Financial Section 2015

Contents

Consolidated Six-Year Summary

AUTOBACS SEVEN Co., Ltd. and Subsidiaries

	Millions of yen, except per share data					
Fiscal year ended on March 31 for each displayed year	2015	2014	2013	2012	2011	2010
FISCAL YEAR						
Net sales:						
Tires and wheels	**¥53,713**	¥58,243	¥56,351	¥55,348	¥51,416	¥47,954
Car electronics	**33,090**	40,700	44,490	58,135	59,849	63,994
Oil and batteries	**24,309**	26,142	25,568	24,406	24,566	24,246
Car exterior goods	**22,442**	24,669	24,054	23,000	23,868	22,350
Car interior goods	**19,936**	22,752	23,481	21,735	21,540	21,071
Motor sports goods	**12,894**	13,775	14,040	13,516	14,451	15,377
Services	**17,573**	20,061	19,249	18,462	17,506	16,856
Others	**25,498**	25,355	22,931	22,736	23,155	21,089
Total	**209,455**	231,697	230,168	237,343	236,351	232,937
Operating income	**6,404**	13,945	12,745	13,721	11,989	10,171
Income (loss) before income taxes and minority interests	**9,053**	16,086	13,915	15,217	11,501	10,575
Net income (loss)	**4,610**	9,786	7,590	8,403	6,180	5,866
Dividends paid	**¥5,910**	¥5,763	¥4,762	¥4,706	¥4,555	¥4,023
Consolidated dividend payout ratio	**113.6%**	59.4	64.0	57.3	75.9	77.2%
Amount of share buyback	**¥5,054**	4,593	7,196	5,464	5,233	5,374
Total return ratio	**222.2%**	105.8%	158.2%	121.6%	159.5%	168.0%
Return (loss) on sales	**2.2%**	4.2%	3.3%	3.5%	2.6%	2.5%
Return (loss) on equity	**3.3%**	6.8%	5.3%	5.7%	4.1%	3.8%
Return (loss) on assets	**2.5%**	4.8%	3.6%	3.9%	3.0%	2.7%
Per share data (Yen):						
Basic net income (loss) *	**¥52.8**	¥ 107.71	¥81.22	¥84.28	¥59.32	¥53.99
Cash dividends	**60.00**	64.00	52.00	48.33	45.00	41.66
Net cash provided by (used in) operating activities	**11,829**	12,072	10,741	¥20,845	¥15,375	¥18,949
Net cash (used in) provided by investing activities	**(2,403)**	1,519	(4,523)	(10,156)	(5,002)	(4,694)
Net cash (used in) provided by financing activities	**(12,618)**	(11,166)	(14,862)	(11,574)	(11,790)	(12,187)
Capital expenditures	**6,127**	4,820	6,249	7,691	3,187	3,061
Depreciation and amortization	**4,805**	4,551	5,194	4,644	4,798	5,207
AT YEAR-END						
Cash and cash equivalents	**42,218**	45,384	42,833	51,402	¥52,317	¥53,786
Current assets	**113,425**	126,709	127,203	141,612	133,031	133,883
Current liabilities	**34,531**	44,034	45,021	55,650	40,649	41,521
Current ratio	**328.5%**	287.8%	282.5%	254.5%	327.3%	322.4%
Total assets	**186,532**	201,481	205,527	217,949	207,795	210,652
Equity	**138,338**	143,979	142,862	145,626	147,505	151,397
Equity ratio	**74.2%**	71.5%	69.5%	66.8%	71.0%	71.9%
Total number of stores	**611**	598	579	557	538	537
Of which, overseas stores	**27**	27	27	27	25	26
Number of employees	**4,263**	4,466	4,678	4,469	4,459	4,483

*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 2015

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.

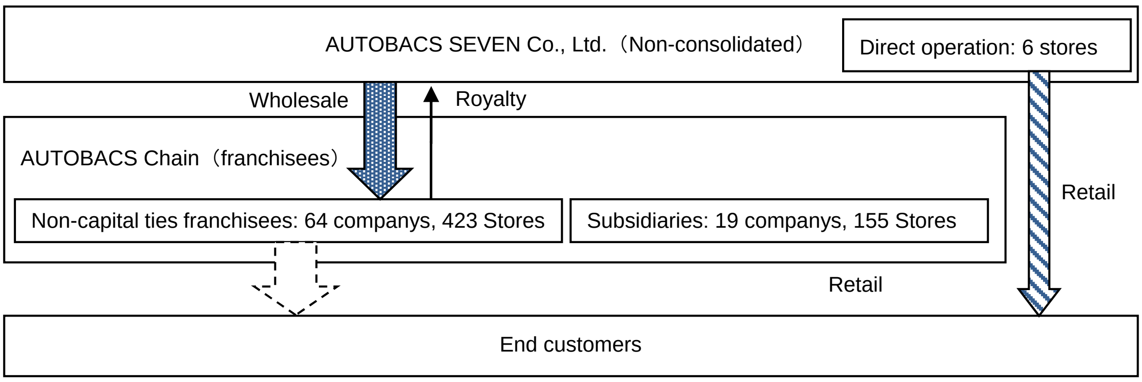
• Retail Operations

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 domestic AUTOBACS chain in Japan (fisical 2015)



	Stores 2015		2014	
Stores included in consolidation (retail operations)				
Directly managed stores	**6**		6	
Consolidated subsidiaries (of which, overseas)	**173**	**(18)**	167	(17)
Subtotal	**179**		173	
Stores not included in consolidation				
Stores managed by franchisees, including stores of affiliates (of which, overseas)	**432**	**(9)**	425	(10)
Total stores (of which, overseas)	**611**	**(27)**	598	(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 9.)

Sales by Store Type in Japan

¥ million; Stores

		2015	2014
AUTOBACS	Sales	**171,868**	192,377
	Stores	**491**	478
Super AUTOBACS	Sales	**65,855**	74,208
	Stores	**75**	75
AUTOBACS C@RS	Sales	**22,980**	23,043
	Stores	**451**	359
AUTOBACS Secohan Ichiba	Sales	**1,449**	1,736
	Stores	**10**	10
AUTOBACS EXPRESS	Sales	**4,136**	4,017
	Stores	**8**	8
Total Sales	Sales	**266,290**	295,381
	Stores	**584**	571

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 2015, this market was estimated falling to approximately ¥1,700 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 2014**was ¥ 2,168 billion, increased 3.3% year on year, and domestic sales of used car in 2014 *** was 5,650 thousand vehicles, decreased 0.2% year on year. Both two markets had been relavely stable and larger than automotive parts and accessories market.

* Reference: AM+NETWORK, August 2001 issues. Figure of fiscal 2015 is estimated by the Company.

** Japan Automobile Service Promotion Association

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

FISCAL 2015—OVERVIEW AND ACHIEVEMENTS

Performance Overview

During the consolidated fiscal year under review, the Japanese economy continued its modest recovery backed by the economic and monetary policies of the government and the Bank of Japan. The outlook for consumer spending remained uncertain, however, largely due to the reactionary fall from the last-minute rise in demand before the consumption tax hike coupled with a prolonged slump in consumer sentiment and increasingly thrifty consumers. As for domestic automobile-related consumption, sluggish demand for new and used cars continued following the consumption tax hike, and overall conditions were harsh.

•Overview of the Domestic AUTOBACS Chain Business

For the consolidated fiscal year under review, total sales for domestic businesses in the AUTOBACS chain (including franchise outlets) declined by 11.0% year on year on a same-store basis and by 9.9% year on year on an overall-store basis.

The domestic AUTOBACS chain has implemented projects including the AUTOBACS 40th anniversary campaign and other sales promotions, the launch of the private brand AQ. (Autobacs Quality), and new maintenance membership, with the aim of being more supported and trusted than ever by all drivers in the three segments of sales of automotive goods and services, statutory safety inspection and maintenance services, and automobile purchases and sales.

Sales of automotive goods and services declined due to a fall in car navigation unit prices and lower snowfalls in large cities than in the previous year, in addition to the reactionary fall from the last-minute demand before the consumption tax hike, sluggish new car sales, and a slowdown in consumer spending.

In the statutory safety inspection and maintenance services segment, the number of vehicles that underwent statutory safety inspections and maintenance services increased by 1.4% year on year, to 589,000. This was thanks to the increased promotion of inspections and maintenance, despite the challenging business environment during the first half due to the drop in the number of vehicles subject to the second statutory safety inspection in the fifth year since the bankruptcy of Lehman Brothers.

In the automobile purchases and sales segment, the total number of vehicles sold increased by 3.4%, to 23,900, as a result of increasing the number of CARS franchise stores from 359 at the end of the previous fiscal year to 451, implementing nationwide sales promotions, and improving vehicle sales and purchases.

In terms of the number of domestic store openings and closings, 13 new stores were opened, resulting in an increase in the total number of stores from 571 as of the end of March 2014 to 584.

*AUTOBACS and Super AUTOBACS and AUTOBACS C@RS and AUTOBACS Secohan Ichiba and AUTOBACS EXPRESS

Domestic Store Consolidation

	Stores							
		Year Ended March 2015						
		First Half			Second Half			
	March 31, 2014	New stores	S&B* relocation	Stores closed	New stores	S&B* relocation	Stores closed	March 31, 2015
AUTOBACS	478	+7			+6			491
Super AUTOBACS	75							75
AUTOBACS Secohan Ichiba	10							10
AUTOBACS EXPRESS	8							8
Total (Japan)	571	+7			+6			584

* S&B: scrap and build

Progress of the AUTOBACS 2014 Medium-Term Business Plan

The Group has executed a number of initiatives under the four-year 2014 Medium-term Business Plan that commenced in the consolidated fiscal year under review, and has actively worked on developing new businesses with the aim of achieving its goal: “Anything about cars, you find at AUTOBACS.”

(Business strategy)

The Group has established the basic plan to increase the earnings of the domestic AUTOBACS business and develop new businesses, and has been taking on the challenge of adjusting the domestic AUTOBACS business to environmental changes and developing overseas and new businesses as new income sources. In the domestic AUTOBACS business, the Group has promoted maintenance-related goods and safety inspection and maintenance services for improved convenience and security for customers and strengthened the automobile purchases and sales business.

In sales of automotive goods and services, the Group opened six “Tire Senmonkan” tire specialty stores as new locations for selling tires by the end of March 2015, and also launched the sale of AUTOBACS proprietary tires “ESPORTE AB01” in cooperation with a leading Japanese manufacturer to provide customers with high-quality goods at affordable prices. Additionally, AUTOBACS house brands were unified as “AUTOBACS QUALITY (AQ.)” under the concept of “security first.”

In its statutory safety inspection and maintenance segment, a division specializing in improving the system of selling the statutory safety inspection service, which is one of the growth sectors of AUTOBACS Group, has been established to boost the sales of this business. Further, the Group has promoted Internet reservations for safety inspections, commenced the full operation of statutory safety inspection contact centers, and promoted the introduction of maintenance packages to increase customer convenience. As a result of these efforts, the cumulative total number of vehicles that have been inspected by the AUTOBACS Group has surpassed five million.

The automobile purchase and sales segment has been developed to be operated by all stores, and 451 stores had commenced business by the end of March 2015. As a new initiative, SUZUKI CARS 43 Doi was established at Super AUTOBACS 43 Doi Store (Amagasaki, Hyogo) after being certified as a sub-agency of Suzuki Jihan Hyogo Corporation in June 2014. This allows the purchase and installation of automotive goods, constituting strength of AUTOBACS, at the same as the purchase of a new car, which serves a wide range of customer needs. In October 2014, the Group sold AUTOBACS Car Lease “Marunori,” the right to obtain maintenance services at any AUTOBACS Group store in Japan.

In the implementation of the CRM Strategy, the Group worked to strengthen ties between customers and the AUTOBACS Group by developing and analyzing customer data. The Group has developed a new customer system that allows the Group to offer goods and services that cater to each individual customer based on their purchasing history and interests and preferences.

E-commerce, which is positioned as one of the major sales channels of the AUTOBACS Group, has been strengthened continuously by improving the Group's own online shopping site. The Group worked on increasing customer satisfaction by adding the advance selection of merchandise to the online reservations for oil replacement offered by all stores, and by reducing waiting times in stores. A combination of online and physical stores has also been achieved by installing goods purchased online in stores.

In the overseas business, the Group has been focusing on the ASEAN region where future growth is anticipated while strengthening its management system by, for instance, closing unprofitable stores. In Malaysia, the Group has founded a local subsidiary that primarily sells automotive goods and provides automobile-related services. In Thailand, two new stores offering maintenance goods such as tires, engine oils, and batteries were opened, which are small yet located in a commercial district where they provide increased customer convenience. This has brought the total number of stores in Thailand to five.

(CSR and risk management)
The Company has signed an agreement with local governments to designate its stores as "homecoming support stations on disastrous occasions," which was extended to 320 stores by the end of March 2015. In addition, the Company continues to participate in cleaning activities in the neighborhood of the head office and at the foot of Mt. Fuji, as well as in environmental conservation activities based on ISO 14001 certification.

As part of its risk management, it has identified and ranked the risks to which the AUTOBACS Group is exposed, held discussions regarding measures against them among the officers, and improved its risk management. The Company has also worked on strengthening the compliance structure of the franchise companies.

FINANCIAL REVIEW

1. INCOME AND EXPENSES

Net Sales

In fiscal 2015, ended March 31, 2015, consolidated net sales amounted to ¥209,455 million decreased by 9.6% from fiscal March 2014.

¥ Million (Percentage of net sales)

	2015		2014		Increase (Decrease)
Wholesale operations	**124,279**	**(59.3%)**	132,734	(57.3%)	(8,454)
Retail operations	**82,039**	**(39.2%)**	95,541	(41.2%)	(13,501)
Others	**3,136**	**(1.5%)**	3,422	(1.5%)	(287)
Total	**209,455**	**(100.0%)**	231,697	(100.0%)	(22,242)

• Wholesale Operations

Most of the revenue in the wholesale operations segment derives from sales to franchisees. In fiscal 2015, segment sales decreased by 6.4% year on year to ¥124,279 million. Even though used car sales increased, car goods sales, such as car electronics, decreased due to the change of business environment.

• 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 2015, sales of retail operations decreased by 14.1% year on year to ¥82,039 million. Same as wholesales operation, almost all car goods sales decreased even though used car sales increased.

• Others

Sales from other businesses decreased by 8.4% to ¥3,136 million, mainly due to a decrease in real estate rental income from domestic franchisees.

Gross Profit

Gross profit was ¥66,903 million, down by 13.0% from a year earlier as a result of decline of gross margin of car goods, especially oil, battey and motor sports goods due to sales decrease of those products. And the gross margin also decreased from 33.2% to 31.9%.

SG&A Expenses

Selling, general, and administrative (SG&A) expenses decreased to ¥60,499 million, largely due to the transfer of store subsidiaries to franchise companies, in addition to efforts made to reduce controllable expenses while increasing sales promotions.

	¥ Million		
	2015	2014	Increase (Decrease)
Personnel expenses	**28,599**	29,721	(1,122)
Employee compensation	**22,696**	23,717	(1,012)
Sales promotion expenses	**11,004**	11,200	(196)
Equipment expenses	**11,387**	12,404	(1,017)
Land and building rent	**5,160**	6,101	(941)
Depreciation	**3,569**	3,727	(158)
Administrative expenses	**9,509**	9,636	(127)
Provision for allowance for doubtful receivables	**118**	6	112
Total	**60,499**	62,962	(2,463)

Personnel expenses decreased by 3.8% to ¥28,599 million. This change was mainly due to a decrease in employee's performance-linked compensation along with a decrease in sales and profits, and personal expenses due to the transfer of stores of a subsidiary to a franchisee company.

Sales promotion expenses decreased by 1.7% to ¥11,004 million. This was mainly due to decrease of expences for sales promotion and sales support for franchisees.

Equipment expenses decreased by 8.2% to ¥11,387 million. This was mainly attributable to a decrease along with transfer of subusidiaries' stores to franchisees.

Administrative expenses decreased by 1.3% to ¥9,509 million. This was mainly due to a decrease in commissions paid.

As a result of the above factors, operating income decreased by 54.1% to ¥6,404 million.

Number of Employees by Segment

	Number of Employees				
	2015		2014		Increase (Decrease)
The Company	**1,049**	**(27)**	1,066	(28)	(17)
Domestic Store Subsidiaries	**2,446**	**(824)**	2,525	(888)	(79)
Overseas Subsidiaries	**539**	**(0)**	659	(1)	(120)
Subsidiaries for Car Goods Supply and Other	**156**	**(38)**	146	(35)	10
Subsidiaries for Supporting Functions	**73**	**(21)**	70	(21)	3
Total	**4,263**	**(910)**	4,466	(978)	(203)

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

Other Income and Expenses

In other items, other income—net was ¥2,650million, increased from ¥2,141 million in the previous fiscal year. The main factor behind this was a gain on the sale of investment securities such as Autobacs Kanagawa Ltd. and Broadleef Co., Ltd., even though a decrease due to impairment loss on the land and buildings of stores in both domestic and abroad.

Income Taxes

Income taxes for the period were ¥4,476 million. The main factor behind this was an increase of tax rate increased as the result of the reevaluation of collectability of differed tax assets of subsidiaries.

Net Income

Net income increased by 47.1% from the previous year to ¥4,610 million, bringing basic net income per share to ¥52.8. Financial indicators all worsened; net income ratio declined from 4.2% in the previous year to 2.2%, ROA declined from 4.8% to 2.4%, and ROE declined from 6.8% in the previous year to 3.3%.

2. SEGMENT INFORMATION

The Group's segments are as follows:

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

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

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

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

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

Relationship between Segments and Segmental Sales

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

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

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

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

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

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

Profits and Losses by Segments in fiscal 2015

Non-consolidated

Sales fell by 9.2% year on year, to 166,828 million yen. Sales of automotive goods and services declined despite the increase in sales promotions implemented to boost sales in stores in response to low demand after the consumption tax hike. Gross profit declined by 11.1% year on year, to 34,673 million yen, reflecting an overall fall in sales that offset an increase in the gross profit margin for tires and wheels and etc. Selling, general, and administrative expenses increased by 0.6%, to 25,837 million yen, because advertisements and sales promotions were strengthened using mass media while efforts were primarily made to reduce controllable expenses. As a result, operating income decreased by 33.7% year on year, to 8,836 million yen.

Domestic Store Subsidiaries

Sales declined by 16.6% year on year, to 67,883 million yen, and operating loss came to 1,925 million yen (operating income of 555 million yen for the previous fiscal year). Sales of automotive goods and services and statutory safety inspection and maintenance services decreased, primarily due to the reactionary fall after the consumption tax hike and lower demand. Meanwhile, the gain on automobile purchases and sales increased year on year as a result of improved operations. Gross profit decreased due to reduced overall sales, which offset growth in the gross profit margin for tires and wheels. Selling, general, and administrative expenses decreased, largely due to the transfer of store subsidiaries to franchise companies, in addition to efforts made to reduce controllable expenses while increasing sales promotions.

Overseas Subsidiaries

Sales fell by 3.7% year on year, to 9,986 million yen, and operating loss stood at 178 million yen (operating income of 12 million yen for the previous fiscal year). Looking at the state of each country on a local currency basis, in France, sales of services were weak largely due to the recession, and sales and gross profit decreased from a year earlier, adding to the operating loss. In China, the Shanghai store was closed in September 2014 due to the restructure of the retail business in that country. As a result, net sales declined but the operating loss was reduced. In Thailand, one store was closed in the first half and two new stores were opened in the second half of the fiscal year under review. Although overall net sales declined, operating loss was reduced due to cost structure improvement. In Singapore, sales decreased as a consequence of decreasing number of newly registered automobiles. Operating income increased, however, thanks to efforts to reduce expenses.

Opening and Closing of Stores Overseas

	Stores			
		Year Ended March 2015		
	March 31, 2014	First Half	Second Half	March 31, 2015
France	11			**11**
China	1	-1		**0**
Taiwan	6			**6**
Thailand	4	-1	2	**5**
Singapore	3			**3**
Malaysia	2			**2**
Total	27	-2	2	**27**

Subsidiaries for Car Goods Supply, etc.

Sales grew by 1.5% year on year, to 15,397 million yen, and operating income decreased by 79.2%, to 53 million yen. Operating income fell from a year earlier due to an increase in expenses which was chiefly attributable to the expansion of the oil wholesale business in Palster K. K.

Subsidiaries for Supporting Functions

Sales declined by 3.1% year on year, to 3,051 million yen, partly due to a decline in sales of the leasing of store equipment to franchise companies, while operating income fell by 0.6% year on year, to 430 million yen, remaining almost unchanged from the previous fiscal year.

Information about Sales and Profit (Loss)

	¥ Million					
	Year Ended March 2015					
	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Others	Subsidiaries for Supporting Functions	Total
Sales						
Sales to external customers	124,333	66,098	9,695	8,446	883	209,455
Intersegment sales or transfers	42,496	1,785	291	6,950	2,168	53,690
Total	166,828	67,883	9,986	15,397	3,051	263,145
Segment profit	8,836	(1,925)	(178)	53	430	7,217

Details of Adjustments to Consolidated Operating Income

The adjusted amount from the aggregate amount of all segments' operating income to consolidated operating income increased by 172 million yen from the same period of the previous fiscal year, to 812 million yen. Major items contributing to the change in adjustments to consolidated amounts from the previous fiscal year included an increase in the adjusted amount of inventory due to a larger unrealized profit from merchandise sold by the Company to domestic store subsidiaries and an increase 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	2015	2014
Total reportable segments	**263,145**	293,845
Elimination of intersegment transactions	**(53,690)**	(62,148)
Net sales in consolidated financial statements	**209,455**	231,697

	¥ Million	
Operating Income	2015	2014
Total reportable segments	**7,217**	14,585
Elimination of intersegment transactions	**(451)**	(526)
Inventories	**(346)**	(253)
Allowance for point cards	**(24)**	(18)
Amortization of goodwill	**(191)**	(105)
Fixed assets	**358**	256
Others	**(159)**	6
Operating Income in consolidated financial statements	**6,404**	13,945

FINANCIAL POSITION

1. BALANCE SHEET ITEMS

Current Assets

Current assets decreased by ¥13,284 million year on year to ¥113,425 million. The main factors were decreases in trade notes and accounts receivables.

Property and Equipment, Investments and Other Assets

The buildings and structures was ¥39,806 million, decreased by ¥ 1,196 million year on year. This was due to the transfer of subsidiaries's stores to franchisees.

Total investments and other assets decreased by ¥469 million from the previous period to ¥33,301 million. Although softwares for strengthening of next generation store operation system increased, however investment securities along with sales of company's shares and decrease of rental deposits increased.

Current Liabilities

Total current liabilities were down by ¥953 million to ¥34,531 million. The main factors in this were decreases in current portion of long-term debt, trade notes and accounts payables and allowance for business restructuring.

Long-term Liabilities

Total long-term liabilities decreased by ¥363 million to ¥13,448 million. The main factor behind this was decrease in long-term debt.

Equity

Total equity including minority interests decreased by ¥5,810 billion to ¥138,554 million. The main factors behind this were decrese in retained earnings and 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 2015 decreased by ¥102 million year on year to ¥10,999 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, 2015 were down by ¥694 million from the previous year-end to ¥17,016 million.

CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥11,829 million. The main factors for gaining cash were income before income taxes and minority interest of ¥9,053 million and decrease in receivables of ¥9,125 million. The main factors decreasing cash were decrease in other payable and accruals of ¥4,732 million and income taxes paid of ¥4,092 million.

Cash Flows from Investing Activities

Net cash useded in investing activities was ¥2,403 million. The main factors for decrease were capital expenditures of ¥6,127 million and payments into time deposits of ¥1,063 million, and main increase factor were deposition of investment securities of ¥2,044 million and proceeds from sales of fixed assets of ¥1,361 million. Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a net inflow of ¥9,426 million.

•Capital Expenditures

In fiscal 2015, capital expenditures amounted to ¥6,127 million. These investments were associated mainly with acquisition of buildings and equipments for opening new stores and investments in the Company's internal information systems for renewal of store operation system. A breakdown of capital expenditures (including intangible fixed assets) in fiscal 2015 is shown below.

Major Capital Expenditures in Fiscal 2015

	¥ Million
Opening new stores	1,242
Scrap and build or relocation of stores	247
Purchase of land for store locations	525
IT investments such as POS system development	2,797
Other	1,315
Total	6,127

Capital Expenditures by Segments

	¥ Million		
	2015	2014	Increase (Decrease)
The Company	**5,166**	**4,072**	1,094
Domestic Store Subsidiaries	**266**	**220**	46
Overseas Subsidiaries	**146**	**108**	38
Subsidiaries for Car Goods Supply and Others	**176**	**25**	151
Subsidiaries for Supporting Functions	**374**	**395**	(21)
Total	**6,127**	**4,820**	1,307

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

Cash Flows from Financing Activities

Net cash used in financing activities was ¥12,618 million. This was mainly due to ¥5,909 million for dividends paid, ¥5,052 million for purchase of treasury stock, ¥4,203 million for repayment of long-term debt and ¥2,030 million for proceeds from long-term debt.

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥42,218 million, decreased by ¥3,167 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 ¥11,829 million, net cash used in investing activities of ¥2,403 million, and net cash used in financing activities of ¥12,618 million.

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

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

For the fiscal year under review, the Company is distributing a year-end dividend of 30 yen per share as initially planned. Consequently, the annual dividend is 60 yen per share, and the consolidated ratio of dividend on equity (DOE) is 3.7%.

For the fiscal year ending March 31, 2016, the Company plans to distribute an annual dividend of 60 yen per share, with 30 yen per share each for intermediate and year-end dividends, by taking its dividend policy into consideration.

BUSINESS RISKS

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

(1) Competition

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

(2) Unusual Weather Conditions

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

(3) Future Overseas Expansion

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

(4) Regulations Governing Opening of New Stores

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

(5) Observance of Laws and Regulations

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

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

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

(7) Natural Disasters

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

(8) Franchisees

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

(9) Store Operations

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

(10) Exchange Rate Fluctuations

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

(11) Lawsuits

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