Review of Fiscal 2012

OPERATIONAL REVIEW

THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group ("the Group") consists of AUTOBACS SEVEN Co., Ltd. ("the Company"), 36 subsidiaries, and 7 affiliates accounted for by the equity method. The Group is mainly engaged in the wholesale and retail sales of automotive goods and accessories in Japan and other countries, as well as safety inspection and maintenance services, purchase and sales of automobiles, and loan and credit services. The Group also provides services for franchisee companies, including money-lending, store equipment leasing, consulting, back-office agency work, and IT support, as well as casualty insurance services.

In the automotive goods business, the Group's main store brands are AUTOBACS, Super AUTOBACS, AUTO HELLOES, AUTOBACS *Secohan Ichiba*, and AUTOBACS EXPRESS. In the automobile purchase and sales business, its brand is AUTOBACS CARS.

Sales by Business Category

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

• Wholesale Operations

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

• Retail Operations

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

• Others

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

Stores

	2011		2012	
Stores included in consolidation (retail operations)				
Directly managed stores	12		12	
Consolidated subsidiaries (of which, overseas)	150	(16)	155	(18)
Subtotal	162	(16)	167	
Stores not included in consolidation				
Stores managed by franchisees, including stores of affiliates (of which, overseas)	376	(9)	390	(9)
Total stores (of which, overseas)	538	(25)	557	(27)

Franchise System

• Franchise Contracts

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

• Royalties

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

• Store Land and Buildings

Much of the land and buildings occupied by the entire AUTOBACS Chain ("the Chain") are not owned by the Company. In many cases, the franchisee or the landowner constructs a building on the land, and the property is then rented by the franchisee or the Company under a rental agreement. In cases where the landowner constructs the building, the Company provides a rental deposit to the landowner. This is because buildings constructed to AUTOBACS' specifications cannot easily be adapted for other purposes. (For more details, please see Rental Deposits on page 9.)

Sales of Three Main Store Types

¥ million; Stores

		2011	2012
AUTOBACS	Sales	189,665	194,136
	Stores	404	430
Super AUTOBACS	Sales	83,406	81,649
	Stores	76	76
AUTO HELLOES	Sales	1,507	350
	Stores	5	1
Total	Sales	274,578	276,136
	Stores	485	507

Analysis of Operating Environment

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

* Reference: AM+NETWORK, August 2001 and August 2012 issues

FISCAL 2012—OVERVIEW AND ACHIEVEMENTS

Performance Overview

Domestic consumption of automotive goods and services during fiscal 2012, the fiscal year ended March 31, 2012, was affected by the numerous and diverse events over the course of the year that had seasonal and regional impacts on the Group's business results. From the beginning of the fiscal year until the second quarter, there was a decline in automobile and car navigation unit production attributable to supply chain disruptions and other issues following the Great East Japan Earthquake, although the shift to digital terrestrial broadcasting in July increased demand for digital terrestrial tuners. In the third quarter and fourth quarters, production of some car navigation devices was halted due to flood damage in Thailand, but because of the recovery of the supply chain and government subsidies for the purchase of fuel efficient vehicles, automobile unit sales and sales of automotive goods and services recovered. In addition, unusually heavy snowfall increased demand for snow tires. Further, in the Tohoku region, demand for automobiles and automotive goods and services continued to be high, supported by earthquake recovery activity.

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

• Overview of the Domestic AUTOBACS Chain Business

Overall sales of the businesses of the Chain in Japan increased 0.1% year on year on a same-store basis and 0.9% on a total-store basis.

In "automotive goods," the Chain focused on sales of automobile maintenance merchandise such as tires, oil, and batteries through the use of newspaper advertisements, television commercials, and circulars along with an improved selection of merchandise at the stores and an upgraded sales system. Sales of tires rose, reflecting a delay in the timing for changing snow tires to normal tires until April or later due to the effect of the weather and the earthquake, price hikes for national brand tires, and heavier than normal snowfall, largely along the Japan Sea coast. In car electronics, the earthquake and flooding in Thailand had an impact on the product lineup for car navigation devices, although unit sales of terrestrial digital broadcasting tuners for automobiles and in-dash car navigation devices were positive due to the shift to terrestrial digital television broadcasting. However, because unit prices declined due to changes in strong-selling items, the value of sales declined year on year. Sales of car accessories and interior merchandise declined up to the second quarter, due to sluggish new automobile sales. However, sales of new automobiles recovered after that, and from the third quarter, sales of interior accessories and interior merchandise recovered to exceed last year's levels. As a result, sales of automotive goods (excluding statutory safety inspections and maintenance) increased 0.2% year on year to ¥262,500 million.

Sales in "safety inspections and maintenance services" were sluggish in the first quarter due to the earthquake and the Group's self-restraint in sales promotional activities, but from the second quarter, a telephone sales promotion campaign and continuous promotional activities at the Group's stores led to a recovery. Consequently, the number of automobiles receiving a safety inspection rose by 7.3% year on year to approximately 535,000 units (for all store formats combined).

In "the automobile purchase and sales business," unit sales of new automobiles declined through the second quarter, but the used vehicle market benefited from an increasing demand in the areas affected by the disaster. Consequently, purchasing through stores and retail sales mainly in the Tohoku region were strong. New automobile sales recovered from the third quarter as government subsidies for eco-friendly automobiles were re-introduced. As a result, unit sales during the consolidated fiscal year under review increased by 10.1% year on year to 18,000 units.

The opening and closure of stores in Japan included the opening of 23 new AUTOBACS stores; the closure of one AUTOBACS store, three AUTOBACS *Secohan Ichiba* stores and two AUTOBACS EXPRESS stores; and the opening and closure of 10 AUTOBACS through relocation and store format conversion. As a result, the total number of stores in the Chain in Japan increased by 17 stores from the end of the previous fiscal year to 530 stores.

Domestic Store Consolidation

	Stores							
		Year Ended March 2012						
		First Half			Second Half			
	March 31, 2011	New stores	S&B* relocation	Stores closed	New stores	S&B* relocation	Stores closed	March 31, 2012
AUTOBACS	404	+6	+2		+17	+2	−1	430
Super AUTOBACS	76							76
AUTO HELLOES	5		−4					1
AUTOBACS *Secohan Ichiba*	21						−3	18
AUTOBACS EXPRESS	7			−2				5
Total (Japan)	513	+6	−2	−2	+17	+2	−4	530

* S&B: scrap and build

Progress of the AUTOBACS 2010 Medium-Term Business Plan

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

The Group pursued several important policies for radically strengthening the domestic business. In “existing store reform,” the Group completed store remodeling according to the original schedule, and in “human resources reform,” customer treatment training for store staff has exceeded the original plan. As a result of these reforms the Group has created a base for further growth. Under a further policy, “new store openings” the Group has opened new stores just about in line with the plan due to the strengthened organizational structure.

<Business Strategy>

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

With respect to existing store reform, the remodeling of AUTOBACS stores progressed, with 217 stores being remodeled. As a result, a cumulative total of 358 stores have been remodeled, completing the plan for remodeling all of the AUTOBACS stores. An important policy within store reform is sales floor renovation. Here, the Company installs merchandise displays and POP (point of purchase) displays that facilitate comparison and selection of merchandise and services. Meanwhile, for car maintenance merchandise, sales floor renovation includes setting up consultation reception counters and general maintenance counters to create a sales floor based on the customer’s perspective. Most of the stores that have been remodeled have seen an improvement in business results and efficiency. Going forward, the Group will endeavor to make reforms to improve customer convenience and to improve profitability at stores.

With regard to human resources reform, the Company continued, as in the previous year, to implement customer service education designed to provide customers with a safe, reliable and comfortable shopping experience. In addition to group training by a special team, in-store training for all employees raised the efficiency of the training. During fiscal 2012, 8,856 employees completed the training, nearly 100% of all registered employees. Going forward, continuous measures will be taken to firmly establish an awareness of customer service.

In efforts to open new stores, the Group launched 23 new stores to improve customer convenience and attract more customers. Moreover, the development of a low cost, smaller store model by reviewing store fixtures and service bay equipment has strengthened the Group’s ability to open stores in small commercial zones or to fill in gaps between other stores where it had not been possible to open stores before. The Group has strengthened the Land Use & Development Department in preparation for an acceleration of new store openings from fiscal 2013.

One of the new stores is a pilot store that specializes in maintenance merchandise centering on tires and wheels, and also oil and batteries, called AUTOBACS Tire Specialty Shop Ogori Store (Yamaguchi City, Yamaguchi Prefecture). Going forward, as this store is tested and improved, the Group will develop stores that can meet customers’ various needs more conveniently.

The Group has also been preparing to begin “CRM Strategy Implementation,” which will be formally introduced during fiscal 2013. The Group will start by taking a fresh look at its relationship with its customers, at changes in customers’ feelings about cars, and focusing on the future market environment in order to strengthen customer ties. By getting to know the Group’s existing customers even better, relationships can be built to turn them into repeat customers, and as new customers get to know the Group, new relationships can be built on mutual trust. In seeking to build better customer relationships, the Group has been studying specific issues from the customer’s perspective. By taking these steps and creating stores that meet customers’ needs in each region, the Group is making AUTOBACS Chain stronger, store by store.

The Group has also been taking other measures, such as strengthening of safety inspections and automobile sales to enhance merchandise and services offered to customers; reducing the cost of purchases through supplier reform aiming to improve store profitability to enable the Group to offer merchandise at affordable prices; and, reinforcing e-commerce to improve convenience for customers.

Overseas, the Group has opened two stores in China, where it has been testing the business model. The Company will continue to conduct market research and test marketing with a view to expanding its business in China and other Asian countries.

To improve the execution capabilities of headquarters, the Group is taking important steps to reform head office personnel by optimally allocating management resources, and at the same time improving management by developing key personnel and providing training for different levels of management.

<Financial Strategy>

Based on its financial strategies, the Group worked to increase future operating cash flows by opening 23 new stores and relocating 6 stores in Japan, while opening three new stores overseas. The Group plans to actively invest in businesses during fiscal 2013 and beyond.

The Group’s financial strategy is aimed at improving capital efficiency. In fiscal 2012, the Company purchased a total of 1.6 million shares of its own stock for approximately ¥5.4 billion based on a policy of increasing shareholder returns. At the same time, it decided to retire approximately 1.6 million shares of treasury stock and buy back up to a further 1.8 million shares of its own stock. In distributing profits, the Company aimed to maintain a dividend on equity (DOE) ratio of at least 3%, while considering business performance during the fiscal year under review. The dividend per share was ¥145, a ¥10 year-on-year increase.

<CSR Activities>

The Group has positioned CSR activities as an important management issue and has acquired the ISO 14001 certification at its Toyosu Headquarters as part of its aim to pursue environmentally friendly business operations. Going forward, the Group will continue activities to raise environmental awareness, and at the same time, each regional office and the Eastern and Western Logistics Centers are making progress toward getting certified. During the summer, when there were concerns about a shortage of electric power, the head office and the regional offices worked to conserve electricity, while the Group’s stores nationwide turned off wall-mounted signage and reduced in-store lighting. Further, the head office and stores established “AUTOBACS

Day" to conduct clean up activities in their neighborhoods as a contribution to local communities.

In response to the enforcement of the Organized Crime Exclusion Ordinance in all prefectures nationwide in October 2011, the Company formulated the Manual for Responding to Antisocial Forces and reinforced risk management awareness by conducting training sessions for all employees.

FINANCIAL REVIEW

1. INCOME AND EXPENSES

Net Sales

In fiscal 2012, ended March 31, 2012, consolidated net sales amounted to ¥237,342 million, approximately the same level as fiscal 2011.

¥ Million (Percentage of net sales)

	2011		2012		Increase (Decrease)
Wholesale operations	134,690	(57.0%)	**135,571**	**(57.1%)**	880
Retail operations	98,162	(41.5%)	**98,313**	**(41.4%)**	151
Others	3,499	(1.5%)	**3,459**	**(1.5%)**	(39)
Total	236,351	(100.0%)	**237,343**	**(100.0%)**	992

• Wholesale Operations

Most of the revenue in the wholesale operations segment derives from sales to franchisees. In fiscal 2012, segment sales increased by 0.7% year on year to ¥135,571 million. Overall segment sales rose in line with higher sales for tires and higher prices and digital terrestrial TV tuners, despite falling prices for car navigation systems and lower demand for ETC devices.

• Retail Operations

The retail operations category consists of retail sales of stores that are managed directly by the Company or its consolidated subsidiaries. In fiscal 2012, sales of retail operations increased by 0.2% year on year to ¥98,313 million. This increase was mainly due to increases in sales for tires in line with higher prices, digital terrestrial TV tuners, and services including safety inspections and maintenance. However, the increase was partially offset by falling prices for car navigation systems and lower demand for ETC devices.

• Others

Sales from other businesses declined by 1.1% to ¥3,459 million, due mainly to decreases in real estate rental income and store equipment lease income from domestic franchise operators.

Gross Profit

Gross profit was ¥77,037 million, up by 1.7% from a year earlier as a result of efforts to improve gross profit, such as reducing the costs of goods purchased and reviewing sales prices. Gross margin improved from 32.0% to 32.5%

SG&A Expenses

Selling, general and administrative (SG&A) expenses declined by 0.7% year-on-year to ¥63,316 million as a consequence of reducing promotional activities after the earthquake and costs as a whole, although expenses related to new store openings and sales floor renovations increased.

¥ Million

	2011	2012	Increase (Decrease)
Personnel expenses	29,089	**29,650**	560
Employee compensation	23,463	**23,835**	371
Sales promotion expenses	11,484	**11,415**	(69)
Equipment expenses	12,602	**12,592**	(10)
Land and building rent	6,088	**6,104**	16
Depreciation	3,906	**3,937**	30
Administrative expenses	10,576	**9,659**	(918)
Provision for allowance for doubtful receivables	115	**43**	(73)
Total	63,751	**63,316**	(436)

Personnel expenses increased by 1.9% to ¥29,649 million, and constituted 46.8% of SG&A expenses. This change was mainly because of an increase in bonuses to employees and an increase in personnel in line with the merger with BRAIN-ING Co., Ltd.

Sales promotion expenses decreased by 0.6% to ¥11,415 million, or 18.0% of SG&A expenses. This was mainly due to reductions in advertising expenses, despite an increase in expenses to support sales floor renovation.

Equipment expenses fell by 0.1% to ¥12, 592 million, or 19.9% of SG&A expenses. This was primarily due to a decrease in utility costs associated with energy saving efforts, despite an increase in repair and maintenance costs and depreciation costs in line with new store openings and sales floor renovation.

Administration expenses fell by 8.7% to ¥9,658 million, representing 15.3% of SG&A expenses. This was mainly due to decreases in costs related to lawsuits in the U.S. and consulting-related costs.

As a result of the above factors, operating income increased by 14.5% to ¥13,721 million.

Number of Employees by Segment

	Number of Employees				
	2011		2012		Increase (Decrease)
The Company	1,067	(90)	**1,060**	(90)	(7)
Domestic Store Subsidiaries	2,588	(1,034)	**2,558**	(1,069)	(30)
Overseas Subsidiaries	613	(–)	**651**	(–)	38
Subsidiaries for Car Goods Supply and Other	124	(11)	**128**	(9)	4
Subsidiaries for Supporting Functions	67	(15)	**72**	(18)	5
Total	4,459	(1,150)	**4,469**	(1,186)	10

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

Other Income and Expenses

In other items, other income—net was ¥1,496 million, a turnaround from other expenses–net of ¥488 million in the previous fiscal year. The main factors behind this were the recording of other expenses in fiscal 2011 that were not recorded in fiscal 2012. Specifically, the expenses booked in fiscal 2011 were ¥286 million in loss on arrangement of stores, ¥1,166 million in effect of application of revised accounting standard for asset retirement obligations, ¥387 million in loss on disaster, owing to the Great East Japan Earthquake, and ¥461 million in additional retirement benefits for the merger with BRAIN-ING Co., Ltd.

Income Taxes

Income taxes for the period were ¥6,812 million. Deferred income tax was negative ¥122 million due to reversal of deferred tax assets as a result of changes in the corporate income tax rate. The income tax burden decreased from 45.9% in the previous period to 44.8%.

Net Income

Net income increased by 36.0% from the previous year to ¥8,403 million, bringing basic net income per share to ¥252.85. Financial indicators all improved, with the return on sales increasing from 2.6% in the previous year to 3.5%, ROA improved from 3.0% to 3.9%, and ROE increased from 4.1% in the previous year to 5.7%.

2. SEGMENT INFORMATION

The Group’s segments are as follows:

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

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

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

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

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

Relationship between Segments and Segmental Sales

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

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

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

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

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

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

Profits and Losses by Segments

<Non-Consolidated>

Sales increased by 0.5% from a year earlier to ¥195,601 million. In wholesale operations for franchisees, sales increased by 0.6% thanks to increases in sales of tires and wheels and store fixtures to stores in association with renovations, which were partially offset by declines in sales of car electronics, car exterior goods, and motor sports goods. In retail operations, sales declined by 2.9% from a year earlier, reflecting the closure of directly managed second-hand automotive goods stores and the suspension of operations for renovation at certain stores. Gross profit increased by 2.8% from the previous fiscal year to ¥41,746 million, reflecting an increase in tire sales volume compared to last year and efforts to control the gross margin on car navigation systems. Selling, general, and administrative expenses were down by 2.5% from a year earlier, to ¥28,156 million, reflecting fewer promotion activities following the earthquake, a revision of sales promotions compared to a year ago and a decline in attorney's fees paid in relation to a lawsuit in the U.S. These factors were partially offset by increased bonus payments to employees resulting from improved business results and store remodeling expenses. As a result of these factors, operating income increased by 15.7% year on year to ¥13,590 million.

<Domestic Store Subsidiaries>

Sales in this segment increased by 0.6% year on year to ¥81,714 million and operating income increased by 14.0% to ¥435 million. Sales of tires and wheels, tuners for digital terrestrial broadcasting, and automobile sales drove the increase in sales, and the gross margin improved. Further, nine new stores opened by the domestic store subsidiaries contributed to the increase in sales. Selling, general and administrative expenses increased by 1.4% year on year due to higher personnel and sales expenses in line with store renovation and new store openings.

<Overseas Subsidiaries>

Sales increased by 3.3% to ¥9,098 million while operating income improved by ¥209 million to a profit of ¥86 million. France was affected by economic instability in Europe beginning in the second quarter and by a comparatively mild winter. However, sales promotions featuring tires and Christmas sales of car electronics contributed to an improvement in store sales and gross margins, while selling, general and administrative expenses were brought under control, improving profitability. In China, a local franchisee closed one of the stores it was operating, and in Shanghai, the Group's local subsidiary opened its second directly managed store in May 2011. The Company is continuing to construct its business model, looking for ways to improve customer recognition and operations at directly managed stores. Sales in China increased due to increased exports to Japan and stores in Asia and the operating loss was smaller than the previous fiscal year. The Group opened AUTOBACS LOYANG Store, its third store in Singapore, in December 2011. Due to overwhelming competitive advantages in the local market, sales and operating income increased. In Thailand, the impact of political unrest and flooding resulted in a slight decline of sales and earnings.

Opening and closing of stores overseas were as follows:

Opening and Closing of Stores Overseas

	Stores			
		Year Ended March 2012		
	March 31, 2011	First Half	Second Half	March 31, 2012
France	11			11
China	4			4
Taiwan	4	+1		5
Thailand	4			4
Singapore	2		+1	3
Total	25	+1	+1	27

<Subsidiaries for Car Goods Supply and Others>

Sales decreased by 3.3% year on year to ¥12,604 million, reflecting a decrease in wholesale sales of oil. Operating income declined by 51.9% year on year, to ¥112 million.

<Subsidiaries for Supporting Functions>

Sales decreased by 45.3% to ¥3,383 million and operating income fell by 11.6% year on year to ¥431 million. These declines primarily resulted from the merger with BRAIN-ING Co., Ltd., the Company's subsidiary, in August 2010. Excluding the impact of this merger, sales and operating income in this segment were almost level with those in the previous fiscal year.

Information about Sales and Profit (Loss)

	¥ Million					
	Year Ended March 2012					
	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Others	Subsidiaries for Supporting Functions	Total
Sales						
Sales to external customers	140, 755	80, 785	8, 850	5, 973	980	237, 343
Intersegment sales or transfers	54, 846	929	248	6, 631	2, 403	65, 057
Total	195, 601	81, 714	9, 098	12, 604	3, 383	302, 400
Segment profit	13, 590	435	86	112	431	14, 654

Details of Adjustments to Consolidated Operating Income

The value of the adjustment to derive consolidated operating income from the sum of the operating income of each segment was ¥933 million, a change of ¥193 million compared to last year. Major changes from last year were as follows: 1) Until last fiscal year, the Company (non-consolidated) posted credit commissions from the Chain as non-operating income but due to the transfer of the credit business, this is now posted as sales of AUTOBACS Management Service Co., Ltd., a subsidiary for supporting functions (This is noted in the table below, “Reconciliation of Published Figures and Aggregate of Reportable Segments” in the item titled “Elimination of intersegment transactions.”); 2) The increase in unrealized profit on sales of merchandise by the Company (non-consolidated) to retail store subsidiaries that is attributable to the increase of new stores (same table, item titled “Inventories”); and 3) Increase in the valuation loss on merchandise at subsidiary stores where shares of the subsidiary or the store has been transferred to a franchisee (same table, item titled “Inventories”).

Reconciliation of Published Figures and Aggregate of Reportable Segments

	¥ Million	
Net sales	2011	2012
Total reportable segments	303, 947	302, 400
Elimination of intersegment transactions	(67, 596)	(65, 057)
Net sales in consolidated financial statements	236, 351	237, 343

	¥ Million	
Income	2011	2012
Total reportable segments	12, 728	14, 654
Elimination of intersegment transactions	(344)	(477)
Inventories	(66)	(325)
Allowance for point cards	(25)	(83)
Amortization of goodwill	(152)	(77)
Fixed assets	(60)	8
Others	(92)	21
Income in consolidated financial statements	11, 989	13, 721

FINANCIAL POSITION

1. BALANCE SHEET ITEMS

Current Assets

Current assets increased by ¥8,580 million year on year to ¥141,612 million. This was attributable in part to a decrease in marketable securities due to redemptions and an increase in cash and cash equivalents and other receivables.

Property and Equipment, Investments and Other Assets

Net property and equipment was ¥39,524 million, up by ¥2,592 million year on year. The main factors were increases in buildings and structures and land in line with new store openings.

Total investments and other assets declined by ¥1,019 million from the previous period to ¥36,813 million. The change was largely attributable to decreases in investment securities, deferred tax assets, and rental deposits and long-term loans, despite an increase in software.

Current Liabilities

Total current liabilities were up by ¥15,001 million to ¥55,650 million. The main factors in this were increases in trade notes and accounts payables, short-term borrowings, other payables and accrued income tax.

Long-term Liabilities

Total long-term liabilities decreased by ¥3,078 billion to ¥16,105 million. The main factor behind this was repayment of long-term debt.

Equity

Total equity including minority interests fell by ¥1,769 million to ¥146,194 million. We recorded net income of ¥8,403 million and cash dividends of ¥4,706 million, and purchased our own shares at a cost of ¥5,464 million.

2. SPECIAL ITEMS ON THE BALANCE SHEET

Investments in Lease

We lease store buildings and equipment to some franchisees, and record finance leases that are deemed not to transfer ownership to the lessee as investments in lease. Investments in lease for fiscal 2012 increased by ¥17 million year on year to ¥13,413 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, 2012 were down by ¥776 million from the previous year-end to ¥19,221 million.

CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥20,845 million. The main factors for increasing cash were income before income taxes and minority interests of ¥15,217 million, increase in other payables and accruals of ¥9,109 million, and depreciation and amortization of ¥4,644 million. The main factor decreasing cash was an increase in receivables of ¥6,223 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥10,156 million. The main factors were capital expenditures of ¥7,691 million, increase in time deposits of ¥3,608 million and the net use of ¥2,036 million for acquisition and disposition of investment securities.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a net inflow of ¥10,689 million.

• Capital Expenditures

In fiscal 2012, capital expenditures amounted to ¥7,691 million. These investments were associated mainly with acquisition of land and buildings for stores, store renovations, refurbishment of logistics centers, and investments in the Company's internal information systems. A breakdown of capital expenditures (including intangible fixed assets) in fiscal 2012 is shown below.

Major Capital Expenditures in Fiscal 2012

	¥ Million
Opening new stores	1,550
Scrap-and-build or relocation	1,363
Purchase of land for store locations	1,250
POS system development and IT investments	2,282
Other	1,244
Total	7,691

Capital Expenditures by Segments

	¥ Million		
	2011	2012	Increase (Decrease)
The Company	2,068	6,255	4,187
Domestic Store Subsidiaries	338	439	101
Overseas Subsidiaries	106	127	21
Subsidiaries for Car Goods Supply and Others	8	16	8
Subsidiaries for Supporting Functions	665	852	187
Total	3,187	7,691	4,503

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

Cash Flows from Financing Activities

Net cash used in financing activities was ¥11,574 million. This was mainly due to ¥5,464 million used for purchase of treasury stock and ¥4,706 million used for dividends paid, as well as ¥2,753 million used for repayment of long-term debt.

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥51,402 million, down by ¥915 million from a year earlier. This includes adjustments for the effect of exchange rate changes on cash and cash equivalents; and represents net cash provided by operating activities of ¥20,845million, net cash used in investing activities of ¥10,156 million, and net cash used in financing activities of ¥11,574 billion.

Basic Policy on Distribution of Profits, Dividends for Fiscal 2012 and Fiscal 2013

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

For fiscal 2012, we paid an annual dividend of ¥145 per share, comprising a year-end dividend of ¥75 (up by ¥5 year on year) and an interim dividend of ¥70. This resulted in a DOE of 3.3%. Also the Company repurchased 1.6 million of its own shares for ¥5.5 billion in accordance with a resolution by the Board of Directors at a meeting on May 11, 2011.

In fiscal 2013, we plan to pay interim and year-end dividends of ¥75 per share, for an annual dividend of ¥150 per share, an increase of ¥5 from fiscal 2012. The Company also plans to repurchase up to 1.8 million of its own shares shares for a maximum of ¥8.1 billion from May 11, 2012 to December 20, 2012.

BUSINESS RISKS

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

(1) Competition

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

(2) Unusual Weather Conditions

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

(3) Future Overseas Expansion

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

(4) Regulations Governing Opening of New Stores

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

(5) Observance of Laws and Regulations

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

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

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

(7) Natural Disasters

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

(8) Franchisees

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

(9) Store Operations

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

(10) Exchange Rate Fluctuations

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

(11) Lawsuits

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

The following lawsuits have been filed against the Company. On December 11, 2009 (United States time), AUTOBACS STRAUSS INC. (hereinafter, "AB Strauss"), 1945 Route 23 Associates, Inc. and R&S Parts and Service, Inc. filed a lawsuit against the Company in the United States Bankruptcy Court for the District of Delaware (the "Delaware Action"), while on December 17, 2009 (United States time), these three companies filed a lawsuit against the Company in the United States District Court for the District of New Jersey (the "New Jersey Action").

Delaware Action

The plaintiffs object to the $44 million proof of claim filed by the Company against AB Strauss in its bankruptcy proceeding in accordance with Chapter 11 of the US Bankruptcy Code ("the bankruptcy proceeding") and claim for (i) compensatory damages, including the amount owed by AB Strauss to all its creditors' claims (other than those of the Company) in the bankruptcy proceeding, damages for loss of value of AB Strauss's business, and other losses including the costs of the bankruptcy proceedings, and (ii) punitive damages. The damage amounts are not specified in the complaint, but the compensatory damages are at least $100 million, while punitive damages are at least $250 million.

New Jersey Action

The lawsuit involves claims for (i) compensatory damages, including the amount owed by AB Strauss to all of its creditors' claims (other than those of the Company) in the bankruptcy proceedings, damages for loss of the value of AB Strauss's business, and other losses including the costs of the bankruptcy proceedings, (ii) treble damages, (iii) punitive damages and (iv) declaration of abandonment and cancellation of certain trademark registrations of the Company in the United States. The damage amounts are not specified in the complaint, but the treble damages are at least $300 million (compensatory damages are at least $100 million), and punitive damages will be at least $250 million. After the lawsuit in its entirety was referred from the United States District Court for the District of New Jersey to the United States Bankruptcy Court for the District of New Jersey, it was decided on June 9, 2010 (United States time) to transfer this lawsuit from the United States Bankruptcy Court for the District of New Jersey to the United States Bankruptcy Court for the District of Delaware.

With respect to both lawsuits, the Company believes that both the claims being asserted by the plaintiffs and the claims for damages are groundless and without evidence, and the Company plans to fight the charges, and defend itself in court.