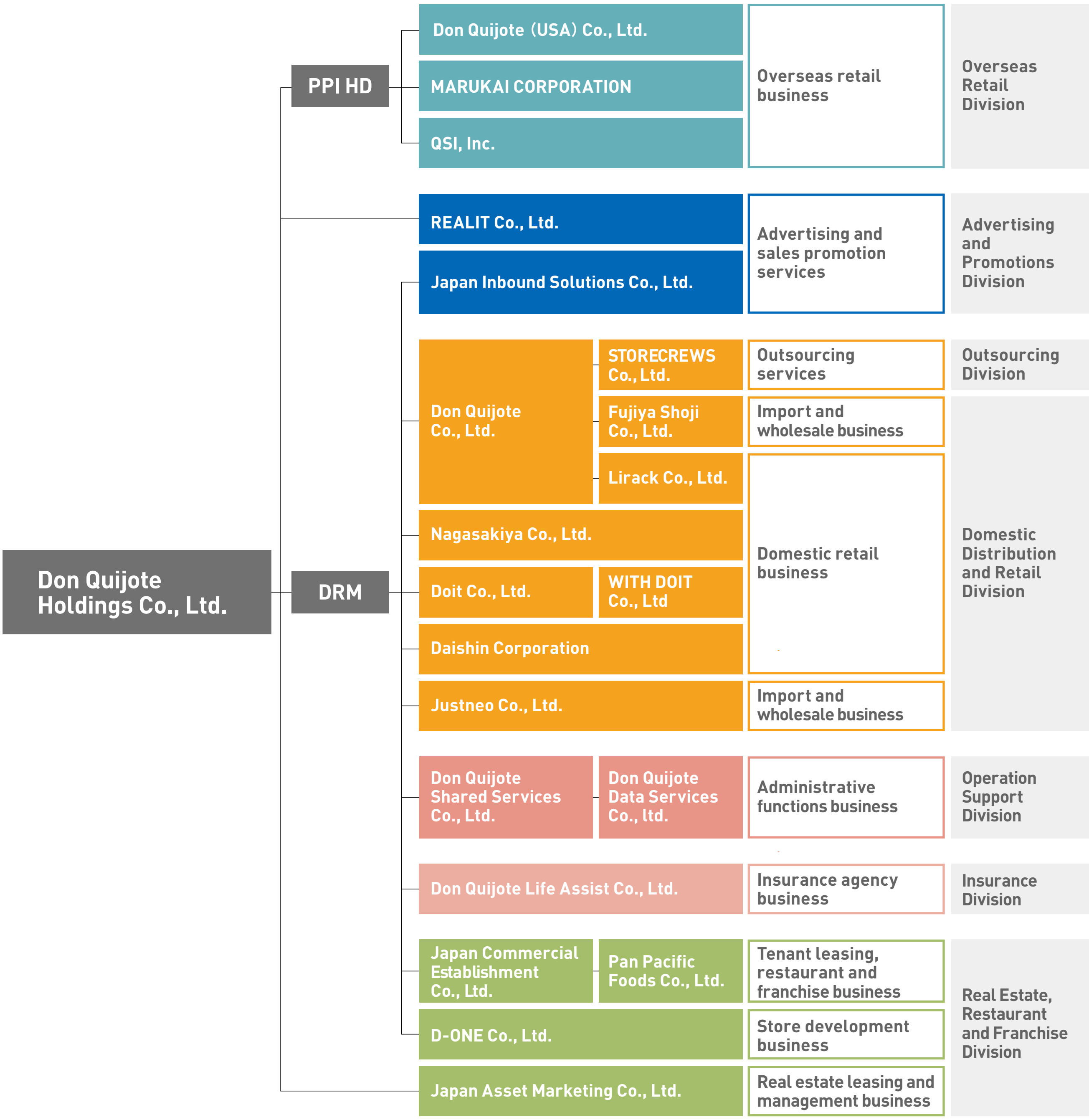
Don Quijote HLDGS

INTEGRATED REPORT 2017

We do it all for our customers

The Don Quijote Group comprises companies operating stores under several formats, notably, Don Quijote variety-style general discount stores, MEGA Don Quijote family-oriented general lifestyle discount stores, and Doit home centers handling do-it-yourself products. All formats are infused with the corporate philosophy of "valuing the customer as our utmost priority."



PPI HD : Pan Pacific International Holdings
DRM : Don Quijote Holdings Retail Management

As of September 30, 2017

Disclaimer Regarding Forward-Looking Statements
Forward-looking content in this integrated report is based on various assumptions and is not a guarantee of future performance or the realization of stated strategies.

Contents

Fiscal 2017 Highlights

28 consecutive years of higher consolidated sales and operating income

Attracted a greater number of customers through product mix and price advantage, and successfully deepened our fan base

Sales Growth at All Stores

9.1%

Enhanced our value propositions ahead of the competition as well as store operation capabilities, resulting in increased customer loyalty

Number of New Stores

32 stores

Expanded our store network steadily mainly with properties vacated by other retailers

Growth of Existing Stores of Don Quijote Co., Ltd.

2.6%

Bolstered efforts to thoroughly implement appealing prices in anticipation of changes in consumer sentiment

Growth of Existing Stores of Nagasakiya Co., Ltd.

2.9%

Demonstrated competitive advantage in family market

Tax-free Sales Ratio of Stores of Don Quijote Co., Ltd.

6.2%

Tax-free transactions continued to drive sales, paralleling increase in number of overseas visitors

Ranking of Market Capitalization in the Retail Industry*

8th

Stock price rose, reflecting steady growth, and ROE was up significantly year on year, reaching 13.5%

* Market capitalization is based on the closing price on the Tokyo Stock Exchange on July 31, 2017

Number of Items Sold (Domestic)

2.31 billion

Achieved new record, thanks to large number of customers

"majica" E-money Card Membership

tops 5 million

Sales share increased steadily thanks to high spending per customer

Dear Fellow Stakeholders

We will respond quickly to changes in the environment and to diversifying perceptions of value while promoting store operations based on our corporate philosophy of "valuing the customer as our utmost priority" and striving to further enhance corporate value.

With the support and encouragement of all stakeholders, the Don Quijote Group pursues store operations based on the corporate philosophy of "valuing the customer as our utmost priority" while demonstrating responsiveness to change, which we feel is the Group's biggest strength. Medium- to long-term management targets in Vision 2020, which concludes in 2020, the year that Tokyo hosts the Olympic and Paralympic Games, are for 1 trillion yen in net sales, a store network of 500 locations and a return on equity of 15%.

In fiscal 2017, ended June 30, 2017, the effects of various government measures were to appear and the domestic economy was expected to gradually recover against a backdrop of better employment and healthier personal income status. But the path ahead remains unclear, clouded particularly by the possible impact of uncertainties in overseas economies and fluctuations in financial and capital markets and the need for paying careful attention to new developments. In the retail industry, purchasing activity was adversely affected by a prolonged slump in household spending resulting from weak business sentiment, despite steady improvement in employment and personal income environments. Consumers were already showing themselves to be cost-conscious and selective in their purchases, and these trends became more firmly entrenched.

Against this backdrop, the Don Quijote Group tirelessly demonstrated strengths built on a frontline emphasis and a store emphasis that distinguish the Group's stores from those of its rivals and embraced aggressive management based on robust sales strategies. As a result, the Group posted another year of higher sales and operating income. This is entirely due to the support of our shareholders, and we extend our sincerest thanks to everyone involved in this commendable achievement.

The environment that surrounds us is ever-changing. Customer lifestyles and value perceptions are diversifying, fueled by such factors as fewer children and more seniors, noticeable depopulation of regional areas, globalization, social disparity, and innovations in information technology, such as the Internet of Things, big data and artificial intelligence. We must respond quickly to these changes, and we will need each and every employee to think long and hard about what they can do for customers and to go through a repeated process of creative destruction that is not tied to conventional concepts or past successes to meet customer needs. We will work toward achieving Vision 2020 and creating stores that give customers an enjoyable shopping experience.

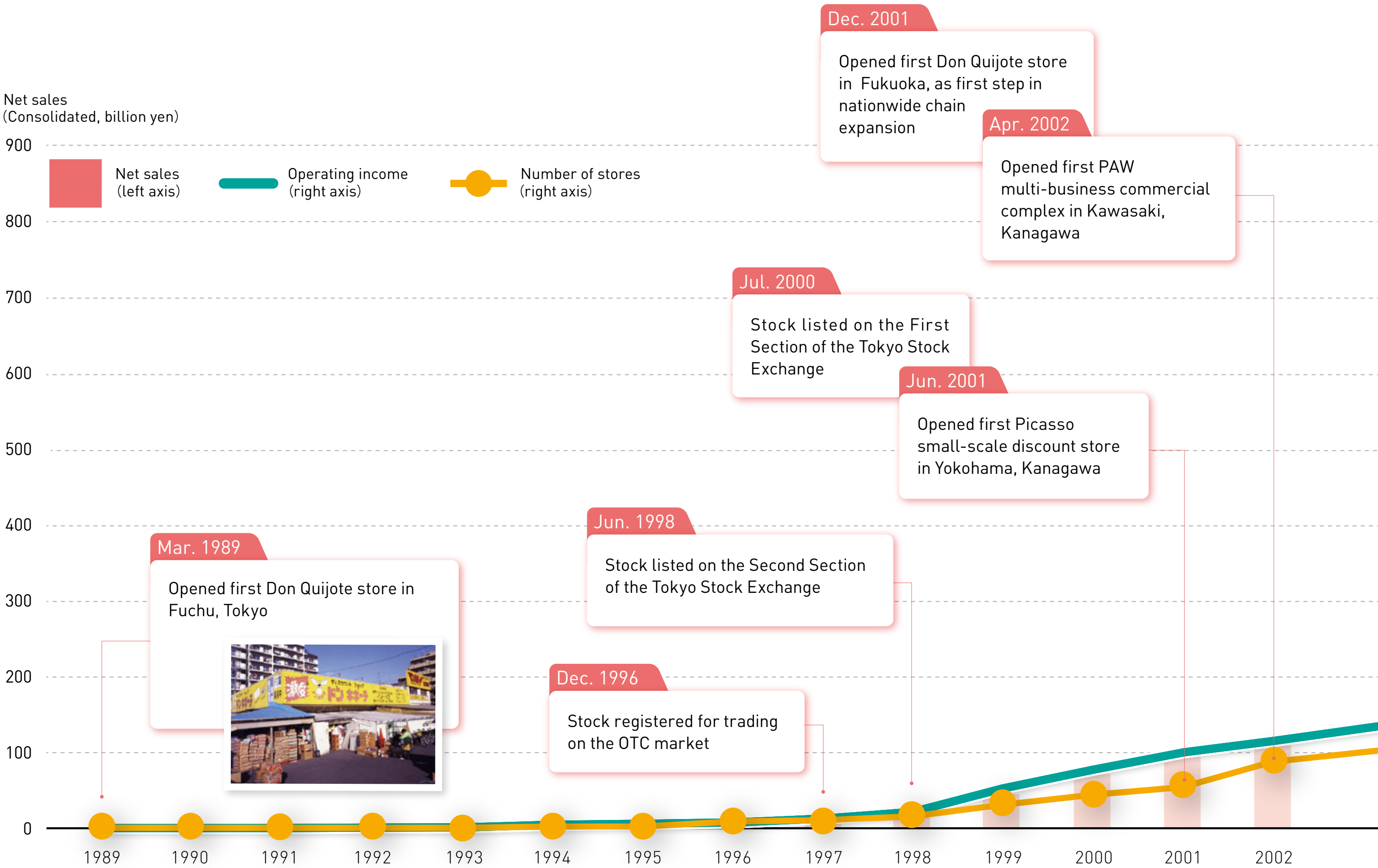
Going forward, we will continue to listen carefully to customers and constantly pursue innovation while discovering solutions to deal with social concerns that change with the times. We will also strive to be a general retailing group that has the enduring support of all stakeholders and work to further enhance corporate value.

Koji Ohara

Koji Ohara
President and CEO

The Don Quijote Group: Stages in Our History

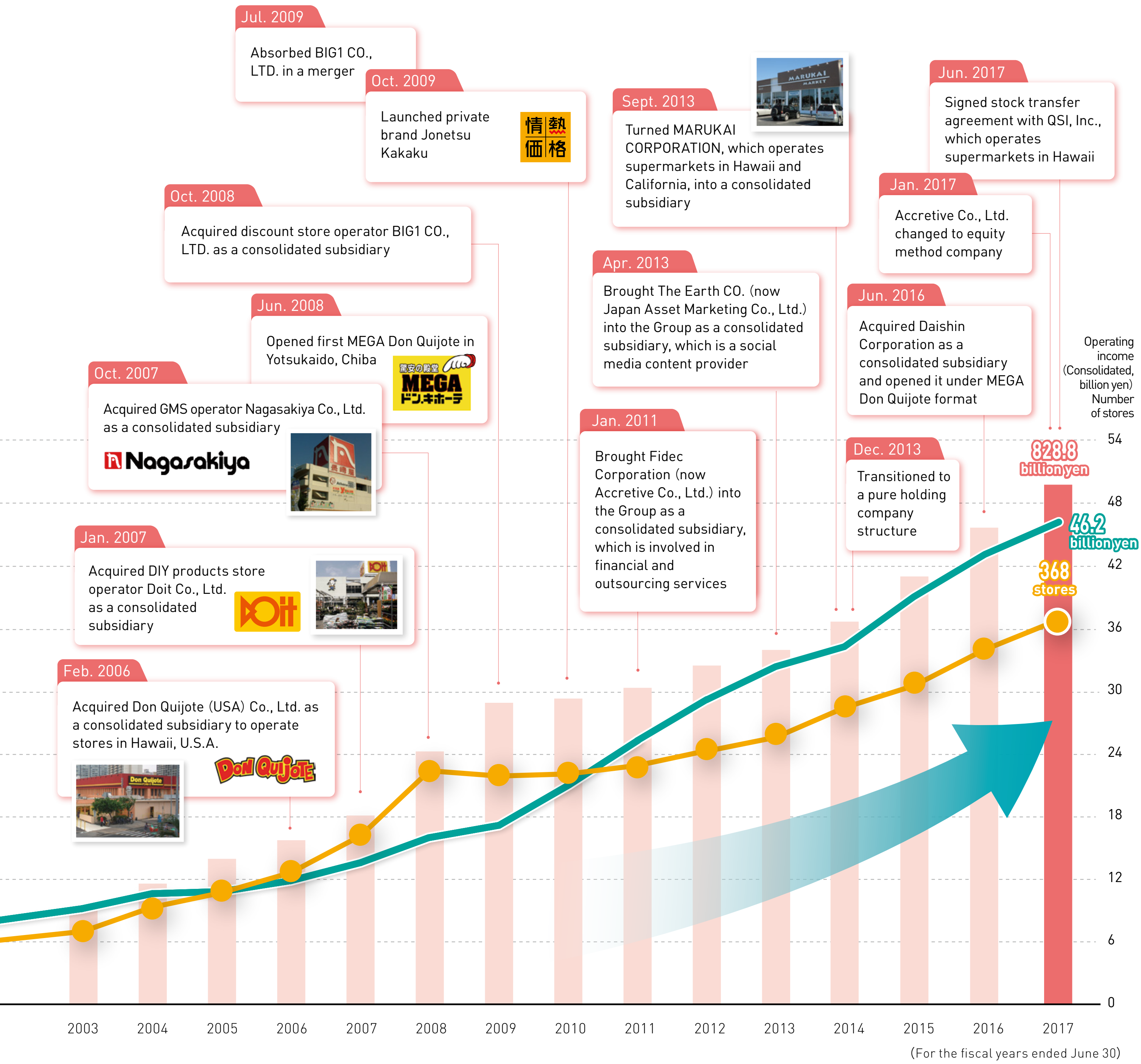
With solid customer loyalty, the Don Quijote Group has marked consistent growth for 28 years, a journey that began with the first Don Quijote store. Customers are increasingly price-conscious, especially with regard to daily necessities, such as food products and daily essentials, which has made the business environment rather challenging for retailers. Even under these conditions, the Don Quijote Group has continually tracked a higher number of customers to its stores by adhering to the corporate philosophy of "valuing the customer as our utmost priority," and the resulting support has translated into consecutively higher sales and income. We will draw on our strengths, namely, convenience, good prices and the fun and excitement of a great shopping experience unique to the Group, to fuel continued growth.



A Business Platform That Secures Profits Under Any Environment

The starting point for the Don Quijote Group was a general merchandise store, opened in 1978 by Takao Yasuda, who went on to establish Don Quijote. The store was small, with an area of only 60 to 70 square meters. Late one night, after the store had closed, Mr. Yasuda was restocking merchandise and arranging displays when a customer dropped by, thinking that the store was still open because the lights were on. This gave Mr. Yasuda the idea to target demand for late-night shopping. It was also here, in this small store, that "compression displays" for products and handwritten POP (point-of-purchase) cards, which filled all available space and then some, first appeared.

In 1989, the first Don Quijote store opened, in Fuchu, Tokyo. The know-how accumulated at this location provided the platform for developing a multi-store network, first in the Tokyo



metropolitan area and then expanding across all of Japan.

Then in 2006, Don Quijote kicked off acquisition activity with the purchase of stores in Hawaii, brought Doit and Nagasakiya under the Group umbrella in 2007, followed by BIG 1 in 2008 and MARUKAI CORPORATION in 2013, and most recently QSI in 2017. Today, we are an integrated retailing group with net sales of more than ¥800.0 billion. Even during lackluster economic times persisting in Japan since the 1990s—an era dubbed the "Lost Two Decades"—the Don Quijote Group has continued to achieve growth. This reflects a total commitment to our corporate philosophy of "valuing the customer as our utmost priority" and a constant quest to create new store formats.

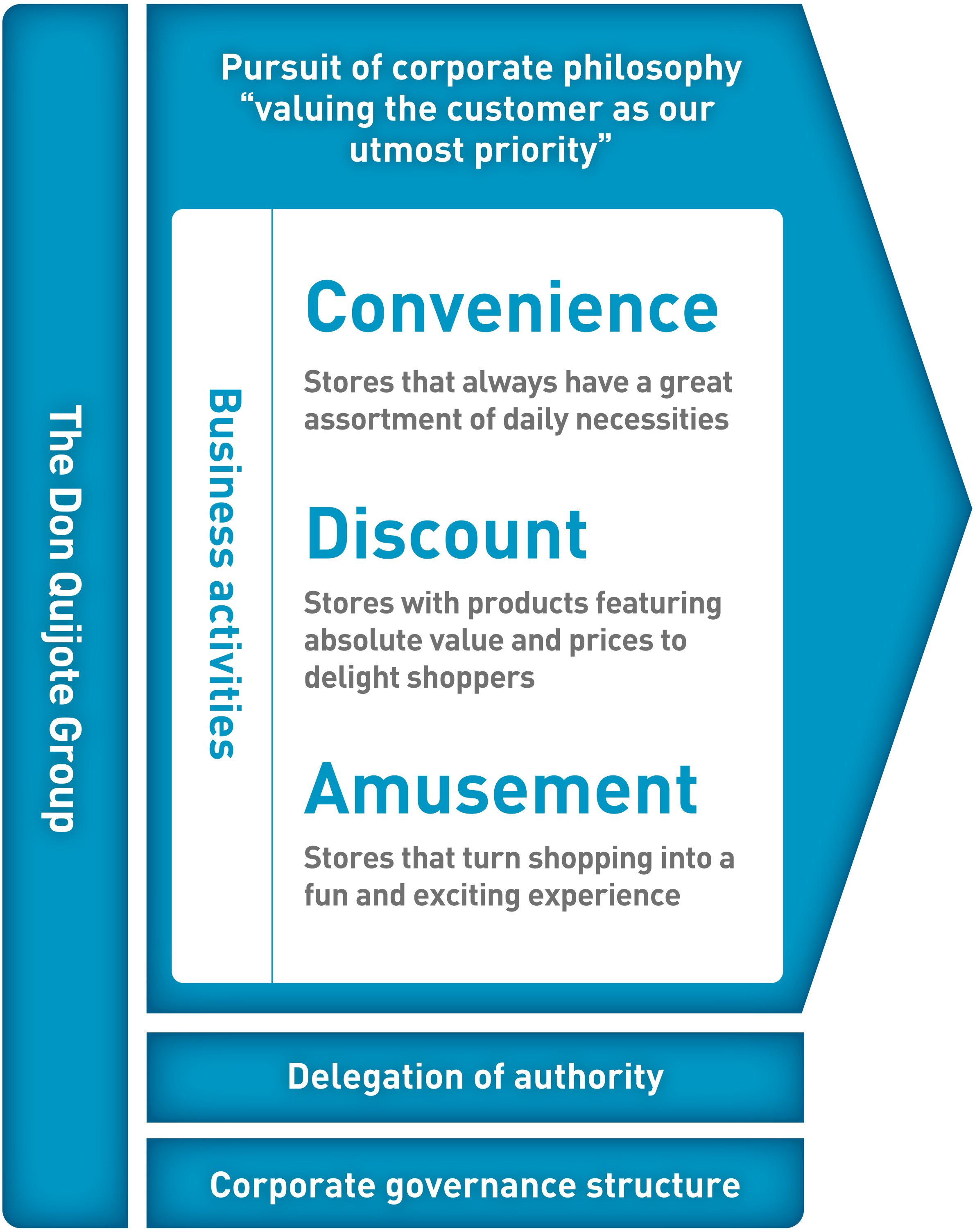
As a result, consolidated sales and operating income have charted a steady upward path for 28 consecutive years. In a ranking of retail companies by net sales*, Don Quijote moved into 10th spot (see page 28 for details).

* The 50th Survey on the Retailing Industry in Japan, *Nikkei MJ* (June 28, 2017)

Don Quijote Group's Value Story

As a general retailing group, the Don Quijote Group conducts business activities based on the three pillars of convenience, discount, and amusement, guided by the corporate philosophy of "valuing the customer as our utmost priority."

We will build relationships of coexistence and mutual prosperity with stakeholders including customers, while creating value for society, as we aim to realize a sustainable society through our activities.



Coexist and Prosper Mutually with Stakeholders

Customers

Number of customers

333.22 million

The Group makes it a top priority at all times to act in a way that supports customer lifestyles and provides shopping enjoyment.

Based on this corporate stance, the Group has leveraged its biggest strength—responsiveness to change—to create stores that meet diverse customer needs. As a result, we have won the loyalty of many customers in Japan and overseas, and continued to grow.

Local communities and the environment

Volume of delivery-use cardboard boxes from 100% recycling

40,110 tons

We carry out community-oriented CSR activities in various areas, including planning and execution of community revitalization projects in cooperation with local governments and shopping districts, with the aim of coexisting and mutually prospering with local communities.

Furthermore, in order to realize a sustainable society, we play an active role in social contribution activities that make use of retail industry resources, in addition to various efforts to reduce environmental load.

Employees

Number of employees (consolidated)

6,708

Number of temporary employees (consolidated)

18,792

(As of the end of June 2017)

The Don Quijote Group considers all employees as corporate assets. We direct concerted efforts into recruitment and development to draw out potential and personality among employees. We also strive to create an environment where each and every employee is highly motivated and works toward a higher level of job satisfaction.

We are implementing initiatives such as introducing work arrangements matched to different lifestyles and launching an in-house project in support of workstyles for women.

* Figure for the number of temporary employees is based on conversion to eight hours per person per day.

Product suppliers

Number of *kyoeikai* (co-prosperity club) member companies

Over 1,700

(As of the end of June 2017)

Building strong collaborative relationships with the partners who supply our products enables us to create stores and provide products guided by the corporate philosophy of "valuing the customer as our utmost priority." These efforts also lead to greater customer satisfaction. Based on this mindset, we have formed and operate a membership structure—the *kyoeikai* co-prosperity club—, a venue for communication aimed at coexistence and mutual prosperity between the Group and its partners.

Shareholders and investors

Foreign shareholding ratio

70.0%

Number of shareholders

8,781

(As of the end of June 2017)

We regularly provide IR information on our website covering management policy, business strategies, financial position/performance and other issues to allow our stakeholders to better understand the Group's business activities. We are also proactively pursuing activities aimed at the media.

Going forward, we will continue to take a long-term perspective in our business pursuits and strive to provide quick and honest information disclosure.

Data applies to fiscal 2017 (July 2016 to June 2017).

Driving Our Value Story

The Don Quijote Group leverages value creation by fully demonstrating three strengths: delegation of authority, speed and responsiveness to change.

1 Delegation of Authority

Strict adherence to store emphasis and frontline emphasis to promote high levels of customer affinity

2 Speed

Quick responses that anticipate constantly changing consumer needs

3 Responsiveness to Change

Regard even the slightest change in customer needs, which are always shifting, and apply the know-how to store creation

Delegation of Authority

Success through store capabilities

Store staff have the greatest opportunity to interact with customers, so companies that operate stores under the Don Quijote Group delegate considerable authority to their frontline staff, guided by our corporate philosophy of “valuing the customer as our utmost priority.” Such authority covers a range of merchandise-related duties, from purchasing and pricing to product mix and displays. Store staff with strong affinity to a specific customer group—that is, share similar sensibilities and lifestyle to, and are of a generation near the target customer base—arrange sales areas from a shopper’s viewpoint to create a unique store atmosphere.

We maintain a performance-linked evaluation structure, which assesses results fairly and is not influenced by age, gender or nationality. The delegation of authority is a practice firmly entrenched in our corporate culture, which encourages frontline staff to embrace challenges without fear of failure, and not only keeps them motivated but also enables everyone to actively develop their skills through repeated efforts to capitalize on opportunities.

Speed 2

Quick Response

All stores under the Don Quijote Group umbrella operate from a unique perspective matched to the characteristics of the respective commercial area. The objective is to respond quickly and flexibly to meet the needs of target customer groups and to address whatever competitive issues might derive from other stores. Each operating company delegates considerable merchandise-related authority to each of its stores, from purchasing to pricing and sales, so that each location can swiftly adjust prices and recombine the product mix in line with customer feedback and movements at rival stores. Speed is a corporate strength shared Groupwide that enables each store to quickly pinpoint ever-changing consumer needs and apply evolving demand trends into creating stores that capture No.1 status in each community.

3 Respon-
siveness
to Change

No.1 in each community

The shopping needs and demands of customers are always changing. Stores under the Don Quijote Group demonstrate responsiveness to change by monitoring customer sensitivity to consumer trends and repeatedly making minor adjustments to product mix and pricing. This builds loyalty among more and more customers and keeps market share growing. The store formats used within the Group are diverse, including mainstay Don Quijote, which targets young singles and couples, MEGA and New MEGA Don Quijote family-oriented stores in the suburbs, and small-scale Picasso stores. When opening new stores, management takes a flexible approach, selecting the best format in terms of building size and the characteristics of the commercial area.

Consolidated Financial Highlights

For the fiscal years ended June 30

	2008	2009	2010	2011
For the fiscal year				
Net sales	¥404,924	¥480,856	¥487,571	¥507,661
Cost of goods sold	296,215	353,616	364,065	378,587
Selling, general and administrative expenses	92,728	110,068	102,439	103,738
Operating income	15,981	17,172	21,067	25,336
Ordinary income	17,204	15,989	21,109	25,138
Profit before income taxes	16,640	14,214	16,845	21,147
Profit attributable to owners of parent	9,303	8,554	10,238	12,663

	2008	2009	2010	2011
At year-end				
Total assets	¥276,288	¥297,527	¥302,029	¥341,300
Total equity	84,625	89,972	106,760	125,242

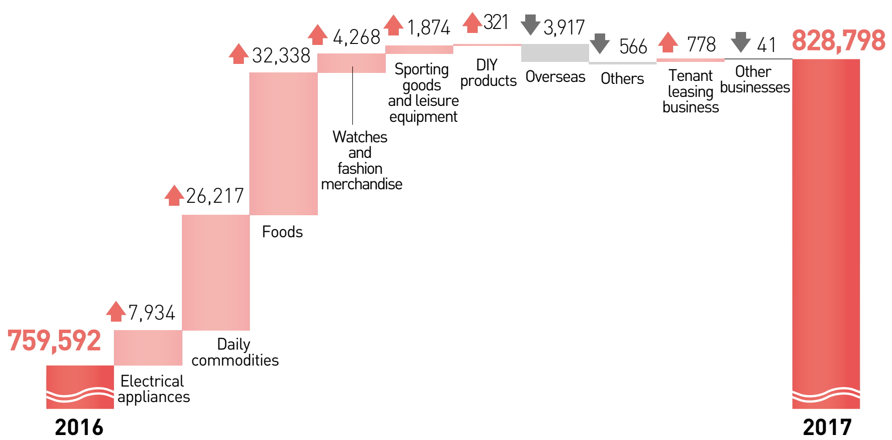
	2008	2009	2010	2011
Per share*				
Basic earnings	¥65.39	¥61.85	¥73.68	¥83.91
Diluted earnings	61.00	61.85	68.82	82.17
Cash dividends	11.00	11.50	12.50	14.00

* Per share amounts were calculated on the assumption that a stock split executed in July 1, 2015 occurred at the beginning of fiscal 2008.

	2008	2009	2010	2011
Key ratios				
ROA	3.8	3.0	3.4	3.9
ROE	11.3	10.0	10.5	11.1

1 Net Sales by Product Category

Millions of yen



Daily necessities, such as foods and daily commodities, contributed greater amounts to net sales, thanks to robust efforts to leverage merchandise mix and appealing prices fine-tuned to consumer sentiment and social conditions. Inbound purchasing, driven by a higher number of customers, painted a favorable trend. Daily essentials, such as cosmetics and pharmaceuticals, were popular. The tenant leasing business moved in a favorable direction, paralleling aggressive store-opening activities.

					Millions of yen
2012	2013	2014	2015	2016	**2017**
¥540,255	¥568,377	¥612,424	¥683,981	¥759,592	**¥828,798** ❶
400,712	418,570	451,406	502,240	557,699	**610,218**
110,223	117,438	126,726	142,638	158,708	**172,395** ❷
29,320	32,369	34,292	39,103	43,185	**46,185**
29,283	33,201	35,487	40,160	43,797	**45,523**
30,395	33,382	34,225	39,157	42,113	**55,325**
19,845	21,141	21,471	23,148	24,938	**33,082**

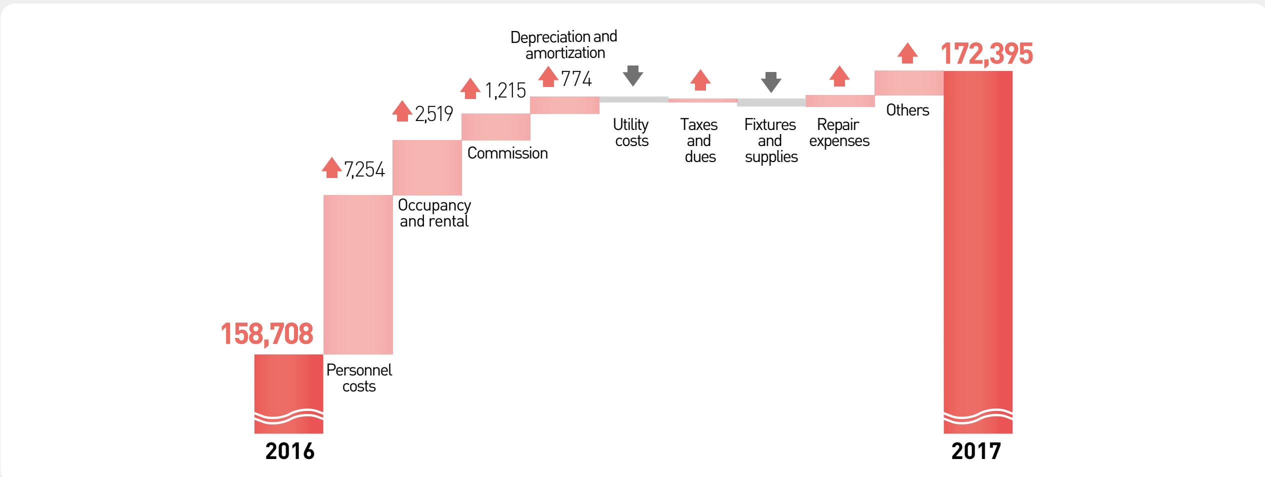
					Millions of yen
2012	2013	2014	2015	2016	**2017**
¥362,651	¥386,622	¥432,135	¥505,666	¥560,568	**¥642,868**
145,735	170,178	193,164	221,367	244,547	**279,930**

					Yen
2012	2013	2014	2015	2016	**2017**
¥128.74	¥136.74	¥137.34	¥147.09	¥157.76	**¥209.18**
128.45	136.17	136.56	146.63	157.65	**209.04**
15.50	16.50	18.00	20.00	22.00	**26.00**

					%
2012	2013	2014	2015	2016	**2017**
5.6	5.6	5.2	4.9	4.7	**5.5**
14.9	13.7	12.1	11.6	11.2	**13.5**

❷ Selling, General and Administrative Expenses

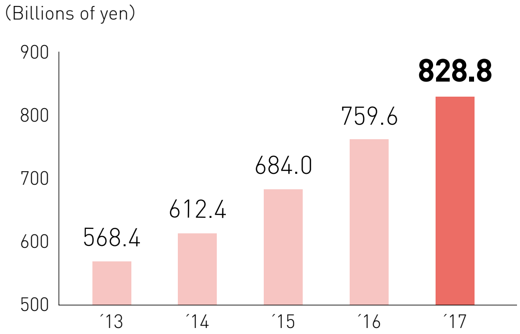
Millions of yen



We recorded higher miscellaneous costs at new stores, particularly personnel costs and occupancy and rental expenses, paralleling the promotion of aggressive management. At existing stores, the success of business improvements, labor policies and major restructuring efforts offset changes in the sales mix and higher man-hours, while other expenses, such as utility and fixtures and office supplies, decreased. As a result, selling, general and administrative expenses settled at ¥172.4 billion, up 8.6%, on a consolidated basis.

Consolidated Financial Highlights

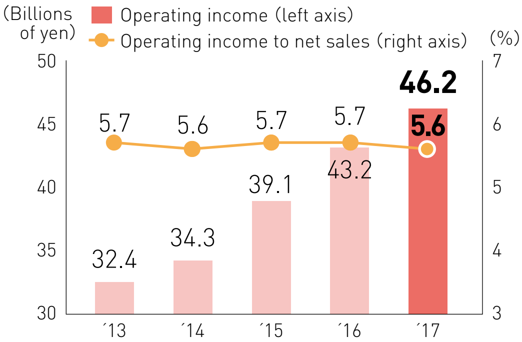
Net Sales



¥828.8billion
Year on year
Up9.1%

Against a backdrop of persistently sluggish purchasing interest among consumers, we trailblazed a path in competitive pricing with stores playing the price leader in their respective commercial area and were rewarded with higher customer loyalty. Inbound demand was up as well, adding to a 9.1% increase in **net sales, to ¥828.8 billion**.

Operating Income/Operating Income to Net Sales

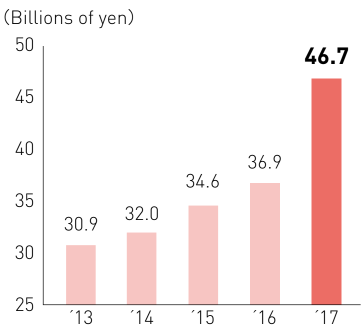


¥46.2billion
Year on year
Up6.9%

5.6%
Year on year
Down0.1ppt

Higher personnel expenses, reflecting aggressive store-opening activities and an increase in man-hours, were held to an appropriate level through business restructuring and other control measures. As a result, **operating income** rose 6.9%, **to ¥46.2 billion**, and **operating income to net sales hit 5.6%**.

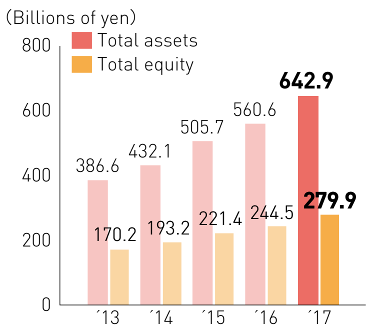
Cash Flow



Cash flow amounted to ¥46.7 billion, with the primary factors being higher profit and an increase in depreciation and amortization.

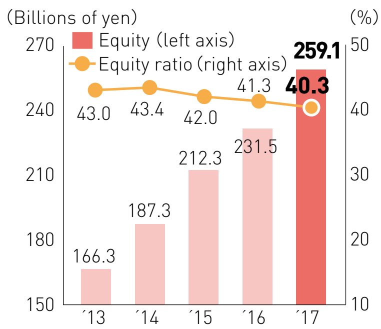
Note: Cash flow = Profit attributable to owners of parent + Depreciation and amortization + Extraordinary loss – Cash dividends paid

Total Assets/Total Equity



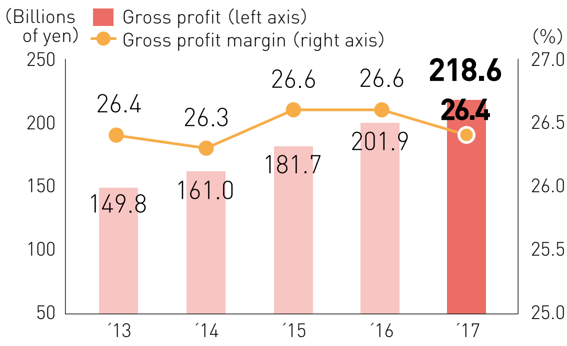
Total assets stood at ¥642.9 billion, up ¥82.3 billion from the previous fiscal year, largely due to increases in cash and deposits, inventories and property, plant and equipment. **Total equity settled at ¥279.9 billion**, up ¥35.4 billion from a year earlier.

Equity/Equity Ratio



The equity ratio slipped 1.0 percentage point from the end of fiscal 2016, to **40.3%**, but the level **indicates sustained corporate financial strength and stability**.

Gross Profit/Gross Profit Margin

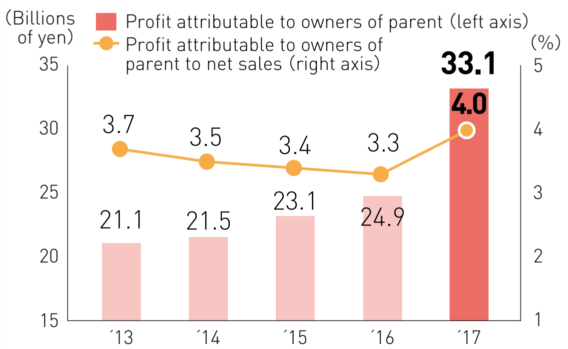


¥218.6billion
Year on year
Up 8.3%

26.4%
Year on year
Down 0.2ppt

Increases in the number of customers and number of items sold, along with effective utilization of private brand items and spot products, led to **gross profit of ¥218.6 billion**, up 8.3% year on year. The **gross profit margin hit 26.4%**.

Profit Attributable to Owners of Parent/Profit Attributable to Owners of Parent to Net Sales

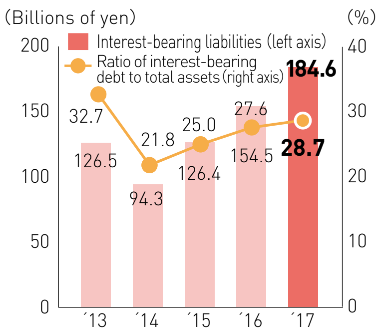


¥33.1billion
Year on year
Up 32.7%

4.0%
Year on year
Up 0.7ppt

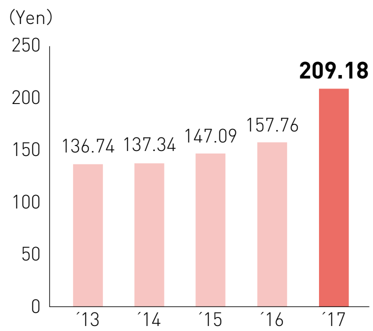
Profit attributable to owners of parent reached ¥33.1 billion, jumping 32.7% year on year, and marking the eighth straight year of record-breaking results. **Profit attributable to owners of parent to net sales came to 4.0%**.

Interest-Bearing Liabilities/ Ratio of Interest-Bearing Debt to Total Assets



A suitable level of capital was secured for our new store-opening plan, leading to **interest-bearing liabilities of ¥184.6 billion** and a **ratio of interest-bearing debt to total assets of 28.7%**.

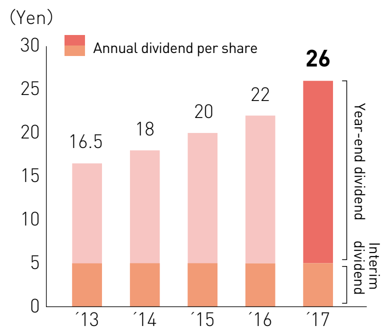
Earnings per Share (EPS)



Earnings per share (EPS) amounted to ¥209.18, up ¥51.42 from a year ago.

Note: On July 1, 2015, the Company executed a stock split of common shares at a ratio of 2-to-1. EPS values for prior years have been retroactively restated.

Annual Dividends per Share



The annual dividend for fiscal 2017 was ¥26 per share. Taking into account effective increases through stock splits, this marked the **14th consecutive year of increased dividends**.

Note: On July 1, 2015, the Company executed a stock split of common shares at a ratio of 2-to-1. Dividend values for prior years have been retroactively restated.

Fiscal 2017 Digest

	First Quarter			Second Quarter		
	2016 Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Don Quijote Group News	• Launched “majica” cardless e-receipt service	• Opened first remote island store (Miyakojima) • Implemented heatstroke prevention campaign for inbound tourists	• Transitioned to company with audit & supervisory committee	• Began “majica Premium Global” service	• Opened Donkids daycare within facilities • Opened first store in Tottori Prefecture	• Marked 20th year as listed company
New Stores	**Kawanishi** (Kawanishi, Hyogo Prefecture) **Kyoto Avanti** (Kyoto) **Namba Sennichimae** (Osaka) **MEGA Hitachi** (Hitachi, Ibaraki Prefecture) **MEGA Tokainawa** (Tokai, Aichi Prefecture)	**Minami-Kumamoto** (Kumamoto, Kumamoto Prefecture) **MEGA Miyakojima** (Miyakojima, Okinawa Prefecture)	**Sakai Ohashi** (Sashima-gun, Ibaraki Prefecture) **Fukuoka-Imajyuku** (Fukuoka, Fukuoka Prefecture) **MEGA Fukuchiyama** (Fukuchiyama, Kyoto)	**MEGA Oita Mitsuyoshi Inter** (Oita, Oita Prefecture)	**Tottori Honten** (Tottori, Tottori Prefecture) **MEGA Kanazawa-Kuratsuki** (Kanazawa, Ishikawa Prefecture) **MEGA Yachiyo 16 go bypass** (Yachiyo, Chiba Prefecture) **Doit WithReHome Yachiyo 16 go bypass** (Yachiyo, Chiba Prefecture)	**MEGA Kannana-umejima** (Adachi-ku, Tokyo)
Economic News in Japan	Total number of inbound tourists exceeded 14 million during January–July	August 11 set as new national holiday in Japan—Mountain Day (*Yama no Hi*)	Japanese government establishes the Secretariat for Promoting the Realization of Work Style Reform under Cabinet Secretariat, and holds first Council for the Realization of Work Style Reform	Total number of inbound tourists exceeded 20 million for the first time during January–October		Annual spending by inbound tourists rose 7.8% year on year, to ¥3,747.6 billion, and hit an all-time high Exchange rates, with sustained appreciation of the yen, dropped after the U.S. presidential election. Moved into range of ¥117 to U.S. dollar on last day of trading

Third Quarter

2017 Jan.

- Increased shareholding ratio in Japan Asset Marketing through exercise of warrants and convertible bonds
- Accretive Co., Ltd. changed from consolidated subsidiary to equity method company

Feb.

- Began "majica Premium Now" service

majica PREMIUM NOW

Jinbouchou-Yasukunidori (Chiyoda-ku, Tokyo)

Kyōyasudō Higashimatsuyama-Rokkencho (Higashimatsuyama, Saitama Prefecture)

Doit PRO Iwatsuki (Saitama, Saitama Prefecture)

"Premium Friday" introduced as joint public-private initiative spearheaded by Ministry of Economy, Trade and Industry

Mar.

- Procured funds (subordinated loan agreement for ¥100.0 billion and unsecured corporate bond issuance of ¥10.0 billion)

Oyama-Ekimae (Oyama, Tochigi Prefecture)

MEGA Toyosato (Inugami-gun, Shiga Prefecture)

MEGA Fukuoka-Nakagawa (Chikushi-gun, Fukuoka Prefecture)

Fourth Quarter

Apr.

Shimodate (Chikusei, Ibaraki Prefecture)

Abeno Tennouji-Ekimae (Osaka)

MEGA Tsu-sakurabashi (Tsu, Mie Prefecture)

City Doit Nishikawaguchi (Warabi, Saitama Prefecture)

Liberalization of retail gas market begins

May

- "majica" membership topped five million

MEGA Shibuya Honten (Shibuya-ku, Tokyo)

Total number of inbound tourists reached 11.411 million during January–May, topping 10 million in record time

Jun.

- Signed stock transfer agreement with QSI, Inc.

Chino (Chino, Nagano Prefecture)

MEGA Tomei-Kawasaki (Kawasaki, Kanagawa Prefecture)

MEGA Ito (Ito, Shizuoka Prefecture)

MEGA Kobe Gakuentoshi (Kobe, Hyogo Prefecture)

Picasso Nokendai-Ekimae (Yokohama, Kanagawa Prefecture)

Liquor tax law partially revised

Active job opening rate reaches high level for the first time in 43 years

Top Message

Looking back on fiscal 2017, what kind of year was it?

Fiscal 2017—my second term since assuming the management role held by founder Takao Yasuda—was a year of progress as several reforms and measures implemented in my own style of management got on track. The Don Quijote Group is working on five types of development—store format, store network, products, personnel and organization—to achieve Vision 2020, and in fiscal 2017, we made particularly good progress in personnel and organization development. On the personnel front, we worked to boost motivation among young executive candidates through such approaches as training for next-generation management teams based on the newly created sales department manager position. We also applied measures to enhance delegation of authority and responsiveness to change according to store and area. Meanwhile, on the organization front, we made a huge change, with the 18-branch structure decentralized into a system of six sales departments and 52 branches according to store format and geographical area. This move was designed to strengthen store responses to customers in each commercial area and to fully demonstrate small-scale advantages.

I firmly believe that true corporate strength comes from the combined wisdom of employees. To put it another way, a vital component of corporate management is maximizing the awareness and inherent wisdom of each and every one of our nearly 40,000 frontline employees. I am pleased to say that synergies derived from personnel and organization development through recent reforms have pushed our wisdom total to a rather high level, strengthened our physical fitness in a corporate sense, and polished the Group's responsiveness to change.

Please describe fiscal 2017 measures, business results and dividend status.

A deflationary mindset lingered among consumers in fiscal 2017. Nonetheless, we were able to gain market share by enriching the selection of daily necessities, such as food products and everyday items, and by leading competitive pricing with stores playing the price leader in their respective commercial area. In addition, a positive trend emerged in tax-free sales for overseas travelers, with consumables such as cosmetics and pharmaceuticals presenting as growth drivers. Consequently, consolidated business results were quite excellent, with net sales rising 9.1% year on year, to ¥828.8 billion, operating income increasing 6.9%, to ¥46.2 billion, ordinary income edging up 3.9%, to ¥45.5 billion, and profit attributable to owners of parent jumping 32.7%, to ¥33.1 billion.

1. MEGA Don Quijote Tomei-Kawasaki store 2. Don Quijote Shimodate store

1

2

Fiscal 2017 marked the 28th straight year of higher sales and operating income, on a consolidated basis, and the eighth consecutive year of record-breaking profits.

The annual dividend for fiscal 2017 was set at ¥26 per share, up ¥4 from fiscal 2016. Regardless of our introduction of a progressive dividend policy, we remain committed to providing a stable return to shareholders, underpinned by aggressive business expansion, and toward this end we will emphasize a stronger management platform, additional business restructuring and a firmer financial position.

Performance Highlights

Net sales	¥828.8 billion
Operating income	¥46.2 billion
Profit attributable to owners of parent	¥33.1 billion
Total assets	¥642.9 billion
Total equity	¥279.9 billion
Earnings per share	¥209.18

Please describe the measures that were emphasized.

In fiscal 2017, we marked favorable progress in store development, highlighted by the opening of 32 new stores.

Also of note, we recorded same-store sales growth of 2.6% for Don Quijote. Solid growth at existing stores is a reflection of our ability to successfully expand the selection of daily necessities, such as food products and everyday items, and to demonstrate excellence in our pricing strategy, matched to the shopping trends of customers and whatever competitive conditions prevail.

What is the performance forecast for fiscal 2018?

We will continue to leverage the advantages of store development, with a focus on the Don Quijote and MEGA Don Quijote store formats while also promoting the development of new formats and creating stores that are enticing to customers and meet their needs.

On a consolidated basis, our forecast is for net sales of ¥880.0 billion, up 6.2% year on year, operating income of ¥48.0 billion, up 3.9%, ordinary income of ¥48.0 billion, up 5.4%, and profit attributable to owners of parent of ¥28.0 billion, down 15.4%.

Looking to 2020 and beyond

Even during the economic slowdown that persisted in Japan during the 1990s and 2000s—dubbed the "Lost Two Decades"—the Don Quijote Group continued to grow. This reflects an untiring approach to adapt to changes in the market, a repeated process of subtle adjustments on a daily basis, and an enduring quest to create new store formats.

The year 2020 is when Tokyo hosts the Olympic and Paralympic Games, and it will be monumental for Japan. We have to build on our solid business results in 2021 and onward, just as we do now. I intend on remaining committed to my management approach of calculating backwards from future creation.

The Don Quijote Group will take an even more enthusiastic approach than before in a variety of store formats. We will also embark on the domestic retail industry, which is considered rather conservative, and kindle new trends. We are committed to further challenges, and stakeholders can certainly expect the Don Quijote Group to deliver.

Special Feature 1

Capturing Domestic Consumer Demand

Despite a consumer environment dampened by a strong sense of deflation, we barreled ahead with our ability to respond to changes and extended our run of higher sales and operating income for the 28th consecutive year.

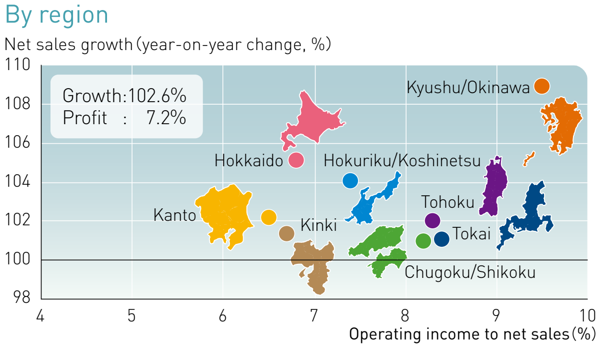
Opening new stores aggressively through diverse store formats matched to commercial area and location

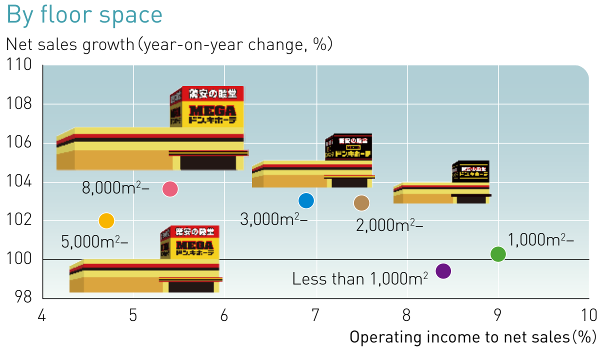
Within the Don Quijote Group, our primary approach has been to open stores in buildings vacated by other companies. We have aggressively opened new stores, paralleling profitability, and accelerated efforts to gain a wider share of the retail market.

We have a diverse menu of business formats and know-how that enables us to operate different kinds of stores, including small stores of around 500m^2 to large ones of over 10,000m^2, each matched to commercial area and location in major urban centers and regional cities. We draw on this inherent expertise in taking an active approach toward opening new stores geared to local characteristics and customer needs.

In fiscal 2017, we opened 32 new stores, bringing the Groupwide total to 368 locations.

Net sales growth at existing stores/operating income to net sales





Data represents existing stores operated by Don Quijote Co., Ltd. and Nagasakiya Co., Ltd. (July 1, 2016–June 30, 2017)

Expanding domestic market share steadily by strengthening unique value propositions and store operation capabilities

Against a backdrop of sluggish household spending and an increasingly entrenched consumer sentiment toward budgeting, the Don Quijote Group was able to come out ahead despite a thick sales war atmosphere. This reflects the ability to access merchandise that other companies cannot and the ability to offer prices that appeal to customers as well as efforts to raise the marketing strengths of each store through the delegation of authority to frontline staff.

We reinforced our selection of daily necessities, such as foods and daily essentials, while remaining firmly committed to our everyday low-price policy. This approach has cemented our position as a price leader in each commercial area.

The MEGA Don Quijote format, which was developed as a business model with the post-general merchandise store in mind, boasts the fun and convenience of Don Quijote with the added features of a merchandise mix that includes foods and daily commodities. We have created a shopping environment centered on satisfying the needs of housewives and families.

We will emphasize store openings under the MEGA Don Quijote format for roadside locations in the suburbs and expand our share of the general supermarket sector in Japan.

Debut of forward-thinking flagship store showcasing Shibuya

MEGA Don Quijote Shibuya Honten

The much-loved Don Quijote Shibuya store was relocated across the street from its home of 18 years, and was opened in May 2017 as MEGA Don Quijote Shibuya Honten.

A concerted effort went into creating the merchandise mix for the store with the largest retail floor space in central Tokyo. This new location features fresh food, side dishes and lunch boxes as well as non-food items such as cosmetics and electrical appliances.

MEGA Don Quijote Shibuya Honten is open around the clock to cater to the needs of a diverse customer base, including families and people working at nearby restaurants. With the rise in inbound demand as well, the store is offering an extensive selection of souvenirs endorsed by Shibuya City Tourism Association as well as other products that showcase the city of Shibuya and contribute to the area's revitalization.

Promoting the attraction of Shibuya to customers in Japan and overseas by aiming to be a store that serves as a customer attraction spot for bringing in more people to the Shibuya area

Kansai's first hotel-connected store opens as new area landmark

Don Quijote Abeno Tennouji-Ekimae Store

In April 2017, we marked the opening of a store—Don Quijote Abeno Tennouji-Ekimae store—the first in Kansai to be integrated with a hotel, adjacent to a residential district and near Tennoji Station, the southern gateway of Osaka city.

Along with daily necessities aimed at offering the lowest prices in the area, the store boasts an extensive selection of products which allow people with free time to browse freely. The store also offers an assortment of services and popular products for visitors to Japan. Our underlying goal is to build the Don Quijote Abeno Tennouji-Ekimae store into a new landmark that contributes to the lively, energetic atmosphere of the Tennouji area.

Second store in Osaka to feature a store-front aquarium and large exterior LED panels that change seasonally

First store in Nagano Nanshin region—a store with close ties to the community

Don Quijote Chino store

In June 2017, we opened a store in Chino, Nagano Prefecture, the first Don Quijote store in the Nanshin region (including Suwa, Kamiina and Hani). Located nearby Suwa Taisha Shrine, the store is sure to attract local customers as well as travelers from other parts of Japan and abroad. Concerted efforts have been made to provide a full lineup of trend-infused items, including Restoration, a private line of casual apparel.

The store is focusing on families but has a great merchandise mix to meet the needs of diverse customer groups.

Along Route 152, linking Chino and Ueda

Special Feature 2

Tapping Inbound Demand

Tax-free sales and number of customers tracking upward, thanks to product mix attuned to changing demand and ability to attract purchasing interest of visitors to Japan

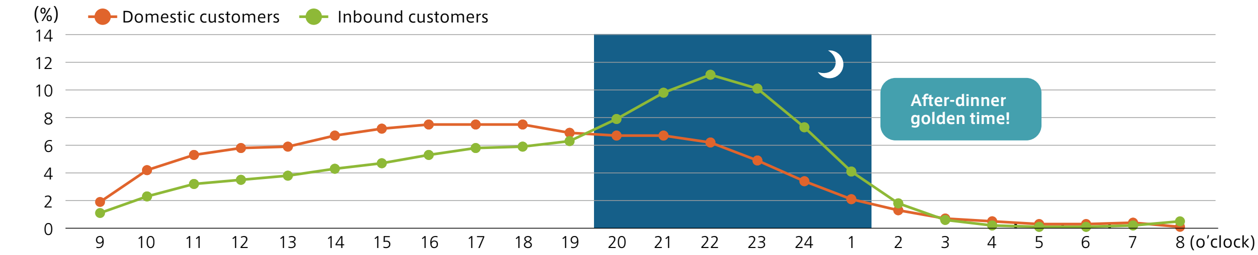
Products and services that fulfill the changing preferences of overseas visitors, successful store creation and continuously rising tax-free sales

A revised tax-free program was introduced in October 2014, and in 2015, the inbound market was already seeing an amazing rate of growth. The market garnered attention, mainly due to shopping sprees for high-priced items, such as brand-name products and electric appliances. In 2016, spending in general turned sluggish, due to such factors as tougher import duties by the Chinese government and yen appreciation. Though spending per customer faltered, the situation has reversed, with purchasing amounts charting upward again since early 2017.

This business environment prompted a change in the composition of best-selling products. To capitalize on evolving preferences, the Don Quijote Group worked to strengthen product content in the low-price range, such as cosmetics and pharmaceuticals. With each store successfully demonstrating responsiveness to change, tax-free sales steadily expanded. As a result, the number of inbound customers continued to grow, reaching 3.22 million in fiscal 2017, up 39% year on year.

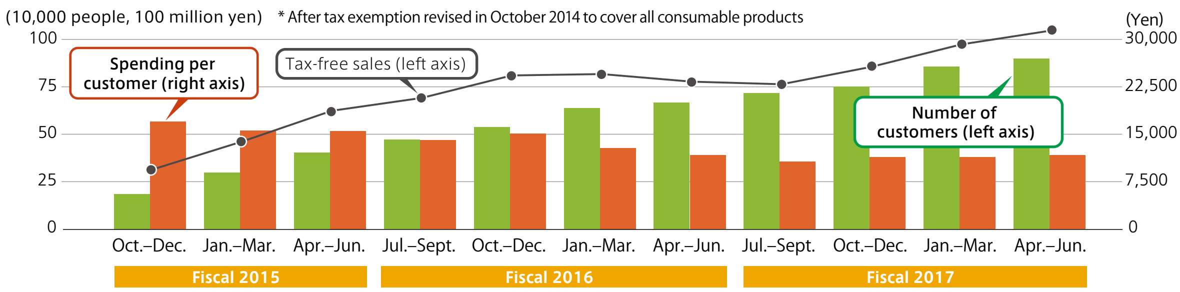
Tax-free sales hit ¥36.4 billion and comprised 6.2% of our sales ratio. The Group will continue to roll out product strategies that capture the purchasing interest of overseas visitors and demonstrate a solid presence in the inbound market.

Number of customers by the hour



Data represents Don Quijote Co., Ltd. (July 1, 2016–June 30, 2017)

Number of tax-free customers and spending per customer



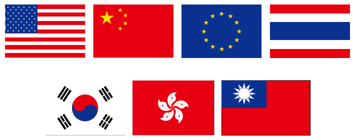
Data represents Don Quijote Co., Ltd.

From products to services; Don Quijote's services for inbound customers become topic of conversation on social media at home and abroad

Establishment of "welcome desk" (special counter for overseas visitors)

Flagship stores that are particularly popular with inbound tourists have special counters that cater to overseas visitors. "Welcome crew" supports overseas visitors with their shopping needs by providing assistance mainly with tax-free paperwork and interpretations, as necessary. In addition, Don Quijote launched a "welcome reservation website," where visitors to Japan can pre-order items before arrival, and an airport delivery service, which sends items purchased in-store to the customer's airport of departure for pickup.

Payments accepted in seven currencies at foreign-currency counters

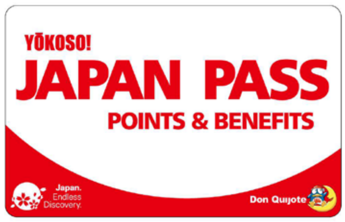


Don Quijote has set up counters that accept seven major currencies, including the Chinese yuan, U.S. dollar and Euro. This service is available at nearly every store in the domestic network.

Multi-language access to DONKI Free Wi-Fi

As many visitors to Japan find the country's telecommunications environment rather problematic, Don Quijote was quick to set up in-store Wi-Fi access. All Don Quijote stores offer free Wi-Fi services with instructions available in several languages for easy use.

Distribution of Yokoso! Map and Yokoso! Japan Pass



"Yokoso! Map"—a welcome map distributed to foreign travelers at no charge—not only provides the locations of Don Quijote stores but also information on nearby sightseeing spots, accommodations, and eating and drinking establishments. The map encourages inbound visitors to take advantage of local services. Meanwhile, "Yokoso! Japan Pass" is a loyalty card that overseas visitors can use at participating stores in the area to collect points.

Other services for overseas visitors that make shopping fun and easy

- Nearly all stores in Japan offer tax-free service and accept China UnionPay credit cards
- 37 stores in Japan offer visitors from China the option to use Alipay and WeChat Pay smartphone payment methods (began service in July 2017)

What's new

Launch of "majica" Premium Global overseas delivery service to enable overseas visitors to make repeat purchases after returning home

In October 2016, we began the "majica" Premium Global e-commerce service for visitors to Japan. This service provides delivery of products to customers' homes around the world after registering in-store and placing an order through our dedicated site or app. In 2017, we will gradually expand the number of stores offering this service.

Special Feature 3

Evolving Private Brand Products

Development of private brand products, a pillar of our growth, embraces SPA model for enhanced originality and proposals toward new trends

Private brand Jonetsu Kakaku series a major hit; reinforcing profitability through shift toward SPA*1 model

During fiscal 2017, we marked notable achievements in product development, highlighted by our tremendously successful private brand (PB) product, Jonetsu Kakaku Plus 4K television. Sales of products under our PB accounted for 11.0% of net sales and represented 15.9% of gross profit. Year after year, we make improvements to our PB products, in terms of product mix and quality, as it continues to evolve as a growth driver for the Group. We are shifting from our previous PB and OEM*2 model to an SPA model, concentrating on our fashion division, to promote enhanced originality and proposals toward new trends.

The symbols of this shift are two full-fledged SPA clothing brands—Restoration and Active Gear—which we developed in 2014. Compared with typical PBs and OEMs, the SPA model will connect directly to the creation of core fans and contribute to higher profit margins. Thereby, going forward, we will apply a process of line-robbing*3 to our lifestyle divisions as we strive to build new pillars of revenue.

*1 Specialty store retailer with comprehensive involvement from manufacturing through to retail
*2 Manufacturers making products under other companies' labels
*3 Differentiating from other stores by focusing on a limited range of products in a specific category

What's new

Jibun Senyo (Personal) PC & Tablet wins Generic Consumer Electronics Award in 2016

Jibun Senyo PC & Tablet

Comment from development coordinator

The Jibun Senyo (Personal) PC & Tablet, a Jonetsu Kakaku product, recently captured top prize in the Generic Consumer Electronics Awards. This award recognizes excellent consumer electronics through encouraging improvement in the quality and safety of products by small and medium-sized manufacturers—thus, excluding the eight major consumer electronics companies in Japan—in the hope of expanding the market. This product is offered at an amazingly low price, reflecting our focus on essential features and achievement of greater efficiency at the manufacturing stage. The most difficult aspect for us was cost negotiations with our development partner. We arrived at a critical price point through repeated discussions where we bounced enthusiastic ideas off each other. Going forward, we—that is, the Don Quijote Group—remain committed to cooperating with our development partners in the pursuit of product development matching customer preferences.

Three brands of Jonetsu Kakaku that pursue to exceed customer expectations through lineup featuring 2,000 items

Low prices are a certainty. However, Jonetsu Kakaku offers more. It offers added value that only Don Quijote can deliver, from fun and deliciousness to stylishness and convenience. It fuels a passion—an I-want-that feeling—in all customers through its products. Jonetsu Kakaku comprises more than 2,000 items, and the list continues to grow.

Jonetsu Kakaku is a collection of affordable products based on its brand concept of offering low prices. The lineup features foods and other indispensable items for daily life.

Rich and aromatic beef curry (mild)

Stretchy, stay-dry camisole

Gold marble coating frying pan (26cm)

Jonetsu Kakaku Plus offers a slightly higher level of quality, features and design, based on its brand concept of added value. The products, including consumer electronics, guarantee sufficient quality to provide customers with a bit more convenience and a bit more happiness.

Running Live Camera

Rice dealer-preferred 3-cup rice cooker, "Zeppin Gohan"

Air conditioner with human sensor

Jonetsu Kakaku Premium is Jonetsu Kakaku's top-of-the-line brand, unique in terms of quality, features and design. The underlying concept is to offer products that customers see and say "I want that!"

Warm, soft-to-the-touch mattress

Expandable, zippered carry-on

Men's business shoes with revolutionary slide-on replacement for worn-out heels

Next stage in PB strategy—debut of two brands under full-fledged SPA model

RESTORATION

Brand featuring a wide assortment of apparel for all occasions, from casual to business, with a sense of refinement and stylishness.

ACTIVEGEAR

Brand of stylish and functional sportswear and goods for those with an active lifestyle. It offers fashionable products for such activities as trekking, training and extreme sports[*4].

*4 Sports known for high speeds and high degree of risk

Wireless earphones

Full HD camera

What's new

50V 4K ULTRAHD TV with LCD—challenges market with lowest price

Don Quijote launched the 50V 4K ULTRAHD TV with liquid crystal monitor, under the Jonetsu Kakaku Plus label, in June 2017. At just ¥54,800 (before tax)—the lowest price on the market—this highly popular product created a huge stir, as the first production run of 3,000 units sold out in just a week. After the sellout debut, interest remained high and many people asked when sales would resume. A decision was then made to offer an additional 1,400 units in the latter part of August.

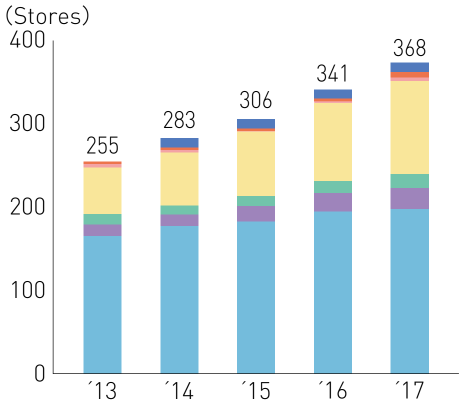
Store Network and Industry Data

Store Development

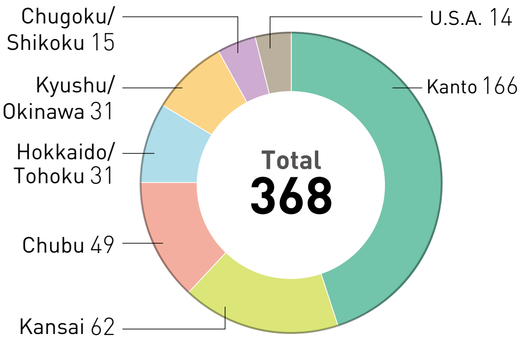
Number of stores by format (as of June 30, 2017)

Don Quijote
Picasso
Doit
MEGA Don Quijote
Nagasakiya
Don Quijote (Hawaii)
Marukai

Note: Essence, Kyōyasudō, Ekidonki and Soradonki are included under the Picasso format.
TOKYO CENTRAL is included under the Marukai format.



Number of stores by region



Stores opened by the Don Quijote Group

MEGA Don Quijote Tsu-sakurabashi store

Don Quijote Kawanishi store

Store Network Hits 368 Groupwide

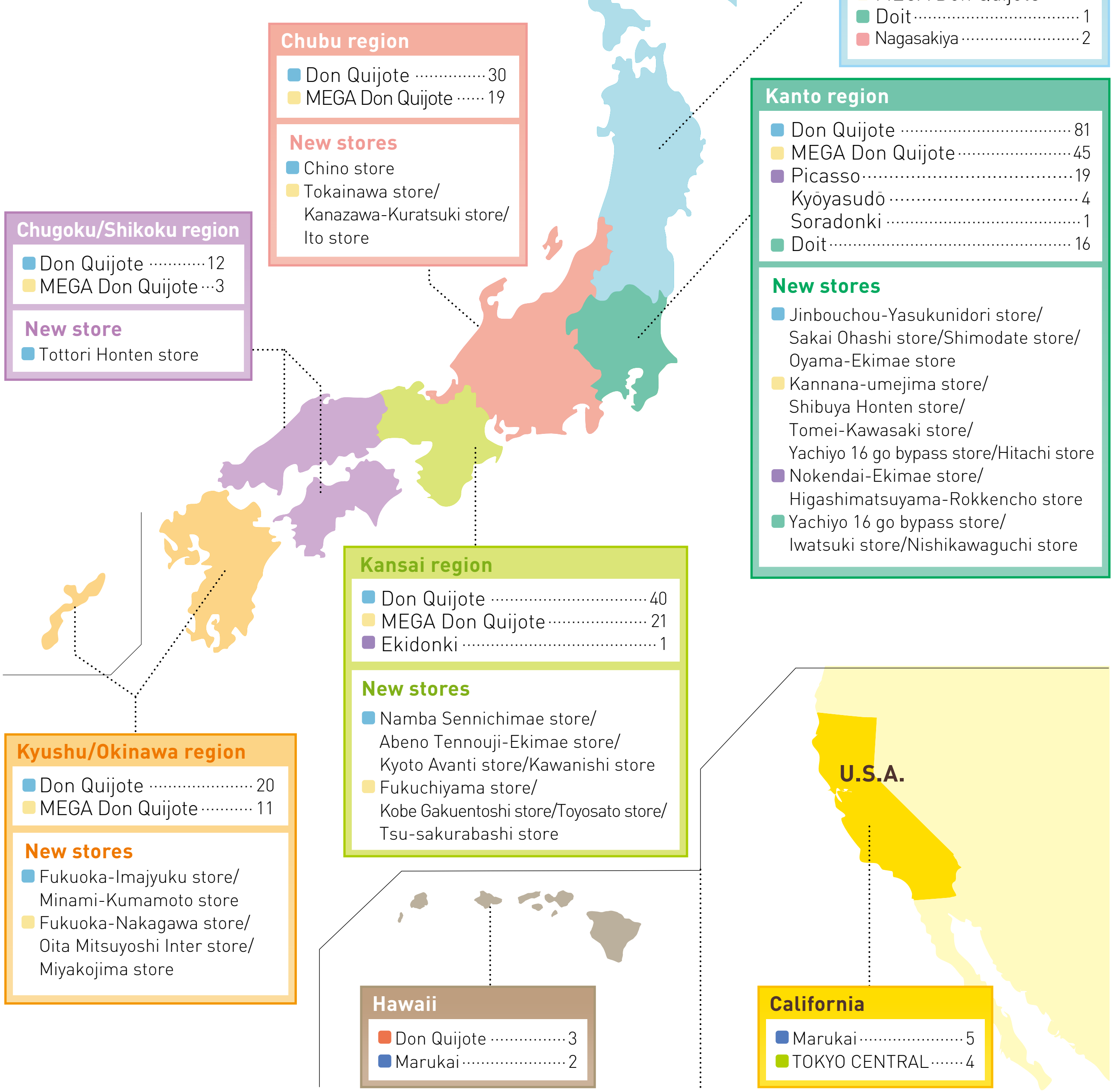
In fiscal 2017, we opened 32 new stores, of which 11 were in the Don Quijote format, 16 in the MEGA Don Quijote format, three Doit stores, one Picasso store and one Kyōyasudō store. However, we closed five stores, mainly to rebuild or switch formats. As a result, our Groupwide network consisted of 368 stores—354 stores in Japan and 14 overseas, all in the United States.

Going forward, our store opening strategy will emphasize a good balance of stores in the cities and in the suburbs, with store formats matched to market size and local characteristics. We will strive to create shopping environments that brim with the entertainment value that the Don Quijote Group is so well known for, to give young singles as well as families and seniors a fun and exciting shopping experience.

Group store network (as of June 30, 2017)

Number of stores by format (Total: 368 stores)

Don Quijote	198	Doit	17
MEGA Don Quijote	112	Nagasakiya	2
Picasso	19	Don Quijote (Hawaii)	3
Kyōyasudō	4	Marukai	7
Ekidonki	1	TOKYO CENTRAL	4
Soradonki	1		



Please see detailed information, such as store access and operating hours, on the following websites:

Don Quijote	**http://www.donki.com/en/**
MEGA Don Quijote	**http://www.donki.com/mega/** (Japanese only)
Doit	**http://www.doit.co.jp/** (Japanese only)
Nagasakiya	**http://www.nagasakiya.co.jp/** (Japanese only)
MARUKAI California	**http://www.marukaicorp.com/**
Hawaii	**http://www.marukaihawaii.com/**

Store Network and Industry Data

Ranking of Retail Companies by Net Sales

2017 Ranking	2016 Ranking	Company Name	Business Category	FY Ended	Net Sales (Millions of yen)	Growth Rate (%)	Ordinary Income (Millions of yen)	Growth Rate (%)	Profit (Millions of yen)
1	1	AEON CO., LTD.	Holding Company	Feb	8,210,145	0.4	187,351	4.3	11,255
2	2	Seven & i Holdings Co., Ltd.	Holding Company	Feb	5,835,689	-3.5	364,405	4.1	96,750
3	3	FAST RETAILING CO., LTD.[1, 2]	Apparel	Aug	1,861,917	4.2	193,398	114.3	119,280
4	4	YAMADA-DENKI CO., LTD.	Electronics Store	Mar	1,563,056	-3.1	66,040	5.3	34,528
5	5	Isetan Mitsukoshi Holdings Ltd.	Department Store	Mar	1,253,457	-2.6	27,418	-25.3	14,976
6	6	J. FRONT RETAILING Co., Ltd.	Department Store	Feb	1,108,512	-4.7	44,425	-7.3	26,950
7	8	Takashimaya Co., Ltd.	Department Store	Feb	923,601	-0.6	37,215	-1.5	20,870
8	9	H2O RETAILING CORPORATION	Department Store	Mar	901,221	-1.6	21,725	-5.8	14,298
9	7	FamilyMart UNY Holdings Co.,Ltd.[2]	Holding Company	Feb	843,815	98.8	33,483	-6.5	18,350
10	11	Don Quijote Holdings Co., Ltd.	Discount Store	Jun	828,798	9.1	45,523	3.9	33,082
11	10	BIC CAMERA INC.[1]	Electronics Store	Aug	790,639	1.5	24,364	5.6	13,505
12	14	IZUMI CO., LTD.	General Merchandise Store	Feb	702,121	5.0	35,688	14.7	17,015
13	12	EDION Corporation	Electronics Store	Mar	674,426	-2.6	16,005	-7.4	13,118
14	15	K'S HOLDINGS CORPORATION	Electronics Store	Mar	658,150	2.2	32,108	12.2	20,154
15	13	Yodobashi Camera Co., Ltd.	Electronics Store	Mar	658,042	-3.2	55,591	8.5	36,429
16	16	LIFE CORPORATION	Supermarket	Feb	652,974	—	12,834	—	8,110
17	17	LAWSON, INC.	Convenience Store	Feb	631,288	8.2	73,014	4.9	36,400
18	20	TSURUHA Holdings, Inc.[1]	Drug Store	May	577,088	9.4	38,628	18.4	24,433
19	18	SHIMAMURA Co., Ltd.	Apparel	Feb	565,469	3.6	50,079	23.0	32,862
20	19	Matsumotokiyoshi Holdings Co., Ltd.	Drug Store	Mar	535,133	-0.2	30,828	3.4	20,119
21	21	SUNDRUG CO., LTD.	Drug Store	Mar	528,394	4.9	34,870	3.1	23,312
22	23	Valor Holdings Co., Ltd.	Supermarket	Mar	520,530	4.6	16,762	-4.7	10,522
23	24	Nitori Holdings Co., Ltd.	Home Furnishings	Feb	512,958	12.0	87,563	16.7	59,999
24	22	ARCS COMPANY, LIMITED	Supermarket	Feb	512,645	2.1	16,471	3.6	10,493
25	26	COSMOS Pharmaceutical Corporation[1]	Drug Store	May	502,732	12.4	24,591	18.8	18,215
26	27	DCM Holdings Co., Ltd.	Home Center	Feb	443,369	1.3	19,122	9.3	11,599
27	28	HEIWADO CO., LTD.	General Merchandise Store	Feb	437,587	0.1	15,643	-6.1	9,216
28	25	Nojima Corporation	Electronics Store	Mar	432,064	-5.0	15,479	3.9	10,158
29	30	SUGI Holdings Co., Ltd.	Drug Store	Feb	430,795	3.8	23,875	0.3	14,947
30	31	DAISO INDUSTRIES CO., LTD.	100 Yen Shop	Mar	420,000	6.1	—	—	—

[1] Rankings were calculated by updating the company rankings that appeared in the *Nikkei Marketing Journal's* 50th Survey on the Retailing Industry in Japan, issued on June 28, 2017, with the performance indicators for TSURUHA Holdings, Inc. and COSMOS Pharmaceutical Corporation for their fiscal years ended May 31, 2017, the Company's performance indicators for the fiscal year ended June 30, 2017, and the performance indicators for FAST RETAILING CO., LTD. and BIC CAMERA INC. for their fiscal years ended August 31, 2017.
[2] FAST RETAILING CO., LTD. and FamilyMart UNY Holdings Co., Ltd. are companies subject to IFRS, and in light of these standards, profit before income taxes is used in lieu of ordinary income.

Ranking of Market Capitalization in the Retail Industry

Ranking	Company Name	Market Capitalization[1] (Millions of yen)	Operating Income[2] (Millions of yen)	ROE[2] (%)
1	Seven & i Holdings Co., Ltd.	3,940,235	364,573	4.1
2	FAST RETAILING CO., LTD.[3]	3,513,159	176,414	18.3
3	Nitori Holdings Co., Ltd.	1,780,741	85,776	16.6
4	Aeon Cao., Ltd.	1,449,575	184,739	1.0
5	Ryohin Keikaku Co., Ltd.	791,800	38,278	17.7
6	FamilyMart UNY Holdings Co.,Ltd.[3]	783,082	32,764	4.7
7	LAWSON, INC.	753,253	73,772	13.5
8	Don Quijote Holdings Co., Ltd.	635,088	46,185	13.5
9	YAMADA-DENKI CO., LTD.	569,262	57,895	6.3
10	TSURUHA Holdings, Inc.	566,938	37,071	15.1
11	SUNDRUG CO., LTD.	552,101	34,055	17.3
12	ABC-MART, INC.	519,129	41,860	13.4
13	SHIMAMURA Co., Ltd.	506,450	48,794	10.3
14	COSMOS Pharmaceutical Corporation	469,609	22,237	21.5
15	WELCIA HOLDINGS CO., LTD.	439,709	24,078	13.2
16	J. FRONT RETAILING Co., Ltd.	427,223	44,580	6.8
17	Isetan Mitsukoshi Holdings Ltd.	425,313	23,935	2.6
18	Seria Co.,Ltd.	414,845	15,171	23.4
19	IZUMI CO., LTD.	412,792	35,670	11.0
20	Matsumotokiyoshi Holdings Co., Ltd.	371,526	28,431	11.3

[1] Market capitalization: Closing price on Tokyo Stock Exchange on July 31, 2017
[2] Operating income and ROE: Results for each company's most recent fiscal year
[3] Companies that have adopted IFRS

Making a Sustainable Society a Reality

Through our business activities as a general retailing group, we will contribute to local communities and strive to help resolve social issues while raising corporate value.

With Local Communities

The Don Quijote Group seeks to coexist and prosper with geographical areas in which stores under the Group umbrella operate, and for this purpose, rolls out CSR activities that foster close ties with each community. As a group, we direct efforts into solutions that ease local concerns, such as involvement in the planning and execution of community revitalization projects in cooperation with local governments and shopping districts, participation in disaster-prevention and anti-crime initiatives, and reconstruction support in areas affected by disasters.

Local contributions utilizing strengths in core business

The retailing operations of the Don Quijote Group are an integral component of the social infrastructure, and with this in mind, efforts are made to apply the general retailing business resources at our disposal to benefit local communities.

For example, we draw on the capabilities honed in our core business to address concerns at the local community level, such as creating different store formats to contribute to diversity in the community, planning and running community revitalization programs in collaboration with local governments and shopping districts, and maintaining a system that delivers products to customers as quickly as possible when disaster strikes.

Helping to solve social issues such as Halloween garbage and shortage of changing rooms

Changing rooms and restrooms

As a measure for dealing with social issues that arise during Halloween season, in 2016 Don Quijote turned part of the second floor of its Halloween Festival special event space into a costume changing area.

The company also supported “Operation Halloween Zero Garbage in Shibuya,” an event jointly sponsored with Shibuya Ward, in Tokyo, to keep the streets clean.

Good manners and a clean Halloween

Several major problems have accompanied the growing popularity of Halloween in Japan, including garbage littering the streets. In response, Don Quijote organized cleanup teams with participation from head office employees during the 2016 Halloween season to clean up areas mainly around Shibuya Station on a daily basis. To preserve the fun atmosphere of Halloween in the city, teams went about their cleanup duties dressed in cleverly designed costumes. This effort garnered many words of appreciation from neighborhood shopkeepers and the police. Also, the day after Halloween, Don Quijote employees got involved in the GOMI Fantasista Project, organized by a volunteer association, and picked up garbage in Shibuya and Osaka-Minami with other local volunteers.

Community Revitalization

New initiatives at MEGA Don Quijote Shibuya Honten

MEGA Don Quijote Shibuya Honten—revitalized as a forward-thinking flagship store showcasing Shibuya.

The store launched several initiatives to provide customers with a fun and exciting shopping experience while also deepening its connection to the community and helping to energize the area as a whole.

Shibuya-symbolic products convey local appeal to domestic and overseas visitors

Shibuya Honten began pre-sale activities for souvenir products endorsed by the Shibuya City Tourism Association, such as cakes and cookies featuring motifs of Hachiko, the Moyai Statue and other Shibuya landmarks. In addition, the store acquired a new symbol—a statue of Temaneki Hachi. The idea behind these localized efforts is to make Shibuya a more appealing destination for domestic and international visitors.

Baked chocolate treat resembling paw print of Shibuya's Hachiko

Temaneki Hachi at the Shibuya Center Street entrance

All-gender restrooms to promote diversity in Shibuya

In addition to multi-purpose restrooms for customers with children and customers with physical disabilities, Shibuya Honten has installed all-gender restrooms so that anyone, regardless of gender identity or appearance, can use the facilities with peace of mind. This effort also contributes to the promotion of diversity by Shibuya Ward.

All-gender restroom

LGBT* awareness seminar for employees (*details on page 32)

Newly introduced fresh foods in response to local customer requests

In response to requests from local customers seeking certain fresh foods, Shibuya Honten added items to its product selection, including carefully selected fresh foods, such as vegetables delivered every morning from Ota Fresh Market—a large wholesale market in Tokyo with a vast selection of fruits and vegetables—as well as Kobe beef and organically grown products, and side dishes prepared inside its in-store kitchen. These efforts underscore Shibuya Honten's goal of becoming the go-to shopping venue for a wide range of customers, not only young people but also families, the elderly and even people working at nearby restaurants.

Various inbound strategies to make Shibuya an attractive destination for visitors from abroad

Shibuya was attracting fewer inbound shoppers compared with Ginza, Shinjuku and other areas in Tokyo. To reverse this trend, Shibuya Honten got together with the local government and business operators in the Shibuya district to implement strategies that would kindle a significant amount of inbound interest to this part of the city. Also, Shibuya Honten was one of 37 Don Quijote stores to implement WeChat Pay, a payment settlement service for visitors from China, which began rolling out from Hokkaido to Okinawa in June 2017.

Ceremony marking introduction of WeChat Pay at Shibuya Honten on July 3

Food education event at Tokyo Central (store specializing in Japanese foods)

MARUKAI CORPORATION, a U.S. subsidiary in California, supports Table for Two, a social contribution movement aimed at eliminating hunger, obesity and lifestyle diseases. MARUKAI organized a workshop at the West Covina location of Tokyo Central—its chain of stores specializing in Japanese foods—in Los Angeles, on the theme "changing the world with *onigiri* (rice balls)" as a way to highlight the healthy benefits of a Japanese diet.

In the United States, Japanese food is extremely popular and even children eagerly awaited in their aprons before the start of the event. Parents and children making *onigiri* for the first time seemed to enjoy the experience.

Children participating in a food education event

Providing meals to children in need by eating *onigiri*

MARUKAI donates 3% of sales from *onigiri*-related products sold through the Tokyo Central online ordering site to Table for Two. These funds facilitate delivery of healthy meals to children in need in East Africa and throughout the United States.

Commemorative cherry tree planting at Kawazu-cho in Izu

The Don Quijote original bath additive *Onsen Sommelier ga Eranda Hito*—translated as "hot spring sommelier-selected secluded hot springs"—is a popular product created in collaboration with hot spring resort areas such as Kawazu-cho in Izu. To revitalize the community and promote growth in Kawazu-cho, in January 2017 the Kawazu-cho Fair was held at the Nakameguro Honten, where signature products from the town were available for sale and locally grown carnations were handed out as presents. As part of its association with Kawazu-cho, in February Don Quijote was involved in a commemorative tree planting as a representative of participating corporate sponsors of the Kawazu Cherry Blossom Festival. On this day, a young cherry tree, three years old and two meters tall, was planted.

The Shoiku® Project

Thinking it would be great to help children acquire greater insight into what it means to have a job and associated responsibilities, the Shoiku® Project—an in-store learning opportunity that enables children to experience the joy of working and to gain a sense of responsibility through retail sales—was implemented at all domestic stores throughout the Don Quijote Group. In fiscal 2016, stores welcomed 1,100 children, mostly elementary and junior high school students, from 150 schools.

Through the Shoiku® Project, children can experience the delight and fulfillment that comes with working by applying a personal perspective to their job assignment based on serving customers the way they themselves would like to be treated if they were a customer. For employees, the project helps them rediscover the joy of retailing and gain a new sense of duty, which ultimately lead to greater motivation.

With Colleagues

All employees under the Don Quijote Group umbrella are vital resources—corporate assets—regardless of employment status being full-time, part-time or on a temporary basis. As a group, we direct concerted effort into recruitment and development to draw out potential and personality among employees. In addition, we strive to create an environment that keeps everyone highly motivated and working toward a higher level of job satisfaction.

Promoting diversity

The Don Quijote Group respects the various individualities among society and embraces diversity to create stores that are pleasant to shop at for all customers and maintain workplaces where all employees feel comfortable.

We have programs in place that promote hiring of people with disabilities and rehiring of retired employees as well as for recruiting people of diverse nationalities, and strive to make the most of their skills. We also run the LGBT* Project, initiated in June 2016, which provides employees with a better understanding of sexual minorities.

* LGBT is an acronym for lesbian, gay, bisexual and transgender (people whose gender identity differs from their assigned sex at birth) and is synonymous with sexual minorities. In Japan, one in 13 people are said to fall into this gender and sexual orientation group. However, the sexual minority community encompasses more people than those represented by the definition of LGBT, namely, people lacking affection or sexual emotion and people who do not identify as male or female.

First appearance at Tokyo Rainbow Pride, largest LGBT event in Japan

Don Quijote set up a booth for the first time at the Tokyo Rainbow Pride 2017, an event celebrating sexual and lifestyle diversity. The event was held in May at Yoyogi Park in Tokyo. The Don Quijote booth offered merchandise featuring the rainbow colors that have become a symbol for sexual minorities. More than 100,000 people visited the site over the two-day event, and the Don Quijote booth attracted a large gathering of people.

Start of in-house blog "Donki Global Connection"

In November 2016, we started an in-house blog to promote active communication among global staff throughout the Don Quijote Group. Each blog provides new content, such as interviews with global staff and explanations about corporate philosophy. The blog format offers staff of various nationalities the opportunity to discover something new about their colleagues around the world and to deepen mutual understanding.

Diverse workstyles

The retail industry continues to be characterized by a labor shortage. To address this situation, the Don Quijote Group promotes various initiatives that reflect changing times, including the introduction of work arrangements matched to different lifestyles and an in-house project in support of workstyles for women. We also embrace employment formats that recognize diversity in human resources and approaches to work, including rehiring employees who have reached the statutory retirement age, proactively recruiting seniors and housewives as early morning stockers, and hiring more people with disabilities than legally required for positions at Don Quijote, Nagasakiya and Doit.

Establishment of Donkids in-store daycare

As part of its efforts in support of workstyles for female employees, Don Quijote established Donkids in-store daycares at five MEGA Don Quijote locations—Yachiyo 16 go bypass, Kannana-umejima, Soka, Ayase and Tomei-Kawasaki—between November 2016 and May 2017.

In June 2017, Haguhagu Donki Adventure Daycare, a licensed facility, opened on the fifth floor of the MEGA Don Quijote Omori Sanno store. Going forward, we will continue to work toward the elimination of children waiting for daycare slots and create a child-raising environment that integrates communities, daycares and stores.

Haguhagu Donki Licensed facility inside MEGA Don Quijote Omori Sanno

はぐはぐドンキ adventure 保育園

ドンキッズ managed by mama square

Donkids
In-store daycare for employees at MEGA Don Quijote Soka

Numerical look at Don Quijote's workstyle initiatives

Number of People Taking Childcare or Nursing Care Leave

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Maternity leave, childcare leave	214	350	376
Short work hours for childcare	16	21	24
Nursing care leave	6	18	15

Number of Retired Employees Rehired

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Total number of people	64	79	99
Number of people rehired in each fiscal year	15	19	21

With Customers

The Don Quijote Group considers all customer comments as requests. This reflects customer comments of any type in a positive light, encourages us to consider the comment from the perspective of "What does the customer want us to do?," and carries the hope that we will work to achieve improvement. We seek to enhance customer satisfaction by responding sincerely to their requests.

Various measures for collecting and responding quickly to customer comments

To expedite responses to requests received via call center or website inquiry, we use STARS, a web-based system that consolidates customer comments, and are working on a structure that enables us to reflect input from customers into better services and an enhanced merchandise mix as quickly as possible.

We also take advantage of the "majica" app to send questionnaires to customers using "majica" e-money to gather evaluations on stores and opinions about shopping experiences.

Reconstruction support—Kumamon design "majica"

To support reconstruction efforts in areas affected by the 2016 Kumamoto earthquakes, in July 2017 Don Quijote stores in Kyushu debuted "majica" cards featuring a Kumamon design. These exclusive cards, limited to 10,000 units, sold for ¥100 (incl. tax). All proceeds were donated as Kumamoto earthquake relief funds. All stores in Kumamoto Prefecture have widened their circle of support through additional activities, such as Kumamoto specialty product fairs and photo opportunities with Kumamon.

©2010 Kumamoto Prefecture Kumamon

With Suppliers

Cooperation with partners is indispensable in our efforts to provide safe, high-quality products at amazing prices and provide customers in local communities with peace of mind. We undertake various initiatives to build stable, enduring relationships with our partners. These include partnership activities under a *kyoeikai* (co-prosperity club) structure and the use of a web-facilitated negotiation system that makes business discussions quick and efficient. Our objective is to respond flexibly to customers' constantly changing needs.

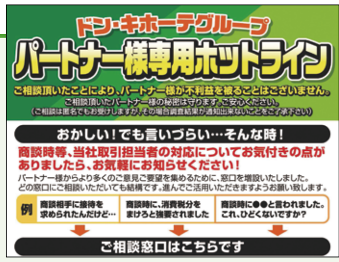
Partnership activities promoting co-prosperity

We emphasize a strong sense of cooperation in building relationships with our partners, believing that this will become a source of competitive strength in a challenging market environment. With this in mind, we established a membership structure—the *kyoeikai* co-prosperity club—seeking coexistence and co-prosperity from an equal-footing perspective for both sides. Maintaining, or better yet, improving the capabilities of our partners allows us to offer a product mix that epitomizes our corporate philosophy of "valuing the customer as our utmost priority" and underpins customer satisfaction. For this reason, we offer support from both a management perspective as well as a business transaction perspective.

Visual concept of *kyoeikai* co-prosperity club

Partner consultation desk

To maintain pleasant, healthy relationships with our partners, we set up a consultation desk where partners can inform management about any points they notice through their interaction with people at the Don Quijote Group.



Environmental Activities

To contribute to the realization of a sustainable society, the Don Quijote Group promotes environmentally conscious business activities. Members of the Group vigorously strive to reduce environmental load, mainly through the installation of equipment and systems to reduce CO_2 emissions and other initiatives. These measures include automated air-conditioning systems and interior LED lighting inside stores, water-saving devices in kitchens and toilets, 100% recycling of cardboard boxes used for deliveries, and an emphasis on acquiring used computers rather than buying them new. In addition, we actively participate in awareness campaigns that utilize retailing resources.

Energy-saving activities

At stores under the Don Quijote Group umbrella, efforts are being made to reduce CO_2 emissions through the installation of the latest energy-saving equipment and systems, which keep air-conditioning systems running efficiently and automatically maintain an appropriate temperature at all times, and through a switch to power companies with smaller CO_2 footprints.

Also of note, between July 2016 and June 2017, we recycled all delivery-use cardboard boxes, totaling 40,110,880kg.

Year-on-Year Changes in Basic Unit of Energy Consumption over Past Four Years (%)

	2013	2014	2015	2016	Change in average basic unit over past four years
Don Quijote Co., Ltd.	93.1	97.8	98.3	101.0	97.5
Nagasakiya Co., Ltd.	97.8	73.6	99.7	99.8	92.7
Doit Co., Ltd.	86.3	75.2	85.9	82.9	82.5

Installation of energy-saving devices for optimum operation of outdoor air conditioners by remote control

Call-out to inbound tourists on heatstroke prevention

Since 2015, we have been involved in a heatstroke prevention project, organized by public and private sectors, to advise citizens and inbound tourists on ways of preventing heatstroke. In 2017, we provided blue plastic shopping bags which were printed with four ways of heatstroke prevention—a total of seven million—just during the summer at all our stores in Japan. We also put up posters in four languages (English, Chinese, Korean and Thai) and ran a video on in-store monitors to highlight the seriousness of heatstroke and ways to prevent it.

Summer-only blue plastic shopping bags

Heatstroke prevention poster

Corporate Governance

We seek advice from outside experts when necessary and maintain legality and transparency in corporate governance and management practices. The business activities of store-operating companies within the Don Quijote Group entail the delegation of considerable authority to store staff as they are the frontline of operations, so it is essential that we create an atmosphere that ensures a high level of ethics and awareness of governance issues among each and every employee at all times. Through a variety of approaches, we have established measures that preclude possible risk situations and have built structures to facilitate quick responses in the event such a situation occurs.

Basic Policy on Corporate Governance

At Don Quijote, we firmly adhere to the corporate principle of "valuing the customer as our utmost priority" and strive to reinforce corporate governance and compliance while actively carrying out disclosure practices and encouraging a deeper understanding of Don Quijote as a company coexisting with society. This commitment is integral to enhanced corporate value and is thus a top management priority. Indeed, business activities—executed to a high standard of ethics—are conditioned upon the existence of a company to undertake them, and we will build and maintain the in-house structure to expedite problem solving and, when necessary, seek advice from outside experts to establish and support internal controls and ensure that operations are conducted properly. Compliance will take center stage as we extend the scope of our corporate activities, with an emphasis on an even stronger organizational framework than ever, which will, for example, improve awareness of legal compliance and underpin more rigorous checks by our accounting department, Internal Audit Department and monitoring and auditing departments.

Summary of Corporate Governance and Reasons for Adopting Internal Control Structure

At the 36th Ordinary General Meeting of Shareholders, held on September 28, 2016, a resolution was passed to amend the Articles of Incorporation so that Don Quijote Holdings could transition to a company with an audit & supervisory committee. On the same date, the Company duly transitioned from a company with an audit & supervisory board to a company with an audit & supervisory committee. The establishment of the Audit & Supervisory Committee and the granting of voting rights to directors, who are audit & supervisory committee members, at the Board of Directors' meetings is intended to strengthen the audit and supervisory functions of the Board of Directors, enhance corporate governance and improve corporate value.

■ Details of the Organization

Board of Directors

The highest decision-making body, with regard to the execution of operations, is the Board of Directors, which meets at least once a month to discuss and determine important issues concerning business activities. As of September 27, 2017, the Board of Directors comprised fifteen members. Ten of them are directors (excluding those who are audit & supervisory committee members), of whom none are from outside the Company. The other five members are directors (audit & supervisory committee members), of whom four are from outside the Company.

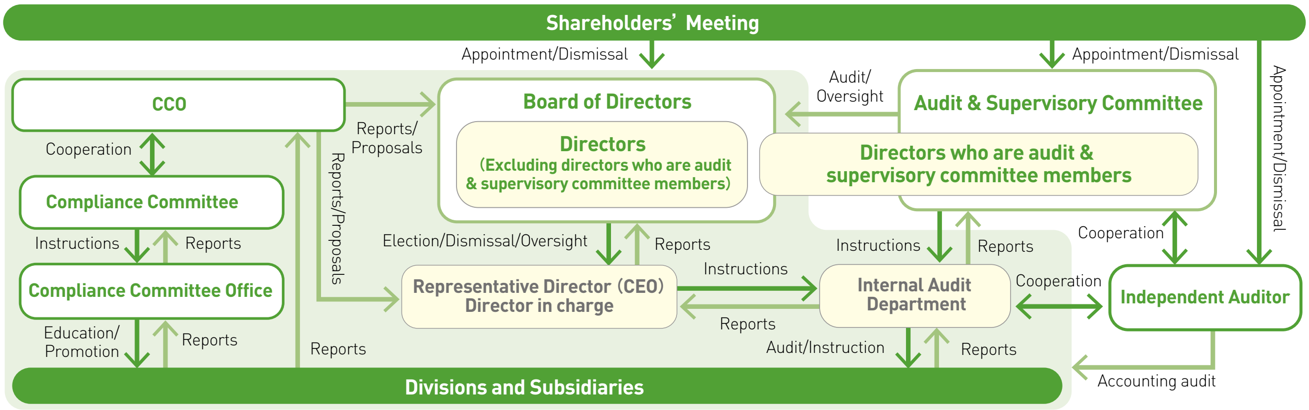
The execution of duties by directors are audited by the Audit & Supervisory Committee and, when necessary, the Audit & Supervisory Committee will work with the independent auditor to facilitate the execution of audits. In addition, management has designated two of the outside directors as independent directors, who contribute broad-based knowledge from an objective position free from any conflicts of interest with general shareholders. Such input is applied to issues important from a corporate administration perspective, such as the formulation of companywide business strategies, and management therefore believes that the current Board of Directors structure is conducive to suitable decision-making processes.

Internal Audit Department

The Internal Audit Department, under the direct authority of the Board of Directors, is separate from divisions that execute operations. This department provides a point of contact, as necessary, between the independent

Corporate Governance Structure

(As of September 27, 2017)



auditor and audit & supervisory committee members and undertakes audits, based on an auditing plan, to ascertain the legality and appropriateness of activities undertaken by each division and Group subsidiary. In addition, the department applies an internal control perspective to its monitoring of key business practices in all divisions, at stores, as well as at subsidiaries.

Outside Directors

The Company has four outside directors. The outside directors are appointed on the expectation that the individuals will offer opinions and point out issues helpful to management from an external perspective, based on specialized knowledge and experience in corporate management, and thereby contribute to enhanced management soundness and transparency. Outside Director Jumpei Nishitani, as a professor of a university's faculty of business administration, has a high level of specialized knowledge, and possesses considerable insight regarding finance and accounting. Outside Director Yukihiko Inoue and Outside Director Jumpei Nishitani are deemed to present no risk of a conflict of interest with general shareholders, and were designated independent directors in accordance with rules set by the Tokyo Stock Exchange, to which notifications were submitted.

The Company has no clear-cut criteria or policies regarding the independence of individuals appointed as outside directors. However, in the appointment process, a candidate for outside director is evaluated on the ability to maintain a sufficient degree of separation to perform assigned duties independent of the management team.

Compliance Committee

Members of this committee are primarily outside experts, including lawyers and outside directors. Their duties include formulating fraud prevention measures, drafting monitoring and auditing plans, examining the results of such investigations and audits, and sharing information on fraud cases that have occurred at other companies and verifying facts as a way to preclude such incidents from happening to the Don Quijote Group.

Reasons for Appointment and Attendance Status of Outside Directors

Name	Reason for appointment	Attendance at Board of Directors' meetings
Yukihiko Inoue	The Company has deemed that Mr. Inoue will utilize his experience in important positions including Superintendent-General of the Metropolitan Police Department to appropriately execute his duties from an objective standpoint. Therefore, the Company has appointed him as an outside director.	100%
Yasunori Yoshimura	The Company has deemed that Mr. Yoshimura will utilize his experience in important positions including Special Advisor to the Cabinet and president of various societies to appropriately execute his duties from an objective standpoint. Therefore, the Company has appointed him as an outside director.	85%
Tomiaki Fukuda	The Company has deemed that Mr. Fukuda will utilize his experience in important positions including President of Japan Wrestling Federation to appropriately execute his duties from an objective standpoint. Therefore, the Company has appointed him as an outside director.	92%
Jumpei Nishitani	The Company has deemed that Mr. Nishitani will utilize his high level of specialized knowledge and extensive experience with regard to accounting and economics gained as a professor of a university's faculty of business administration to appropriately execute his duties from an objective standpoint. Therefore, the Company has appointed him as an outside director.	Newly appointed

Internal Control Structure

Don Quijote's internal control structure was established and is maintained in accordance with the Companies Act of Japan and its Ordinance for Enforcement, to ensure the appropriateness of the Company's business operations.

1. System ensuring the execution of duties by directors complies with the Company's Articles of Incorporation and prevailing laws and regulations

1) Directors must consistently ensure that the Company's business activities are undertaken in compliance with laws and regulations and must take the initiative to promote awareness of compliance practices at the Company and at each subsidiary.
2) To ensure appropriate execution of duties by directors, the Company continues to appoint outside directors to its Board of Directors and strives to enhance the supervision of duties executed by directors. In addition, the Audit & Supervisory Committee, which has the participation of outside directors, conducts thorough audits to ensure fairness and transparency from a position independent of influence of directors (excluding those who are audit & supervisory committee members).
3) The Chief Compliance Officer (CCO) is designated as the director responsible for compliance and coordinates issues related to legal compliance and internal controls. In addition, the CCO works closely with the Compliance Committee, members of which are primarily external professionals, such as lawyers, and ensures that business activities follow a highly ethical code of conduct and that the corporate governance structure and execution of associated practices conform to legal standards.

2. System for storing and managing information related to the execution of duties by directors

1) The minutes of shareholders' meetings, Board of Directors' meetings and other important meetings along with any and all related materials are stored and managed by a designated department and retained for a period of 10 years under conditions that facilitate examination whenever necessary.
2) The Company utilizes tools to improve the security of in-house information networks and performs careful and timely reviews of its Rules for Information Security Management. Concurrently, the Company encourages information sharing within the organization and maintains systems to prevent leaks of confidential information.

3. System for administering rules for managing the risk of loss

1) The CCO and the Compliance Committee analyze and evaluate lateral risks from a compliance standpoint for the entire Group and consider measures to deal with such risks.
2) Efforts are made to swiftly and accurately systemize rules and instruction manuals and standardize business practices to minimize operational risk.
3) Organizational and operating structures are swiftly and effectively established to control risks associated with administrative procedures, including financial accounting, purchasing, sales, store operation and legal issues, which serve to minimize operational risk.

4. System ensuring efficient execution of duties by directors

1) Rules related to organizational structures are reviewed and updated in a timely and appropriate manner to clarify the division of directors' duties and respective oversight authority.
2) Organizational and administrative systems are revised as the occasion arises to meet changes in the business environment.

5. System ensuring the execution of duties by employees complies with the Company's Articles of Incorporation and prevailing laws and regulations

1) The CCO promotes compliance and ensures thorough adherence to stated practices, in accordance with resolutions by the Board of Directors.
2) The Compliance Committee, in conjunction with the CCO, formulates plans that include education on issues related to compliance, and the Compliance Office handles the administrative aspect of these activities, based on instructions from the Compliance Committee.
3) The Company maintains a whistleblower system, dubbed Compliance Hotline, that enables employees and business partners of the Group to directly report questionable conduct—that is, possible violations of the law or regulations or in-house rules—to an outside entity or an in-house point of contact, with complete confidentiality. Concerted efforts are made to promote awareness of this system to ensure that it continues to function effectively. The Company makes it a top priority to protect individuals who report an actual or possible violation from any sort of disadvantage for bringing potential infractions to light.

6. System ensuring the appropriateness of operations at the Company and at its subsidiaries

1) Timely and accurate reports on the status of operations—that is, progress in the execution of operations—at each Group company must be submitted to the Board of Directors of the Company.
2) To confirm the proper execution of operations at Group companies, the Internal Audit Department works with each company to determine progress in establishing internal controls. To further improve the internal control system, the Compliance Committee provides instruction and support as required, based on a shared understanding of internal control measures within the Group.
3) To confirm the proper execution of operations at Group companies, the Company has prepared "Rules for Management of Affiliated Companies." These rules provide guidelines for monitoring business activities at Group companies.

7. Issues pertaining to employees who assist the Audit & Supervisory Committee when such assistance is required

The Company established an office of the Audit & Supervisory Committee (Auditors' Office) with staff exclusively dedicated to assisting the Audit & Supervisory Committee in its duty as required.

8. Matters related to the independence of employees who are to assist the Audit & Supervisory Committee with its duty from directors (excluding those who are audit & supervisory committee members) and matters related to ensuring the effectiveness of instruction from the Audit & Supervisory

Committee to such employees

1) Any personnel matters (including treatment and disciplinary action) pertaining to Auditors' Office staff must be reported first to the Audit & Supervisory Committee.
2) If a staff member of the Auditors' Office concurrently performs administrative tasks in another division, priority shall be given to requests from the Audit & Supervisory Committee when the instructions are deemed necessary in the course of auditing activities. In addition, the supervisor in the other division where the individual with concurrent duties is assigned will extend the necessary support if requests are made to facilitate implementation of the Audit & Supervisory Committee's instructions.

9. System for submitting reports to the Audit & Supervisory Committee, which includes the system for directors and employees to report to the Audit & Supervisory Committee

1) The Internal Audit Department provides the Audit & Supervisory Committee with timely and accurate updates on the implementation of internal controls.
2) Directors and employees of the Company and companies within the Group shall immediately inform the Audit & Supervisory Committee of any important issues that impact, or may impact, the operations of the Company or any company within the Group.
3) Directors and employees of the Company and companies within the Group must respond immediately when asked by the Audit & Supervisory Committee or the Auditors' Office to provide information about the status of operations, assets or other corporate matters.
4) The Company prohibits unfavorable treatment of anyone on the basis of a report given to the Audit & Supervisory Committee concerning information related to the aforementioned matters.

10. Other: ensuring effectiveness of audits by the Audit & Supervisory Committee

1) Opportunities are made for the Audit & Supervisory Committee to communicate with directors (excluding those who are audit & supervisory committee members) of the Company as well as the directors and audit & supervisory board members of Group companies to make audits as effective as possible. The Audit & Supervisory Committee keeps close ties with the Internal Audit Department and looks over internal audit reports to complement standard audits performed in line with in-house rules. Also, when the independent auditor submits an audit report, the Audit & Supervisory Committee confirms the appropriateness of the content therein.
2) The Audit & Supervisory Committee is informed on a regular basis of how the Compliance Hotline is operating.
3) Payment of costs incurred in the process of executing the required duties of a director who is an audit & supervisory committee member shall be addressed immediately upon submission of a request for payment.

Measures to Prevent Transactions with Antisocial Forces

Don Quijote's basic position—and one to which the entire Group subscribes—with regard to antisocial forces is to eliminate any and all relationships with such elements. An internal structure has been established to ensure this process, as follows:

1) Neither the Company nor any Group company will respond to inappropriate requests or any other form of request from antisocial forces and will cancel business dealings if the counterparty is found to be an individual, business, organization or any other type of entity with ties to antisocial forces.
2) To deal with any persistent approach by antisocial forces to engage in inappropriate activity, the Company established the Crisis Management Department to oversee measures to prevent relationships with antisocial forces and undertakes in-house training to address any questionable activities.
3) The Crisis Management Department collects information through its close ties with the police, legal counsel and other external organizations specialized in dealing with antisocial forces. In addition, a special position has been set up within the Company to deal with inappropriate requests and an internal structure is in place, along with intranet, to expedite responses in the event a situation arises.

Accounting Audits

The Company has engaged the services of UHY Tokyo & Co. as its independent auditor and undergoes a strict review of its books at each consolidated and non-consolidated settlement of accounts. The structure for accounting audits in fiscal 2017 is as follows:

Certified public accountants who have provided auditing services: Three*

Assistants involved in the execution of accounting audits: Seven certified public accountants, four successful examinees of certified public accountant examination and six others.

* The number of consecutive years that these certified public accountants have served the Company is omitted because it is seven years or fewer for all of them.

Appointing Outside Directors

The Company has four outside directors. Management believes these individuals can execute the duties of an outside director and bring an external perspective different to that of management, based on expertise and experience in corporate management. The Company is confident that its management supervisory function is fully developed and sufficient from an objective and independent perspective, given that outside directors have presented their views based on their respective professional fields.

Ties Between the Audit & Supervisory Committee, the Internal Audit Division and the Independent Auditor

The Audit & Supervisory Committee works with the internal audit division and the independent auditor on the content discussed at Board of Directors' meetings.

The Audit & Supervisory Committee exchanges information, as necessary, and maintains close ties with the internal audit division and the independent auditor and thereby enhances the efficiency and effectiveness of internal audits and independent audits.

Personal, Capital or Business Relationships or Other Interests Between the Company and Its Outside Directors

Personal, capital or business relationships or any other interests between the Company and its four outside directors are as follows.

Tomiaki Fukuda, an outside director, is President of the Japan Wrestling Federation. The Company provides financial sponsorship to wrestling tournaments hosted by the aforesaid federation to contribute to the healthy development of young people through sports and as part of its contribution to society toward the 2020 Tokyo Olympics. The Company supports the views of the federation and provides this support as part of its CSR activities. Furthermore, the amount is very small, in the vicinity of ¥20 million annually (less than 0.01% of the Company's consolidated net sales and around 0.01% of its selling, general and administrative expenses), and the Company deems that Mr. Fukuda has sufficient independence with regard to his relationship with the Company. There are no special interests between the other outside directors and the Company.

Risk Management

The Group's Chief Compliance Officer (CCO) is designated as the director responsible for compliance and coordinates issues related to legal compliance and internal controls. In addition, the CCO works closely with the Compliance Committee, members of which are primarily external professionals, such as lawyers, implements compliance-based risk analysis and assessment cutting laterally across all companies of the Don Quijote Group, and conducts education programs on compliance themes. Another approach to risk awareness is the Compliance Hotline, which enables Group employees and business associates to report questionable actions related to laws or internal rules directly to external organizations or a designated division at the Company. The content of reports made to the hotline is brought up for discussion by the Compliance Committee, and the outcome of such discussions is circulated in a timely and appropriate manner to the Company's Board of Directors and the Audit & Supervisory Committee.

The Company receives timely advice and direction on accounting matters through regular audits by an independent auditor, while legal matters are dealt with by the Company's attorneys, and taxation matters are addressed by tax accountants.

Whistleblower System—Compliance Hotline

The Company instituted a whistleblower system, dubbed Compliance Hotline, to ensure adherence to compliance practices and respect for laws and in-house regulations. The Compliance Hotline is an access point for Group personnel to directly report questionable conduct or seek guidance when a compliance-related issue occurs or seems likely to occur. In addition to the internal channel, the Company provides an external access point, an outside organization with no capital or personal connections to the Group. Steps have been taken to maintain the confidentiality of whistleblowers and ensure that no one is put at a disadvantage for reporting any actual or potential infraction. Furthermore, Group companies take advantage of such opportunities as training of new employees to promote awareness of the system and encourage an environment strong in corporate ethics.

Remuneration for Directors, etc.

Before the transition to a company with an audit & supervisory committee, remuneration for the Company's directors was determined by the Board of Directors, within the overall limit of remuneration approved by a resolution of the General Meeting of Shareholders, taking into account the Company's operating results and financial position as well as the economic environment. Remuneration for audit & supervisory board members was determined by deliberation among audit & supervisory board members, within the overall limit of remuneration approved by a resolution of the General Meeting of Shareholders.

After the transition to a company with an audit & supervisory committee, basic remuneration for directors (excluding those who are audit & supervisory committee members) is determined by the Board of Directors, within the overall limit of remuneration approved by a resolution of the 37th Ordinary General Meeting of Shareholders, taking into account the Company's operating results and financial position as well as the economic environment.

Remuneration for directors who are audit & supervisory committee members is determined by deliberation among audit

& supervisory committee members, within the overall limit of remuneration approved by a resolution of the 36th Ordinary General Meeting of Shareholders.

Total Remuneration by Position, Total Remuneration by Type, and Number of Applicable Directors, etc.

Position	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)				Number of applicable directors, etc.
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding those who are audit & supervisory committee members) (excluding outside directors)	205	148	57	—	—	3
Directors (audit & supervisory committee members) (excluding outside audit & supervisory board members)	5	5	—	—	—	1
Audit & supervisory board members (excluding outside audit & supervisory board members)	2	2	—	—	0	2
Outside directors	11	11	—	—	—	4
Total	223	166	57	—	0	10

Note: The Company transitioned from a company with an audit & supervisory board to a company with an audit & supervisory committee on September 28, 2016.

Implementing Internal Controls for Financial Reporting

The structure and implementation of internal controls for financial reporting under the Financial Instruments and Exchange Act of Japan have been verified at Don Quijote Holdings and at Group companies. An internal control report stating that relevant internal controls for financial reporting are effectively in place at all Group companies was submitted to the supervising authorities on September 27, 2017.

Outside Directors' Interview

Don Quijote Group Corporate Governance from Perspective of Outside Directors

Yukihiko Inoue
Outside Director (Audit & Supervisory Committee Member)

Yasunori Yoshimura
Outside Director (Audit & Supervisory Committee Member)

Tomiaki Fukuda
Outside Director (Audit & Supervisory Committee Member)

In September 2016, Don Quijote Holdings transitioned to a company with an audit & supervisory committee, seeking to strengthen the audit and supervisory functions of the Board of Directors, enhance corporate governance and improve corporate value. Three outside directors who sit on the Audit & Supervisory Committee are actively involved in management through participation in discussions at Board of Directors' meetings and meetings of the Audit & Supervisory Committee. An interview with three outside directors, conducted in August 2017, touched on various topics, including governance practices within the Don Quijote Group, issues to consider going forward, and the corporate vision.

The role of an outside director

The role of outside directors at Don Quijote Holdings is to draw on their accumulated experience in different fields to ensure management soundness and transparency. Yukihiko Inoue, a former Superintendent-General of the Metropolitan Police Department, takes a multifaceted view in presenting suggestions, emphasizing steps to preclude legal infractions from a compliance perspective. Yasunori Yoshimura, an obstetrician and gynecologist who is currently a Special Advisor to the Cabinet and responsible for measures to address the declining birthrate in Japan and to support child-raising initiatives, offers suggestions from a position emphasizing the creation of a workplace environment where employees with different value perceptions feel comfortable, systemic reforms that also contribute to a good workplace atmosphere, and mental health. Tomiaki Fukuda applies his experience in corporate management in considering how to protect the interests of shareholders and consumers, and fulfills a counterpoint role through an external perspective.

At the General Meeting of Shareholders in September 2016, a shareholder asked about the role of outside directors in regard to the issue of long working hours. As the Don Quijote Group adheres to a policy of creating stores that are firmly rooted in the community, the establishment of a workplace environment that is healthy and safe for all is of great interest to stakeholders. This discussion reaffirmed that the issue of long working hours is one needing to be resolved quickly on a Groupwide basis.

Q1 What are your views on the roles of the Board of Directors and Audit & Supervisory Committee?

The Board of Directors prepares detailed management reports and approves many resolutions. As quick decision-making is essential for many resolutions, matters related to key strategies and policy are covered in materials provided to directors in advance of board meetings along with any necessary explanations. This information lays the groundwork for sufficient discussion and exchange of opinions and promotes deeper involvement in decision-making processing at the Board of Directors' meetings.

The transition to a company with an audit & supervisory committee, in September 2016, provided outside directors with more opportunities to acquire details on management activities. However, the transition has also led to an increase in opportunities to consider management direction and the best approach to management, placing a greater burden of responsibility on outside directors.

Q2 What are the Group issues that need to be resolved?

The Don Quijote Group has achieved 28 straight years of higher sales and operating income, on a consolidated basis, and is considered to have some of the greatest growth potential in the retail industry. Like the rest of the management team, outside directors feel this growth is fueled by speed, youth and enthusiasm. However, unparalleled momentum alone carries the risk of taking the Group right past its intended destination. The insights and background of outside directors will serve as the necessary brakes in preventing the Group from going too far yet retaining the sense of speed that infuses current management practices.

A significant issue of late is the creation of a good workplace environment. Behind the push to sustain high growth, there are concerns, such as an inevitably heavier burden on employees and the impact on mental health. The Ministry of Economy, Trade and Industry is certifying companies as excellent enterprises of health and productivity management under a program called "White 500," and the Don Quijote Group should accelerate its own efforts to promote health and productivity management and be a good company, and thereby reach a level of corporate maturity commensurate with its growth.

There appears to be room for improvement in creating a workplace environment where employees feel comfortable. Amid worries about a shortage of labor in the retail industry overall, it is increasingly important for the Group to create a corporate climate that encourages people to work in all capacities.

Also, the acceleration of store-opening activity emphasizes the importance of reinforcing personnel training efforts. The key is to find an approach to instill the corporate philosophy of "valuing the customer as our utmost priority" in the minds of employees and deepen a shared awareness of the inherent concepts. When each and every employee embraces the corporate philosophy, frontline productivity will improve and the workplace environment will be more conducive to executing assigned tasks.

As the Don Quijote Group is introducing frontline reforms with a sense of speed and shaping a corporate culture to achieve improvements, the above issues are sure to be quickly addressed.

Q3 What is the Group's vision?

The Don Quijote Group has a plan—Vision 2020—highlighting targets of 1 trillion yen in net sales, a store network of 500 locations and ROE of 15%. All employees are working as one to achieve these targets, and this process will clarify the Group's next stage of development. The sense of accomplishment that comes with meeting high targets fosters a firm belief among employees that their company is a good company, which fuels committed involvement in making the company even better. This process keeps building in a virtuous circle, which is indispensable to the evolution of a good company.

The corporate philosophy of "valuing the customer as our utmost priority" permeates the Group, facilitating unique store formats and, ultimately, driving corporate growth. And now, using a solid platform of know-how built in Japan, the Group is taking steps to accelerate its presence overseas. This approach includes outside directors, who will continue to apply concerted efforts toward shaping the ideal Group of the future.

Board of Directors (as of September 27, 2017)

Koji Ohara
President and CEO

February 1993	Joined the Company
September 1995	Director of the Company
April 2007	Resigned from the position of Director of the Company
April 2009	President and Representative Director of Japan Commercial Establishment Co., Ltd.
September 2009	Director and CIO of the Company
July 2012	President and Representative Director of Don Quijote Shared Services Co., Ltd. (current position)
September 2012	Director of Nagasakiya Co., Ltd. (current position)
December 2013	President and Representative Director of Don Quijote Co., Ltd. (current position)
July 2015	President, Representative Director and CEO of the Company (current position) President and Representative Director of DRM (current position)
April 2017	President and Representative Director of Doit Co., Ltd. (current position)

Mitsuo Takahashi
Senior Managing Director and CFO

April 1977	Joined AOKI Fashion Sales Co., Ltd. (currently AOKI Holdings Inc.)
July 1997	Joined the Company Division Director of Administration Division of the Company
September 1997	Director of the Company
November 2007	Director of Nagasakiya Co., Ltd. (current position)
July 2012	Senior Managing Director and CFO of the Company (current position) Division Director of Corporate Communications Division of the Company (current position) Audit & Supervisory Board Member of Don Quijote Shared Services Co., Ltd. (current position)
December 2013	Director of Don Quijote Co., Ltd. (current position)
April 2017	Director of Doit Co., Ltd. (current position)

Naoki Yoshida
Senior Managing Director and CCO

December 1995	Joined McKinsey & Company, Inc. Japan
July 2007	President of Don Quijote (USA) Co., Ltd.
September 2012	Director of the Company
December 2013	Director of Don Quijote Co., Ltd. (current position) Director of Nagasakiya Co., Ltd. (current position) Director of Doit Co., Ltd. (current position)
July 2015	Senior Managing Director and CCO of the Company (current position)
June 2017	Director of Accretive Co., Ltd. (current position)

Hiroshi Abe
Director

December 2003	Joined the Company
July 2014	President and Representative Director of REALIT Co., Ltd. (current position)
July 2015	Director of DRM (current position) Director of Don Quijote Shared Services Co., Ltd. (current position) Division Director of Information and Communication Technology Division of Don Quijote Shared Services Co., Ltd. (current position)
September 2017	Director of the Company (current position)

Yuji Ishii
Director

September 2008	Joined the Company
July 2015	Vice-Division Director, Administration Division of Don Quijote Shared Services Co., Ltd. Director of DRM (current position)
July 2016	Division Director of Administration Division of Don Quijote Shared Services Co., Ltd. (current position)
September 2017	Director of the Company (current position)

Nobuharu Ohashi
Director

June 1999	Joined the Company
December 2013	Executive Officer of Don Quijote Co., Ltd.
December 2014	President and Representative Director of Nagasakiya Co., Ltd. (current position)
July 2015	Director of DRM (current position)
April 2017	President and Representative Director of Daishin Corporation (current position)
September 2017	Director of the Company (current position)

Kosuke Suzuki
Director

March 2000	Joined the Company
December 2013	Executive Officer of Don Quijote Co., Ltd.
July 2015	Director of DRM (current position)
April 2017	Division Director of New MEGA Don Quijote East Japan Sales and Market Division of Don Quijote Co., Ltd. (current position)
September 2017	Director of the Company (current position)

Takeshi Nishii
Director

August 1998	Joined the Company
December 2013	Executive Officer of Don Quijote Co., Ltd.
July 2015	Director of DRM (current position)
April 2017	Division Director of Sales Support Division of Don Quijote Co., Ltd. (current position)
September 2017	Director of the Company (current position)

DRM: Don Quijote Holdings Retail Management Co., Ltd

Takeshi Haga

Director

March 1999	Joined the Company
July 2014	President and Representative Director of Japan Commercial Establishment Co., Ltd. (current position)
July 2015	Director of DRM (current position)
March 2016	General Manager, Store Development Department of Don Quijote Shared Services Co., Ltd. (current position)
May 2016	President and Representative Director of Pan Pacific Foods Co., Ltd. (current position)
September 2017	Director of the Company (current position)

Tetsuji Maruyama

Director

October 1997	Joined the Company
December 2013	Executive Officer of Don Quijote Co., Ltd.
July 2015	Director of DRM (current position)
April 2017	Division Director of Store Management Support Division of Don Quijote Co., Ltd. (current position)
September 2017	Director of the Company (current position)

Shoji Wada

Director
(Standing Audit & Supervisory Committee Member)

April 1979	Joined Hinode Co., Ltd. (currently Doit Co., Ltd.)
April 2009	Transferred to the Company
July 2009	Acting Department Manager of Information System Department, Information and Communication Technology Division of the Company
July 2012	Transferred to Don Quijote Shared Services Co., Ltd. Acting Department Manager of Information System Department, Information and Communication Technology Division of Don Quijote Shared Services Co., Ltd.
September 2015	Standing Audit & Supervisory Board Member of the Company
September 2016	Director (Audit & Supervisory Committee Member) of the Company (current position)

Yukihiko Inoue

Outside Director
(Audit & Supervisory Committee Member)

September 1994	Superintendent-General of the Metropolitan Police Department
September 2003	Chairperson of the Board of Directors of Japan Guide Dog Association (current position)
June 2006	Outside Corporate Auditor of TOKO ELECTRICAL CONSTRUCTION CO., LTD. (current position) Outside Director of ASAHI KOGYOSHA CO., LTD. (current position)
September 2009	Audit & Supervisory Board Member of the Company
March 2011	Chairman of Public Interest Incorporated Foundation, Aikido Yoshinkai (current position)
June 2011	Outside Statutory Auditor of All Nippon Security Co., Ltd. (current position)
June 2012	Standing Audit & Supervisory Board Member of the Company
September 2014	Director of the Company
September 2016	Director (Audit & Supervisory Committee Member) of the Company (current position)

Yasunori Yoshimura

Outside Director
(Audit & Supervisory Committee Member)

March 1975	Graduated from Keio University School of Medicine
June 2011	Outside Director of ASKA Pharmaceutical Co., Ltd. (current position)
October 2012	Established Yoshimura Bioethics Institute Chairman of Yoshimura Bioethics Institute (current position)
March 2013	Special Advisor to the Cabinet (in charge of measures to counter the declining birthrate and support for child-raising) (current position)
November 2013	Audit & Supervisory Board Member of the Company
April 2014	Professor Emeritus of Keio University (Department of Obstetrics and Gynecology) (current position) Honorary Director of SHIN-YURIGAOKA General Hospital (current position)
September 2015	Director of the Company
September 2016	Director (Audit & Supervisory Committee Member) of the Company (current position)

Tomiaki Fukuda

Outside Director
(Audit & Supervisory Committee Member)

April 1995	President and Representative Director of U.H.I. SYSTEMS K.K.
April 2003	President of Japan Wrestling Federation (current position)
September 2010	Standing Audit & Supervisory Board Member of the Company
June 2012	Audit & Supervisory Board Member of the Company
June 2013	Honorary member of Japanese Olympic Committee (current position)
January 2014	Councillor of the Tokyo Organising Committee of the Olympic and Paralympic Games (current position)
September 2014	Honorary Vice-president of Fédération Internationale des Luttes Associées (currently United World Wrestling) (current position)
September 2016	Director (Audit & Supervisory Committee Member) of the Company (current position)

Jumpei Nishitani

Outside Director
(Audit & Supervisory Committee Member)

March 1995	Graduated from the Faculty of Economics, The University of Tokyo
March 1997	Earned a master's degree from the Faculty of Economics, The University of Tokyo
April 2005	Associate Professor, College of Business Administration, Ritsumeikan University
August 2009	Visiting Fellow, The University of British Columbia
April 2015	Professor, College of Business Administration, Ritsumeikan University (current position)
September 2017	Director (Audit & Supervisory Committee Member) of the Company (current position)

Management's Discussion & Analysis

Consolidated Business Results

Business Environment and Results

The economic environment in Japan during fiscal 2017—July 1, 2016 to June 30, 2017—was expected to recover moderately, backed by ongoing improvement in employment and personal income environments as well as the emerging effects of various government measures. However, the future remains unclear, and the impact of uncertainties in overseas economies and fluctuations in financial and capital markets will require careful attention.

In the retail industry, despite steady improvement in employment and personal income environments, the slump in household spending has continued amid absence of any signs of strength in the economy. As a result, consumers are much more cost-conscious and selective in their purchases, and these trends are becoming firmly entrenched.

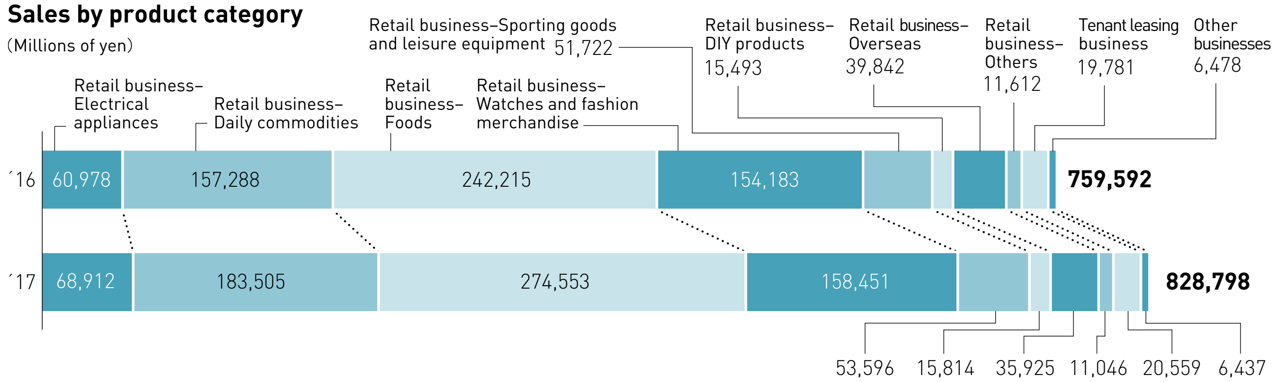
The Don Quijote Group has continued to proudly demonstrate its strengths built on policies that recognize the capabilities of frontline staff and differentiate each store—policies that distinguish the Group's operating companies from the competition—and proactive steps have also been taken based on aggressive sales strategies.

The main stores opened during fiscal 2017 include MEGA Don Quijote Miyakojima store (Miyakojima, Okinawa Prefecture), opened in August 2016 as the first domestic attempt to put in place infrastructure to supply products to a remote island. In November of the same year, the Group opened Don Quijote Tottori Honten (Tottori, Tottori Prefecture), in Tottori Prefecture, the only area in Honshu where we lacked a presence. In May 2017, the Group opened MEGA Don Quijote Shibuya Honten (Shibuya-ku, Tokyo). This "forward-thinking flagship store" features an abundant array of fresh food, daily essentials and household sundries, in addition to offering an expanded lineup of the varied and creative products that the Group is known for.

Furthermore, membership for the Group's original e-money card "majica," launched in March 2014, topped five million on May 1, 2017. Efforts to enhance and strengthen "majica" have included offering extra points for recharging cards, member discounts, "cardless service" and an "e-receipt system (m! receipt)" using the official smartphone app, as well as "majica Premium," which strengthens points of contact with customers in Japan and overseas.

Sales by product category

(Millions of yen)



Sales and composition by product category	2016 Net sales (Millions of yen)	2016 Percentage (%)	2017 Net sales (Millions of yen)	2017 Percentage (%)
Retail business	733,333	96.5	**801,802**	**96.7**
Electrical appliances	60,978	8.0	**68,912**	**8.3**
Daily commodities	157,288	20.7	**183,505**	**22.1**
Foods	242,215	31.9	**274,553**	**33.1**
Watches and fashion merchandise	154,183	20.3	**158,451**	**19.1**
Sporting goods and leisure equipment	51,722	6.8	**53,596**	**6.5**
DIY products	15,493	2.0	**15,814**	**1.9**
Overseas	39,842	5.3	**35,925**	**4.3**
Others	11,612	1.5	**11,046**	**1.4**
Tenant leasing business	19,781	2.6	**20,559**	**2.5**
Other businesses	6,478	0.9	**6,437**	**0.8**
Total	759,592	100.0	**828,798**	**100.0**

The Group's private brand (PB) product development is progressing steadily. The "Jibun Senyo (Personal) PC & Tablet" won the top prize and Digital Consumer Electronics Category Prize in the 4th Generic Consumer Electronics Awards in March 2017, while the "50V 4K ULTRAHD TV with LCD" sold out immediately when it was launched in June 2017. The Group is also shifting into high gear with the two brands launched as PB products in the apparel category, and will develop these as key elements in its future growth strategy.

Going forward, the Group will continue to roll out various initiatives as it strives to operate stores that are supported by customers and to enhance its unique services.

As a result, the Group achieved consecutively higher sales and income during fiscal 2017, with ¥828,798 million in net sales, up 9.1% year on year, ¥46,185 million in operating income, up 6.9% year on year, ¥45,523 million in ordinary income, up 3.9% year on year, and ¥33,082 million in profit attributable to owners of parent, up 32.7% year on year.

Store Network

In fiscal 2017, the Group oversaw the opening of a total of 32 stores: 14 in the Kanto region, four in the Chubu region, eight in the Kinki region, one in the Chugoku region and five in the Kyushu region. The breakdown by subsidiary was: 27 stores for Don Quijote Co., Ltd., one for Nagasakiya Co., Ltd., three for Doit Co., Ltd., and one for Lirack Co., Ltd. Meanwhile, we closed the MEGA Yamashita Koen store due to rebuilding, the PAW Kanazawa and Don Quijote Shibuya stores due to relocation, and the Don Quijote Shizuoka Matsudomi and Omagari stores to improve business efficiency.

As a result, the Group's store network (including overseas stores) expanded to 368 stores as of June 30, 2017, compared with 341 stores as of June 30, 2016.

Operating Results by Business Segment

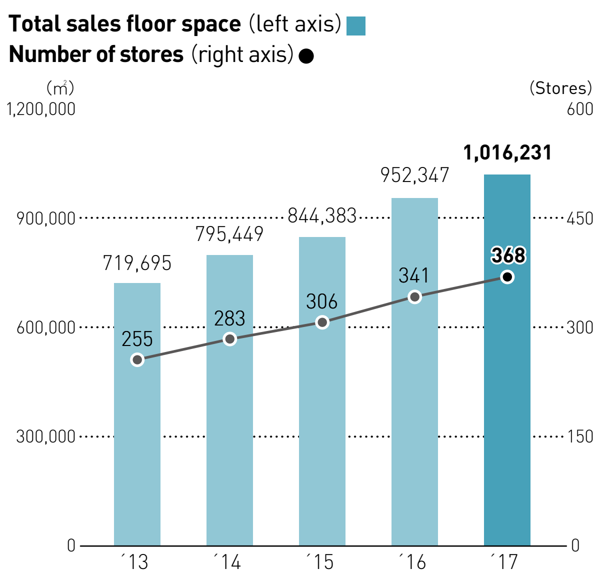
■ **Retail Business**

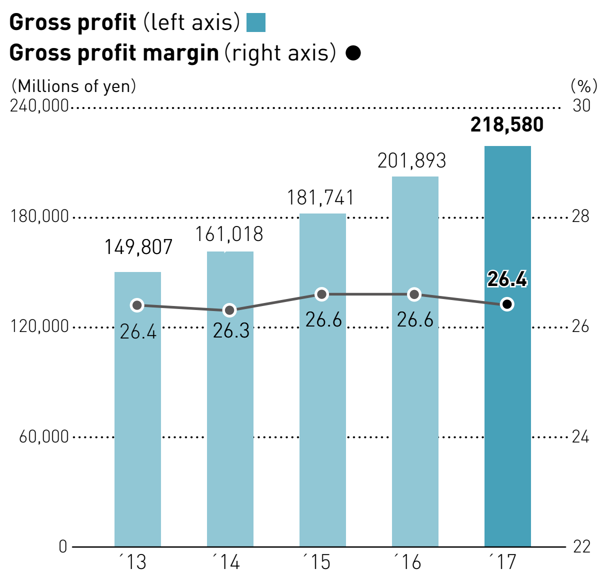
In fiscal 2017, the retail business generated sales of ¥801,802 million, up ¥68,469 million, or 9.3%, from fiscal 2016, and operating income grew to ¥23,693 million. Don Quijote, the core operating format within the Group, achieved a 2.6% increase in sales at existing stores. Contributing factors included a growing share of sales of daily necessities such as foods and daily commodities, which reflected a spending environment dominated by budget-conscious consumers. Inbound purchasing also made a contribution, with its constantly growing number of customers including repeat visitors to Japan, particularly due to demand for consumables such as cosmetics and pharmaceuticals.

In the family-oriented MEGA Don Quijote format, sales at existing stores grew by 2.8%. The format's community-based product mix, pricing, and service led to an increase in store-visit frequency. Progress was also made in capturing share from other companies, while sales grew for foods and daily essentials.

■ **Tenant Leasing Business**

In fiscal 2017, the tenant leasing business advanced, recording sales of ¥20,559 million, up ¥778 million, or 3.9%, year on year, and operating income reached ¥16,123 million. This segment delivered brisk results, reflecting the efforts of Japan Asset Marketing Co., Ltd. and Japan Commercial Establishment Co., Ltd., which are engaged in the tenant leasing business. This success was due to an increase in the number





of properties involved in this business and improvement in their occupancy, paralleling an increase in the number of stores in the retail business.

Other Businesses

In fiscal 2017, sales from other businesses decreased to ¥6,437 million, down ¥41 million, or 0.6%, year on year, and operating income decreased to ¥6,395 million.

Operating Income

The Group did not let up in its efforts to attract more customers by offering high-rotation convenience products such as foods and daily essentials at low prices while strengthening measures to strike a balance with the non-food category. Meanwhile, the gross profit grew due to the effective use of private brand products and spot procurement. In selling, general and administrative (SG&A) expenses, miscellaneous costs associated with new stores, including personnel costs and occupancy and rental expenses, increased as a result of promoting aggressive management. At existing stores, utility costs and fixtures and supplies decreased due to the success of operational improvements, labor measures and major organizational reforms to offset changes in the sales mix and higher man-hours. As a result of these efforts, operating income grew 6.9% year on year, to ¥46,185 million.

Ordinary Income, Profit Attributable to Owners of Parent

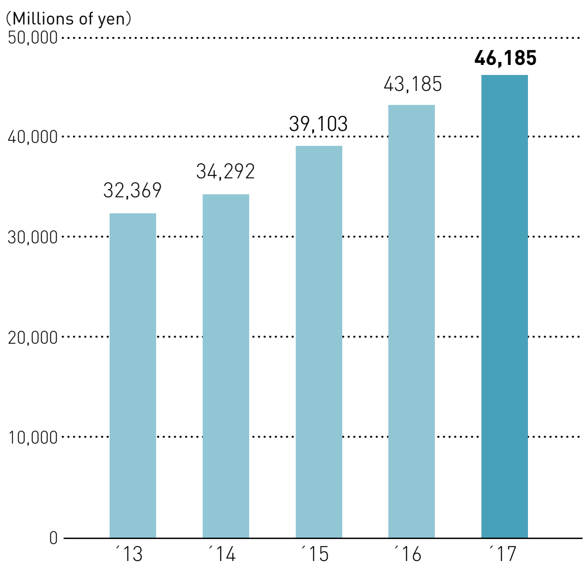
The Company booked ¥1,537 million in impairment loss, ¥959 million in loss on closing of stores, and ¥251 million in loss on disposal of non-current assets under extraordinary loss, while posting ¥9,547 million in gain on sales of non-current assets and ¥2,968 million in gain on sales of shares of subsidiaries and affiliates under extraordinary income. Buoyed by the higher net sales, ordinary income climbed 3.9% to ¥45,523 million, and profit attributable to owners of parent rose 32.7%, to ¥33,082 million.

Outlook for Fiscal 2018

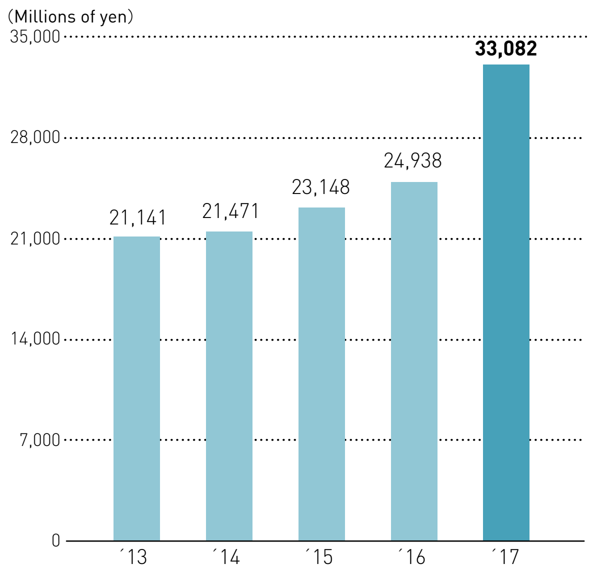
The future outlook continues to present uncertainties. Amid such an environment, the gap between companies and stores widened in the retail industry, and store closures and industry reorganization are expected to accelerate further.

The Group sees the situation as an opportunity for growth, and will guide itself to create stores with appealing formats that translate into a high level of customer satisfaction. We will develop stores based on the two main formats of "big convenience and discount store" which aims to be a retailer with a consumable time format, as exemplified by Don Quijote, and "general discount store" for families centered on the MEGA Don Quijote format launched in 2008, while also

Operating income



Profit attributable to owners of parent



developing new formats.

In store development, we will continue to expand across Japan, pursuing well-balanced store openings including roadside openings of stores for Don Quijote, which serves as the core of the Group's store-opening policy, in suburban areas as well as openings in city centers adjacent to large terminal train stations and bustling shopping districts, according to the size of the commercial area and the locational features.

MEGA Don Quijote, the general discount store for families that has gained recognition as a "post-GMS" and is currently increasing in profitability, is accelerating development while improving business efficiency through tenant openings in multi-business commercial complexes such as shopping centers, in addition to the opening of standalone stores.

In overseas business, we acquired QSI, Inc., which operates 24 supermarkets in Hawaii, U.S.A., as a consolidated subsidiary, and are planning to open a store inside a commercial facility in the Republic of Singapore as our first outlet in Southeast Asia. Both businesses are new resource development bases for achieving the Group's growth strategy, and are expected to significantly increase business value.

Meanwhile, in store operation, management will emphasize a store-based approach that caters to the needs of customers in the respective commercial area, while enhancing our capabilities for attracting customers, product strength, and price competitiveness in order to strengthen the operational base at existing stores. Management is also keen to boost sales of private brand products, and to reinforce sales promotion activities through "majica," the Group's proprietary e-money card, and further raise the level of customer loyalty.

With regard to store environment, we will continue to implement optimal sales policies and CSR activities that benefit the regions where our stores are located.

Given anticipated market conditions and the Group's efforts to maximize business opportunities, management expects the following results for fiscal 2018: net sales of ¥880.0 billion, up 6.2%; operating income of ¥48.0 billion, up 3.9%; ordinary income of ¥48.0 billion, up 5.4%; and profit attributable to owners of parent of ¥28.0 billion, down 15.4%.

Financial Position

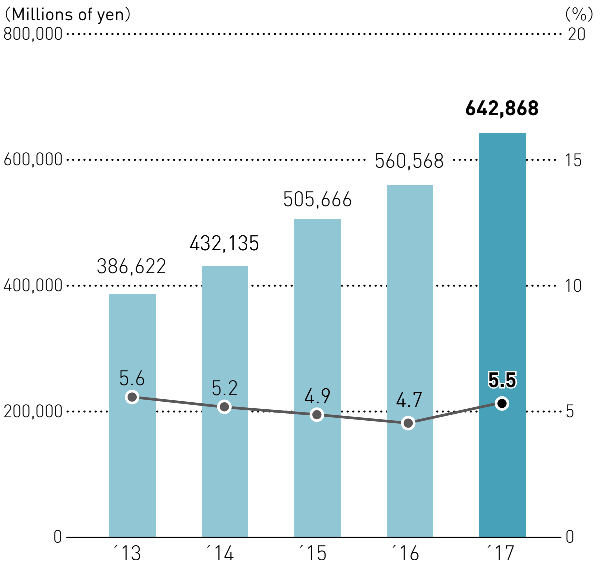
As of June 30, 2017, total assets stood at ¥642,868 million, up ¥82,300 million from a year earlier. Current assets amounted to ¥227,585 million, up ¥31,608 million, compared with the previous fiscal year. This difference consisted primarily of a ¥33,446 million increase in cash and deposits as well as a ¥6,569 million increase in merchandise and finished goods, paralleling the opening of new stores.

Property, plant and equipment totaled ¥310,766 million, up ¥18,714 million compared with the previous fiscal year. The primary components of this change were land, up ¥5,833 million, and buildings and structures, up ¥10,509 million, reflecting the opening of 32 new stores during fiscal 2017 and the acquisition of candidate buildings for future stores since the end of fiscal 2017.

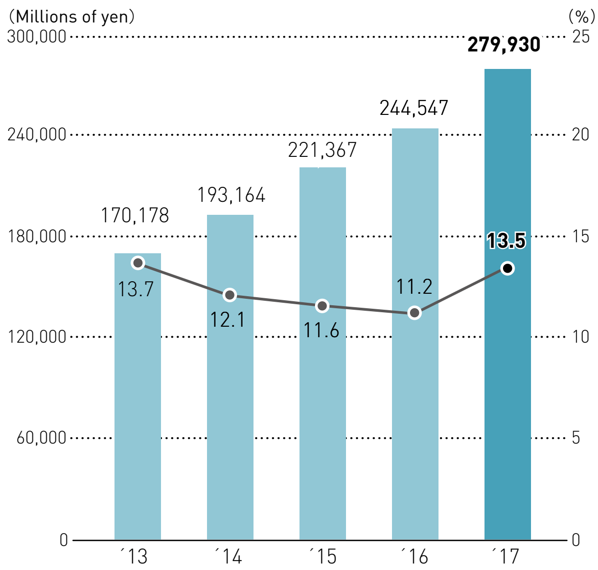
Intangible assets decreased ¥1,117 million, to ¥15,888 million, from June 30, 2016, mainly because of a decline in goodwill.

Total liabilities stood at ¥362,938 million on

Total assets (left axis)
Return on assets (right axis)



Total equity (left axis)
Return on equity (right axis)



Value Story
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Financial Section

June 30, 2017, up ¥46,917 million from a year earlier.

Current liabilities amounted to ¥164,825 million, up ¥16,830 million from a year earlier, due to an increase of ¥15,467 million in accounts payable–trade and a decrease of ¥7,902 million in short-term interest-bearing liabilities.

Non-current liabilities reached ¥198,113 million, up ¥30,087 million, mainly because of an increase of ¥39,556 million in long-term debt and a decrease of ¥1,581 million in corporate bonds.

The debt-to-equity ratio was 0.71 times, an increase of 0.04 point. Net interest-bearing liabilities as of June 30, 2017, amounted to ¥184,550 million, for a ratio of interest-bearing debt to total assets of 28.7%, compared with 27.6% a year earlier. Net liabilities decreased ¥3,372 million, to ¥108,210 million. The equity ratio declined 1.0 percentage point, to 40.3%, while return-on-equity went up 2.3 percentage points, to 13.5%.

Cash Flows

Cash provided by operating activities in fiscal 2017 amounted to ¥56,441 million, as inflow, primarily profit before income taxes, depreciation and amortization, and increase in trade payables, more than offset outflow, namely gain on sales of non-current assets, gain on sales of shares of subsidiaries and affiliates, and higher inventories paralleling the opening of new stores as well as income taxes paid.

Cash used in investing activities came to ¥40,593 million, largely owing to payments for purchase of property, plant and equipment and payments of loans receivable.

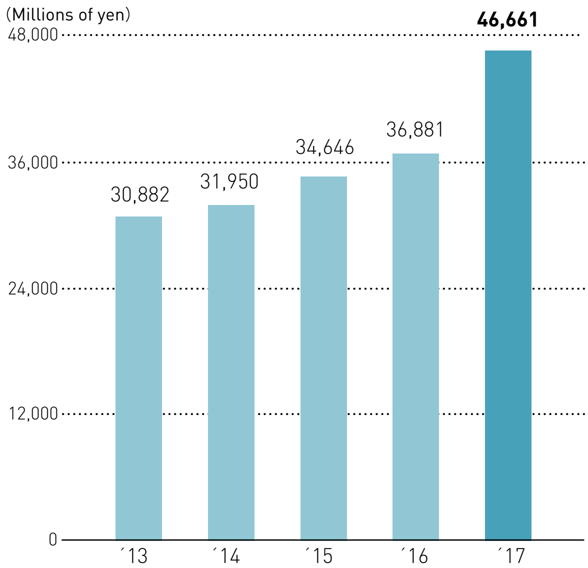
Cash provided by financing activities totaled ¥17,644 million, mainly because borrowing of long-term debt and proceeds from issuance of bonds exceeded repayments of payables under fluidity lease receivables and payments of cash dividends.

As a result, cash and cash equivalents came to ¥78,094 million at the end of fiscal 2017, up ¥33,598 million from a year earlier.

Capital Investment

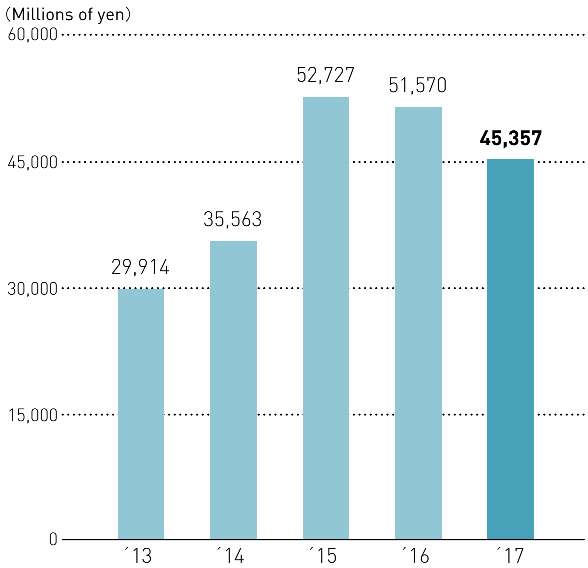
In fiscal 2017, the Group allocated capital investment, mainly to purchase land, buildings and facilities, pay fixed leasehold deposits and acquire software, for 32 newly built stores and thereby expand the retail and tenant leasing businesses. As a result, capital investment by reporting segment was ¥22,453 million in the retail business, ¥22,666 million in the tenant leasing business and ¥238 million in other businesses. The Company also recorded a ¥1,537 million impairment loss and ¥959 million under loss on closing of stores.

Cash flow



Note: Cash flow = Profit attributable to owners of parent + Depreciation and amortization + Extraordinary loss − Cash dividends paid

Capital investment



Risk Information

Business risks

Listed below are the main risks that could affect the business or corporate affairs of the Don Quijote Group. We make every effort to avoid and mitigate these risks as soon as we recognize the possibility of such risks arising.

The following summary of risks includes future events, which are based on judgments and forecasts made by the Group based on the information available as of September 27, 2017, the date of filing the annual securities report to the Financial Services Agency of Japan.

1. Store expansion and human resources

The Group has been expanding its business stronghold from the greater Tokyo metropolitan area to all over Japan, and increasing the number of subsidiaries in order to expand its business fields. If the Group fails to recruit and appropriately train its employees, the quality of business could deteriorate, which could lead to a decline in business results.

2. Import and distribution

The Group is importing an increasing portion of its merchandise from sources outside Japan. As an importer, the Group's business is subject to the risks generally associated with doing business abroad, such as foreign political conditions, regulations or the economic environment.

Distribution centers, including in Saitama and Osaka, are operated by a third-party contractor on behalf of the Group. Any significant interruption in the operation of these facilities would have a material adverse effect on the Group's distribution and logistics.

3. Marketing

Business results are greatly influenced by the ability of young marketing staff, particularly those in their 20s and 30s, to quickly and accurately pinpoint demand and expertly apply this information to the selection of merchandise matching customer needs. Failure to retain and train such staff, or to maintain the appropriate organizational structure to support such efforts, could lead to sluggish business results.

4. Consumer demand, weather and seasonality

Business results may be influenced by unavoidable factors, including fluctuations in consumer demand, changes in the weather and seasonal variations. The inability to prepare for and respond to changing external factors such as these may dampen improvement in business results.

5. Regulatory environment

The Group is subject to the Large-Scale Retail Store Location Law. The purpose of the law is to give local governments the power to regulate the development of large retail stores with a sales floor of more than 1,000 square meters. Should there also be specific regulations in a community or prefecture for stores with sales floors smaller than 1,000 square meters, the Group's store development strategies or sales plans may be adversely affected.

6. Future capital requirements

To expand Group operations, the Company may have to derive capital in new ways, such as bond issuance, depending on the amount of capital required for the target investment. Business expansion plans could be hampered by an unfavorable economic environment, high interest rates or other problematic fund procurement conditions.

7. Data security

The Group handles customers' personal information with precision and care. Any data leak would have a material adverse effect on the Group's reputation, financial condition and results of operations and could lead to possible litigation.

8. Impairment of non-current assets

The Group estimates future cash flows of its assets in order to assess the possibility of the occurrence of an impairment loss. Potential impairment would have a material adverse effect on the Group's business, financial condition and results of operations.

9. Decline in the value of subsidiary and affiliated company shares

Shares of subsidiaries and affiliates are valued at cost. To the extent that the financial condition of subsidiaries and affiliates continues to deteriorate, by applying the Accounting for Financial Instruments, the potential impairment on shares without quoted market prices would have a material adverse effect on the Group's business, financial condition and results of operations.

10. Expansion by mergers and acquisitions

The Group has implemented mergers and acquisitions as a means of business expansion. The Company avoids risks through a thorough due diligence review of the target company, its business and relevant contractual matters. There is, however, the possibility of incurring contingent liabilities or discovering unrecognized liabilities after the merger and acquisition has taken place. In either case, there would be an adverse effect on the Group's business, financial condition and results of operations.

11. Stock options

The Group adopts an incentive system that gives stock options to directors and employees of the Group in order to improve their morale or recruit excellent people. When the given stock options as well as the prospectively given stock options are exercised, the Company shares become diluted. Stock options given after May 1, 2006, are essentially allocated to expenses, and as such may have a material adverse effect on the Group's business, financial condition and results of operations.

12. Loss on closing of stores

Store-operating Group companies actively pursue new store openings but may also close locations that prove unprofitable. A policy is in place stating that any newly opened store failing to achieve its initial revenue target will be closed if a turnaround in performance is unattainable even with management efforts to expand sales and reduce selling, general and administrative expenses. Losses associated with the closure of one or more stores due to poor performance could have a negative impact on consolidated results.

13. Foreign currency transactions

Store-operating Group companies import certain merchandise directly from overseas. If indirect imports are also included, most of the merchandise sold comes from outside Japan. Generally, the effective purchase price will trend downward if the yen is strong, and rise when the yen weakens. The gross profit margin is therefore susceptible to the risk of currency fluctuations. On occasion, merchandise-importing Group companies will undertake forward exchange contracts and formulate measures to avoid exchange rate risk. But there is no guarantee that these efforts will be completely effective, and general market risk from fluctuations in forex markets, in particular, will inevitably affect business results.

14. Natural disaster

When a natural disaster such as a large-scale earthquake or typhoon occurs, the results of the Group's business, financial condition and results of operations may be affected due to restoration expenses incurred for store facilities, the interruption of business activities, and possible interference in logistics and shipping operations.

15. Inventory

Inventories at stores throughout the Group have recently tended to rise because of the Company's aggressive stance on store openings. To minimize inventory risk, stores monitor sales trends and inventory volumes in real time through POS (point of sale) and core operating systems. However, changes in the operating environment, mainly fluctuating consumer demand and changes in the weather, could cause the turnover of inventory to slow, and the subsequent disposal of inventory and booking of loss on valuation of merchandise could adversely affect the Group's business results and financial position.

Note: The risks described above do not cover all of the potential risks that the Don Quijote Group may face. Other risks include, but are not limited to, litigation and amendments to laws or ordinances, which could affect the business of the Group.

Consolidated Balance Sheets

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
As of June 30, 2017 and 2016

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
ASSETS	**2017**	2016	**2017**
Current assets:			
Cash and deposits (Notes 7, 17 and 25)	**¥76,340**	¥42,894	**$682**
Notes and accounts receivable–trade (Note 7)	**8,966**	7,720	**80**
Purchased receivables (Notes 7 and 17)	**—**	6,606	**—**
Inventories (Notes 5 and 17)	**123,969**	117,400	**1,107**
Prepaid expenses	**3,525**	3,214	**31**
Deferred tax assets (Note 18)	**7,540**	7,210	**67**
Other current assets (Note 25)	**7,263**	10,999	**65**
Less: Allowance for doubtful accounts (Note 7)	**(18)**	(66)	**(0)**
Total current assets	**227,585**	195,977	**2,032**
Investments and advances:			
Investments in securities and capital to affiliates (Note 7)	**4,646**	2,296	**41**
Investment securities (Notes 7 and 8)	**2,893**	3,440	**26**
Advance payment for fixed leasehold deposits	**4,620**	6,458	**41**
Long-term loans receivable (Note 7)	**23,171**	864	**207**
Less: Allowance for doubtful accounts (Note 7)	**(164)**	(192)	**(1)**
Total investments and advances	**35,166**	12,866	**314**
Property, plant and equipment (Notes 17, 21 and 26)**:**			
Land	**171,018**	165,185	**1,527**
Buildings and structures	**204,354**	185,739	**1,825**
Furniture and fixtures	**59,936**	55,896	**535**
Construction in progress	**3,643**	1,899	**33**
Other property, plant and equipment	**413**	399	**3**
Total	**439,364**	409,118	**3,923**
Less: Accumulated impairment loss	**(5,742)**	(4,906)	**(51)**
Less: Accumulated depreciation	**(122,856)**	(112,160)	**(1,097)**
Net property, plant and equipment	**310,766**	292,052	**2,775**
Intangibles:			
Goodwill	**5,363**	6,852	**48**
Other intangibles	**10,525**	10,153	**94**
Total intangibles	**15,888**	17,005	**142**
Other assets:			
Fixed leasehold deposits (Notes 7 and 17)	**40,474**	35,645	**361**
Long-term prepaid expenses	**3,214**	2,754	**29**
Deferred tax assets (Note 18)	**8,801**	3,310	**79**
Other non-current assets	**2,511**	2,564	**22**
Less: Allowance for doubtful accounts (Note 7)	**(1,537)**	(1,605)	**(14)**
Total other assets	**53,463**	42,668	**477**
Total assets	**¥642,868**	¥560,568	**$5,740**

The accompanying notes are an integral part of the statements.

LIABILITIES AND EQUITY	Millions of yen (Note 2) 2017	2016	Millions of U.S. dollars (Note 2) 2017
Liabilities			
Current liabilities:			
Accounts payable–trade (Note 7)	¥85,661	¥70,194	$765
Short-term loans (Notes 7, 9, 10, 11 and 17)	285	1,680	3
Current portion of long-term debt (Notes 7, 9 and 17)	24,793	31,304	221
Payables under fluidity lease receivables (Notes 7 and 12)	7,152	7,147	64
Accrued expenses (Note 7)	9,964	8,799	89
Accrued income taxes (Note 7)	9,128	5,573	82
Allowance for point program	1,691	1,327	15
Other current liabilities (Notes 17 and 18)	26,151	21,971	233
Total current liabilities	164,825	147,995	1,472
Non-current liabilities:			
Long-term debt (Notes 7, 9 and 17)	159,604	121,644	1,425
Long-term payables under fluidity lease receivables (Notes 7 and 12)	19,366	26,876	173
Asset retirement obligations (Note 27)	6,000	5,177	54
Negative goodwill	353	439	3
Other non-current liabilities (Notes 17 and 18)	12,790	13,890	114
Total non-current liabilities	198,113	168,026	1,769
Total liabilities	362,938	316,021	3,241
Equity (Notes 3, 14 and 23)**:**			
Common stock			
Authorized:			
2016—468,000,000			
2017—468,000,000			
Issued and outstanding:			
2016—158,118,160			
2017—158,178,760	22,425	22,382	200
Additional paid-in capital	19,425	25,215	173
Stock acquisition rights	98	23	1
Retained earnings	216,446	184,205	1,933
Net unrealized gains on investment securities	326	12	3
Foreign currency translation adjustments	445	(272)	4
Less: Treasury stock, at cost			
2016—4,633			
2017—4,633	(14)	(14)	(0)
Total	259,151	231,551	2,314
Non-controlling interests	20,779	12,996	185
Total equity	279,930	244,547	2,499
Total liabilities and equity	¥642,868	¥560,568	$5,740

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2017 and 2016

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Net sales	¥828,798	¥759,592	$7,400
Cost of goods sold (Note 5)	610,218	557,699	5,448
Gross profit	218,580	201,893	1,952
Selling, general and administrative expenses (Notes 19 and 20)	172,395	158,708	1,540
Operating income	46,185	43,185	412
Other income (expenses):			
Interest and dividend income	968	706	9
Gain on sales of non-current assets (Note 24)	9,547	117	85
Gain on sales of shares of subsidiaries and affiliates (Note 25 and 28)	2,968	—	27
Equity in earnings of affiliates	511	—	5
Commission fee	449	426	4
Interest expenses	(1,145)	(1,003)	(10)
Cost of claim's liquidation	(502)	(601)	(5)
Commission fee	(2,174)	(189)	(19)
Impairment loss (Note 21)	(1,537)	(179)	(14)
Loss on disposal of non-current assets (Note 24)	(251)	(279)	(2)
Loss on closing of stores (Note 24)	(959)	(1,197)	(9)
Other income and expenses, net (Notes 15 and 21)	1,265	1,127	11
Profit before income taxes	55,325	42,113	494
Income taxes (Note 18):			
Current	19,339	13,515	173
Deferred	(3,111)	(957)	(28)
Profit	39,097	29,555	349
Profit attributable to non-controlling interests	6,015	4,617	54
Profit attributable to owners of parent	¥33,082	¥24,938	$295

The accompanying notes are an integral part of the statements.

Ordinary Income

According to accounting principles and practices generally accepted in Japan, ordinary income is as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Operating income	¥46,185	¥43,185	$412
Other income (expenses):			
Interest and dividend income	968	706	9
Equity in earnings of affiliates	511	—	5
Commission fee	449	426	4
Interest expenses	(1,145)	(1,003)	(10)
Cost of claim's liquidation	(502)	(601)	(5)
Commission fee	(2,174)	(189)	(19)
Other income and expenses, net	1,231	1,273	10
Ordinary income	45,523	43,797	406
Extraordinary income (loss):			
Gain on sales of non-current assets	9,547	117	85
Gain on sales of shares of subsidiaries and affiliates	2,968	—	27
Impairment loss	(1,537)	(179)	(14)
Loss on disposal of non-current assets	(251)	(279)	(2)
Loss on closing of stores	(959)	(1,197)	(9)
Other extraordinary income and loss, net	34	(146)	1
Profit before income taxes	¥55,325	¥42,113	$494

Consolidated Statements of Comprehensive Income (Note 16)

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2017 and 2016

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Profit	¥39,097	¥29,555	$349
Other comprehensive income			
Net unrealized gains (losses) on investment securities	304	(572)	3
Foreign currency translation adjustments	706	(2,355)	6
Share of other comprehensive income of affiliates accounted for using equity method	(3)	—	(0)

Total other comprehensive income	1,007	(2,927)	9
Comprehensive income	¥40,104	¥26,628	$358
Comprehensive income attributable to:			
Owners of parent	¥34,115	¥22,020	$305
Non-controlling interests	5,989	4,608	53

Amount per share of common stock:	Yen (Note 2)		U.S. dollars (Note 2)
	2017	2016	2017
Basic earnings (Note 23)	¥209.18	¥157.76	$1.87
Diluted earnings (Note 23)	209.04	157.65	1.87
Cash dividends applicable to the year	26.00	22.00	0.23

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Equity

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2017 and 2016

	Millions of yen (Note 2)								
	Common stock	Additional paid-in capital	Stock acquisition rights	Retained earnings	Net unrealized gains (losses) on investment securities	Foreign currency translation adjustments	Treasury stock, at cost	Non-controlling interests	Total equity
Balance at June 30, 2015	¥22,227	¥25,030	¥13	¥162,428	¥569	¥2,090	¥(3)	¥9,013	¥221,367
Cash dividends	—	—	—	(3,159)	—	—	—	—	(3,159)
Profit attributable to owners of parent	—	—	—	24,938	—	—	—	—	24,938
Issuance of new shares	155	155	—	—	—	—	—	—	310
Purchase of treasury shares	—	—	—	—	—	—	(11)	—	(11)
Change of scope of equity method	—	—	—	(2)	—	—	—	—	(2)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	30	—	—	—	—	—	—	30
Other	—	—	10	—	(557)	(2,362)	—	3,983	1,074
Balance at June 30, 2016	¥22,382	¥25,215	¥23	¥184,205	¥12	¥(272)	¥(14)	¥12,996	¥244,547
Cumulative effects of changes in accounting policies	—	—	—	2,406	—	—	—	2,484	4,890
Restated balance	¥22,382	¥25,215	¥23	¥186,611	¥12	¥(272)	¥(14)	¥15,480	¥249,437
Cash dividends	—	—	—	(3,479)	—	—	—	—	(3,479)
Profit attributable to owners of parent	—	—	—	33,082	—	—	—	—	33,082
Issuance of new shares	43	42	—	—	—	—	—	—	85
Change of scope of consolidation	—	—	—	(4)	—	—	—	—	(4)
Capital increase of consolidated subsidiaries	—	(4,150)	—	(0)	—	—	—	—	(4,150)
Purchase of shares of consolidated subsidiaries	—	(1,682)	—	—	—	—	—	—	(1,682)
Other	—	—	75	236	314	717	—	5,299	6,641
Balance at June 30, 2017	¥22,425	¥19,425	¥98	¥216,446	¥326	¥445	¥(14)	¥20,779	¥279,930

	Millions of U.S. dollars (Note 2)								
	Common stock	Additional paid-in capital	Stock acquisition rights	Retained earnings	Net unrealized gains (losses) on investment securities	Foreign currency translation adjustments	Treasury stock, at cost	Non-controlling interests	Total equity
Balance at June 30, 2016	$200	$225	$0	$1,645	$0	$(2)	$(0)	$116	$2,184
Cumulative effects of changes in accounting policies	—	—	—	21	—	—	—	22	43
Restated balance	$200	$225	$0	$1,666	$0	$(2)	$(0)	$138	$2,227
Cash dividends	—	—	—	(31)	—	—	—	—	(31)
Profit attributable to owners of parent	—	—	—	295	—	—	—	—	295
Issuance of new shares	0	0	—	—	—	—	—	—	1
Change of scope of consolidation	—	—	—	(0)	—	—	—	—	(0)
Capital increase of consolidated subsidiaries	—	(37)	—	(0)	—	—	—	—	(37)
Purchase of shares of consolidated subsidiaries	—	(15)	—	—	—	—	—	—	(15)
Other	—	—	1	2	3	6	—	47	59
Balance at June 30, 2017	$200	$173	$1	$1,933	$3	$4	$(0)	$185	$2,499

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2017 and 2016

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥55,325	¥42,113	$494
Depreciation and amortization	15,952	15,092	142
Impairment loss	1,537	179	14
Amortization of negative goodwill	(86)	(86)	(1)
Increase (Decrease) in allowance for doubtful accounts	(51)	60	(0)
Interest and dividend income	(968)	(706)	(9)
Interest expenses paid on loans and bonds	1,145	1,003	10
Gain on sales of shares of subsidiaries and affiliates	(2,968)	—	(27)
Gain on sales of investment securities	(215)	—	(2)
Equity in earnings of affiliates	(511)	—	(5)
Loss (gain) on sales and disposal of property, plant and equipment, net	(9,291)	163	(83)
Loss on closing of stores	959	1,197	9
Offset rent expense from deposit received from lessees	1,754	1,457	16
Increase in trade receivables	(2,928)	(2,264)	(26)
Increase in inventories	(6,517)	(23,022)	(58)
Increase in trade payables	9,108	9,745	81
Decrease in other current assets	592	3	5
Increase (Decrease) in other current liabilities	5,472	(8)	49
Decrease in other non-current liabilities	(42)	(11)	(0)
Other, net	3,199	842	29
Subtotal	71,466	45,757	638
Received interest and dividend income	702	500	6
Interest paid	(1,150)	(1,005)	(10)
Income taxes paid	(15,830)	(17,772)	(141)
Income taxes refund	1,203	1,630	11
Dividends received from affiliates accounted for using equity method	50	—	0
Net cash provided by operating activities	56,441	29,110	504
Cash flows from investing activities:			
Time deposits transferred from cash	(59)	(89)	(1)
Proceeds from time deposits	59	389	1
Payments for purchase of property, plant and equipment	(39,398)	(43,736)	(352)
Proceeds from sales of property, plant and equipment	16,594	1,144	148
Payments for purchase of intangible assets	(858)	(465)	(8)
Payments for fixed leasehold deposits	(3,552)	(4,492)	(32)
Proceeds from termination of fixed leasehold deposits	224	170	2
Advance payment for fixed leasehold deposits	(1,950)	(3,341)	(17)
Proceeds from sales of investment securities	1,122	—	10
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 25)	3,265	—	29
Purchase of shares of subsidiaries and affiliates	(3,527)	(176)	(31)
Payments of loans receivable	(22,818)	(1,685)	(204)
Collection of loans receivable	10,242	9	92
Other, net	63	75	1
Net cash used in investing activities	(40,593)	(52,197)	(362)
Cash flows from financing activities:			
Net increase (decrease) of short-term bank loans	1,249	(110)	11
Borrowing of long-term debt	44,086	38,934	394
Repayment of long-term debt	(18,734)	(18,019)	(167)
Proceeds from issuance of bonds	18,302	26,680	163
Payments for redemption of bonds	(13,001)	(19,173)	(116)
Repayments of payables under fluidity lease receivables	(7,985)	(7,621)	(71)
Issuance of common stock	85	310	1
Payments of cash dividends	(3,479)	(3,159)	(31)
Cash dividends paid to non-controlling interests	(660)	(646)	(6)
Other, net	(2,219)	(48)	(20)
Net cash provided by financing activities	17,644	17,148	158
Effect of exchange rate changes on cash and cash equivalents	(46)	(825)	(1)
Increase (Decrease) in cash and cash equivalents	33,446	(6,764)	299
Cash and cash equivalents at beginning of the year	44,496	51,292	397
Increase in cash and cash equivalents from newly consolidated subsidiary	103	—	1
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(32)	—
Increase (Decrease) in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries	49	—	0
Cash and cash equivalents at end of the year (Note 25)	¥78,094	¥44,496	$697

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

For the fiscal years ended June 30, 2017 and 2016

1. DESCRIPTION OF BUSINESS

The Don Quijote Group (the "Group") comprises pure holding company Don Quijote Holdings Co., Ltd. (the "Company"), 52 consolidated subsidiaries (Don Quijote Co., Ltd., Japan Commercial Establishment Co., Ltd., D-ONE Co., Ltd., REALIT Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd., Nagasakiya Co., Ltd., MARUKAI CORPORATION, Japan Asset Marketing Co., Ltd., Don Quijote Shared Services Co., Ltd., and 42 other subsidiaries), 17 subsidiaries excluded from consolidation, one affiliated company accounted for by the equity method and three affiliated companies not accounted for by the equity method.

During the fiscal year ended June 30, 2017, the Company sold a portion of its shares in Accretive Co., Ltd., which is a former consolidated subsidiary engaged in other businesses (the financial services business). Accordingly, Accretive Co., Ltd. was removed from the scope of consolidation and reclassified as an affiliated company accounted for by the equity method from the third quarter of the fiscal year, and its six subsidiaries were removed from the Group.

Major operations of the Group are as follows:

Retail business

Don Quijote Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd., Nagasakiya Co., Ltd., and MARUKAI CORPORATION operate a retail chain business by selling electrical appliances, daily commodities, clothing, foods, housing-related products, watches, fashion goods, sports and leisure goods, and DIY products with the concept of "big convenience and discount stores."

Tenant leasing business

Japan Commercial Establishment Co., Ltd., operates a tenant leasing business and rents floor space in shopping malls to tenants. The company also manages these tenants.

Don Quijote Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd. and MARUKAI CORPORATION are engaged in the tenant leasing business and lease part of their stores to tenants.

Japan Asset Marketing Co., Ltd., is involved in the tenant leasing business through leasing of commercial buildings to Group companies. The company also manages these tenants.

Other businesses

D-ONE Co., Ltd. operates store development and real estate business for the Group stores.

REALIT Co., Ltd. operates POS-linked cellular phones for sales promotion system.

Don Quijote Shared Services Co., Ltd. provides shared services for the Group's back-office operations.

Accretive Co., Ltd., an affiliated company accounted for by the equity method, provides financial services including early financing of accounts receivable and outsourcing services for payments.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Accounting applied to the Company and significant subsidiaries is on a consolidated basis.

The Company prepares its consolidated financial statements in conformity with accounting principles and practices generally accepted in Japan as per the requirements of the Japanese Companies Act and other applicable rules and regulations. The Company files its financial statements with the local finance bureau of the Ministry of Finance (MOF) as required by the Financial Instruments and Exchange Act and its related laws, rules, and regulations. In preparing these financial statements, they have been restructured and translated into English from the statutory Japanese language consolidated financial statements in order to present them in a form that is more useful to readers outside Japan. The consolidated financial statements are not intended to present the financial position, results of operations, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Foreign subsidiaries maintain their books of account in conformity with accounting methods generally accepted under accounting standards in the respective countries, and there are no significant differences from the accounting standards adopted by the parent company.

The accompanying notes include additional information, which is not required under generally accepted accounting principles and practices in Japan.

Monetary figures are rounded off to the nearest million yen. The U.S. dollar amounts are included solely for convenience of readers and stated at the exchange rate of ¥112.00 to U.S.$1, the rate prevailing on June 30, 2017. These translations should not be construed as representations that the yen actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

Certain items in the financial statements of fiscal year ended June 30, 2016 have been reclassified for comparative purposes with fiscal year ended June 30, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

As of June 30, 2017, the Company has 69 subsidiaries, including 52 consolidated subsidiaries, presented in the following table:

	Equity holdings by the Group	Activity
Don Quijote Co., Ltd.	100.0%	Operation of retail stores and tenant leasing business
Japan Commercial Establishment Co., Ltd.	100.0%	Leasing of real estate including management of these tenants
D-ONE Co., Ltd.	100.0%	Operation of store development of the Group companies, and real estate business
REALIT Co., Ltd.*	5.4%	Operation of POS-linked cellular phones for sales promotion system
Don Quijote (USA) Co., Ltd.	100.0%	Operation of retail stores and tenant leasing business
Doit Co., Ltd.	100.0%	Operation of retail stores and tenant leasing business
Nagasakiya Co., Ltd.	100.0%	Operation of retail stores
Koigakubo SC TMK	100.0%	Real estate management business
Nagoya Sakae Jisho Limited Liability Co.	100.0%	Real estate management business
Don Quijote Shared Services Co., Ltd.	100.0%	Shared services for the Group's back-office operations
Japan Asset Marketing Co., Ltd.	72.6%	Leasing of real estate and management businesses
MARUKAI CORPORATION	100.0%	Operation of retail stores and tenant leasing business
Don Quijote Holdings Retail Management Co., Ltd.	100.0%	Management guidance for Group companies
And 39 other companies		

* The Company's equity holding in REALIT Co., Ltd. is less than 50%, but the Company can exercise control over this company. Therefore, REALIT Co., Ltd. is considered to be a consolidated subsidiary.

Those companies which the Company controls directly or indirectly are fully consolidated. Investments in non-consolidated subsidiaries and affiliated companies over which the Group has significant influence are accounted for under the equity method.

During the fiscal year ended June 30, 2017, the Company sold a portion of its shares in Accretive Co., Ltd., a former consolidated subsidiary of the Company. As a result, Accretive Co., Ltd. and its six subsidiaries were removed from the scope of consolidation due to Accretive Co., Ltd. being reclassified as an affiliated company accounted for by the equity method of the Company from a consolidated subsidiary. In addition, three companies that were newly established and three companies with increased materiality were included in the scope of consolidation during the fiscal year ended June 30, 2017.

Of the consolidated subsidiaries, Don Quijote (USA) Co., Ltd. and four other companies have fiscal year-ends that differ from that of the Company's fiscal year-end, but the gap is less than three months so the financial statements of these subsidiaries are used in the preparation of the consolidated financial statements.

However, adjustments are made for the effects of significant transactions that occur during the gap between the fiscal year-ends of these subsidiaries and the consolidated fiscal year-end on June 30.

Of the consolidated subsidiaries, Nagoya Sakae Jisho Limited Liability Co. and four other companies have fiscal year-ends that differ from the consolidated fiscal year-end by more than three months. Consequently, financial statements based on a provisional settlement of accounts on the consolidated closing date have been used in the preparation of the consolidated financial statements.

Of the consolidated subsidiaries, Japan Asset Marketing Co., Ltd. and eight other companies have fiscal year-ends that differ from the consolidated fiscal year-end. Consequently, financial statements based on a provisional settlement of accounts on the consolidated closing date have been used in the preparation of the consolidated financial statements, as this would provide more appropriate management information.

From the fiscal year ended June 30, 2017, the fiscal year-end of a consolidated subsidiary, Doit Co., Ltd., has been changed from March 31 to June 30. Due to this change, the 12 months from July 1, 2016 to June 30, 2017 were consolidated for the fiscal year ended June 30, 2017. Gains or losses of Doit Co., Ltd. from April 1, 2016 to June 30, 2016 were adjusted as changes to retained earnings, while changes in cash and cash equivalents are presented as "Increase (Decrease) in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries" in the consolidated statements of cash flows.

All material intercompany transactions and accounts are eliminated in consolidation.

Equity method companies

(1) Affiliates accounted for under the equity method: One

As stated above, Accretive Co., Ltd., which was formerly included in the scope of consolidation, has been included in the scope of application of equity method.

(2) Non-consolidated subsidiaries and affiliates not accounted for under the equity method

17 subsidiaries and three affiliates are not accounted for under the equity method because they are, individually or in aggregate, immaterial to the Group's financial position and results of operation.

Cash and cash equivalents

Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash in hand, demand deposits and short-term highly liquid investments with a maturity of three months or less from the time of purchase, which bears only low risks from fluctuations in value.

Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated at current exchange rates prevailing at the respective balance sheet dates. Exchange gains or losses resulting from translation of assets and liabilities are recognized in other income and expenses.

The assets and liabilities of foreign consolidated subsidiaries that operate in local currency are translated into Japanese yen at the prevailing rates of exchange at the balance sheet date. Income and expense items are translated at the average exchange rate prevailing during the year.

Gains or losses resulting from translation of financial statements are recognized as foreign currency translation adjustments in equity.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Marketable securities and investment securities

Securities with quoted market prices are recorded at fair value based on the market prices at the fiscal year-end. The amounts of unrealized gains or losses from such securities, after accounting for tax effects, are presented in equity. Realized gains or losses from sales of securities are calculated using the moving-average method.

Securities without quoted market prices are stated at moving-average cost.

Investments in affiliates over which the Group has significant influence but does not have control are accounted for under the equity method.

Inventories

Don Quijote Co., Ltd., Doit Co., Ltd., Nagasakiya Co., Ltd., and foreign consolidated subsidiaries use the retail method for inventories, except for fresh food, which is recorded at the last purchased price method.

Property, plant and equipment

Property, plant and equipment are carried at cost.

Depreciation of property, plant and equipment is calculated according to the declining-balance method based mainly on the articles of the Corporation Tax Act except for buildings and structures, which are depreciated using the straight-line method.

For the foreign consolidated subsidiaries, the depreciation of property, plant and equipment is computed by the straight-line method.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets.

Intangibles

Software is amortized using the straight-line method over an estimated useful life of five years, except for Don Quijote (USA) Co., Ltd. and MARUKAI CORPORATION, during the years ended June 30, 2017 and 2016.

Intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets.

Goodwill and negative goodwill

Goodwill is amortized using the straight-line method over 20 years. Negative goodwill incurred by business combinations on or before March 31, 2010, is amortized using the straight-line method upon determining the amortization period based on the individually estimated period subject to its effect.

Lease transactions

Finance leases that do not transfer ownership are recognized as purchase transactions. They are recognized as lease assets and amortized using the straight-line method over their lease periods with zero residual value.

Common stock issuance costs

Common stock issuance costs are expensed as incurred. The Japanese Companies Act prohibits deducting such stock issuance costs from capital accounts.

Bond issuance costs

Bond issuance costs are expensed as incurred.

Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and the amount calculated using actual historical rate of losses. For foreign consolidated subsidiaries, the estimated uncollectible amount is provided mainly with respect to certain receivables.

Allowance for point program

Allowance for the point program is provided for the use of points given to customers at the amount expected to be used on the balance sheet date in accordance with the sales promotion point program. The amount is based on historical redemption experience.

Revenue recognition

The revenue of Don Quijote Co., Ltd., Nagasakiya Co., Ltd., Doit Co., Ltd., Don Quijote (USA) Co., Ltd., and MARUKAI CORPORATION is recognized at the time of sale. The revenue of Japan Commercial Establishment Co., Ltd. and Japan Asset Marketing Co., Ltd. consists of rental income from tenants, which is recorded over the contract term.

Income taxes
Tax expenses include tax payable and deferred tax.
Deferred tax is calculated according to the asset liability method on the basis of temporary differences between book value on the balance sheet and the tax basis of assets and liabilities under the Corporation Tax Act.
Deferred tax assets are recognized for deductible temporary differences and for unused tax losses, to the extent it is likely that taxable profit will be available against which the deductible temporary difference may be used.

Derivatives
The Group uses derivative financial instruments for the purpose of minimizing its exposure to fluctuation in foreign exchange rates and interest rates on loans payable. Derivatives are recognized at the market value.

Accounting for consumption taxes
Japanese consumption taxes withheld and consumption tax paid are not included in the accompanying consolidated statements of income. Accrued consumption tax is included in other current liabilities.

Shareholders' equity
Changes in the number of shares issued and outstanding during the years ended June 30, 2017 and 2016 were as follows:

Common stock outstanding (number of shares)	2017	2016
Balance at beginning of the year	158,118,160	78,959,480
Increase through stock splits	—	78,959,480
Exercise of stock options	60,600	199,200
Balance at end of the year	158,178,760	158,118,160

Changes in the number of treasury stock during the years ended June 30, 2017 and 2016 were as follows:

Treasury stock outstanding (number of shares)	2017	2016
Balance at beginning of the year	4,633	1,244
Increase through stock splits	—	1,244
Purchase of fractional shares	—	2,145
Balance at end of the year	4,633	4,633

Per share data
Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the reported period.
Diluted earnings per share reflects the potential dilution and is computed based on the weighted-average number of shares of common stock outstanding during each year after incorporating the dilutive potential common stocks to be issued upon the exercise of stock options.

4. CHANGES IN ACCOUNTING POLICIES

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)
The Company adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016; hereinafter called the "Implementation Guidance on Recoverability") from the beginning of the fiscal year ended June 30, 2017 and revised part of its accounting treatment for recoverability of deferred tax assets.
As for application of the Implementation Guidance on Recoverability, the Company followed the transitional treatment stipulated in paragraph 49 (4) of the Implementation Guidance on Recoverability. The differences between the amount of deferred tax assets and deferred tax liabilities as of July 1, 2016 in the case of applying the paragraph 49 (3) 1 to 3 of the Implementation Guidance on Recoverability and the amount of deferred tax assets and deferred tax liabilities at the end of the previous fiscal year were added to the retained earnings as of July 1, 2016.
As a result, deferred tax assets (Other assets) increased ¥4,890 million ($44 million), retained earnings increased ¥2,406 million ($21 million) and non-controlling interests increased ¥2,484 million ($22 million) as of July 1, 2016.
With the reflection of the impact on equity as of July 1, 2016, retained earnings and non-controlling interests increased ¥2,406 million ($21 million) and ¥2,484 million ($22 million), respectively, in the consolidated statements of changes in equity.

5. INVENTORIES

Inventories as of June 30, 2017 and 2016 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Electrical appliances	¥18,879	¥17,693	$169
Daily commodities	27,525	22,598	246
Foods	13,032	11,637	116
Watches, fashion goods	42,531	45,548	380
Sports, leisure goods	13,385	11,793	119
DIY products	3,791	3,317	34
Others	4,826	4,814	43
Total	¥123,969	¥117,400	$1,107

Note: The value of inventories is stated after writing down the carrying amount when the contribution of inventories to profitability declines and the following loss on valuation of inventories is included in cost of sales.

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Loss on valuation of inventories	¥4,212	¥4,449	$38

6. LEASE TRANSACTIONS

Operating leases
Unexpired lease payments for non-cancellable leases:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Due within one year	¥5,214	¥4,284	$47
Due after one year	25,560	17,474	228
Total	¥30,774	¥21,758	$275

7. FINANCIAL INSTRUMENTS

1. Status of financial instruments
(1) Policy for financial Instruments
The Group's basic policy for management of surplus funds is to give priority to low risk financial assets, investing only in short-term financial instruments. For fund procurement, the Company raises funds mainly through bank loans. The Group uses derivative instruments to minimize exposure to fluctuations in foreign currency exchange and interest rates.
(2) Financial instruments, associated risks and risk management systems
Notes and accounts receivable-trade are mainly due from credit companies. They are exposed to credit risk, although the Group has little or no exposure to the credit risk related to these credit companies. For operating receivables other than those due from credit companies, the Group monitors due dates and outstanding balances, respectively.
Purchased receivables are exposed to the credit risk of customers. Within the Group, the Credit Department regularly monitors the status of major business partners and manages due dates and outstanding balances of each partner in accordance with the receivables management rule, while promptly identifying and minimizing concerns over collection due to the deterioration of financial condition.
Marketable securities are exposed mostly to market fluctuation risk, credit risk and liquidity risk. The Group manages and controls exposures to the risks within acceptable limits in accordance with its internal rules for managing marketable securities. Significant transactions of marketable securities require prior consultation with the Investment Committee and approval of the Board of Directors.
Long-term debt, corporate bonds and payables under fluidity lease receivables provide funds primarily for capital investment and for working capital. The Company and some of its subsidiaries have entered into separate derivative

transactions—interest rate swap—for a portion of long-term debt to convert the interest rate basis from variable to fixed as a hedging method to limit exposure to fluctuations in interest rates. In addition, they have entered into separate derivative transactions—interest rate and currency swap—for a portion of long-term debt denominated in foreign currencies, which is exposed to foreign currency risk, to avoid losses from the exchange fluctuations.

The Group has policies and procedures for the risk management of derivative transactions. Significant transactions of derivative instruments require prior consultation with the Investment Committee and approval of the Board of Directors. The Group minimizes its exposure to credit risk by limiting them to counterparties with high credit rating.

Trade payable and loans are exposed to liquidity risk. The Company and its subsidiaries manage the liquidity risk by such measures as monthly cash flow planning.

Fixed leasehold deposits are mainly related to leasing properties for stores. They are exposed to credit risk of lessors. The Group performs credit checks before lease agreements and monitors creditworthiness of their counterparts regularly to limit the credit risk.

(3) Supplementary information on fair value

Fair values of financial instruments include quoted market prices if available. If a quoted market price is not available, fair value is estimated by using a reasonable valuation technique. The valuation techniques incorporate various assumptions. Estimated fair values may change depending on the different assumptions.

The contract amounts of the derivatives listed in Note 13. "Derivatives" indicate the notional amounts, not indicating the extent of market risk exposure.

2. Fair value of financial instruments

Carrying amounts on the consolidated balance sheets, fair value and respective differences as of June 30, 2017 and 2016 are presented below. Note that the following tables do not include financial instruments for which fair values are extremely difficult to determine.

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥76,340	¥76,340	¥ —
(2) Notes and accounts receivable–trade	8,966		
Less: Allowance for doubtful accounts*1	(15)		
Net	8,951	8,951	—
(3) Investment securities			
(i) Available-for-sale securities	2,843	2,843	—
(ii) Investments in securities and capital to affiliates	3,638	4,573	935
(4) Long-term loans receivable	22,823		
Less: Allowance for doubtful accounts*2	(2)		
Net	22,821	22,821	(0)
(5) Fixed leasehold deposits	13,354	14,463	1,109
Total assets	127,947	129,991	2,044
(1) Accounts payable–trade	85,661	85,661	—
(2) Short-term loans	285	285	—
(3) Current portion of long-term debt	5,421	5,403	(18)
(4) Current portion of corporate bonds	19,316	19,240	(76)
(5) Payables under fluidity lease receivables	7,152	7,166	14
(6) Accrued expenses	9,964	9,964	—
(7) Accrued income taxes	9,128	9,128	—
(8) Corporate bonds	74,890	72,350	(2,540)
(9) Long-term debt	84,638	82,695	(1,943)
(10) Long-term payables under fluidity lease receivables	19,366	19,520	154
Total liabilities	315,821	311,412	(4,409)
Derivative transactions*3	(758)	(758)	—

	Millions of U.S. dollars (Note 2)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	$682	$682	$ —
(2) Notes and accounts receivable–trade	80		
Less: Allowance for doubtful accounts*1	(0)		
Net	80	80	—
(3) Investment securities			
(i) Available-for-sale securities	25	25	—
(ii) Investments in securities and capital to affiliates	32	41	9
(4) Long-term loans receivable	204		
Less: Allowance for doubtful accounts*2	(0)		
Net	204	204	(0)
(5) Fixed leasehold deposits	119	129	10
Total assets	1,142	1,161	19
(1) Accounts payable–trade	765	765	—
(2) Short-term loans	3	3	—
(3) Current portion of long-term debt	48	48	(0)
(4) Current portion of corporate bonds	172	172	(0)
(5) Payables under fluidity lease receivables	64	64	0
(6) Accrued expenses	89	89	—
(7) Accrued income taxes	82	82	—
(8) Corporate bonds	669	646	(23)
(9) Long-term debt	756	738	(18)
(10) Long-term payables under fluidity lease receivables	173	174	1
Total liabilities	2,821	2,781	(40)
Derivative transactions*3	(7)	(7)	—

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥42,894	¥42,894	¥ —
(2) Notes and accounts receivable–trade	7,720		
Less: Allowance for doubtful accounts*1	(38)		
Net	7,682	7,682	—
(3) Purchased receivables	6,606	6,606	—
(4) Investment securities	3,190	3,190	—
(5) Long-term loans receivable	492		
Less: Allowance for doubtful accounts*2	(1)		
Net	491	491	(0)
(6) Fixed leasehold deposits	11,033	12,023	990
Total assets	71,896	72,886	990
(1) Accounts payable–trade	70,194	70,194	—
(2) Short-term loans	1,680	1,680	—
(3) Current portion of long-term debt	18,557	18,521	(36)
(4) Current portion of corporate bonds	12,686	12,670	(16)
(5) Payables under fluidity lease receivables	7,147	7,157	10
(6) Accrued expenses	8,799	8,799	—
(7) Accrued income taxes	5,573	5,573	—
(8) Corporate bonds	76,471	75,186	(1,285)
(9) Long-term debt	45,082	44,351	(731)
(10) Long-term payables under fluidity lease receivables	26,876	27,123	247
Total liabilities	273,065	271,254	(1,811)
Derivative transactions*3	(802)	(802)	—

*1 Not including allowance for doubtful accounts booked separately under notes and accounts receivable–trade.
*2 Not including allowance for doubtful accounts booked separately under long-term loans receivable.
*3 Net credit (obligation) arising from derivative transactions is shown as a net amount. If the total is a net obligation, the number appears in parentheses.

Calculation method for fair value of financial instruments and matters related to securities and derivative transactions:

Assets

(1) Cash and deposits; (2) Notes and accounts receivable–trade

These are stated at book value, since the book values approximate fair value because of the short-term nature of these instruments.

(3) Investment securities

For stocks, the fair values are the quoted market prices. For bonds, the fair values are the quoted market prices or the prices obtained from financial institutions. For stocks of affiliated companies with quoted market prices, the carrying amount on the consolidated balance sheets are the amounts after application of the equity method. Refer to Note 8. "Marketable securities and investment securities" for further information.

(4) Long-term loans receivable

The fair values are calculated by discounting total principal and interest by the interest rate that would be applied to similar new loans.

(5) Fixed leasehold deposits

The fair values of fixed leasehold deposits are calculated by discounting the future cash flows using the interest rate based on the risk-free rate, such as the yields on government bonds, plus credit risk premium.

Liabilities

(1) Accounts payable–trade; (2) Short-term loans; (6) Accrued expenses; (7) Accrued income taxes

These are stated at book value, since the book values approximate fair value because of the short-term nature of these instruments.

(3) Current portion of long-term debt; (4) Current portion of corporate bonds; (5) Payables under fluidity lease receivables; (8) Corporate bonds; (9) Long-term debt; (10) Long-term payables under fluidity lease receivables

The fair values are calculated by discounting the total principal and interest payment as well as the redemption total from the interest rate that would be applied to similar new fund procurement.

Derivative transactions

Please refer to Note 13. "Derivatives."

Financial instruments for which fair values are extremely difficult to determine:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Investment securities	¥50	¥250	$1
Investments in securities and capital to affiliates	1,008	2,296	9
Long-term loans receivable	348	372	3
Less: Allowance for doubtful accounts*1	(162)	(191)	(1)
Net	186	181	2
Fixed leasehold deposits	27,120	24,612	242
Less: Allowance for doubtful accounts*2	(1,462)	(1,469)	(13)
Net	25,658	23,143	229

*1 Not including allowance for doubtful accounts booked separately under long-term loans receivable.

*2 Not including allowance for doubtful accounts booked separately under fixed leasehold deposits.

The figures above are not included in "investment securities," "long-term loans receivable," or "fixed leasehold deposits" because these financial instruments do not have quoted market prices and thus it is not possible to estimate future cash flows to determine fair value.

Maturity analysis for assets and securities with contractual maturities:

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)			
	Due in one year	Due after one year and within five years	Due after five years and within ten years	Due after ten years
1. Cash and deposits	¥76,340	¥ —	¥ —	¥ —
2. Notes and accounts receivable–trade	8,966	—	—	—
3. Long-term loans receivable	—	22,739	84	348
4. Fixed leasehold deposits	1,307	4,010	3,665	31,492
Total	¥86,613	¥26,749	¥3,749	¥31,840

	Millions of U.S. dollars (Note 2)			
	Due in one year	Due after one year and within five years	Due after five years and within ten years	Due after ten years
1. Cash and deposits	$682	$ —	$ —	$ —
2. Notes and accounts receivable–trade	80	—	—	—
3. Long-term loans receivable	—	203	1	3
4. Fixed leasehold deposits	11	36	33	281
Total	$773	$239	$34	$284

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)			
	Due in one year	Due after one year and within five years	Due after five years and within ten years	Due after ten years
1. Cash and deposits	¥42,894	¥ —	¥ —	¥ —
2. Notes and accounts receivable–trade	7,720	—	—	—
3. Purchased receivables	6,606	—	—	—
4. Long-term loans receivable	—	339	153	372
5. Fixed leasehold deposits	1,166	3,725	3,019	27,735
Total	¥58,386	¥4,064	¥3,172	¥28,107

Redemption schedule for corporate bonds and long-term debt:

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)					
	Due in one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due after five years
Short-term loans	¥285	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	19,316	3,616	22,916	11,916	12,566	23,876
Long-term debt	5,421	16,225	16,470	9,214	25,504	17,225
Total	¥25,022	¥19,841	¥39,386	¥21,130	¥38,070	¥41,101

	Millions of U.S. dollars (Note 2)					
	Due in one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due after five years
Short-term loans	$3	$ —	$ —	$ —	$ —	$ —
Corporate bonds	172	32	205	107	112	213
Long-term debt	48	145	147	82	228	154
Total	$223	$177	$352	$189	$340	$367

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)					
	Due in one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due after five years
Short-term loans	¥1,680	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	12,686	18,686	2,686	21,986	10,986	22,127
Long-term debt	18,557	5,076	16,276	6,878	8,630	8,222
Total	¥32,923	¥23,762	¥18,962	¥28,864	¥19,616	¥30,349

8. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

1. Information regarding marketable securities and investment securities with quoted market prices as of June 30, 2017 and 2016

The following table summarizes carrying amount, acquisition cost and net unrealized gains (losses) (amount in yen) as of June 30, 2017 and 2016.

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	¥2,716	¥2,285	¥431
Others	105	50	55
Subtotal	2,821	2,335	486
Carrying amount does not exceed acquisition cost:			
Equity securities	0	0	(0)
Others	22	28	(6)
Subtotal	22	28	(6)
Total	¥2,843	¥2,363	¥480

	Millions of U.S. dollars (Note 2)		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	$24	$20	$4
Others	1	0	1
Subtotal	25	20	5
Carrying amount does not exceed acquisition cost:			
Equity securities	0	0	(0)
Others	0	0	(0)
Subtotal	0	0	(0)
Total	$25	$20	$5

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	¥106	¥67	¥39
Others	1,036	781	255
Subtotal	1,142	848	294
Carrying amount does not exceed acquisition cost:			
Equity securities	2,026	2,273	(247)
Others	22	28	(6)
Subtotal	2,048	2,301	(253)
Total	¥3,190	¥3,149	¥41

2. Sales amounts and gains (losses) on sales of marketable securities and investment securities in the years ended June 30, 2017 and 2016

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	¥4	¥ —	¥ —
Others	1,118	215	—
Total	¥1,122	¥215	¥ —

	Millions of U.S. dollars (Note 2)		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	$0	$ —	$ —
Others	93	2	—
Total	$93	$2	$ —

Fiscal year ended June 30, 2016
Not applicable

3. Information regarding impaired marketable securities and investment securities in the fiscal years ended June 30, 2017 and 2016

Fiscal year ended June 30, 2017
Not applicable

Fiscal year ended June 30, 2016
Not applicable

9. SHORT-TERM LOANS, CORPORATE BONDS AND LONG-TERM DEBT

Short-term loans principally comprise bank loans (average interest rate was 1.3%).

Substantially all of the loans with banks (including short-term loans) have basic written agreements, which state that the borrowers would need to provide collateral or guarantors immediately upon the banks' request with respect to all present or future loans and that any collateral furnished pursuant to such agreements will be used against repayment of debts in case of default.

Long-term debt as of June 30, 2017, consisted of the following:

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Borrowings from banks and insurance companies at interest ranging from 0.2% to 3.3%	¥90,059	$804
0.85% unsecured straight bonds due 2017	15,000	134
TIBOR 6-month interest rate unsecured straight bonds due 2018	600	5
TIBOR 6-month interest rate unsecured straight bonds due 2019	3,000	27
0.55% unsecured straight bonds due 2020	20,000	179
0.32% unsecured straight bonds due 2020	2,100	19
0.33% unsecured straight bonds due 2021	10,000	89
0.79% unsecured straight bonds due 2021	1,000	9
0.68% unsecured straight bonds due 2021	650	6
0.80% unsecured straight bonds due 2022	10,000	89
0.63% unsecured straight bonds due 2022	1,501	14
0.33% unsecured straight bonds due 2023	1,720	15
0.37% unsecured straight bonds due 2023	1,860	17
0.39% unsecured straight bonds due 2024	10,000	89
0.73% unsecured straight bonds due 2026	10,000	89
0.18% unsecured straight bonds due 2026	2,375	21
0.22% unsecured straight bonds due 2026	3,800	34
Other bonds	600	5
Subtotal	184,265	1,645
Finance lease liabilities	132	1
Less: Current portion of long-term debt	24,793	221
Total	¥159,604	$1,425

Long-term debt principally comprises bank loans (with average interest rate of 0.7%).

The Company signed a syndicated loan agreement with 40 financial institutions, totaling ¥25,000 million ($223 million). This agreement includes financial covenants based on certain indices calculated from equity on the consolidated balance sheets. The balance of loans payable as of June 30, 2017 is ¥19,300 million ($172 million).

The Company also signed a syndicated loan agreement with 18 financial institutions, totaling ¥12,500 million ($112 million). The agreement includes financial covenants based on certain indices calculated from equity on the consolidated balance sheets. The balance of loans payable as of June 30, 2017 was ¥12,500 million ($112 million).

The aggregate annual maturities of long-term debt and corporate bonds are as follows:

Fiscal years ending June 30:	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
2018	¥24,737	$220
2019	19,841	177
2020	39,386	352
2021	21,130	189
2022 and thereafter	79,171	707
Total	¥184,265	$1,645

10. OVERDRAFT AGREEMENTS

The Company and its consolidated subsidiaries had overdraft agreements to ensure the efficient procurement of funds for working capital with 33 banks as of June 30, 2017 and 36 banks as of June 30, 2016. The balances of unused financing based on these agreements as of June 30, 2017 and 2016 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Total overdraft limit granted	¥38,000	¥41,540	$339
Bank loans arranged	—	1,394	—
Unused amount of the agreed overdraft limit	¥38,000	¥40,146	$339

11. LOAN COMMITMENT AGREEMENT

The Company and its consolidated subsidiaries have entered into loan commitment agreements with two banks as of June 30, 2017 and four banks as of June 30, 2016 to ensure the efficient procurement of funds as working capital. The balance of unused funds based on these agreements as of June 30, 2017 and 2016 was as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Total amount of loan commitment	¥653	¥12,645	$6
Bank loans arranged	285	286	3
Unused amount of the agreed loan commitment	¥368	¥12,359	$3

12. FLUIDITY LEASE RECEIVABLES

Payables under fluidity lease receivables at Japan Asset Marketing Co., Ltd., a consolidated subsidiary, are liabilities arising through the liquidation of anticipated rental income to be booked by the company. The balance of payables under fluidity lease receivables as of June 30, 2017 and 2016 was as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Payables under fluidity lease receivables	¥7,152	¥7,147	$64
Long-term payables under fluidity lease receivables	19,366	26,876	173
Total	¥26,518	¥34,023	$237

13. DERIVATIVES

Derivative transaction hedge accounting is not applied to:
Fiscal year ended June 30, 2017

	Millions of yen (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Interest rate swap contracts, variable receipts and fixed payments	¥73,081	¥68,996	¥(754)	¥(754)
Interest rate and currency swap contracts, variable receipts and fixed payments	2,834	2,834	(5)	(5)

	Millions of U.S. dollars (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Interest rate swap contracts, variable receipts and fixed payments	$653	$616	$(7)	$(7)
Interest rate and currency swap contracts, variable receipts and fixed payments	25	25	(0)	(0)

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Interest rate swap contracts, variable receipts and fixed payments	¥29,340	¥23,081	¥(493)	¥(493)
Interest rate and currency swap contracts, variable receipts and fixed payments	2,834	2,834	(309)	(309)

Note: To calculate fair value, the Company uses the price presented by a partner financial institution or securities company that signed such agreement.

14. STOCK INCENTIVE PLANS

The Company and its consolidated subsidiaries booked share-based compensation expenses of ¥57 million ($1 million) and ¥10 million under selling, general and administrative expenses in the fiscal years ended June 30, 2017 and 2016, respectively. In recognizing and measuring share-based compensation expenses, the Company uses only historical data for the number of forfeitures to derive a possible number of stock options vested since it is difficult to determine a reasonable estimate for the actual number of stock options that will be forfeited in the future.

In addition, the Company booked ¥0 million ($0 million) in the fiscal year ended June 30, 2017 and ¥- million in the fiscal year ended June 30, 2016 under extraordinary income, due to forfeitures resulting from the non-exercise of stock options.

Details on the stock option scheme in effect as of June 30, 2017 are as follows:

Company name	Stock option scheme	Eligible recipients	Number of stock options (share-based)	Grant date	Condition for vesting	Exercise price (yen)	Exercise period
The Company	2005 Stock Options	7 directors, 469 employees	3,000,000	February 8, 2005	*2	985	October 2, 2006–October 1, 2016
The Company	2006 Stock Options	5 directors, 5 subsidiary directors, 541 employees, 52 subsidiary employees	3,900,000	April 10, 2006	*2	1,567	October 2, 2007–October 1, 2017
The Company	First Share-based Compensation Stock Options	3 directors	2,600	June 26, 2015	*3	1	June 26, 2015–June 25, 2045
The Company	Second Share-based Compensation Stock Options	3 directors	2,500	December 28, 2015	*3	1	December 28, 2015–December 27, 2045
The Company	First Paid-in Stock Options	Total of 1,633 including directors, audit & supervisory board members and employees of the Company and its subsidiaries	969,700	September 23, 2016	*4	3,700	October 1, 2018–September 30, 2026
The Company	Third Share-based Compensation Stock Options	3 directors	14,000	June 1, 2017	*3	1	June 1, 2017–May 31, 2047

[*1] On July 1, 2006, the Company executed a 3-for-1 stock split, and on July 1, 2015, executed a 2-for-1 stock split. The number of shares for stock options and the exercise price for stock options reflect the effect of said stock splits.
[*2] Those who received an allotment of subscription rights to shares as eligible recipients must be directors, audit & supervisory board members or employees of the Company or its subsidiaries in continuous service from the day of allotment until said subscription rights are exercised.
[*3] A subscription rights holder may exercise his/her subscription rights all at once during the exercise period only within ten days from the day following the day he/she loses his/her position as a director of the Company.
[*4] A subscription rights holder may exercise his/her subscription rights, if and only the amounts of net sales and operating income in the consolidated statements of income stated in the annual securities report, which had been submitted by the Company pursuant to the Financial Instruments and Exchange Act, satisfy all of the conditions stated in each of the paragraphs below:
(a) Net sales exceed ¥820,000 million ($7,321 million) and operating income exceeds ¥45,000 million ($402 million) for the fiscal year ended June 30, 2017; and
(b) Net sales exceed ¥880,000 million ($7,857 million) and operating income exceeds ¥48,000 million ($429 million) for the fiscal year ending June 30, 2018.
In addition, the subscription rights holder must be a director, audit & supervisory board member or employee of the Company or its affiliates at the time the subscription rights are exercised. However, this condition shall not necessarily apply in the case of a resignation due to the expiry of the term of office, compulsory retirement or any other reason deemed valid by the Board of Directors.

Changes in the status of stock option schemes as of June 30, 2017 are as follows:

	2005 Stock Options	2006 Stock Options	First Share-based Compensation Stock Options	Second Share-based Compensation Stock Options
Before vesting (shares)				
Balance at June 30, 2016	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Balance at June 30, 2017	—	—	—	—
After vesting (shares)				
Balance at June 30, 2016	30,600	90,000	2,600	2,500
Vested	—	—	—	—
Exercised	16,800	43,800	—	—
Forfeited	13,800	—	—	—
Balance at June 30, 2017	—	46,200	2,600	2,500

	First Paid-in Stock Options	Third Share-based Compensation Stock Options
Before vesting (shares)		
Balance at June 30, 2016	—	—
Granted	969,700	14,000
Forfeited	36,400	—
Vested	—	14,000
Balance at June 30, 2017	933,300	—
After vesting (shares)		
Balance at June 30, 2016	—	—
Vested	—	14,000
Exercised	—	—
Forfeited	—	—
Balance at June 30, 2017	—	14,000

Information regarding stock option prices as of June 30, 2017 is as follows:

	2005 Stock Options	2006 Stock Options	First Share-based Compensation Stock Options	Second Share-based Compensation Stock Options
Exercise price	¥985 ($9)	¥1,567 ($14)	¥1 ($0)	¥1 ($0)
Average stock price at time of exercise	¥3,609 ($32)	¥4,051 ($36)	—	—
Fair value at grant date	—	—	¥4,968 ($44)	¥4,030 ($36)

	First Paid-in Stock Options	Third Share-based Compensation Stock Options
Exercise price	¥3,700 ($33)	¥1 ($0)
Average stock price at time of exercise	—	—
Fair value at grant date	—	¥4,046 ($36)

Methods used to estimate fair value granted in the fiscal year ended June 30, 2017 are as follows:

First Paid-in Stock Options

Valuation model	Monte Carlo Simulation
Stock price	¥3,700 ($33)
Volatility	33.20%
Dividend yield	0.54%
Risk-free interest rate	(0.233)%

Third Share-based Compensation Stock Options

Valuation model	Black-Scholes
Volatility	32.34%
Expected life of option grants	15 years
Expected dividend	¥22 ($0) per share
Risk-free interest rate	0.303%

15. OTHER INCOME, NET

Other income, net for the fiscal years ended June 30, 2017 and 2016 consisted of Other income and Other expenses. Other income and Other expenses were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	**2017**
Other income:			
Amortization of negative goodwill	**¥86**	¥86	**$1**
Penalty income	**126**	869	**1**
Other	**2,207**	1,200	**20**
Other income total	**2,419**	2,155	**22**
Other expenses:			
Loss on valuation of derivatives	**—**	563	**—**
Bond issuance costs	**195**	213	**2**
Other	**959**	252	**9**
Other expenses total	**1,154**	1,028	**11**
Other income, net	**¥1,265**	¥1,127	**$11**

16. COMPREHENSIVE INCOME

The reclassification adjustments and tax effects allocated to each component of other comprehensive income for the fiscal years ended June 30, 2017 and 2016 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Net unrealized gains (losses) on investment securities:			
Gain (loss) arising during the fiscal year	¥720	¥ (851)	$6
Reclassification adjustment to net income	(288)	(2)	(2)
Amount before tax effect	432	(853)	4
Tax effect	(128)	281	(1)
Net unrealized gains (losses) on investment securities	304	(572)	3
Foreign currency translation adjustments:			
Gain (loss) arising during the fiscal year	696	(2,355)	6
Reclassification adjustment to net income	10	—	0
Amount before tax effect	706	—	6
Tax effect	—	—	—
Foreign currency translation adjustments	706	(2,355)	6
Share of other comprehensive income of affiliates accounted for using equity method:			
Gain (loss) arising during the fiscal year	(3)	—	(0)
Total other comprehensive income	¥1,007	¥ (2,927)	$9

17. PLEDGED ASSETS

The Group's assets pledged as collateral as of June 30, 2017 and 2016 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Cash and deposits	¥791	¥1,819	$7
Merchandise and finished goods	1,828	1,697	16
Buildings and structures	1,237	1,244	11
Land	1,272	1,261	11
Fixed leasehold deposits	71	70	1
Other	532	593	5
Total	¥5,731	¥6,684	$51

Secured liabilities as of June 30, 2017 and 2016 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Short-term loans	¥285	¥286	$3
Current portion of long-term debt	354	445	3
Long-term debt	436	792	4
Other current liabilities	88	95	0
Other non-current liabilities	—	3	—
Total	¥1,163	¥1,621	$10

18. TAX-EFFECT ACCOUNTING

1. The effective tax rate in Japan is based on corporate tax, enterprise tax, and inhabitant tax rates, resulting in 30.9% in the fiscal year ended June 30, 2017 and 33.1% in the fiscal year ended June 30, 2016.

Significant components of deferred tax assets and deferred tax liabilities were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Deferred tax assets:			
Accrued enterprise taxes	¥838	¥565	$7
Inventories	2,223	2,302	20
Net operating loss carry forwards	9,024	13,215	81
Allowance for point program	552	435	5
Excess depreciation and amortization	3,455	1,926	31
Impairment loss	2,060	1,909	18
Loss on valuation of investment securities not deductible for tax purposes	112	113	1
Long-term accounts payable	264	313	2
Excess allowance for doubtful accounts	612	626	5
Asset retirement obligations	1,067	908	10
Others	3,367	2,743	30
Total gross deferred tax assets	23,574	25,055	210
Valuation allowance	(5,835)	(14,060)	(52)
Total deferred tax assets	17,739	10,995	158
Deferred tax liabilities:			
Accrued enterprise taxes	(1)	(0)	(0)
Valuation of assets and liabilities of subsidiaries at market value for the purpose of consolidation	(2,547)	(2,550)	(23)
Net unrealized gains on investment securities	(150)	(97)	(1)
Others	(703)	(919)	(6)
Total deferred tax liabilities	(3,401)	(3,566)	(30)
Net deferred tax assets	¥14,338	¥7,429	$128

Net deferred tax assets as of June 30, 2017 and 2016 were included in the following assets and liabilities in the consolidated balance sheets:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Current assets–Deferred tax assets	¥7,540	¥7,210	$67
Other assets (non-current)–Deferred tax assets	8,801	3,310	79
Current liabilities–Others	—	0	—
Non-current liabilities–Others	2,003	3,091	18

2. The reconciliation of the difference between the statutory tax rate and the effective tax rate for the fiscal years ended June 30, 2017 and 2016 was as follows:

	2017	2016
Statutory tax rate	30.9%	33.1%
Inhabitant tax per capita levy	1.2%	1.5%
Change in valuation allowance	(5.2)%	(5.1)%
Amortization of goodwill and other consolidation adjustments	1.3%	1.4%
Tax deduction	(1.6)%	(2.7)%
Difference in tax rate from consolidated subsidiaries	3.3%	2.2%
Other	(0.6)%	(0.6)%
Effective income tax rate	29.3%	29.8%

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items included in selling, general and administrative expenses for the fiscal years ended June 30, 2017 and 2016 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Employees' compensation and benefits	¥64,538	¥59,239	$576
Occupancy and rental	23,357	20,838	209
Commission	19,524	18,309	174
Depreciation and amortization	14,075	13,301	126
Allowance for doubtful accounts	34	16	0
Allowance for point program	2,940	2,348	26
Amortization of goodwill	377	423	3
Retirement benefit costs	122	106	1
Other	47,428	44,128	425
Total	¥172,395	¥158,708	$1,540

20. RETIREMENT BENEFIT COSTS

Retirement benefit costs for the fiscal years ended June 30, 2017 and 2016 are summarized as follows:

1. Retirement benefit plans in use

The Company and some of its consolidated subsidiaries maintain defined contribution pension plans. The Company adopted defined contribution plans in October 2014.

2. Defined contribution plans

The Company and some of its consolidated subsidiaries maintain defined contribution pension plans. The necessary contributions to such plans were, in total, ¥122 million ($1 million) in the fiscal year ended June 30, 2017 and ¥106 million in the fiscal year ended June 30, 2016.

21. IMPAIRMENT LOSS

Impairment losses for the fiscal years ended June 30, 2017 and 2016 were as follows:

Fiscal year ended June 30, 2017

Location	Use	Category	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Kanto	Store facilities	Buildings and structures	¥1,299	$12
Kanto	Rental properties	Buildings and structures	22	0
Chubu	Store facilities	Buildings and structures	39	0
Kinki	Store facilities	Buildings and structures	125	1
Overseas	Store facilities	Buildings and structures	52	1
	Total		¥1,537	$14

The Group categorizes assets based on individual stores and operating divisions as basic units. For rental properties and idle assets, each property is regarded as a minimum cash-generating unit.

In the fiscal year ended June 30, 2017, the Group reduced the book value of assets to their recoverable amounts for stores whose profitability declined or stores that continuously generated losses from their operating activities. The amounts of these reductions were recorded as impairment loss (¥1,515 million ($14 million) for buildings and structures). The recoverable amounts of these asset groups are calculated based on their value in use. For asset groups whose value in use based on estimated future cash flows is negative, the Group recognizes the recoverable amounts as zero. For all other asset groups, the recoverable amounts are calculated by discounting the estimated future cash flows by 2.2%.

The Group also reduced the book value of rental properties whose profitability declined to their recoverable amounts. The amounts of these reductions were recorded as impairment loss. They consist of buildings and structures of ¥22 million ($0 million). The recoverable amounts of these asset groups are calculated based on their value in use by discounting the estimated future cash flows by 2.2%.

Fiscal year ended June 30, 2016

Location	Use	Category	Millions of yen (Note 2)
Kanto	Store facilities	Buildings and structures	¥42
Kanto	Idle assets	Buildings, structures and land	137
	Total		¥179

The Group categorizes assets based on individual stores and operating divisions as basic units. For rental properties and idle assets, each property is regarded as a minimum cash-generating unit.

In the fiscal year ended June 30, 2016, the Group reduced the book value of assets that became idle following the closure of stores to their recoverable amounts. They consist of buildings and structures of ¥106 million and land of ¥31 million.

The recoverable amounts of these asset groups are net selling prices. Net selling price is determined based on the real estate appraisal value quoted by a real estate appraiser.

22. RELATED PARTY TRANSACTIONS

Related party transactions for the fiscal years ended June 30, 2017 and 2016 were as follows:

Fiscal year ended June 30, 2017

Related party	Category	Description of transactions	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Accretive Co., Ltd.	Affiliated company	Collection of funds	¥7,500	$67

* As a result of the tender offer conducted by Fuyo General Lease Co., Ltd., Accretive Co., Ltd. transitioned from a consolidated subsidiary of the Company to an affiliated company accounted for by the equity method on January 19, 2017.

Fiscal year ended June 30, 2016

Nothing of significance

23. CALCULATION OF EARNINGS PER SHARE

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	2017
Profit attributable to owners of parent	¥33,082	¥24,938	$295
Profit after adjustments	¥33,082	¥24,938	$295

	Shares	
	2017	2016
Weighted average number of shares	158,148,194	158,082,461
Effective of dilutive securities:		
Stock options	103,522	107,620
Diluted weighted average number of shares	158,251,716	158,190,081

	Yen (Note 2)		U.S. dollars (Note 2)
	2017	2016	2017
Shareholders' equity per share	¥1,637.77	¥1,464.31	$14.62
Basic earnings per share	209.18	157.76	1.87
Diluted earnings per share	209.04	157.65	1.87

24. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
Breakdown of gain on sales of non-current assets	**2017**	2016	**2017**
Buildings and structures	**¥802**	¥73	**$7**
Furniture and fixtures	**0**	0	**0**
Land	**8,964**	44	**80**
Cost to sell	**(219)**	—	**(2)**
Other	**—**	0	**—**
Total	**¥9,547**	¥117	**$85**

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
Breakdown of loss on disposal of non-current assets	**2017**	2016	**2017**
Buildings and structures	**¥165**	¥171	**$1**
Furniture and fixtures	**52**	27	**1**
Removal expenses	**30**	70	**0**
Other	**4**	11	**0**
Total	**¥251**	¥279	**$2**

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
Breakdown of loss on closing of stores	**2017**	2016	**2017**
Buildings and structures	**¥547**	¥681	**$5**
Furniture and fixtures	**59**	22	**1**
Removal expenses	**353**	479	**3**
Other	**—**	15	**—**
Total	**¥959**	¥1,197	**$9**

25. CASH FLOW INFORMATION

Cash flow information as of June 30, 2017 and 2016 is as follows:

1. Cash and cash equivalents

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	**2017**
Cash and deposits	**¥76,340**	¥42,894	**$682**
Deposits paid, included in other current assets	**1,804**	1,652	**16**
Pledged time deposits (over three months)	**(50)**	(50)	**(1)**
Cash and cash equivalents	**¥78,094**	¥44,496	**$697**

2. Breakdown of major assets and liabilities of a company which is no longer a consolidated subsidiary of the Company due to sales of shares during the fiscal year ended June 30, 2017

A breakdown of assets and liabilities at the time of sales resulting from Accretive Co., Ltd. no longer being a consolidated subsidiary due to sales of its shares, and the selling price of the shares and proceeds from sales are as follows

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Current assets	**¥19,013**	**$170**
Non-current assets	**1,192**	**11**
Goodwill	**936**	**8**
Current liabilities	**(11,070)**	**(99)**
Non-current liabilities	**(873)**	**(8)**
Others	**(6)**	**(0)**
Non-controlling interests	**(3,978)**	**(36)**
Investment account after sales	**(2,323)**	**(21)**
Gain on sales of shares of subsidiaries and affiliates	**2,968**	**27**
Selling price of shares of subsidiaries and affiliates	**5,859**	**52**
Cash and cash equivalents	**(2,594)**	**(23)**
Less: Proceeds from sales	**¥3,265**	**$29**

26. INVESTMENT AND RENTAL PROPERTY

Information on investment and rental property in the fiscal years ended June 30, 2017 and 2016 is as follows:

The Company and some of its consolidated subsidiaries own commercial properties and facilities (including land) for lease in Tokyo and other areas. For the fiscal year ended June 30, 2017, rental income related to such properties and facilities was ¥2,681 million ($24 million) and gain on sales was ¥7,570 million ($68 million). Rental income was recorded in net sales and significant rental expenses were recorded in cost of goods sold and selling, general and administrative expenses. For the fiscal year ended June 30, 2016, rental income related to such properties and facilities was ¥2,638 million and impairment loss was ¥137 million. Rental income was recorded in net sales and significant rental expenses were recorded in cost of goods sold and selling, general and administrative expenses.

The balance sheet carrying amounts, changes and fair values of these assets for the fiscal years ended June 30, 2017 and 2016 are as follows:

Fiscal year ended June 30, 2017

Millions of yen (Note 2)			
Carrying amount			
Beginning of the year	Net change[*3]	End of the year[*1]	Fair value[*2]
¥56,857	**¥1,309**	**¥58,166**	**¥64,426**

Millions of U.S. dollars (Note 2)			
Carrying amount			
Beginning of the year	Net change[*3]	End of the year[*1]	Fair value[*2]
$508	**$11**	**$519**	**$575**

Fiscal year ended June 30, 2016

Millions of yen (Note 2)			
Carrying amount			
Beginning of the year	Net change[*3]	End of the year[*1]	Fair value[*2]
¥48,577	¥8,280	¥56,857	¥62,400

[*1] The carrying amount on the consolidated balance sheet is the acquisition cost minus accumulated depreciation and accumulated impairment loss.
[*2] Fair value at year-end is primarily an amount calculated by the Company based on Japanese Real Estate Appraisal Standards, including adjustments made using certain financial indicators.
[*3] For the fiscal year ended June 30, 2017, a major increase was the acquisition of real estate at ¥9,209 million ($82 million); and major decreases were a change in the proportion of leases at ¥4,729 million ($42 million) and sale of real estate at ¥3,171 million ($28 million). For the fiscal year ended June 30, 2016, major increases included the acquisition of real estate at ¥3,159 million and a change in the proportion of leases at ¥5,700 million; and major decreases were sale of real estate at ¥442 million and impairment loss on idle assets at ¥137 million.

27. ASSET RETIREMENT OBLIGATIONS

1. Asset retirement obligations recorded on consolidated balance sheets

(1) Summary of asset retirement obligations
It relates to restoration obligations for land and buildings used for stores according to fixed-term leasehold for commercial use and fixed-term lease contracts for buildings.

(2) Calculation of asset retirement obligations
Asset retirement obligations are calculated on the basis of estimated period of use of 4 to 30 years and discount rates of 0.00%–2.02%.

(3) Changes in asset retirement obligations

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2017	2016	**2017**
Beginning of the year	**¥5,177**	¥3,881	**$46**
Increase due to acquisition of property, plant and equipment	**791**	1,353	**7**
Adjustments over time	**56**	53	**1**
Decrease due to settlement of asset retirement obligations	**—**	(110)	**—**
End of the year	**¥6,024**	¥5,177	**$54**

2. Asset retirement obligations not recorded on consolidated balance sheets

For real estate lease contracts other than fixed-term leasehold for commercial use and fixed-term lease contracts for buildings, the Company and its consolidated subsidiaries have restoration obligations when vacating premises, but it is impossible to reasonably estimate asset retirement obligations because the period of use of the leased properties related to such obligations is not clear, and there is no current plan to vacate the premises in the future. Therefore, the asset retirement obligations that correspond to these obligations are not recorded.

28. BUSINESS COMBINATIONS

Transactions under common control
(Additional acquisition of shares of subsidiaries)
1. Overview of the transaction

(1) Name and the description of business of the acquired company
Name: Japan Asset Marketing Co., Ltd.
Business description: Tenant leasing business

(2) Date of the business combination
January 17, 2017

(3) Legal form of the business combination
Acquisition of shares through the exercise of conversion rights related to the subscription rights to shares and convertible bond issued by the said company

(4) Name of the entity after business combination
There will be no change to the name.

(5) Other matters relating to the transaction
The Company determined that strengthening the cooperative relationship and deepening the business collaboration between the Group and the said company would lead to the enhancement of the corporate value of the Group. The Company thus acquired an additional 23.42% of the said company's shares, bringing the Company's stake in the said company to 72.62%.

2. Overview of applied accounting treatment

The additional acquisition of shares was accounted for as a transaction under common control, in accordance with "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

3. Details to be reported in case of additional acquisition of shares of a subsidiary

Acquisition cost of the acquired company and consideration paid by type

		Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Consideration for the acquisition	Cash and deposits	¥9,990	$89
	Subscription rights to shares	58	1
	Convertible bond	25,000	223
Cost of acquisition		¥35,048	$313

4. Details of change in shareholders' equity of the Company through transaction with non-controlling shareholders

(1) Main reason for change in additional paid-in capital
Additional acquisition of shares of a subsidiary

(2) Amount of additional paid-in capital decrease due to transaction with non-controlling shareholders
¥4,159 million ($37 million)

Business divestiture
(Partial sales of shares of subsidiaries)
1. Overview of the business divestiture

(1) Name of successor company
Fuyo General Lease Co., Ltd.

(2) Description of divested business
Accretive Co., Ltd. (Financial services including early financing of accounts receivable and outsourcing services for payments)

(3) Main reason for conducting the business divestiture
The Company determined that given Accretive Co., Ltd. is mainly engaged in finance, it would be best to develop its growth strategies under the guidance of a company with know-how and expertise in the finance business, in order to enhance its corporate value. The Company thus decided to respond to the tender offer by Fuyo General Lease Co., Ltd. and transfer a portion of the shares held. As a result, the Company's stake in Accretive Co., Ltd. decreased from 49.17% to 22.29%, and the said company became an affiliated company accounted for by the equity method.

(4) Date of the business divestiture
January 19, 2017

(5) Other matters related to the transaction including the legal form
The consideration for the transfer of shares shall be limited to cash.

2. Overview of applied accounting treatment

(1) Gain on transfer of business
Gain on sales of shares of subsidiaries and affiliates: ¥2,968 million ($27 million)

(2) Appropriate carrying amount of assets and liabilities associated with the transfer of business and the breakdown

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Current assets	¥19,013	$170
Non-current assets	1,192	10
Total assets	20,205	180
Current liabilities	11,070	99
Non-current liabilities	873	8
Total liabilities	11,943	107

(3) Accounting treatment
The difference between the carrying amount of the transferred shares in the consolidated financial statements and the selling price has been accounted for as "gain on sales of shares of subsidiaries and affiliates."

3. Reportable segment in which the divested business had been included

Other businesses

4. Estimated gains or losses related to the divested business recorded in the consolidated statements of income in the fiscal year ended June 30, 2017

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Net sales	¥984	$9
Operating income	703	6

29. SEGMENT INFORMATION

1. Overview of reportable segments

Reportable segments of the Company are components of the Company whose segregated financial information is available and that are under regular review by the Board of Directors for determining the allocation of management resources and assessment of financial results.

The Company consists of segments categorized by how goods and services are provided, and "retail business" and "tenant leasing business" are the Company's two reportable segments. The "retail business" conducts sales of electrical appliances, daily commodities, foods, watches, fashion merchandise, sporting goods, leisure equipment, DIY products, and others. This segment includes "Don Quijote," a large-scale convenience and discount store, "MEGA Don Quijote," a general discount store for families; "Nagasakiya," a GMS; and, "Doit," a DIY store. "Tenant leasing business" recruits and manages tenants of retail properties.

2. Method of calculating sales, profit or loss, assets, liabilities, and other items by reportable segment

Accounting procedures of reportable operating segments are as described in Note 3. "Summary of Significant Accounting Policies."

The sum of income in the reportable segments and other operating segments is operating income.

Intersegment sales are mainly based on quoted market prices.

3. Information on amounts of sales, profit or loss, assets, liabilities, and other items by reportable segment

Information on amounts of sales, profit or loss, assets, liabilities, and other items by reportable segment for the fiscal years ended June 30, 2017 and 2016 is as follows:

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)						
	Reportable segment			Others[*1]	Total	Adjustments[*2]	Consolidated[*3]
	Retail business	Tenant leasing business	Total				
Sales							
Sales to third parties	¥801,802	¥20,559	¥822,361	¥6,437	¥828,798	¥ —	¥828,798
Intersegment sales	487	20,054	20,541	9,156	29,697	(29,697)	—
Total	802,289	40,613	842,902	15,593	858,495	(29,697)	828,798
Segment income	23,693	16,123	39,816	6,395	46,211	(26)	46,185
Segment assets	360,658	239,653	600,311	43,091	643,402	(534)	642,868
Other items[*4]							
Depreciation and amortization	10,797	4,861	15,658	324	15,982	(30)	15,952
Increase in property, plant and equipment and intangibles	18,902	23,889	42,791	154	42,945	(1,892)	41,053

	Millions of U.S. dollars (Note 2)						
	Reportable segment			Others[*1]	Total	Adjustments[*2]	Consolidated[*3]
	Retail business	Tenant leasing business	Total				
Sales							
Sales to third parties	$7,159	$184	$7,343	$57	$7,400	$ —	$7,400
Intersegment sales	4	179	183	82	265	(265)	—
Total	7,163	363	7,526	139	7,665	(265)	7,400
Segment income	212	144	356	56	412	(0)	412
Segment assets	3,220	2,140	5,360	385	5,745	(5)	5,740
Other items[*4]							
Depreciation and amortization	96	43	139	3	142	(0)	142
Increase in property, plant and equipment and intangibles	169	213	382	1	383	(16)	367

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)						
	Reportable segment			Others[*1]	Total	Adjustments[*2]	Consolidated[*3]
	Retail business	Tenant leasing business	Total				
Sales							
Sales to third parties	¥733,333	¥19,781	¥753,114	¥6,478	¥759,592	¥ —	¥759,592
Intersegment sales	16	18,026	18,042	8,486	26,528	(26,528)	—
Total	733,349	37,807	771,156	14,964	786,120	(26,528)	759,592
Segment income	22,746	14,159	36,905	6,733	43,638	(453)	43,185
Segment assets	342,763	211,166	553,929	61,752	615,681	(55,113)	560,568
Other items[*4]							
Depreciation and amortization	9,956	4,551	14,507	351	14,858	234	15,092
Increase in property, plant and equipment and intangibles	22,519	28,668	51,187	424	51,611	(5,785)	45,826

[*1] "Others," which is not a reportable segment, included real estate business, marketing business, and financial services business.
[*2] Components of "Adjustments" are as follows:
(1) Fiscal year ended June 30, 2017
The ¥(26) million ($(0) million) adjustment to segment income is an intersegment elimination. The ¥(534) million ($(5) million) adjustment to segment assets includes surplus funds of ¥47,680 million ($426 million) of the Company, Don Quijote Co., Ltd. and Nagasakiya Co., Ltd., which are companywide assets (cash and deposits, and investment securities), and elimination of receivables between reportable segments of ¥(48,214) million ($(430) million).
(2) Fiscal year ended June 30, 2016
The ¥(453) million adjustment to segment income is an intersegment elimination. The ¥(55,113) million adjustment to segment assets includes surplus funds of ¥43,548 million of the Company, Don Quijote Co., Ltd. and Nagasakiya Co., Ltd., which are companywide assets (cash and deposits, and investment securities), and elimination of receivables between reportable segments of ¥(98,661) million.
[*3] Segment income is adjusted to operating income on the consolidated statements of income.
[*4] Increase in property, plant and equipment, and intangibles includes the increase in long-term prepaid expenses.

Relevant information

1. Information by product and service

Descriptions are omitted because the classification is the same as that of reportable segments.

2. Information by region

(1) Net sales
Description is omitted because the Company's domestic sales to third parties exceed 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment
Description is omitted because property, plant and equipment located in Japan exceed 90% of the property, plant and equipment on the consolidated balance sheets.

3. Information by major customer

Description is omitted because no third-party customer accounts for 10% or above of net sales on the consolidated statements of income.

4. Loss on impairment of non-current assets by reportable segment

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Impairment loss	¥1,515	¥22	¥1,537	¥ —	¥1,537	¥ —	¥1,537

	Millions of U.S. dollars (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Impairment loss	$14	$0	$14	$ —	$14	$ —	$14

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)						
	Reportable segment			Others	Total	Adjustments*	Consolidated
	Retail business	Tenant leasing business	Total				
Impairment loss	¥42	¥ —	¥42	¥ —	¥42	¥137	¥179

* The amount of "Adjustments" is attributable to idle assets classified as companywide assets.

5. Amortization of goodwill and unamortized balance of goodwill by reportable segment

Fiscal year ended June 30, 2017

	Millions of yen (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Amortization for the year	¥186	¥84	¥270	¥107	¥377	¥ —	¥377
Balance at year-end	3,161	1,221	4,382	981	5,363	—	5,363

	Millions of U.S. dollars (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Amortization for the year	$1	$1	$2	$1	$3	$ —	$3
Balance at year-end	28	11	39	9	48	—	48

Amortization of negative goodwill and unamortized balance of negative goodwill incurred by business combinations conducted before April 1, 2010 were as follows:

	Millions of yen (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Amortization for the year	¥86	¥ —	¥86	¥ —	¥86	¥ —	¥86
Balance at year-end	353	—	353	—	353	—	353

	Millions of U.S. dollars (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Amortization for the year	$1	$ —	$1	$ —	$1	$ —	$1
Balance at year-end	3	—	3	—	3	—	3

Fiscal year ended June 30, 2016

	Millions of yen (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Amortization for the year	¥197	¥82	¥279	¥144	¥423	¥ —	¥423
Balance at year-end	3,365	1,303	4,668	2,184	6,852	—	6,852

Amortization of negative goodwill and unamortized balance of negative goodwill incurred by business combinations conducted before April 1, 2010 were as follows:

	Millions of yen (Note 2)						
	Reportable segment			Others	Total	Adjustments	Consolidated
	Retail business	Tenant leasing business	Total				
Amortization for the year	¥86	¥ —	¥86	¥ —	¥86	¥ —	¥86
Balance at year-end	439	—	439	—	439	—	439

6. Gain on negative goodwill by reportable segment

Fiscal year ended June 30, 2017
Not applicable

Fiscal year ended June 30, 2016
Not applicable

30. SUBSEQUENT EVENTS

1. Cash dividends

The following cash dividend of the Company was approved at the shareholders' meeting held on September 27, 2017. The cash dividend is not reflected in the consolidated financial statements for the fiscal year ended June 30, 2017.

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Cash dividend (¥21.00 = $0.19 per share)	¥3,322	$30

2. Substantial amount of financing

The Company signed a subordinated loan agreement (total amount: ¥100,000 million ($893 million)) on March 7, 2017, which was executed on July 3, 2017. The terms and conditions are as follows.

(1) Total amount of financing: ¥100,000 million ($893 million)
(2) Agreement date: March 7, 2017
(3) Loan execution date: July 3, 2017
(4) Final repayment date: July 3, 2067
However, the Company may repay in advance of the final repayment date all or part of the principal on each interest payment date on or after July 3, 2022.*
(5) Use of funds: General business funds and funds for the repayment of interest-bearing liabilities
(6) Applicable interest rate: Variable rate based on three-month JPY TIBOR from July 3, 2017 to July 3, 2027
From July 3, 2027, variable rate stepped up by 1.00%
(7) Clause on interest payment: Interest may be deferred at discretion.
(8) Subordination: The creditor of the subordinated loan has the right to claims subordinated to senior obligations in the Company's liquidation, bankruptcy, corporate reorganization or civil rehabilitation proceedings, or equivalent proceedings that are not under the jurisdiction of Japanese law.
(9) Refinancing restrictions: None*
(10) Lenders: Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Resona Bank, Limited and three other banks
(11) Equity content of the subordinated loan evaluated by a ratings institution: Equity content "Middle" / "50" (Japan Credit Rating Agency, Ltd.)

* In the case of early repayment of the subordinated loan, it is assumed that the subordinated loan will be refinanced with instruments evaluated by a ratings institution as equivalent to or more in terms of equity content. However, the Company may forgo the refinancing, if and when financial indicators reach certain levels.

3. Execution of capital and business alliance agreement

The Company resolved at its Board of Directors' meeting held on August 24, 2017 to enter into a business alliance with FamilyMart UNY Holdings Co., Ltd. ("FamilyMart UNY HD"), which aims to further enhance the businesses of the two companies by leveraging the strengths and expertise of both groups, and a capital alliance whereby FamilyMart UNY HD transfers part of its shares of UNY Co., Ltd. ("UNY"), a wholly owned subsidiary of FamilyMart UNY HD to the Company, and executed the capital and business alliance agreement on August 31, 2017.

(1) Background and purpose of the alliance
The Company and FamilyMart UNY HD had deliberated on the business alliance with the aim of collaborating and creating complementary synergies by leveraging the management resources and unique strengths and expertise of each of its core businesses. As a result, the two companies decided that, in addition to promoting the business alliance, it would be important to make use of the Company's broad customer base including young generations, its time-consuming-type store format with strong amusement features, its know-how on night markets and addressing the market of inbound tourists, as well as further enhancing UNY's existing strengths in its food and other business segments, in order to accelerate the growth of the GMS business and to ultimately improve the corporate value of UNY over the medium to long term. Thus, the two companies decided to not only collaborate through the business alliance but also build a close partnership including the capital alliance in the GMS business.
(2) Details of the capital alliance agreement
The Company intends to acquire 80,000 shares or 40% of the total number of issued shares of UNY, a wholly-owned subsidiary of FamilyMart UNY HD.
(3) Details of the business alliance agreement
1) Collaboration in retailing
2) Joint development, joint purchase and joint promotion of merchandise
3) Streamlining of logistics functions
4) Collaboration in development of overseas markets and new formats
5) Personnel exchange
6) Financial and other services
(4) Timeline
Date of resolution by the Board of Directors: August 24, 2017
Execution date of basic agreement: August 24, 2017
Execution date of alliance agreement: August 31, 2017
Execution date of share transfer: November 2017 (scheduled)

* The execution of the share transfer is subject to completion of the procedures required under the Japanese Anti-Monopoly Act, etc.

Independent Auditor's Report

To the Shareholders and the Board of Directors of Don Quijote Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Don Quijote Holdings Co., Ltd. and consolidated subsidiaries as of June 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity, cash flows for the year then ended, and notes to the consolidated financial statements, all expressed in yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Don Quijote Holdings Co., Ltd. and consolidated subsidiaries as of June 30, 2017 and 2016, and their consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

1. As discussed in Note 30 to the consolidated financial statements, the Company conducted a substantial amount of financing on July 3, 2017, based on the subordinated loan agreement signed on March 7, 2017. Our opinion is not modified in respect of this matter.
2. As discussed in Note 30 to the consolidated financial statements, the Company resolved at the Board of Directors' meeting held on August 24, 2017 to enter into a capital and business alliance with FamilyMart UNY Holdings Co., Ltd, followed by the agreement on August 31, 2017. Our opinion is not modified in respect of this matter.

Convenience Translation

The accompanying consolidated financial statements expressed in yen have been translated into U.S. dollars on the basis set forth in Note 2.

UHY Tokyo & Co
Tokyo, Japan
September 27, 2017

STATEMENT ON ACCOUNTING PRINCIPLES AND AUDITING STANDARDS

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and filed with the local finance bureau of the Ministry of Finance (MOF) as required by the Financial Instruments and Exchange Law. The auditing standards and their application in practice are those generally accepted in Japan, and Report of Independent Auditors is translated into English from the statutory Japanese language consolidated financial statements.

Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Corporate Information

Corporate Data (as of June 30, 2017)

COMPANY NAME

Don Quijote Holdings Co., Ltd.

SCOPE OF BUSINESS

Corporate planning for and management of Group companies through the holding of shares in such companies, contracted administrative operation of subsidiaries, and real estate management

HEAD OFFICE

2-19-10, Aobadai, Meguro-ku, Tokyo 153-0042, Japan
Tel: +81-3-5725-7532 Fax: +81-3-5725-7322

DATE OF ESTABLISHMENT

September 5, 1980

PAID-IN CAPITAL

¥22,425 million

NUMBER OF EMPLOYEES (Full-time employees)

46 (6,708 on consolidated basis)

NUMBER OF STORES (Consolidated basis)

368

Board of Directors (as of September 27, 2017)

President and CEO	Koji Ohara
Senior Managing Director and CFO	Mitsuo Takahashi
Senior Managing Director and CCO	Naoki Yoshida
Director	Hiroshi Abe
Director	Yuji Ishii
Director	Nobuharu Ohashi
Director	Kosuke Suzuki
Director	Takeshi Nishii
Director	Takeshi Haga
Director	Tetsuji Maruyama
Director (Standing Audit & Supervisory Committee Member)	Shoji Wada
Outside Director (Audit & Supervisory Committee Member)	Yukihiko Inoue
Outside Director (Audit & Supervisory Committee Member)	Yasunori Yoshimura
Outside Director (Audit & Supervisory Committee Member)	Tomiaki Fukuda
Outside Director (Audit & Supervisory Committee Member)	Jumpei Nishitani

Share Information (as of June 30, 2017)

SHARES OF COMMON STOCK

Authorized ——— 468,000,000
Issued ——— 158,178,760
Treasury stock ——— 4,633

NUMBER OF SHAREHOLDERS

8,781

TRANSFER AGENT

Mizuho Trust & Banking Co., Ltd.
1-2-1, Yaesu, Chuo-ku, Tokyo 103-8670, Japan

STOCK LISTING

Tokyo Stock Exchange, First Section

PRINCIPAL SHAREHOLDERS	Number of shares held	Percentage of total shares in issue (%)
La Mancha	18,000,000	11.38
Credit Suisse AG Hong Kong Trust A/C Clients for DQ Windmolen B.V.	15,507,000	9.80
Japan Trustee Service Bank, Ltd. (Trust Account)*	9,493,400	6.00
Anryu Shoji Co., Ltd.	8,280,000	5.23
State Street Bank and Trust Company 505001	7,346,231	4.64
The Master Trust Bank of Japan, Ltd. (Trust Account)*	5,480,800	3.47
JP Morgan Chase Bank 380055	5,326,582	3.37
Yasuda Scholarship Foundation	3,600,000	2.28
State Street Bank and Trust Company 505225	3,405,816	2.15
The Bank of New York Mellon 140044	3,069,126	1.94

* Shares held by these institutions include shares in trust.
Note: Percentage of total shares does not include treasury stock (4,633 shares).
Where Don Quijote Holdings Co., Ltd. has confirmed the actual number of shares held by the shareholder, the number of actual shares is reflected in the status of shareholding of the principal shareholders listed above.

SHARE OWNERSHIP BY CATEGORY	Number of shareholders	Number of shares held	Percentage of total shares in issue (%)
Financial Institutions, Financial Product Traders	96	31,711,362	20.0
Other Japanese Corporations	89	12,136,315	7.7
Foreign Corporations and Individuals	583	110,729,073	70.0
Japanese Individuals and Others*	8,013	3,602,010	2.3
Total	8,781	158,178,760	100.0

* Shares held by Japanese Individuals and Others include treasury stock (4,633 shares).

Don Quijote Holdings Co., Ltd. chosen as JPX-Nikkei Index 400 constituent

JPX-NIKKEI 400
2013-2017

On August 31, 2017, Don Quijote Holdings Co., Ltd. was selected as a constituent of the JPX-Nikkei Index 400 stock price index. This marks the fifth consecutive time we have been chosen for the index. The JPX-Nikkei Index 400 is composed of companies with high appeal for investors, which meet requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.

Don Quijote Holdings Co., Ltd.

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