Financial Section 2017

Contents

1 Consolidated Six-Year Summary
2 Review of Fiscal 2017

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.

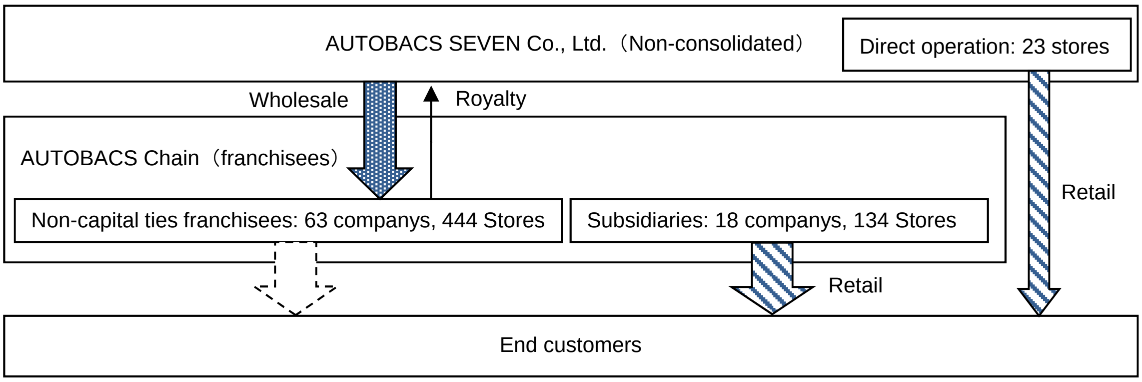
Review of Fiscal 2017

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 8.)

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