (lessee) (Note 16) | **392** | 405 | **3,500** |
| Construction in progress | **1,140** | 1,670 | **10,178** |
| Total | **82,113** | 83,252 | **733,151** |
| Accumulated depreciation | **(39,937)** | (40,986) | **(356,580)** |
| Net property and equipment | **42,176** | 42,266 | **376,571** |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities (Notes 4 and 17) | **5,101** | 4,120 | **45,545** |
| Investments in associated companies (Note 17) | **2,173** | 1,711 | **19,402** |
| Rental deposits and long-term loans (Notes 8 and 17) | **16,518** | 16,409 | **147,482** |
| Goodwill (Notes 6 and 7) | **854** | 852 | **7,625** |
| Software | **3,371** | 4,313 | **30,098** |
| Deferred tax assets (Note 15) | **797** | 1,103 | **7,116** |
| Other | **3,558** | 2,026 | **31,768** |
| Total investments and other assets | **32,372** | 30,534 | **289,036** |
| **TOTAL** | **¥176,708** | ¥180,455 | **$1,577,750** |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY | Millions of yen 2017 | 2016 | Thousands of U.S. dollars (Note 1) 2017 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Short-term borrowings (Notes 9 and 17) | **¥3,801** | ¥1,594 | **$33,937** |
| Current portion of long-term debt (Notes 9 and 17) | **2,399** | 1,053 | **21,420** |
| Payables (Notes 9 and 17): | | | |
| Trade notes and accounts | **12,801** | 13,808 | **114,295** |
| Associated companies | **1,226** | 1,090 | **10,946** |
| Other | **10,302** | 10,157 | **91,982** |
| Income taxes payable (Note 17) | **473** | 1,885 | **4,223** |
| Accrued expenses | **2,957** | 2,725 | **26,402** |
| Allowance for business restructuring | | 77 | |
| Other current liabilities | **3,304** | 3,093 | **29,500** |
| Total current liabilities | **37,263** | 35,482 | **332,705** |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt (Notes 9 and 17) | **2,084** | 3,651 | **18,607** |
| Liability for retirement benefits (Note 10) | **228** | 209 | **2,036** |
| Rental deposits received (Note 8): | | | |
| Associated companies | **1,247** | 1,050 | **11,134** |
| Other | **5,567** | 5,846 | **49,705** |
| Deferred tax liabilities (Note 15) | **588** | 110 | **5,250** |
| Other liabilities (Note 11) | **2,338** | 2,359 | **20,875** |
| Total long-term liabilities | **12,052** | 13,225 | **107,607** |
| Total liabilities | **49,315** | 48,707 | **440,312** |
| **COMMITMENTS AND CONTINGENT LIABILITIES** (Notes 9 and 16) | | | |
| **EQUITY** (Note 12)**:** | | | |
| Common stock, authorized, 328,207 thousand shares; issued, 84,050 thousand shares in 2017 and 86,950 thousand shares in 2016 | **33,999** | 33,999 | **303,563** |
| Capital surplus | **34,299** | 34,299 | **306,241** |
| Retained earnings | **59,189** | 67,126 | **528,473** |
| Treasury stock at cost, 1,538 thousand shares in 2017 and 2,945 thousand shares in 2016 | **(2,769)** | (5,977) | **(24,723)** |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities (Note 4) | **2,025** | 1,492 | **18,080** |
| Foreign currency translation adjustments | **336** | 517 | **3,000** |
| Total | **127,079** | 131,456 | **1,134,634** |
| Noncontrolling interests | **314** | 292 | **2,804** |
| Total equity | **127,393** | 131,748 | **1,137,438** |
| **TOTAL** | **¥176,708** | ¥180,455 | **$1,577,750** |

# Consolidated Statement of Income and Comprehensive Income

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
Year Ended March 31, 2017

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 |
| **NET SALES** (Note 13) | **¥204,033** | ¥208,143 | ¥209,455 | **$1,821,723** |
| **COST OF GOODS SOLD** | **137,871** | 141,175 | 142,552 | **1,230,991** |
| Gross profit | **66,162** | 66,968 | 66,903 | **590,732** |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES** (Note 14) | **60,333** | 60,266 | 60,499 | **538,687** |
| Operating income | **5,829** | 6,702 | 6,404 | **52,045** |
| **OTHER INCOME (EXPENSES):** | | | | |
| Interest and dividend income | **163** | 159 | 185 | **1,455** |
| Interest expense | **(35)** | (45) | (63) | **(312)** |
| Commission income | **394** | 340 | 383 | **3,518** |
| Impairment loss (Note 6) | **(2,161)** | (463) | (265) | **(19,295)** |
| Foreign exchange gain ( loss), net | **10** | (10) | (3) | **89** |
| Lease revenue—system equipment | **1,020** | 1,062 | 1,395 | **9,107** |
| Lease cost—system equipment | **(936)** | (1,113) | (1,177) | **(8,357)** |
| Other—net | **191** | 927 | 2,194 | **1,706** |
| Other (expenses) income —net | **(1,354)** | 857 | 2,649 | **(12,089)** |
| **INCOME BEFORE INCOME TAXES** | **4,475** | 7,559 | 9,053 | **39,956** |
| **INCOME TAXES** (Note 15): | | | | |
| Current | **1,360** | 3,351 | 4,174 | **12,143** |
| Deferred | **117** | (144) | 302 | **1,045** |
| Total | **1,477** | 3,207 | 4,476 | **13,188** |
| **NET INCOME** | **2,998** | 4,352 | 4,577 | **26,768** |
| **NET INCOME ATTRIBUTABLE TO** : | | | | |
| Owners of the parent | **3,016** | 4,372 | 4,610 | **26,929** |
| Noncontrolling interests | **18** | 20 | 33 | **161** |
| | | | | |
| **OTHER COMPREHENSIVE INCOME** (Note 18)**:** | | | | |
| Unrealized gain (loss) on available-for-sale securities | **539** | (731) | 628 | **4,812** |
| Foreign currency translation adjustments | **(181)** | (147) | 93 | **(1,616)** |
| Share of other comprehensive (loss) income of associates | **(10)** | (26) | 7 | **(89)** |
| Total other comprehensive income (loss) | **348** | (904) | 728 | **3,107** |
| **COMPREHENSIVE INCOME** | **¥3,346** | ¥3,448 | ¥5,305 | **$29,875** |
| | | | | |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | |
| Owners of the parent | **¥3,368** | ¥3,479 | ¥5,323 | **$30,071** |
| Noncontrolling interests | **(22)** | (31) | (18) | **(196)** |

| | Yen | | | U.S.dollars (Note 1) |
|---|---|---|---|---|
| **PER SHARE OF COMMON STOCK** (Notes 2.S and 19)**:** | | | | |
| Basic net income | **¥36.00** | ¥51.60 | ¥52.83 | **$0.32** |
| Cash dividends applicable to the year | **60.00** | 60.00 | 60.00 | **0.54** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
Year Ended March 31, 2017

| | 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 | Non controlling Interests | Total Equity |
| **BALANCE, APRIL 1, 2014** | 92,950 | 3,431 | ¥33,999 | ¥34,278 | ¥78,679 | ¥(5,166) | ¥1,589 | ¥600 | ¥143,979 | ¥384 | ¥144,363 |
| Net income attributable to owners of the parent | | | | | 4,610 | | | | 4,610 | | 4,610 |
| Retirement of treasury stock | (3,000) | (3,000) | | | (4,520) | 4,520 | | | | | |
| Purchase of treasury stock | | 3,002 | | | | (5,054) | | | (5,054) | | (5,054) |
| Appropriations: | | | | | | | | | | | |
| Cash dividends, ¥67 per share | | | | | (5,910) | | | | (5,910) | | (5,910) |
| Net changes of items | | | | | | | 636 | 77 | 713 | (168) | 545 |
| **BALANCE, MARCH 31, 2015** | 89,950 | 3,433 | 33,999 | 34,278 | 72,859 | (5,700) | 2,225 | 677 | 138,338 | 216 | 138,554 |
| Net income attributable to owners of the parent | | | | | 4,372 | | | | 4,372 | | 4,372 |
| Retirement of treasury stock | (3,000) | (3,000) | | | (4,988) | 4,988 | | | | | |
| Purchase of treasury stock | | 2,512 | | | | (5,265) | | | (5,265) | | (5,265) |
| Appropriations: | | | | | | | | | | | |
| Cash dividends, ¥60 per share | | | | | (5,117) | | | | (5,117) | | (5,117) |
| Change in treasury shares of parent arising from transactions with noncontrolling shareholders | | | | 21 | | | | | 21 | | 21 |
| Net changes of items | | | | | | | (733) | (160) | (893) | 76 | (817) |
| **BALANCE, MARCH 31, 2016** | 86,950 | 2,945 | 33,999 | 34,299 | 67,126 | (5,977) | 1,492 | 517 | 131,456 | 292 | 131,748 |
| Net income attributable to owners of the parent | | | | | 3,016 | | | | 3,016 | | 3,016 |
| Retirement of treasury stock | (2,900) | (2,909) | | | (5,910) | 5,923 | | | 13 | | 13 |
| Purchase of treasury stock | | 1,502 | | | | (2,715) | | | (2,715) | | (2,715) |
| Appropriations: | | | | | | | | | | | |
| Cash dividends, ¥60 per share | | | | | (5,043) | | | | (5,043) | | (5,043) |
| Change in treasury shares of parent arising from transactions with noncontrolling shareholders | | | | | | | | | | | |
| Net changes of items | | | | | | | 533 | (181) | 352 | 22 | 374 |
| **BALANCE, MARCH 31, 2017** | 84,050 | 1,538 | ¥33,999 | ¥34,299 | ¥59,189 | ¥(2,769) | ¥2,025 | ¥336 | ¥127,079 | ¥314 | ¥127,393 |

| | 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 | Non controlling Interests | Total Equity |
| **BALANCE, MARCH 31, 2016** | $303,563 | $306,241 | $599,339 | $(53,366) | $13,321 | $4,616 | $1,173,714 | $2,607 | $1,176,321 |
| Net income attributable to owners of the parent | | | 26,929 | | | | 26,929 | | 26,929 |
| Retirement of treasury stock | | | (52,768) | 52,884 | | | 116 | | 116 |
| Purchase of treasury stock | | | | (24,241) | | | (24,241) | | (24,241) |
| Appropriations: | | | | | | | | | |
| Cash dividends, $0.54 per share | | | (45,027) | | | | (45,027) | | (45,027) |
| Change in treasury shares of parent arising from transactions with noncontrolling shareholders | | | | | | | | | |
| Net changes of items | | | | | 4,759 | (1,616) | 3,143 | 197 | 3,340 |
| **BALANCE, MARCH 31, 2017** | $303,563 | $306,241 | $528,473 | $(24,723) | $18,080 | $3,000 | $1,134,634 | $2,804 | $1,137,438 |

See notes to consolidated financial statement.

# Consolidated Statement of Cash Flows

AUTOBACS SEVEN Co., Ltd. and its Subsidiaries
Year Ended March 31, 2017

| | Millions of yen 2017 | 2016 | 2015 | Thousands of U.S. dollars (Note 1) 2017 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | | |
| Income before income taxes | **¥4,475** | ¥7,559 | ¥9,053 | **$39,955** |
| Adjustments for: | | | | |
| Income taxes paid | **(3,147)** | (3,451) | (4,092) | **(28,098)** |
| Depreciation and amortization | **4,384** | 4,013 | 4,805 | **39,143** |
| Impairment loss | **2,161** | 463 | 265 | **19,295** |
| Decrease in allowance for business restructuring | **(77)** | (5) | (113) | **(688)** |
| Gain on sale of investment securities | **(0)** | (309) | (659) | **(0)** |
| Gain on sales of stocks of subsidiaries and affiliates | | | (402) | |
| Changes in operating assets and liabilities: | | | | |
| (Increase ) decrease in receivables | **(2,381)** | (42) | 9,241 | **(21,259)** |
| Decrease in investments in lease | **459** | 1,060 | 1,253 | **4,098** |
| Decrease (increase) in inventories | **1,433** | (83) | (468) | **12,795** |
| (Decrease) increase in other payables and accruals | **(179)** | 728 | (4,733) | **(1,598)** |
| Other | **2,360** | 632 | (2,321) | **21,071** |
| Net cash provided by operating activities | **9,488** | 10,565 | 11,829 | **84,714** |
| **INVESTING ACTIVITIES:** | | | | |
| Payments into time deposits | **(307)** | (820) | (1,063) | **(2,741)** |
| Proceeds from withdrawal of time deposits | **620** | 851 | 808 | **5,536** |
| Capital expenditures | **(4,843)** | (5,896) | (6,127) | **(43,241)** |
| Proceeds from sales of fixed assets | **53** | 20 | 1,361 | **473** |
| Acquisition of investment securities | **(194)** | (1) | (1) | **(1,732)** |
| Disposition of investment securities | | 886 | 2,044 | |
| Payments for advances and rental deposits | **(1,359)** | (300) | (572) | **(12,134)** |
| Collection of advances and rental deposits | **702** | 531 | 499 | **6,268** |
| Purchase of affiliates' stock | **(335)** | | (251) | **(2,991)** |
| Payments for acquisition of subsidiaries' stock resulting in change in scope of consolidation | **(1,603)** | (170) | | **(14,313)** |
| Proceeds from acquisition of subsidiaries' stock resulting in change in scope of consolidation | | 29 | | |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | **(42)** | | | **(375)** |
| Proceeds from sales of subsidiaries' stock resulting in change in scope of consolidation | | | 545 | |
| Other | **160** | (115) | 354 | **1,429** |
| Net cash (used in) provided by investing activities | **(7,148)** | (4,985) | (2,403) | **(63,821)** |
| **FINANCING ACTIVITIES:** | | | | |
| Increase in short-term borrowings | **611** | 733 | 591 | **5,455** |
| Repayment of long-term debt | **(883)** | (2,626) | (4,203) | **(7,884)** |
| Proceeds from long-term debt | **340** | 1,010 | 2,030 | **3,036** |
| Purchase of treasury stock | **(2,713)** | (5,249) | (5,052) | **(24,223)** |
| Dividends paid | **(5,042)** | (5,119) | (5,909) | **(45,018)** |
| Other | **230** | 97 | (75) | **2,054** |
| Net cash used in financing activities | **(7,457)** | (11,154) | (12,618) | **(66,580)** |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(73)** | (65) | 25 | **(652)** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(5,190)** | (5,639) | (3,167) | **(46,339)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **36,579** | 42,218 | 45,385 | **326,598** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **¥31,389** | ¥36,579 | ¥42,218 | **$280,259** |
| | | | | |
| **ACQUISITION OF SUBSIDIARIES:** | | | | |
| Fair value of assets acquired | **¥4,106** | ¥312 | | **$36,661** |
| Liabilities assumed | **(2,530)** | (104) | | **(22,589)** |
| Goodwill | **224** | 31 | | **2,000** |
| Acquisition cost | **1,800** | 239 | | **16,072** |
| Cash and cash equivalents held by subsidiaries | **198** | 69 | | **1,768** |
| Cash paid for capital | **¥(1,602)** | ¥(170) | | **$(14,304)** |
| | | | | |
| **SALES OF SUBSIDIARIES:** | | | | |
| Assets by sales | | | ¥580 | |
| Liabilities by sales | | | (402) | |
| Gain on sales of subsidiarie's stocks | | | 402 | |
| Sales cost | | | 580 | |
| Cash and cash equivalents held by subsidiaries | | | (35) | |
| Cash received for sales | | | ¥545 | |

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, 2016 and 2015, to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2017.

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 ¥112 to $1, the approximate rate of exchange on March 31, 2017. 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, 2017, include the accounts of the Company and all subsidiaries (33 in 2017, 33 in 2016, and 30 in 2015).

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 (10 in 2017, 8 in 2016, and 9 in 2015) 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 for not more than 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

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," 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. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

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

ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," 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 such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

### D. BUSINESS COMBINATIONS

Business Combinations— Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

In September, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes which affect the beginning balances at April 1, 2015 are as follows:

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

(b) Acquisition-related costs - Under the previous accounting standard and guidance, the acquirer accounted for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard and guidance, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The Company applied the revised accounting standard and guidance for the (a) and (b) effective April 1, 2015, and they were applied prospectively.

The adoption of these revised standards has no impact on the consolidated financial statements.

## 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

Automotive goods

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

Vehicles

Vehicles are stated at the lower of cost, determined by the specific identification method, or net selling value.

## H. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost.

Depreciation is computed by the straight-line 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

(Changes in Accounting Policies which are difficult to distinguish from changes in Accounting Estimates)

(Changes in the depreciation method of property and equipment)

The Company and its domestic subsidiaries, effective April 1, 2015, changed their method of depreciating property and equipment from the declining-balance method to the straight-line method.

In the first year of our “2014 Medium-Term Business Plan”, the Company has reconsidered its future usage of property and equipment by taking the opportunity afforded through changing the style of launching a store coping with changes in the business environment and renovation of the distribution facilities, etc. In accordance with the result of this reconsideration, the Company determined that changing the depreciation method to the straight-line method would better reflect the actual status of the usage of property and equipment and better allocate the acquisition cost over the useful life.

As a result, gross profit for the consolidated fiscal year ended March 31, 2016, increased by ¥211 million, and operating income and income before income taxes both increased by ¥886 million, respectively, as compared with the figures calculated using the previous method.

## 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 for not more than 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 (Osaka Automobile Maintenance Employee Pension Fund) and a corporate pension fund plan (the Benefit-One Corporate Pension Fund) established under the defined-contribution pension law. 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.

## M. ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the

carrying amount of the liability and the capitalized amount of the related asset retirement cost.
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**

Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised standard permits leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee to continue be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

**Lessor**

Finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables, and finance leases that are not deemed to transfer ownership of the leased property to the lessee are recognized as investments in lease.

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.

**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.The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

### 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 exchange rates in effect at each balance sheet date.

The foreign exchange gains and losses from translation 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 statement of income and comprehensive income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

## 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 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.

## 3. BUSINESS COMBINATION

(Business Combination by Acquisition)

(1) Outline of the business combination

(a) Name of acquired company and its business outline

Name of acquired company: Motoren Tochigi Corp.

Business outline: Sales of new and certified pre-owned BMW cars and services

(b) Major reason for the business combination

Aiming to achieve its management vision “Anything about cars, you find at AUTOBACS,” the Company is striving to expand the existing AUTOBACS business while at the same time developing new businesses. As part of this effort, the Company has started the operation of the BMW certified dealership since April 2015. The business combination is to further expand its business size and improve its profitability to the end of enhancing the corporate value of the Company.

(c) Date of business combination

January 5, 2017

(d) Legal form of business combination

Share acquisition in consideration for cash

(e) Name of the company after the combination

Motoren Tochigi Corp.

(f) Ratio of voting rights acquired

100%

(g) Basis for determining the acquirer

It is based on the fact that the Company acquired 100% of voting rights by means of share acquisition in consideration for cash.

(2) The period for which the operations of the acquired company are included in the consolidated financial statements

The operations of the acquired company for the three months from January 5, 2017 to March 31, 2017, were included in the consolidated statement of income for the year ended March 31, 2017.

(3) Acquisition cost of the acquired company and related details of each class of consideration

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2017 | 2017 |
| Consideration for acquisition-Cash | **¥1,800** | **$16,072** |
| Acquisition cost | **¥1,800** | **$16,072** |

(4) Major acquisition-related costs

Advisory fee and other fees: ¥10 million ($ 89 thousand)

(5) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(a) Amount of goodwill incurred

¥224 million ($ 2,000 thousand)

(b) Reasons for the goodwill incurred

Mainly due to the excess earning power expected from the future business development of Motoren Tochigi Corp.

(c) Method and period of amortization

Goodwill is amortized on a straight-line basis over 15 years.

(6)The assets acquired and the liabilities assumed at the acquisition date are as follows:

| | Millions of yen 2017 | Thousands of U.S. dollars 2017 |
|---|---|---|
| Current assets | **¥1,164** | **$10,393** |
| Property and equipment | **1,288** | **11,500** |
| Investments and other assets | **1,654** | **14,768** |
| Total | **¥4,106** | **$36,661** |
| | | |
| Current liabilities | **¥1,869** | **$16,687** |
| Long-term liabilities | **661** | **5,902** |
| Total | **¥2,530** | **$22,589** |

(7)Pro forma information (unaudited)

If this business combination had been completed as of April 1, 2016, the beginning of the current fiscal year, the effects on the consolidated statement of income for the year ended March 31, 2017, would be as follows:

| | Millions of yen 2017 | Thousands of U.S. dollars 2017 |
|---|---|---|
| Net sales | **¥3,400** | **$30,357** |
| Operating income | **108** | **964** |
| Income before income taxes | **95** | **848** |
| Net income attributable to owners of the parent | **29** | **259** |

Per share of common stock:

| Yen 2017 | U.S. dollars 2017 |
|---|---|
| **¥0.34** | **$0.003** |

Outline of the method of calculation for the effects above:

The estimated amount of impact is the difference between net sales and income/loss data calculated assuming that the business combination had been completed at the beginning of the fiscal term, and net sales and profit/loss data in the consolidated statement of income of the acquiring company.

(8)Amounts allocated to intangible assets other than goodwill and main components by type of asset and weighted-average amortization period by type of asset.

| Type of asset | Millions of yen 2017 | Thousands of U.S. dollars 2017 |
|---|---|---|
| Sales right | **¥1,625** | **$14,509** |

Period of amortization: 20 years

## 4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

| | Millions of yen 2017 | Millions of yen 2016 | Thousands of U.S. dollars 2017 |
|---|---|---|---|
| **NON-CURRENT:** | | | |
| Equity securities | **¥5,101** | ¥4,120 | **$45,545** |
| Total | **¥5,101** | ¥4,120 | **$45,545** |

The carrying amounts and aggregate fair values of marketable and investment securities for which market quotations were available as of March 31, 2017 and 2016, were as follows:

| **March 31, 2017** | Millions of yen Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | **¥1,895** | **¥2,903** | **¥3** | **¥4,795** |

| March 31, 2016 | Millions of yen Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥1,894 | ¥2,128 | ¥3 | ¥4,019 |

| **March 31, 2017** | Thousands of U.S. dollars Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | **$16,920** | **$25,920** | **$27** | **$42,813** |

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2017 and 2016, were as follows:

| | Carrying amount | | |
|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars |
| | 2017 | 2016 | 2017 |
| Securities classified as: | | | |
| Available-for-sale: | | | |
| Equity securities | **¥306** | ¥101 | **$2,732** |

Proceeds from sales of available-for-sale securities for the years ended March 31, 2016 and 2015, were ¥863 million and ¥1,736 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended March 31, 2016 and 2015, were ¥364 million and ¥659 million, respectively. Gross realized losses on these sales for the year ended March 31, 2016, were ¥37 million.

## 5. INVESTMENTS IN LEASE

A breakdown of investments in lease as of March 31, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Gross lease receivables | **¥10,462** | ¥11,260 | **$93,410** |
| Unearned interest income | **(1,423)** | (1,637) | **(12,705)** |
| Asset retirement obligations | **87** | 107 | **777** |
| Investments in lease | **¥9,126** | ¥9,730 | **$81,482** |

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, 2017, were as follows:

| Year Ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2018 | **¥2,011** | **$17,955** |
| 2019 | **1,735** | **15,491** |
| 2020 | **1,537** | **13,723** |
| 2021 | **1,071** | **9,563** |
| 2022 | **906** | **8,089** |
| 2023 and thereafter | **3,202** | **28,589** |
| Total | **¥10,462** | **$93,410** |

## 6. LONG-LIVED ASSETS

The Companies reviewed their long-lived assets for impairment for the years ended March 31, 2017, 2016 and 2015, and, as a result, recognized an impairment loss of ¥ 2,161 million ($19,295 thousand), ¥463 million, and ¥265 million, respectively, on rental assets, stores, idle assets and goodwill. 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. The net sales value of leased assets is calculated based on the estimated sales prices.

Impairment losses of long-lived assets and the discount rates for the years ended March 31, 2017, 2016 and 2015, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 |
| Land | **¥1,006** | | ¥19 | **$8,982** |
| Buildings and structures | **1,087** | ¥384 | 145 | **9,706** |
| Furniture and equipment | **13** | 79 | 13 | **116** |
| Goodwill | **55** | | 88 | **491** |
| Total | **¥2,161** | ¥463 | ¥265 | **$19,295** |

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Discount rates | **7.61%** | 6.78% | 7.19% |

## 7. GOODWILL

Goodwill as of March 31, 2017 and 2016, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Consolidation goodwill | **¥427** | ¥263 | **$3,812** |
| Purchased goodwill | **427** | 589 | **3,813** |
| Total | **¥854** | ¥852 | **$7,625** |

## 8. RENTAL DEPOSITS AND LONG-TERM LOANS

A breakdown of rental deposits and long-term loans as of March 31, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| **RENTAL DEPOSITS TO:** | | | |
| Lessors for distribution facilities and stores of the Companies | **¥7,747** | ¥8,323 | **$69,170** |
| Lessors for stores of franchisees | **6,698** | 6,571 | **59,803** |
| Other | **912** | 1,305 | **8,143** |
| Total rental deposits | **15,357** | 16,199 | **137,116** |
| **LOANS TO:** | | | |
| Franchisees | **1,177** | 210 | **10,509** |
| Total loans | **1,177** | 210 | **10,509** |
| Allowance for doubtful receivables | **(16)** | | **(143)** |
| Total | **¥16,518** | ¥16,409 | **$147,482** |

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 sheet. 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.

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

Short-term borrowings at March 31, 2017 and 2016, consisted of notes to banks and other. The annual interest rates applicable to the short-term borrowings at March 31, 2017 and 2016, ranged from 0.2% to 1.5% and from 0.3% to 1.2%, respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Loans from banks and other, due serially to 2024 with interest rates ranging from 0.0% to 1.8% (2017) and from 0.0% to 1.5% (2016): | | | |
| Unsecured | **¥2,563** | ¥3,029 | **$22,884** |
| Collateralized | **285** | 152 | **2,545** |
| Lease obligations | **1,635** | 1,523 | **14,598** |
| Total | **4,483** | 4,704 | **40,027** |
| Less current portion | **2,399** | 1,053 | **21,420** |
| Long-term debt, less current portion | **¥2,084** | ¥3,651 | **$18,607** |

Annual maturities of long-term debt and lease obligations at March 31, 2017, were as follows:

| Year Ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2018 | **¥2,399** | **$21,420** |
| 2019 | **425** | **3,795** |
| 2020 | **367** | **3,277** |
| 2021 | **278** | **2,482** |
| 2022 | **197** | **1,759** |
| 2023 and thereafter | **817** | **7,294** |
| Total | **¥4,483** | **$40,027** |

The carrying amounts of assets pledged as collateral for payables, short-term borrowings and long-term debt at March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Inventories | **¥892** | | **$7,964** |
| Buildings and structures | **194** | ¥25 | **1,732** |
| Land | **960** | 242 | **8,572** |
| Total | **¥2,046** | ¥267 | **$18,268** |

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

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

## 10. 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) and a corporate pension fund plan (the Benefit-One Corporate Pension Fund) established under the defined-contribution pension law. 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. Osaka Automobile Maintenance Employee Pension Fund is in the process of liquidation with approval of the Minister of Health, Labor and Welfare on May 28, 2015. 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 to those 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.

Some subsidiaries have a retirement payment plan for directors. The liability for retirement benefits for directors at March 31, 2017 and 2016, is ¥98 million ($875 thousand) and ¥88 million, respectively. The retirement benefits for directors are paid subject to the approval of the shareholders.

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

Required contribution amounts to the defined contribution pension plan for the years ended March 31, 2017and 2016, were ¥291 million ($2,598 thousand) and ¥290 million, respectively.

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

(a) Osaka Automobile Maintenance Employee Pension Fund

Required contribution amounts to the welfare pension plan as of March 31, 2017 and 2016, were none and ¥33 million, respectively.

As mentioned above, the Pension fund is in the process of liquidation and the Company omitted the funded status of the entire plan, the ratio of the Company’s payment contributions for the entire plan and other supplementary information.

The funded status of the entire plan at March 31, 2016 (available information as of March 31, 2015), was as follows:

| | Millions of yen |
|---|---|
| | March 31 2015 |
| Plan assets | ¥30,057 |
| Sum of actuarial liabilities of pension plan and minimum actuarial reserve | 40,355 |
| Difference | ¥(10,298) |

The main factors for the difference were prior service costs (¥10,648 million for the years ended March 31, 2015, and surplus (¥350 million for the years ended March 31, 2015). The Company has paid special contributions as prior service cost over 18 years. The amounts of special contributions made and charged to income was ¥18 million for the years ended March 31, 2016.

Ratio of the Company's payment contributions for the entire plan:
24.4% (April 1, 2014 to March 31, 2015)
The ratio of payment contributions does not correspond to the Company's actual share of plan assets.

The Osaka Automobile Maintenance Employee Pension Fund, in which the Company participates, determined to apply for the approval of dissolution of the pension fund at a meeting of its board of representatives held on April 13, 2015. Accordingly, the Company applied for dissolution of the fund with the Minister of Health, Labor and Welfare on April 22, 2015 and it was approved as of May 28, 2015.
This dissolution is not expected to incur expenses.

(b) The Benefit-One Corporate Pension Fund
Required contribution amounts to the welfare pension plan as of March 31, 2017 and 2016, were ¥34 million ($304 thousand) and ¥21 million, respectively.

The funded status of the entire plan at March 31, 2017 (available information as of June 30, 2016) and March 31, 2016 (available information as of June 30, 2015), was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | June 30 | | June 30 |
| | 2016 | 2015 | 2016 |
| Plan assets | ¥6,547 | ¥3,827 | $58,455 |
| Sum of actuarial liabilities of pension plan | 6,218 | 3,579 | 55,518 |
| Difference | ¥329 | ¥248 | $2,937 |

The main factors for the difference were general reserve (¥248 million ($2,214 thousand) and ¥215 million for the years ended June 30, 2016 and 2015, respectively), and surplus (¥81 million ($723 thousand) and ¥33 million for the years ended June 30, 2016 and 2015, respectively). The Company has participated in the Benefit-One Corporate Pension Fund since May 2015 and has paid contribution since July 2015.

Ratio of the Company's payment contributions for the entire plan:
1.1% (April 1, 2015 to March 31, 2016)
1.0% (April 1, 2016 to March 31, 2017)
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 years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Balance at beginning of year | **¥122** | ¥83 | **$1,089** |
| Net periodic retirement benefit costs | **16** | 17 | **143** |
| Benefits paid | **(6)** | (3) | **(53)** |
| Additional provisions associated with new subsidiaries | | 25 | |
| Others | **(2)** | (1) | **(18)** |
| Balance at end of year | **¥130** | ¥121 | **$1,161** |

Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Unfunded defined benefit obligation | **¥130** | ¥121 | **$1,161** |
| Net liability for defined benefit obligation | **¥130** | ¥121 | **$1,161** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Liability for retirement benefits | **¥130** | ¥121 | **$1,161** |
| Net liability for defined benefit obligation | **¥130** | ¥121 | **$1,161** |

Net periodic retirement benefit cost:
Net periodic retirement benefit costs in accordance with the simplified method for the years ended March 31, 2017 and 2016, were ¥16 million ($143 thousand) and ¥17 million, respectively.

## 11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Balance at beginning of year | **¥2,270** | ¥2,154 | **$20,268** |
| Additional provisions associated with the acquisition of property and equipment | **91** | 46 | **813** |
| Reconciliation associated with passage of time | **37** | 38 | **330** |
| Reduction associated with settlement of asset retirement obligations | **(47)** | (6) | **(420)** |
| Other | **(62)** | 38 | **(553)** |
| Balance at end of year | **¥2,289** | ¥2,270 | **$20,438** |

## 12. EQUITY

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

**a. Dividends**

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

**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.

## 13. 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, 2017, 2016 and 2015, aggregated to approximately 57%, 57% and 59% of the consolidated net sales, respectively.

## 14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of “Selling, general and administrative expenses” for the years ended March 31, 2017, 2016 and 2015, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| Year Ending March 31 | 2017 | 2016 | 2015 | 2017 |
| Employee salaries and allowances | **¥22,681** | ¥22,734 | ¥22,696 | **$202,509** |
| Net periodic retirement benefit costs | **342** | 361 | 716 | **3,054** |
| Rent payment | **5,294** | 5,350 | 5,160 | **47,268** |
| Depreciation | **3,603** | 3,367 | 3,725 | **32,170** |
| Provision for allowance for doubtful receivables | **10** | 32 | 118 | **89** |

## 15. 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 30.8%, 32.8% and 36.0% for the years ended March 31, 2017, 2016 and 2015, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **DEFERRED TAX ASSETS:** | | | |
| Receivables | **¥31** | ¥114 | **$277** |
| Accrued enterprise taxes | **69** | 147 | **616** |
| Accrued bonuses | **232** | 227 | **2,072** |
| Inventories | **610** | 879 | **5,446** |
| Depreciation and impairment loss | **4,121** | 3,639 | **36,795** |
| Provision for business restructuring | | 22 | |
| Investments in lease | **1,019** | 668 | **9,098** |
| Investments | **84** | 84 | **750** |
| Other accounts payable | **888** | 864 | **7,929** |
| Tax loss carryforwards | **3,273** | 3,520 | **29,223** |
| Other | **766** | 847 | **6,839** |
| Less valuation allowance | **(6,235)** | (6,085) | **(55,670)** |
| Total deferred tax assets | **4,858** | 4,926 | **43,375** |
| **DEFERRED TAX LIABILITIES:** | | | |
| Property and equipment | **395** | 407 | **3,527** |
| Undistributed earnings of associated companies | **337** | 300 | **3,009** |
| Unrealized gains on available-for-sale securities | **882** | 646 | **7,875** |
| Other | **749** | 260 | **6,687** |
| Total deferred tax liabilities | **2,363** | 1,613 | **21,098** |
| Net deferred tax assets | **¥2,495** | ¥3,313 | **$22,277** |

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2017,2016 and 2015, and the actual effective tax rates reflected in the accompanying consolidated statement of income and comprehensive income was as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Normal effective statutory tax rate | 30.8% | 32.8% | 36.0% |
| Expenses not deductible for income tax purposes | 3.7 | 1.1 | 1.6 |
| Dividend and other income not taxable | (0.1) | (0.1) | (2.9) |
| Per-capita inhabitants’ tax | 1.5 | 1.0 | 0.8 |
| Changes in valuation allowance | (3.1) | 5.4 | 8.4 |
| Amortization of goodwill | 1.0 | 0.3 | 0.4 |
| Effect of tax rate reduction | | 2.5 | 2.7 |
| Other—net | (0.8) | (0.6) | 2.5 |
| Actual effective tax rate | 33.0% | 42.4% | 49.5% |

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.8% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.5%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥160 million and increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥32 million, in the consolidated balance sheet as of March 31, 2016, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥192 million.

At March 31, 2017, certain subsidiaries had tax loss carryforwards aggregating approximately ¥10,129 million ($90,438 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

| Year Ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2018 | **¥237** | **$2,116** |
| 2019 | **222** | **1,982** |
| 2020 | **194** | **1,732** |
| 2021 | **261** | **2,331** |
| 2022 | **586** | **5,232** |
| 2023 | **279** | **2,491** |
| 2024 | **1,622** | **14,482** |
| 2025 | **828** | **7,393** |
| 2026 and thereafter | **5,900** | **52,679** |
| Total | **¥10,129** | **$90,438** |

## 16. LEASES

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

Total rental expenses for the years ended March 31, 2017, 2016 and 2015, were ¥5,538 million ($49,446 thousand), ¥5,625 million and ¥5,449 million, respectively, including ¥107 million ($955 thousand), ¥206 million and ¥225 million, respectively, 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, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| | Building and Land | Building and Land | Building and Land |
| Acquisition cost | **¥1,713** | ¥2,549 | $15,295 |
| Accumulated depreciation | **986** | 1,640 | 8,804 |
| Net leased property | **¥727** | ¥909 | $6,491 |

Obligations under finance lease contracts:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Due within one year | **¥73** | ¥120 | **$652** |
| Due after one year | **791** | 953 | **7,062** |
| Total | **¥864** | ¥1,073 | **$7,714** |

Depreciation expense and interest expense under finance lease contracts:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2017** | 2016 | 2015 | **2017** |
| Depreciation expense | **¥71** | ¥133 | ¥140 | **$634** |
| Interest expense | **37** | 50 | 59 | **330** |
| Total | **¥108** | ¥183 | ¥199 | **$964** |

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, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Due within one year | **¥3,251** | ¥3,159 | **$29,027** |
| Due after one year | **21,221** | 18,462 | **189,473** |
| Total | **¥24,472** | ¥21,621 | **$218,500** |

## 17. 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

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| **March 31, 2017** | Carrying amount | Fair value | Unrealized gain/(loss) | Carrying amount | Fair value | Unrealized gain/(loss) |
| Cash and cash equivalents | **¥31,389** | **¥31,389** | | **$280,259** | **$280,259** | |
| Time deposits with an original maturity over three months | **132** | **132** | | **1,178** | **1,178** | |
| Receivables | **40,936** | **40,869** | **¥3** | **365,500** | **364,902** | **$27** |
| Allowance for doubtful receivables | **(70)** | | | **(625)** | | |
| Income taxes receivable | **504** | **504** | | **4,500** | **4,500** | |
| Investments in lease | **9,039** | **10,618** | **1,579** | **80,705** | **94,804** | **14,099** |
| Investment securities | **4,795** | **4,795** | | **42,813** | **42,813** | |
| Investments in associated companies | **997** | **413** | **(584)** | **8,902** | **3,687** | **(5,215)** |
| Rental deposits and long-term loans | **16,534** | **16,369** | **(149)** | **147,625** | **146,152** | **(1,330)** |
| Allowance for doubtful receivables | **(16)** | | | **(143)** | | |
| Total | **¥104,240** | **¥105,089** | **¥849** | **$930,714** | **$938,295** | **$7,581** |
| Payables | **¥24,329** | **¥24,329** | | **$217,223** | **$217,223** | |
| Short-term borrowings and current portion of long-term debt | **6,200** | **6,265** | **¥65** | **55,357** | **55,938** | **$581** |
| Income taxes payable | **473** | **473** | | **4,223** | **4,223** | |
| Long-term debt | **2,084** | **2,321** | **237** | **18,607** | **20,723** | **2,116** |
| Total | **¥33,086** | **¥33,388** | **¥302** | **$295,410** | **$298,107** | **$2,697** |

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

| March 31, 2016 | Millions of yen Carrying amount | Fair value | Unrealized gain/(loss) |
|---|---|---|---|
| Cash and cash equivalents | ¥36,579 | ¥36,579 | |
| Time deposits with an original maturity over three months | 473 | 473 | |
| Receivables | 38,766 | 38,651 | ¥(3) |
| Allowance for doubtful receivables | (112) | | |
| Investments in lease | 9,623 | 11,384 | 1,761 |
| Investment securities | 4,019 | 4,019 | |
| Investments in associated companies | 1,015 | 384 | (631) |
| Rental deposits and long-term loans | 16,409 | 16,285 | (124) |
| Total | ¥106,772 | ¥107,775 | ¥1,003 |
| Payables | ¥25,055 | ¥25,055 | |
| Short-term borrowings and current portion of long-term debt | 2,647 | 2,706 | ¥59 |
| Income taxes payable | 1,885 | 1,885 | |
| Long-term debt | 3,651 | 3,770 | 119 |
| Total | ¥33,238 | ¥33,416 | ¥178 |

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

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

The fair value of these accounts 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 8 for a breakdown of rental deposits and long-term loans.

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 4 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 2017 | 2016 | Thousands of U.S. dollars 2017 |
|---|---|---|---|
| Investments in equity instruments that do not have a quoted market price in an active market | **¥1,482** | ¥797 | **$13,232** |

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

| **March 31, 2017** | Millions of yen 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 | **¥31,389** | | | |
| Time deposits with an original maturity over three months | **132** | | | |
| Receivables | **34,439** | **¥6,087** | **¥410** | |
| Investments in lease | **1,690** | **4,498** | **2,227** | **¥624** |
| Rental deposits and long-term loans | **2,735** | **4,842** | **4,844** | **4,113** |
| Total | **¥70,385** | **¥15,427** | **¥7,481** | **¥4,737** |

| March 31, 2016 | Millions of yen 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 | ¥36,579 | | | |
| Time deposits with an original maturity over three months | 473 | | | |
| Receivables | 32,653 | ¥5,795 | ¥318 | |
| Investments in lease | 1,684 | 4,868 | 2,371 | ¥700 |
| Rental deposits and long-term loans | 3,322 | 4,875 | 2,926 | 5,286 |
| Total | ¥74,711 | ¥15,538 | ¥5,615 | ¥5,986 |

| March 31, 2017 | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| | Thousands of U.S. dollars | | | |
| Cash and cash equivalents | **$280,259** | | | |
| Time deposits with an original maturity over three months | **1,178** | | | |
| Receivables | **307,491** | **$54,348** | **$3,661** | |
| Investments in lease | **15,089** | **40,161** | **19,884** | **$5,571** |
| Rental deposits and long-term loans | **24,420** | **43,232** | **43,250** | **36,723** |
| Total | **$628,437** | **$137,741** | **$66,795** | **$42,294** |

Please see Note 9 for annual maturities of short-term borrowings and long-term debt.

## 18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2017, 2016 and 2015, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2017** | 2016 | 2015 | **2017** |
| Unrealized gain on available-for-sale securities: | | | | |
| Gains arising during the year | **¥775** | ¥(794) | ¥1,476 | **$6,919** |
| Reclassification adjustments to profit or loss | | (327) | (659) | |
| Amount before income tax effect | **775** | (1,121) | 817 | **6,919** |
| Income tax effect | **(236)** | 390 | (189) | **(2,107)** |
| Total | **¥539** | ¥(731) | ¥628 | **$4,812** |
| | | | | |
| Foreign currency translation adjustments: | | | | |
| Adjustments arising during the year | **¥(181)** | ¥(146) | ¥93 | **$(1,616)** |
| Reclassification adjustments to profit or loss | | | | |
| Amount before income tax effect | **(181)** | (146) | 93 | **(1,616)** |
| Income tax effect | **(0)** | (1) | (0) | **(0)** |
| Total | **¥(181)** | ¥(147) | ¥93 | **$(1,616)** |
| | | | | |
| Share of other comprehensive income in associates: | | | | |
| Gains arising during the year | **¥(10)** | ¥(24) | ¥7 | **$(89)** |
| Reclassification adjustments to profit or loss | | (2) | | |
| Total | **¥(10)** | ¥(26) | ¥7 | **$(89)** |
| Total other comprehensive income | **¥348** | ¥(904) | ¥728 | **$3,107** |

## 19. NET INCOME PER SHARE

EPS for the years ended March 31, 2017, 2016 and 2015, was as follows:

| | Millions of yen | Thousands | Yen | U.S. dollars |
|---|---|---|---|---|
| **March 31, 2017** | Net Income Attributable to Owners of the Parent | Weighted-average shares | EPS | |
| Basic EPS: | | | | |
| Net income available to common shareholders | **¥3,016** | **83,773** | **¥36.00** | **$0.32** |

| | Millions of yen | Thousands | Yen |
|---|---|---|---|
| March 31, 2016 | Net Income Attributable to Owners of the Parent | Weighted-average shares | EPS |
| Basic EPS: | | | |
| Net income available to common shareholders | ¥4,372 | 84,731 | ¥51.60 |

| | Millions of yen | Thousands | Yen |
|---|---|---|---|
| March 31, 2015 | Net Income Attributable to Owners of the Parent | Weighted-average shares | EPS |
| Basic EPS: | | | |
| Net income available to common shareholders | ¥4,610 | 87,259 | ¥52.83 |

## 20. 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 | Straight-line method |

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

(Change in the deprecation method of property and equipment)

As stated in “Changes in Accounting Policies which are difficult to distinguish from changes in Accounting Estimates”, the Company and its domestic subsidiaries, effective April 1, 2015, changed their method of depreciating property and equipment from the declining-balance method to the straight-line method.

As a result of this change, for the consolidated fiscal year ended March 31, 2016, segment profit of “The Company” and “Subsidiaries for Car Goods Supply and Others” have increased by ¥657 million and ¥3 million, respectively, while segment loss of “Domestic Store Subsidiaries” has decreased by ¥82 million, as compared with the figures calculated using the previous method.

“Fixed assets” for the difference between Operating income and Sum of operating income (loss) in reportable segments have increased by ¥144 million.

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

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | | | | |
| | 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 | **¥114,490** | **¥65,320** | **¥7,623** | **¥15,775** | **¥825** | **¥204,033** |
| Intersegment sales or transfers | **38,564** | **1,124** | **248** | **6,692** | **2,113** | **48,741** |
| Total | **153,054** | **66,444** | **7,871** | **22,467** | **2,938** | **252,774** |
| Segment profit (loss) | **5,164** | **270** | **(178)** | **101** | **350** | **5,707** |
| Segment assets | **157,648** | **15,655** | **8,723** | **10,353** | **26,598** | **218,977** |
| Other: | | | | | | |
| Depreciation | **2,413** | **195** | **217** | **77** | **5** | **2,907** |
| Amortization of goodwill | | **13** | | **27** | | **40** |
| Share of associates accounted for using equity method | **1,161** | | | | | **1,161** |
| Increase in property, equipment and intangible assets | **3,405** | **318** | **396** | **410** | **8** | **4,537** |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | | | |
| | 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 | ¥117,095 | ¥67,339 | ¥8,785 | ¥13,974 | ¥950 | ¥208,143 |
| Intersegment sales or transfers | 41,193 | 1,211 | 319 | 7,289 | 2,255 | 52,267 |
| Total | 158,288 | 68,550 | 9,104 | 21,263 | 3,205 | 260,410 |
| Segment profit (loss) | 7,075 | (975) | 31 | 18 | 401 | 6,550 |
| Segment assets | 165,024 | 17,633 | 9,294 | 6,855 | 25,365 | 224,171 |
| Other: | | | | | | |
| Depreciation | 2,126 | 175 | 222 | 49 | 8 | 2,580 |
| Amortization of goodwill | | 8 | | 27 | | 35 |
| Share of associates accounted for using equity method | 839 | | | | | 839 |
| Increase in property, equipment and intangible assets | 4,415 | 244 | 243 | 257 | | 5,159 |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | | | |
| | 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 | ¥124,333 | ¥66,098 | ¥9,695 | ¥8,446 | ¥883 | ¥209,455 |
| Intersegment sales or transfers | 42,495 | 1,785 | 291 | 6,951 | 2,168 | 53,690 |
| Total | 166,828 | 67,883 | 9,986 | 15,397 | 3,051 | 263,145 |
| Segment profit (loss) | 8,837 | (1,925) | (178) | 53 | 430 | 7,217 |
| Segment assets | 173,106 | 17,974 | 9,433 | 5,068 | 24,607 | 230,188 |
| Other: | | | | | | |
| Depreciation | 2,310 | 272 | 244 | 38 | 12 | 2,876 |
| Amortization of goodwill | | 8 | | 27 | | 35 |
| Share of associates accounted for using equity method | 923 | | | | | 923 |
| Increase in property, equipment and intangible assets | 5,119 | 281 | 146 | 176 | 4 | 5,726 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | | | |
| | 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 | **$1,022,232** | **$583,214** | **$68,063** | **$140,848** | **$7,366** | **$1,821,723** |
| Intersegment sales or transfers | **344,322** | **10,036** | **2,214** | **59,750** | **18,866** | **435,188** |
| Total | **1,366,554** | **593,250** | **70,277** | **200,598** | **26,232** | **2,256,911** |
| Segment profit (loss) | **46,107** | **2,410** | **(1,589)** | **902** | **3,125** | **50,955** |
| Segment assets | **1,407,571** | **139,777** | **77,884** | **92,438** | **237,482** | **1,955,152** |
| Other: | | | | | | |
| Depreciation | **21,545** | **1,741** | **1,937** | **687** | **45** | **25,955** |
| Amortization of goodwill | | **116** | | **241** | | **357** |
| Share of associates accounted for using equity method | **10,366** | | | | | **10,366** |
| Increase in property, equipment and intangible assets | **30,402** | **2,839** | **3,536** | **3,661** | **71** | **40,509** |

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

| Net sales | Millions of yen 2017 | 2016 | 2015 | Thousands of U.S. dollars 2017 |
|---|---|---|---|---|
| Total reportable segments | **¥252,774** | ¥260,410 | ¥263,145 | **$2,256,911** |
| Elimination of intersegment transactions | **(48,741)** | (52,267) | (53,690) | **(435,188)** |
| Net sales of consolidated financial statements | **¥204,033** | ¥208,143 | ¥209,455 | **$1,821,723** |

| Income | Millions of yen 2017 | 2016 | 2015 | Thousands of U.S. dollars 2017 |
|---|---|---|---|---|
| Total reportable segments | **¥5,707** | ¥6,550 | ¥7,217 | **$50,955** |
| Amortization of goodwill | **(178)** | (133) | (191) | **(1,589)** |
| Inventories | **369** | 207 | (346) | **3,295** |
| Fixed assets | **311** | 507 | 358 | **2,777** |
| Allowance for point card | **(11)** | (16) | (24) | **(98)** |
| Elimination of intersegment transactions | **(490)** | (480) | (451) | **(4,375)** |
| Others | **121** | 67 | (159) | **1,080** |
| Income of consolidated financial statements | **¥5,829** | ¥6,702 | ¥6,404 | **$52,045** |

| Assets | Millions of yen 2017 | 2016 | 2015 | Thousands of U.S. dollars 2017 |
|---|---|---|---|---|
| Total reportable segments | **¥218,977** | ¥224,171 | ¥230,188 | **$1,955,152** |
| Elimination of intersegment transactions | **(39,272)** | (38,037) | (37,317) | **(350,643)** |
| Fixed assets | **495** | (1,422) | (1,777) | **4,420** |
| Amortization of goodwill | **(3,471)** | (3,737) | (3,973) | **(30,991)** |
| Inventories | **(675)** | (1,266) | (1,625) | **(6,027)** |
| Investments in associates accounted for using the equity method | **1,011** | 872 | 860 | **9,027** |
| Others | **(357)** | (126) | 176 | **(3,188)** |
| Assets of consolidated financial statements | **¥176,708** | ¥180,455 | ¥186,532 | **$1,577,750** |

| Other items | Total reportable segments (Millions of yen) 2017 | 2016 | 2015 | Adjustment 2017 | 2016 | 2015 | Consolidated total 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| Depreciation | **¥2,907** | ¥2,580 | ¥2,876 | **¥1,029** | ¥1,062 | ¥1,332 | **¥3,936** | ¥3,642 | ¥4,208 |
| Amortization of goodwill | **40** | 35 | 35 | **178** | 133 | 191 | **218** | 168 | 226 |
| Investments in associates accounted for using the equity method | **1,161** | 839 | 923 | **1,012** | 872 | 860 | **2,173** | 1,711 | 1,783 |
| Increase in property, equipment and intangible assets | **4,537** | 5,159 | 5,726 | **306** | 737 | 401 | **4,843** | 5,896 | 6,127 |

(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).

| Other items | Total reportable segments (Thousands of U.S. dollars) 2017 | Adjustment 2017 | Consolidated total 2017 |
|---|---|---|---|
| Depreciation | **$25,955** | **$9,188** | **$35,143** |
| Amortization of goodwill | **357** | **1,589** | **1,946** |
| Investments in associates accounted for using the equity method | **10,366** | **9,036** | **19,402** |
| Increase in property, equipment and intangible assets | **40,509** | **2,732** | **43,241** |

**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 customers

**2017**

| Name of major Customer | Sales (Millions of yen) | Related Segment Name |
|---|---|---|
| **G-7 AUTO SERVICE CO.,LTD.** | **¥22,237** | **The Company** |

2016

| Name of major Customer | Sales (Millions of yen) | Related Segment Name |
|---|---|---|
| **G-7 AUTO SERVICE CO.,LTD.** | ¥22,245 | The Company |

2015

| Name of major Customer | Sales (Millions of yen) | Related Segment Name |
|---|---|---|
| **G-7 AUTO SERVICE CO.,LTD.** | ¥22,788 | The Company |

**2017**

| Name of major Customer | Sales (Thousands of U.S. Dollars) | Related Segment Name |
|---|---|---|
| **G-7 AUTO SERVICE CO.,LTD.** | **$198,545** | **The Company** |

| | Millions of Yen 2017 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | **¥2,106** | | | **¥55** | | **¥2,161** |

| | Millions of Yen 2016 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | ¥463 | | | | | ¥463 |

| | Millions of Yen 2015 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | ¥177 | | ¥88 | | | ¥265 |

| | Thousands of U.S. Dollars 2017 | | | | | |
|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Total |
| Impairment losses of assets | **$18,804** | | | **$491** | | **$19,295** |

| | Millions of Yen 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | **¥13** | | **¥27** | | | **¥178** | **¥218** |
| Goodwill at March 31, 2017 | **57** | **¥4,213** | **55** | | | **(3,471)** | **854** |

(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 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | ¥8 | | ¥27 | | | ¥133 | ¥168 |
| Goodwill at March 31, 2016 | 23 | ¥4,491 | 82 | | | (3,744) | 852 |

| | Millions of Yen 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | ¥7 | | ¥27 | | | ¥191 | ¥225 |
| Goodwill at March 31, 2015 | 30 | ¥4,584 | 109 | | | (3,983) | 740 |

| | Thousands of U.S. Dollars 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Company | Domestic Store Subsidiaries | Overseas Subsidiaries | Subsidiaries for Car Goods Supply and Other | Subsidiaries for Supporting Functions | Adjustment | Total |
| Amortization of goodwill | **$116** | | **$241** | | | **$1,589** | **$1,946** |
| Goodwill at March 31, 2017 | **509** | **$37,616** | **491** | | | **(30,991)** | **7,625** |

Deloitte.

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# 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, 2017, 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, 2017, 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 27, 2017

Member of
Deloitte Touche Tohmatsu Limited