Financial Section 2014

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Consolidated Six-Year Summary

AUTOBACS SEVEN Co., Ltd. and Subsidiaries

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

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

Review of Fiscal 2014

OPERATIONAL REVIEW

THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group ("the Group") consists of AUTOBACS SEVEN Co., Ltd. ("the Company"), 33 subsidiaries, and 8 affiliates accounted for by the equity method. The Group is mainly engaged in the wholesale and retail sales of automotive goods and accessories in Japan and other countries, as well as safety inspection and maintenance services, purchase and sales of automobiles, and loan and credit services. The Group also provides services for franchisee companies, including money-lending, store equipment leasing, consulting, back-office agency work, and IT support, as well as casualty insurance services.

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

Sales by Business Category

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

• Wholesale Operations

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

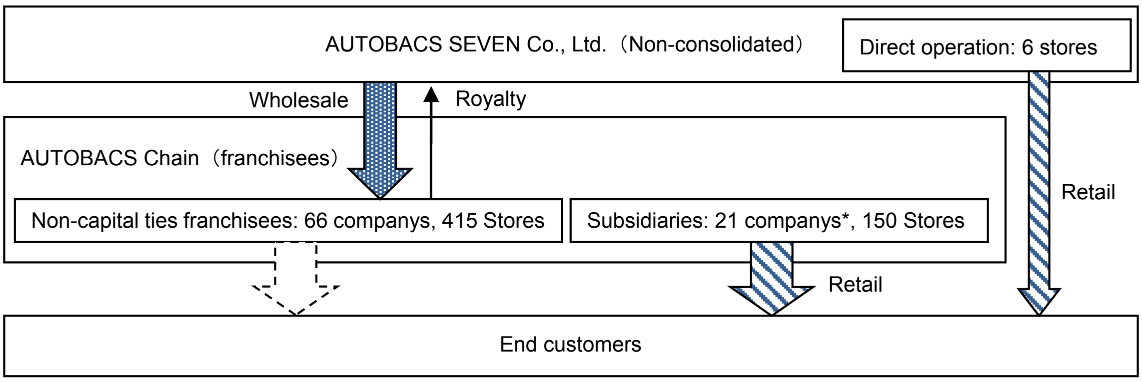
• Retail Operations

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

• Others

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

Basic business flow of AUTOBACS in Japan (fisical 2014)



*Excluding one inactive company

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

Franchise System

• Franchise Contracts

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

• Royalties

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

• Store Land and Buildings

Much of the land and buildings occupied by the entire AUTOBACS Chain (“the Chain”) are not owned by the Company. In many cases, the franchisee or the landowner constructs a building on the land, and the property is then rented by the franchisee or the Company under a rental agreement. In cases where the landowner constructs the building, the Company provides a rental deposit to the landowner. This is because buildings constructed to AUTOBACS’ specifications cannot easily be adapted for other purposes. (For more details, please see Rental Deposits on page 10.)

Sales by Store Type in Japan

¥ million; Stores

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

Analysis of Operating Environment

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

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

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

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

** Japan Automobile Service Promotion Association

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

FISCAL 2014—OVERVIEW AND ACHIEVEMENTS

Performance Overview

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

•Overview of the Domestic AUTOBACS Chain Business

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

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

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

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

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

Domestic Store Consolidation

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

* S&B: scrap and build

Progress of the AUTOBACS 2010 Medium-Term Business Plan

The Group has executed a number of initiatives including business and financial strategies and CSR and corporate governance activities under the AUTOBACS 2010 Medium-Term Business Plan, which ended in fiscal year March 2014.
In terms of existing store reform—a key policy with the aim of strengthening the domestic business—the Group has carried out sales floor remodeling in 374 AUTOBACS stores over the last four years. Consequently, improved results were achieved, attributable to the effects of the sales floor remodeling in many of the stores.
With respect to new store openings, the Group opened an accumulated total of 82 new stores in the four years from April 2010, which was short of its initial plan of opening 120 stores.

(Business strategy)

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

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

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

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

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

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

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

(Financial Strategy)

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

(CSR and Governance)

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

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

FINANCIAL REVIEW

1. INCOME AND EXPENSES

Net Sales

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

¥ Million (Percentage of net sales)

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

• Wholesale Operations

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

• Retail Operations

The retail operations category consists of retail sales of stores that are managed directly by the Company or its consolidated subsidiaries. In fiscal 2014, sales of retail operations increased by 0.8% year on year to ¥95,541 million. Sales of tires and wheels, car sales, car exterior goods increased, though sales decreased in line with lower unit prices of car navigation devices.

• Others

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

Gross Profit

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

SG&A Expenses

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

¥ Million

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

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

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

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

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

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

Number of Employees by Segment

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

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

Other Income and Expenses

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

Income Taxes

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

Net Income

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

2. SEGMENT INFORMATION

The Group's segments are as follows:

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

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

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

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

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

Relationship between Segments and Segmental Sales

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

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

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

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

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

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

Profits and Losses by Segments

Non-consolidated

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

Domestic Store Subsidiaries

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

Overseas Subsidiaries

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

Opening and Closing of Stores Overseas

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

Subsidiaries for Car Goods Supply, etc.

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

<Subsidiaries for Supporting Functions>

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

Information about Sales and Profit (Loss)

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

Details of Adjustments to Consolidated Operating Income

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

Reconciliation of Published Figures and Aggregate of Reportable Segments

¥ Million

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

¥ Million

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

FINANCIAL POSITION

1. BALANCE SHEET ITEMS

Current Assets

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

Property and Equipment, Investments and Other Assets

Net property and equipment was ¥41,002 million, decreased by ¥451 million year on year. The buildings and structures increased in line with new store openings, but accumulated depreciation also increased, as a result, total net property and equipment was decreased.

Total investments and other assets increased by ¥3,234million from the previous period to ¥28,177 million. The decrease was mainly due to the reversal of differed tax assets associated with amicable settlement of lawsuit in USA.

Current Liabilities

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

Long-term Liabilities

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

Equity

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

2. SPECIAL ITEMS ON THE BALANCE SHEET

Investments in Lease

We lease store buildings and equipment to some franchisees, and record finance leases that are deemed not to transfer ownership to the lessee as investments in lease. Investments in lease for fiscal 2014 decreased by ¥359 million year on year to ¥12,002 million.

Rental Deposits

The Chain's stores are built to the specifications of AUTOBACS business and leased for periods of 15 or 20 years under an irrevocable lease. The Company pays the lessor part or all of the construction cost for a store as a rental deposit. Rental deposits at March 31, 2014 were down by ¥910 million from the previous year-end to ¥17,709 million.

CASH FLOWS

Cash Flows from Operating Activities

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

Cash Flows from Investing Activities

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

•Capital Expenditures

In fiscal 2014, capital expenditures amounted to ¥4,820 million. These investments were associated mainly with acquisition of land and buildings for opening new stores, store expansions and renovations, and investments in the Company's internal information systems. A breakdown of capital expenditures (including intangible fixed assets) in fiscal 2014 is shown below.

Major Capital Expenditures in Fiscal 2014

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

Capital Expenditures by Segments

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

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

Cash Flows from Financing Activities

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

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥45,384 million, increased by ¥2,551 million from a year earlier. This includes adjustments for the effect of exchange rate changes on cash and cash equivalents; and represents net cash provided by operating activities of ¥12,072 million, net cash gained in investing activities of ¥1,519 million, and net cash used in financing activities of ¥11,166 million.

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

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

27 yen per share. Consequently, the annual dividend will be 64 yen per share and the consolidated ratio of dividend on equity (DOE) will be 3.4%.

The Company plans to pay an annual dividend of 60 yen per share for the fiscal year ending March 31, 2015, with 30 yen per share each for intermediate and year-end dividends, by taking into consideration its dividend policy.

BUSINESS RISKS

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

(1) Competition

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

(2) Unusual Weather Conditions

Merchandise sold by the Chain includes seasonal products, for which the number of units sold is significantly affected by weather conditions.

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

(3) Future Overseas Expansion

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

(4) Regulations Governing Opening of New Stores

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

(5) Observance of Laws and Regulations

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

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

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

(7) Natural Disasters

In regions where the Chain has stores and operational facilities, natural disasters, such as earthquakes and typhoons, could cause damage to Company facilities or harm to directors, officers, and employees. In such an event, the Group's business results could be affected by such factors as reduced sales and costs required to restore operations and recruit human resources. AUTOBACS SEVEN Co., Ltd. Annual Report 2012 10

(8) Franchisees

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

(9) Store Operations

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

(10) Exchange Rate Fluctuations

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

(11) Lawsuits

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