Financial Section 2016

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	2016	2015	2014	2013	2012	2011
FISCAL YEAR						
Net sales:						
Tires and wheels	**49,295**	53,713	58,243	56,351	¥55,348	51,416
Car electronics	**33,938**	33,090	40,700	44,490	58,135	59,849
Oil and batteries	**24,550**	24,309	26,142	25,568	24,406	24,566
Car exterior goods	**22,145**	22,442	24,669	24,054	23,000	23,868
Car interior goods	**15,979**	19,936	22,752	23,481	21,735	21,540
Motor sports goods	**12,324**	12,894	13,775	14,040	13,516	14,451
Services	**20,143**	17,573	20,061	19,249	18,462	17,506
Others	**29,769**	25,498	25,355	22,931	22,736	23,155
Total	**208,143**	209,455	231,697	230,168	237,343	236,351
Operating income	**6,702**	6,404	13,945	12,745	13,721	11,989
Income before income taxes and minority interests	**7,559**	9,053	16,086	13,915	15,217	11,501
Net income attributable to owners of the parent	**4,372**	4,610	9,786	7,590	8,403	6,180
Dividends paid	**5,117**	5,910	4,949	4,762	4,707	4,557
Consolidated dividend payout ratio	**117.6%**	113.6%	59.4%	64.0%	57.3%	75.9%
Amount of share buyback	**5,249**	5,054	4,593	7,196	5,464	5,233
Total return ratio	**238.3%**	222.2%	105.8%	158.2%	121.6%	159.5%
Return on sales	**2.1%**	2.2%	4.2%	3.3%	3.5%	2.6%
Return on equity	**3.2%**	3.3%	6.8%	5.3%	5.7%	4.1%
Return on assets	**2.4%**	2.5%	4.8%	3.6%	3.9%	3.0%
Per share data (Yen):						
Basic net income *	**¥51.6**	¥52.8	¥ 107.71	¥81.22	¥84.28	¥59.32
Cash dividends	**60.00**	60.00	64.00	52.00	48.33	45.00
Net cash provided by (used in) operating activities	10,565	11,829	12,072	10,741	¥20,845	¥15,375
Net cash (used in) provided by investing activities	**(4,985)**	(2,403)	1,519	(4,523)	(10,156)	(5,002)
Net cash (used in) provided by financing activities	**(11,154)**	(12,618)	(11,166)	(14,862)	(11,574)	(11,790)
Capital expenditures	**5,896**	6,127	4,820	6,249	7,691	3,187
Depreciation and amortization	**4,013**	4,805	4,551	5,194	4,644	4,798
AT YEAR-END						
Cash and cash equivalents	**36,759**	42,218	45,384	42,833	51,402	¥52,317
Current assets	**107,655**	113,425	126,709	127,203	141,612	133,031
Current liabilities	**35,482**	34,530	44,034	45,021	55,650	40,649
Current ratio	**303.4%**	328.5%	287.8%	282.5%	254.5%	327.3%
Total assets	**180,455**	186,532	201,481	205,527	217,949	207,795
Equity	**131,456**	138,338	143,979	142,862	145,626	147,505
Equity ratio	**72.8%**	74.2%	71.5%	69.5%	66.8%	71.0%
Total number of stores	**632**	611	598	579	557	538
Of which, overseas stores	**33**	27	27	27	27	25
Number of employees	**4,347**	4,263	4,466	4,678	4,469	4,459

*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 2016

OPERATIONAL REVIEW

THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group ("the Group") consists of AUTOBACS SEVEN Co., Ltd. ("the Company"), 33 subsidiaries, and 8 affiliates accounted for by the equity method. The Group is mainly engaged in the wholesale and retail sales of automotive goods and accessories in Japan and other countries, as well as safety inspection and maintenance services, purchase and sales of automobiles, and loan and credit services. The Group also provides services for franchisee companies, including money-lending, store equipment leasing, consulting, back-office agency work, and IT support, as well as casualty insurance services.
In the automotive goods business, the Group's main store brands are AUTOBACS, Super AUTOBACS, AUTOBACS Secohan Ichiba, and AUTOBACS EXPRESS. In the automobile purchase and sales business, its brand is AUTOBACS C@RS (CARS).

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.

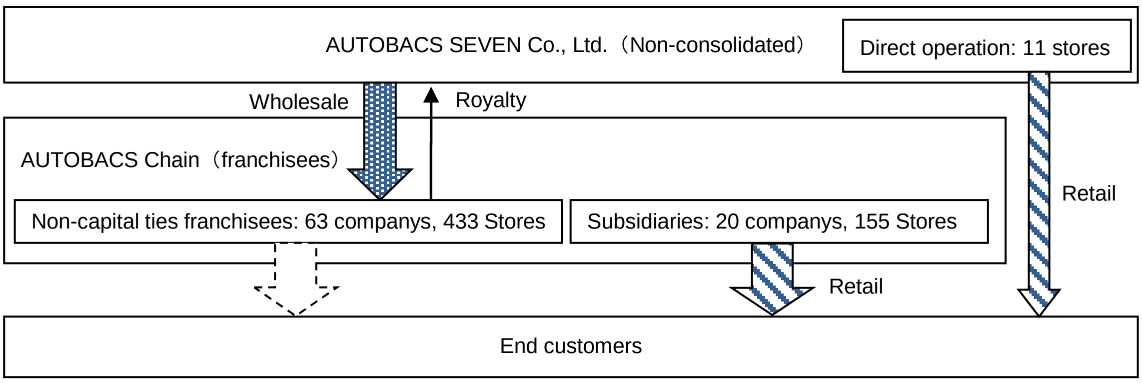
• Retail Operations

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 (End of March, 2016)



Number of Stores Included or not Included in Consolidation

Stores	2016		2015	
Stores included in consolidation (retail operations)				
Directly managed stores	**11**		6	
Consolidated subsidiaries (of which, overseas)	**179**	**(24)**	173	(18)
Subtotal	**190**	**(24)**	179	(18)
Stores not included in consolidation				
Stores managed by franchisees, including stores of affiliates (of which, overseas)	**442**	**(9)**	432	(9)
Total stores (of which, overseas)	**632**	**(33)**	611	(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 35.)

Sales by Store Type in Japan

¥ million; Stores

		2016	2015
AUTOBACS	Sales	166,849	171,868
	Stores	498	491
Super AUTOBACS	Sales	63,708	65,855
	Stores	75	75
AUTOBACS C@RS*	Sales	26,673	22,980
	Stores	480	451
AUTOBACS Secohan Ichiba	Sales	1,414	1,449
	Stores	9	10
AUTOBACS EXPRESS	Sales	3,804	4,136
	Stores	12	8
Total Sales	Sales	262,450	266,290
	Stores	594	584

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

Analysis of Operating Environment

Japan's market for automotive parts and accessories has been shrinking since around fiscal 1997. It is estimated that retail sales in this market totaled ¥3,057 billion in fiscal 1997. In fiscal 2014, this market was estimated falling to approximately ¥1,767 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 2015**was ¥ 2,188 billion, increased 1.0% year on year, and domestic sales of used car in 2015 *** was 5,620 thousand vehicles, decreased 0.4% year on year. Both two markets had been larger than automotive parts and accessories market.

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

** Japan Automobile Service Promotion Association

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

FISCAL 2016—OVERVIEW AND ACHIEVEMENTS

Performance Overview

Regarding the domestic economy during the consolidated fiscal year under review, corporate earnings were on course toward improvement on the back of the economic policies of the government, but uncertain conditions remained as a global economic slowdown became conspicuous in the second half of the year. As for domestic consumption of automotive goods and services, conditions were harsh as sales of new and used cars continued to slump from the beginning of the year as well as the overall sluggish demand due to the impact of a record warm winter.

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 2.3% year on year on a same-store basis and by 1.5% year on year on an overall-store basis.

The domestic AUTOBACS chain worked on providing highly convenient products by expanding the product lineup of the private brand AQ.

(Autobacs Quality), which was launched last year, in categories including oil, tires, car interior items and car electronics products. It also focused efforts on initiatives to help all drivers remain connected to stores, such as a nationwide announcement on the benefits of getting free labor for eight types of maintenance services as a maintenance member, and the provision of information on the sales of automotive goods and services, statutory safety inspection and maintenance services, and automobile purchase and sales.

Sales of automotive goods and services decreased due to waning demand for car navigation devices, interior accessories and other merchandise resulting from sluggish domestic sales of vehicles, despite reinforced sales of featured products such as car video recorders. Furthermore, sales of winter products, such as snow tires, wheels and chains, decreased due to the impact of a record warm winter during the third quarter, although there was snowfall in urban areas after the middle of January.

In the statutory safety inspection and maintenance services segment, the number of vehicles that underwent statutory safety inspection and maintenance services increased by 2.7% year on year, to approximately 604,000. This was primarily due to efforts that involved approaching customers in stores as well as taking appointments over the phone and the Internet

In the automobile purchase and sales segment, sales to used car dealers, through auto auctions, grew, owing to an increase in the number of purchased vehicles as a result of nationwide TV ads launched in line with the increase in the number of C@RS franchise stores, along with the improved appraisal process utilizing the patented “Satei Doctor.” system. Sales of both new and used cars to consumers exceeded the results of the previous year, resulting in a year-on-year increase of 13.3%, to approximately 27,000 units. Furthermore, two AUTOBACS Used Car Purchase Stores were opened in March to help bolster car purchases. The number of C@RS franchise stores as of March 31, 2016, was 480, up from 451 as of the end of the previous fiscal year.

In terms of the number of domestic store openings and closings, eighteen new stores were opened, seven stores were affected by the scrap-and-build strategy and relocation, and five stores were closed. As a result, the total number of stores stood at 599 as of the end of March 2016.

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

Domestic Store Consolidation

	Stores							
		Year Ended March 2016						
		First Half			Second Half			
	March 31, 2015	New stores	S&B* relocation	Stores closed	New stores	S&B* relocation	Stores closed	March 31, 2016
AUTOBACS	492	+7	+4/−4	−1	+3	+3/−3	−3	**498**
Super AUTOBACS	75							**75**
AUTOBACS Secohan Ichiba	10			−1				**9**
AUTOBACS EXPRESS	8	+2			+2			**12**
AUTOBACS C@RS Independent Store	1	+1			+1			**3**
AUTOBACS Car Purchase Speciality Store	−				+2			**2**
Total (Domestic)	584	+7	+4/−4	−2	+8	+3/−3	−3	**599**

* S&B: scrap and build

Progress of the AUTOBACS 2014 Medium-Term Business Plan

In the domestic AUTOBACS business, the Company worked on initiatives to expand the numbers of maintenance members and statutory safety inspection services. It positioned them as the most important measures, with a view of establishing the relationship that makes drivers feel connected to stores.

In regards to expanding the number of maintenance members and achieving the goal of 3,000,000 members, the Company used direct mail and receipt coupons to encourage point card members to switch and become maintenance members. In addition, to increase the number of new members, it created a floor area for selling cards at all stores and approached customers to tell them about maintenance membership. At the same time, it enhanced the lineup of special price products, especially oil, for maintenance members. As a result, the number of members increased by approximately 400,000 from the beginning of the year to approximately 2,400,000 million at the end of March 2016, despite the decrease due to valid memberships that expired.

As for increasing the number of statutory safety inspection services to achieve the goal of inspecting 800,000 vehicles during fiscal 2017, the Company strengthened initiatives aimed at improving the rate of repeat customers who had car inspected at an AUTOBACS store. As a result, the number of appointments for the next statutory safety inspections increased to approximately 230,000 by the end of March 2016. The Company also worked on strengthening the capacity of implementing statutory safety inspections at stores, such as securing a sufficient number of qualified mechanics and raising the level of operational efficiency for statutory safety inspections at stores.

As part of its efforts to raise the level of convenience for customers by promoting the use of multiple channels, the Company strengthened the degree of coordination between channels, such as stores, the Internet, apps and phone inquiries, from the perspective of reservations, such as the implementation of trial reservations for a tire change, improvement in reservations for an oil change, and the expansion of the lineup of products for which installation can be reserved through e-commerce websites. As a result of these initiatives, the number of reservations for an oil change increased by 27% year on year, demonstrating a certain degree of achievement.

In regards to purchase and sales of automobiles, the Company worked to strengthen purchase operations by focusing on purchasing vehicles in existing C@RS franchise stores and opening its first AUTOBACS Used Car Purchase Store in March 2016. It also sought to accumulate expertise by relocating some staff members of the headquarters to stores, while strengthening the purchase and sales capabilities.

In conjunction with the improvement in revenues of domestic store subsidiaries, the Company strengthened its management of sales focused on tires, conducted inventory management trials at some stores in order to rationalize inventory, and achieved results that could be adapted to other stores in the next fiscal year. These measures contributed significantly to the improvement of the gross margin in the first half of fiscal 2015. However, the gross margin for the full year stood at around the same level as one year earlier, primarily reflecting the weak sales of winter products in the second half.

In overseas business, the Company aggressively developed new businesses in predominantly the ASEAN region. In Malaysia, it opened three stores, specifically region-based small stores, through its local subsidiary, and sought to raise the recognition of AUTOBACS brand and establish store models. In Indonesia, two stores were opened by forming an alliance with a local company. In the Philippines, the Company will implement multi-store development programs and the wholesales of automotive products, following the capital and business alliance made with a local company in January 2016.

As for new domestic businesses, revenue increased because the number of cars sold and sales in services expanded in the BMW dealership business, which is operated by Autoplatz K.K., and the MINI dealership business, which is operated by Autoplatz Motors, the shares of which were acquired by the Company in April 2015.

The Company will revise the 2014 Mid-Term Business Plan in which it had set forth the operating income target of 15 billion yen and ROE target of 8% on a consolidated basis. The reason for this revision is that Company believes the targets are not likely to be met in the fiscal year ending March 31, 2018.

FINANCIAL REVIEW

1. INCOME AND EXPENSES

Net Sales, Gross Profit

In fiscal 2016, ended March 31, 2016, consolidated net sales amounted to ¥208,143 million decreased by 0.6% from fiscal March 2015. Gross profit was ¥66,968 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. However, the gross margin improved from 31.9% to 32.2%.

SG&A Expenses, Operating Income

Selling, general, and administrative (SG&A) expenses decreased by 0.4% to ¥60,266 million. Operating income increased by 4.6% to ¥6,404 million.

	¥ Million		
	2016	2015	Increase (Decrease)
Personnel expenses	**28,551**	28,599	(48)
Employee compensation	**22,734**	22,696	38
Sales promotion expenses	**10,930**	11,004	(74)
Equipment expenses	**11,244**	11,387	(143)
Land and building rent	**5,350**	5,160	190
Depreciation	**3,367**	3,725	(358)
Administrative expenses	**9,539**	9,509	30
Provision for allowance for doubtful receivables	**32**	118	(86)
Total	**60,266**	60,499	(233)

Personnel expenses decreased by 0.2% to ¥28,551 million. This change was mainly due to a decrease in retirement benefit expenses, although increase of salary associated with takeover of stores of non-consolidated franchisee company.

Sales promotion expenses decreased by 0.7% to ¥10,930 million. This was mainly due to decrease of sales promotion expenses by reconsidering of promotion methods.

Equipment expenses decreased by 1.3% to ¥11,244 million. This was mainly attributable to change in the methods for calculating depreciation from the declining-balance methods to the straight-line method.

Administrative expenses increased by 0.3% to ¥9,539 million. There was no special factor for the change.

Number of Employees by Segment

	Number of Employees				
	2016		2015		Increase (Decrease)
The Company	**935**	**(35)**	1,049	(27)	(114)
Domestic Store Subsidiaries	**2,565**	**(824)**	2,446	(824)	119
Overseas Subsidiaries	**545**	**(1)**	539	(0)	6
Subsidiaries for Car Goods Supply and Other	**229**	**(44)**	156	(38)	73
Subsidiaries for Supporting Functions	**73**	**(21)**	73	(21)	0
Total	**4,347**	**(928)**	4,263	(910)	84

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 ¥857 million, decreased from ¥2,649 million in the previous fiscal year. The main factor behind this was a decrease due to impairment loss on the land and buildings of domestic stores, although an increase due to gain on sale of investment securities.

Income Taxes

Income taxes for the period were ¥3,207 million.

Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent decreased by 5.2% from the previous year to ¥4,372 million, bringing basic net income per share to ¥51.6. Financial indicators all worsened; net income ratio declined from 2.2% in the previous year to 2.1%, ROA declined from 2.5% to 2.4%, and ROE declined from 3.3% in the previous year to 3.2%.

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 2016

Non-consolidated

Sales fell by 5.1% year on year, to 158,288 million yen. Specifically for the third quarter, wholesale sales declined in part due to a decline in winter products in domestic stores. Gross profit dropped by 6.1% year on year to 32,570 million yen as a result of the sales decline, although the gross margin remained at around the same level as the previous year, mainly as a result of initiatives in automotive goods aimed at improving gross profit. Selling, general, and administrative expenses declined by 1.3% year on year, to 25,496 million yen, reflecting the decreased depreciation costs following a change in the method for calculating depreciation from the declining-balance method to the straight-line method and cost-cutting measures such as the review of advertising methods, despite the increases in expenses associated with the renovation of store systems and the Western Japan Logistics Center. As a result of such factors, operating income declined by 19.9% year on year to 7,074 million yen.

Domestic Store Subsidiaries

Sales grew by 1.0% to 68,550 million yen, while the operating loss improved by 950 million yen year on year, to 975 million yen. Sales of automotive goods, such as tires, fell from a year earlier substantially due to record warm temperatures in the winter during the third quarter, although there were increases in sales associated with snowfall in the fourth quarter as well as the transfer of stores from franchise companies. Gross profit grew year on year primarily as a result of changes in the sales composition of products and initiatives aimed at improving the gross margin. Selling, general, and administrative expenses decreased as a result of a cut in costs from efforts made in sales promotion expenses and other controllable expenses, which offset an increase in expenses associated with the transfer of stores from franchise companies.

Overseas Subsidiaries

Sales fell by 8.8% year on year, to 9,104 million yen. Operating income improved year on year to 31 million yen (operating loss of 178 million yen for the same period of the previous fiscal year). Looking at the state of each country on a local currency basis, in France, operating income was sustained as the gross margin increased with stronger sales of high-margin items such as oil and services, and initiatives aimed at improving gross profit and revitalize inventory, despite the decline in the number of customers following the terrorist attack in Paris in November. In Thailand, sales decreased following the closure of unprofitable stores in the previous year, even though one store opened and another store opened due to relocation. That said, operating loss improved from a year earlier as a result of the improved gross margin and cost-controlling measures. In Singapore, the gross margin improved as a result of a rise in the percentage of sales in services, but operating income decreased due to a decline in sales and increase in expenses. In China, operating income improved and profitability was restored due to the trade business of automotive products doing well as well as the impact of cost-cutting efforts. In Malaysia, efforts are being made to raise the level of brand recognition for AUTOBACS bland, with three stores opened as local subsidiaries.

Opening and Closing of Stores Overseas

	Stores			
		Year Ended March 2016		
	March 31, 2015	First Half	Second Half	March 31, 2016
France	11			11
Taiwan	6			6
Thailand	5	1	0	6
Singapore	3			3
Malaysia	2	1	2	5
Indonesia	0	1	1	2
Total	27	−2	2	33

Subsidiaries for Car Goods Supply and Others

Sales increased by 38.1% year on year to 21,263 million yen, while operating income declined by 65.3% to 18 million yen. The result was due to a decline in wholesale sales of existing automotive goods, in addition to an increase in expenses, despite an increase in sales from Autoplatz K.K., an authorized BMW dealership, and Autoplatz Motors, an authorized MINI dealership, which were made subsidiaries of the Company in April.

Subsidiaries for Supporting Functions

Sales rose by 5.0% year on year, to 3,205 million yen, primarily due to an increase in sales from the lease of store equipment to franchise companies, while operating income fell by 6.8% year on year, to 401 million yen.

Information about Sales and Profit (Loss)

¥ Million

	Year Ended March 2016					
	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Others	Subsidiaries for Supporting Functions	Total
Sales						
Sales to external customers	117, 095	67, 339	8, 785	13, 974	950	208, 143
Intersegment sales or transfers	41, 193	1, 211	319	7, 289	2, 255	52, 267
Total	158, 288	68, 550	9, 104	21, 263	3, 205	260, 410
Segment profit	7, 075	(975)	31	18	401	6, 550

Details of Adjustments to Consolidated Operating Income

The adjusted amount from the aggregate amount of the operating income of all segments to the consolidated operating income was up 152 million yen. This was mainly attributable to the realization of unrealized profits as a result of a decrease in inventories for the products wholesaled from the Company to the domestic store subsidiaries.

Reconciliation of Published Figures and Aggregate of Reportable Segments

¥ Million

Net sales	2016	2015
Total reportable segments	**260, 410**	263, 145
Elimination of intersegment transactions	**(52, 267)**	(53, 690)
Net sales in consolidated financial statements	**208, 143**	209, 455

¥ Million

Operating Income	2016	2015
Total reportable segments	**6, 549**	**7, 217**
Amortization of goodwill	**(133)**	**(191)**
Inventories	**206**	**(346)**
Fixed assets	**507**	**358**
Allowance for point cards	**(16)**	**(24)**
Elimination of intersegment transactions	**(480)**	**(451)**
Others	**67**	**(159)**
Operating Income in consolidated financial statements	**6, 702**	**6, 404**

FINANCIAL POSITION

1. BALANCE SHEET ITEMS

Current Assets

Current assets decreased by ¥5,770 million year on year to ¥107,655 million. The main factors were decreases in cash and cash equivalents, and Lease assets.

Property and Equipment, Investments and Other Assets

The buildings and structures was ¥42,266 million, increased by ¥ 2,460 million year on year. This was due to increased in Buildings and structures of new store openings.

Total investments and other assets decreased by ¥2,767 million from the previous period to ¥30,534 million. Although, the company exchanged equipments and facilities in western Japan logistics center, however investment for softwares for strengthening of next generation store operation system decreased.

Current Liabilities

Total current liabilities were increased by ¥952 million to ¥35,482 million. The main factors in this were increase in short-term borroings and payables increased and decreases in current portion of long-term debt,.

Long-term Liabilities

Total long-term liabilities decreased by ¥223 million to ¥13,225 million. There were few changes and no special factors to be explained.

Equity

Total equity including minority interests decreased by ¥6,806 billion to ¥131,748 million. The main factors behind this were decrese in accumulated other comprehensive income by unrealized gain on available-for-sale securities..

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 2016 decreased by ¥1,269 million year on year to ¥9,730 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, 2016 were down by ¥839 million from the previous year-end to ¥16,409 million.

CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥10,565 million. The main factors for gaining cash were income before income taxes of ¥7,559 million and increase in depreciation and amortization of ¥4,013 million. The main factors decreasing cash were decrease in income taxes paid of ¥3,451 million.

Cash Flows from Investing Activities

Net cash useded in investing activities was ¥4,985 million. The main factors for decrease were capital expenditures of ¥5,896 million and payments into time deposits of ¥820 million. Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a net inflow of ¥5,580 million.

Capital Expenditures

In fiscal 2016, capital expenditures amounted to ¥5,896 million. These investments were associated mainly with exchange of equipments and facilities of wetern Japan logistics center. A breakdown of capital expenditures (including intangible fixed assets) in fiscal 2016 is shown below.

Major Capital Expenditures in Fiscal 2016

	¥ Million
Opening new stores	1,103
Scrap and build or relocation of stores	319
Purchase of land for store locations	376
IT investments such as POS system development	1,164
Other	2,932
Total	5,895

Capital Expenditures by Segments

	¥ Million		
	2016	2015	Increase (Decrease)
The Company	**4,414**	5,166	1,094
Domestic Store Subsidiaries	**230**	266	46
Overseas Subsidiaries	**242**	146	38
Subsidiaries for Car Goods Supply and Others	**257**	176	151
Subsidiaries for Supporting Functions	**750**	374	(21)
Total	**5,896**	6,127	1,307

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

Cash Flows from Financing Activities

Net cash used in financing activities was ¥11,154 million. This was mainly due to ¥5,119 million for dividends paid, ¥5,249 million for purchase of treasury stock, ¥2,626 million for repayment of long-term debt.

As a result of the above, cash and cash equivalents at the fiscal year-end stood at ¥36,579 million, decreased by ¥5,639 million from a year earlier.

Basic Policy on Distribution of Profits, Dividends for Fiscal 2016 and Fiscal 2016

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.

As of August 2016, the Company is reviewing "the 2014 midium term business plan" and reconsidering the policy for shareholders return

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