

Corporate Data

Corporate Headquarters

Axial Retailing Inc.
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Date of Establishment

August 1967

Number of Employees

2,362

Chairman and Representative Director

Guntaro Yamazaki

President and Representative Director

Kazuhiko Hara

Vice President and Representative Director

Takeyuki Ueki

Vice President and Director

Yasuo Igarashi

Senior Managing Director

Bungo Yamagishi

Managing Director

Akira Koide

Directors

Hitoshi Moriyama
Mitsuyuki Maruyama
Toshio Kabe
Iwao Hosokai

Standing Corporate Auditors

Junichi Yako
Kazuhiro Masuda
Tomosaburo Fujita

Corporate Auditor

Kenzo Kaneko

(As of June 25, 2015)

The Finest Service in Japan

ANNUAL REVIEW 2015

Year ended March 31, 2015



Message

It is now a year and a half since the business integration of Harashin Narus Holdings Co., Ltd. and Fressay Holdings Co., Ltd. that resulted in Axial Retailing Inc. During this period, we have worked to establish a solid foundation for a more robust store chain by sharing technologies and expertise accumulated by both companies while formulating a Groupwide management philosophy and vision.

In addition, we have steadily and efficiently progressed toward realizing our management philosophy by focusing on Total Quality Management (TQM) activities as a cornerstone of operations aimed at providing ever better products and services.

Thanks to these efforts, full-year operating results for fiscal 2015, the year ended March 31, 2015, hit a record high, well exceeding our initial forecasts. However, we will not be content with these results; rather, we will continue to tackle the challenges emerging from evolving market conditions and, to this end, pursue greater synergies from the joining of our extensive store chains. By doing so, we will help the members of communities in which we operate enjoy more affluent lives.

We sincerely ask for our shareholders' continued support.



President
Kazuhiko Hara

Financial Highlights

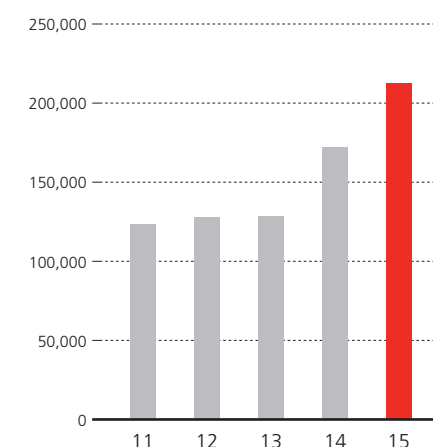
Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2015	2014	2013	2012	2011	2015
For the Period:						
Net sales	¥212,611	¥172,393	¥128,479	¥126,684	¥123,361	\$1,769,252
Operating income	6,666	5,519	3,901	4,131	3,824	55,469
Net income	3,296	2,830	2,036	1,758	1,348	27,431
At Year-End:						
Total assets	¥ 92,557	¥ 88,690	¥ 55,313	¥ 55,126	¥ 54,126	\$770,219
Total equity	41,832	38,800	26,350	24,554	22,937	348,111
	Yen					U.S. Dollars
Per Common Share:						
Basic net income	¥141.21	¥138.71	¥116.29	¥99.99	¥75.17	\$1.18
Cash dividends	40.00	38.00	35.00	30.00	22.00	0.33

Notes: The U.S. dollar amounts are provided, for convenience only, at ¥120.17 to \$1, the approximate rate of exchange at March 31, 2015.

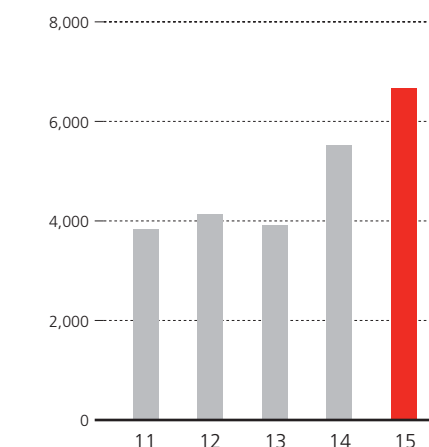
Net Sales

(Millions of yen)



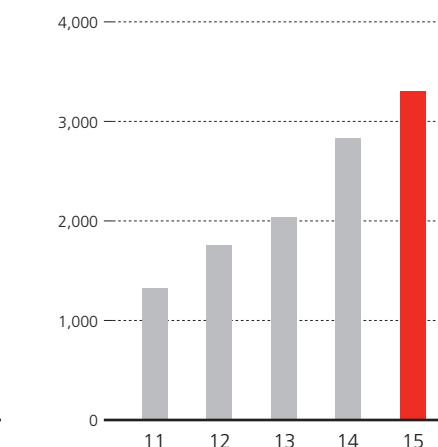
Operating Income

(Millions of yen)



Net Income

(Millions of yen)



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Overview of Business Operations

In fiscal 2015, the year ended March 31, 2015, the Japanese economy saw improvements in business sentiment among corporations and employment-related indices backed by the government-led economic policies. However, consumer spending remained weak due to the enforcement of a consumption tax hike; the depreciation of the yen; rises in electricity rates and fuel prices despite a drop in crude oil prices; and higher commodity prices that reflected increases in distribution and raw material costs.

Against this backdrop, the consolidated business performance of the Axial Retailing Group was robust, with significant year-on-year improvement recorded for each management indicator. Specifically, consolidated net sales increased 23.3% year on year to ¥212,611 million and operating income increased 20.8% to ¥6,666 million, while net income increased 16.5% to ¥3,296 million. This was mainly attributable to the effect of the business integration of Harashin Narus Holdings Co., Ltd. and Fressay Holdings Co., Ltd. (now FRESSAY Co., LTD.) executed on October 1, 2013. Other factors contributing to the Group's strong showings included record-high full-year operating results posted by stores operated by the former Harashin Narus Group.

(Note: The aforementioned year-on-year comparisons of total store sales and sales at existing stores include a retroactively calculated portion of FRESSAY stores' fiscal 2014 operating results.)

Overview

In the aftermath of the April 2014 consumption tax hike, a market recoil following the last-minute pre-hike demand surge led to stagnant consumer spending. This development significantly affected the Group's overall storefront sales, with the exception of perishable foods, sales of which are less vulnerable to changes in consumer sentiment.

Confronting these circumstances, the Axial Retailing Group strove to realize a robust corporate structure capable of withstanding harsh market conditions, keeping an eye out for the further intensification of competition, not only from other store chains but also retailers in other market categories.

As a result, the Group's fiscal 2015 sales at newly opened and renovated stores were favorable in general and total store sales increased 2.9% year on year.

Sales at existing stores, however, decreased slightly due to the repercussions of the consumption tax hike despite a rise in market prices for fresh foods and other positive factors.

(Note: The aforementioned year-on-year comparisons of total store sales and sales at existing stores include a retroactively calculated portion of FRESSAY stores' fiscal 2014 operating results.)

Merchandising Policy

In spring 2014, such factors as the spread of porcine epidemic diarrhea and massive snowfalls in the Kanto area led to overall sustained high market prices for perishable items. Moreover, the consumption tax hike led to an unfavorable sales environment. In summer, although in the extreme temperatures seen in the previous year were not reprised, prices for perishable items remained high, reflecting the occurrence of natural disasters in several regions throughout the country. In autumn,

market prices for perishable items began to settle down and early heavy snowfalls were seen in some areas, affecting trends in sales of seasonal products. In winter, although stable weather helped make it easier for customers to visit stores, sales were down year on year, mainly due to the absence of the demand surge that had boosted sales of goods suitable for long-term storage during the winter immediately preceding the hike in the consumption tax.

Nevertheless, we were able to minimize the effect of the aforementioned negative factors by implementing countermeasures based on earlier predictions and meticulously adjusting its sales strategies.

In addition, it gradually became more evident that following the consumption tax hike, customer purchas-

Performance

ing behavior was tending ever more toward prudence regarding commodities while willingness to spend more on items perceived as valuable grew. To better accommodate this trend, we strove to introduce new high-value-added products as well as private brand products with superior cost competitiveness.

Sales Policy

Prior to the execution of the consumption tax hike, we put in place countermeasures to ensure that customers would not be confused. Specifically, we strove to communicate our policies in response to the tax hike while introducing easy-to-understand price tags and other steps uniquely designed to gain the understanding of customers. In general, these efforts were successful.





In line with our predictions about changes in consumer sentiments through the seasons, we systematically determined price setting focused on affordability as well as product proposal policies while holding storefront promotions in concert with seasonal festivals and events in each region.

Consequently, total number of customers increased 1.3% year on year. However, figures for existing stores decreased 1.5%, reflecting more prudent customer purchasing behavior. The number of items sold per customer decreased 0.8%.

On the other hand, gross profit ratio on storefront sales increased 0.6 of a percentage point year on year to 25.2%, due in part to the success of an ongoing initiative to curb waste product-related costs undertaken from the previous fiscal year. Other factors contributing to this improvement included the fiscal 2014 establishment of a new distribution center capable of maintaining product

stockpiles and the effect of automatic ordering systems, which have been successively introduced at HARASHIN stores since October.

(Note: The aforementioned year-on-year comparisons of store traffic and the number of items sold per customer include a retroactively calculated portion of FRESSAY stores' fiscal 2014 operating results.)

The Effect of Business Integration

Since the business integration of Harashin Narus Holdings and FRESSAY Holdings in the previous fiscal year, we have been striving to create synergies by establishing a common management philosophy for the two corporate groups the former companies represented, sharing various management resources and reducing operating costs and expenses.

On the sales front, we promoted collective procurement for products sold by stores operating under both groups. Moreover, we began holding in-house sales

contests, in which each HARASHIN, NARUS and FLASSAY store competes to achieve the best sales record for specific products selected through collective procurement. These initiatives are intended to bring greater benefit to customers by better leveraging the merits of scale yielded by the business integration. As a result, sales for these products were favorable. Moreover, these initiatives garnered favorable customer impressions.

To promote private brand products, we stepped up the supply of such products to FRESSAY stores, both broadening their product lineup and increasing the volume of products they handle compared with a year earlier.

Openings and Closings

During the fiscal year under review, we relocated FRESSAY Shinmachi store (May; Takasaki, Gunma Prefecture) at a location with an expanded 2,008m² floor

space. We also opened four stores: HARASHIN Shinonoihigashi store (September; Nagano, Nagano Prefecture; Floor space: 2,100m²); NARUS Minamitakada store (October; Joetsu, Niigata Prefecture; Floor space: 2,087m²); HARASHIN Arakawa store (November; Murakami, Niigata Prefecture; Floor space: 2,073m²); and HARASHIN Ikarashiigashi store (December; Niigata, Niigata Prefecture; Floor space: 2,087m²).

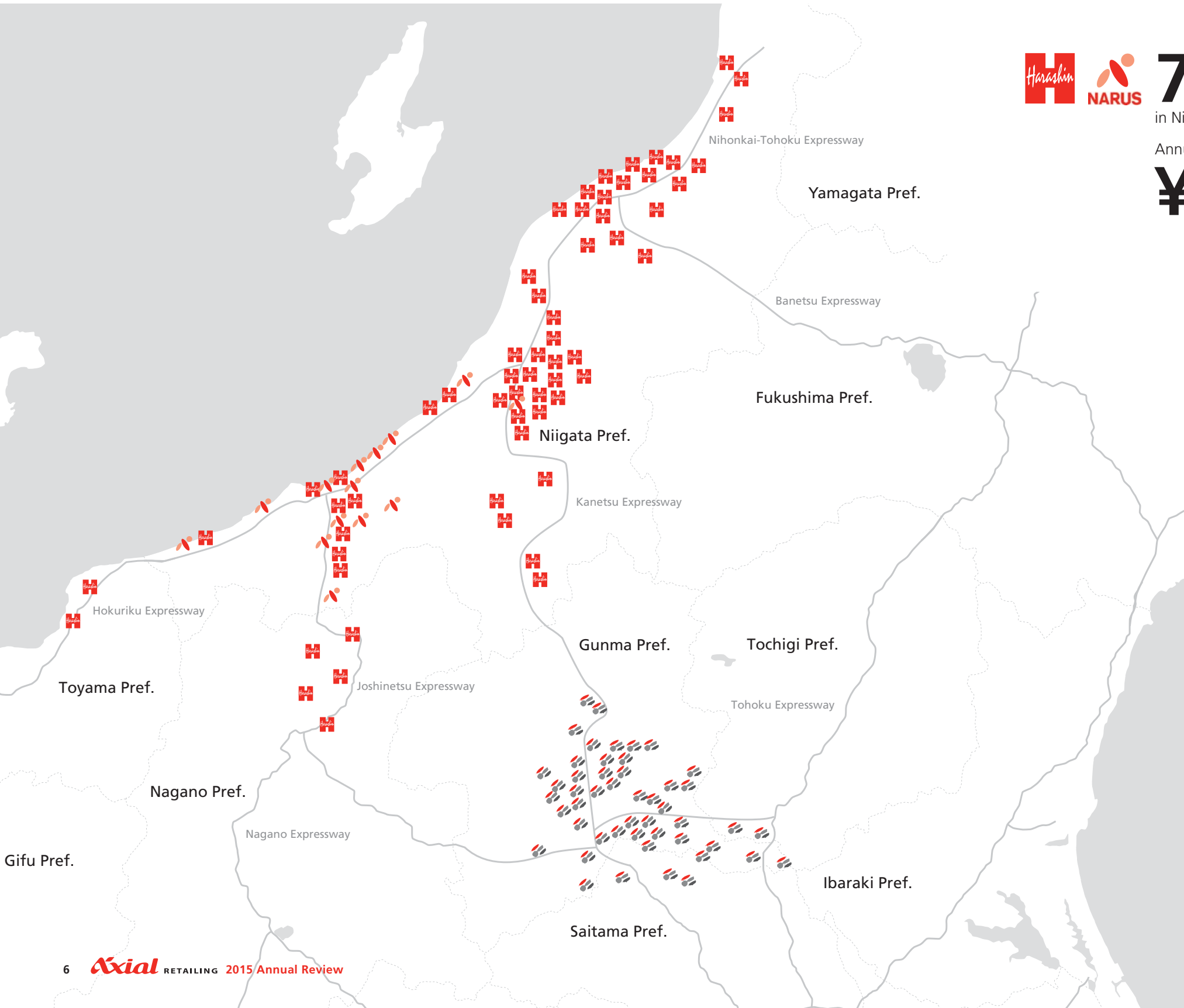
We undertook renovations at HARASHIN Kurobe store (July; Kurobe, Toyama Prefecture; Floor space: 2,267m²) and HARASHIN Shichikuyama store (March; Niigata, Niigata Prefecture; Floor space: 2,475m²).

Due to its relocation, the site of the former FRASSAY Shinmachi store (May; Takasaki, Gunma Prefecture; Floor space: 1,441m²) closed and we also closed NARUS Handa store (August; Kashiwazaki, Niigata Prefecture; Floor space: 1,377m²).



Development of Our Supermarket Network and Coverage Area

The Axial Retailing Group is a regional chain store operator boasting the network of **124 stores** and annual net sales of approximately **¥200 billion**.



Network

We will bring together management resources held by Harashin Narus and Fressay while preserving the unique strengths of the two store chains. Making a full use of our combined sales capabilities, we will build an even more robust and competitive operating platform as a regional chain store operator.



75 stores

in Niigata, Nagano and Toyama prefectures

Annual net sales: Approximately

¥135.4 billion



49 stores

in Gunma, Tochigi and Saitama prefectures

Annual net sales: Approximately

¥61.5 billion

Our Private Brand (PB) Products Are Now on Sale at FRESSAY Stores

We renewed our PB products under the Axial brand while adopting a unified package design. As we strive to gain greater recognition as a brand boasting delicious foodstuffs and excellent product safety, we began selling our PB products at FRESSAY stores.



Sanitizing Wet Towels
Hefty premoistened sheets that provide quick sterilization with just one wipe



Kinugoshi Tofu (soybean curd)
Soft tofu made using only nigari as a coagulant.



Loin Ham
A four-package bundle of sliced ham loin



Sanuki Udon (wheat noodles)
Delicious, tasty and elastic wheat noodles

Consolidated Balance Sheets

March 31, 2015 and 2014

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
CURRENT ASSETS:			
Cash and cash equivalents	¥12,210	¥10,945	\$101,609
Short-term investments	2	2	17
Receivables:			
Trade notes and accounts	3,151	3,115	26,219
Allowance for doubtful receivables	(14)	(12)	(117)
Inventories	4,893	4,710	40,720
Deferred tax assets	899	856	7,482
Lease investment assets	1,676	1,934	13,945
Prepaid expenses and other current assets	1,494	1,491	12,434
Total current assets	24,311	23,041	202,309
PROPERTY, PLANT AND EQUIPMENT:			
Land	20,649	19,317	171,834
Buildings and structures	59,426	55,523	494,514
Machinery and equipment	2,810	2,826	23,381
Lease assets	6,943	7,490	57,782
Construction in progress	781	1,022	6,499
Other	8,812	7,972	73,328
Total	99,421	94,150	827,338
Accumulated depreciation	(48,000)	(44,823)	(399,437)
Net property, plant and equipment	51,421	49,327	427,901
INVESTMENTS AND OTHER ASSETS:			
Investment securities	3,788	2,720	31,521
Long-term loans receivable	31	35	257
Intangible assets	1,568	1,475	13,048
Lease and guarantee deposits	8,274	8,615	68,853
Deferred tax assets	2,023	2,374	16,833
Other asset	1,175	1,137	9,782
Allowance for doubtful accounts	(34)	(34)	(285)
Total investments and other assets	16,825	16,322	140,009
TOTAL ASSETS	¥92,557	¥88,690	\$770,219

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
CURRENT LIABILITIES:			
Short-term loans payable	¥	¥ 520	\$
Current portion of long-term loans payable	5,431	5,867	45,198
Payables:			
Trade	13,393	13,346	111,450
Other	1,572	1,501	13,080
Income taxes payable	1,479	1,656	12,304
Accrued expenses	4,512	4,160	37,543
Other current liabilities	2,856	1,525	23,771
Total current liabilities	29,243	28,575	243,346
LONG-TERM LIABILITIES:			
Long-term loans payable	6,865	6,471	57,128
Lease obligations	3,888	4,380	32,351
Provision for retirement benefits	404	431	3,365
Director's retirement benefits	30	31	252
Asset retirement obligations	4,748	4,549	39,509
Long-term lease and guarantee deposited	5,177	5,066	43,082
Other	370	387	3,075
Total long-term liabilities	21,482	21,315	178,762
EQUITY:			
SHAREHOLDERS' EQUITY:			
Common stock			
Authorized— 38,000,000 shares			
Issued— 23,388,039 shares in 2015 and 23,388,039 shares in 2014	3,160	3,160	26,294
Capital surplus	15,749	15,749	131,060
Retained earnings	21,259	18,967	176,910
Treasury stock, at cost— 44,670 shares in 2015 and 44,462 shares in 2014	(55)	(55)	(463)
Total shareholders' equity	40,113	37,821	333,801
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Valuation difference on available-for-sale securities	1,635	888	13,606
Remeasurements of defined benefit plans	84	91	704
Total accumulated other comprehensive income	1,719	979	14,310
Total equity	41,832	38,800	348,111
TOTAL LIABILITIES AND EQUITY	¥92,557	¥88,690	\$770,219

Consolidated Statements of Income

Years Ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
NET SALES	¥212,611	¥172,393	\$1,769,252
COST OF SALES	154,750	126,502	1,287,760
GROSS PROFIT	57,861	45,891	481,492
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	51,195	40,372	426,023
OPERATING INCOME	6,666	5,519	55,469
OTHER INCOME (EXPENSES):			
Interest and dividends	115	103	956
Interest expense	(157)	(136)	(1,304)
Other—net	(561)	(466)	(4,671)
Total other income (expenses)	(603)	(499)	(5,019)
INCOME BEFORE INCOME TAXES	6,063	5,020	50,450
INCOME TAXES:			
Current	(2,735)	2,296	(22,761)
Deferred	(32)	(106)	(258)
Total income taxes	(2,767)	2,190	(23,019)
INCOME BEFORE MINORITY INTERESTS	3,296	2,830	27,431
Minority interests in income			
NET INCOME	¥ 3,296	¥ 2,830	\$ 27,431
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	¥141.21	¥ 138.71	\$1.18
Cash dividends applicable to the year	40.00	38.00	0.33

Consolidated Statements of Comprehensive Income

Years Ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
INCOME BEFORE MINORITY INTERESTS	¥3,296	¥2,830	\$27,431
OTHER COMPREHENSIVE INCOME			
Valuation difference on available for sale securities, net of tax	747	179	6,215
Remeasurements of defined benefit plans, net of tax	(6)		(52)
Total other comprehensive Income	741	179	6,163
TOTAL COMPREHENSIVE INCOME	¥4,037	¥3,009	\$33,594
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥4,037	¥3,009	\$33,594

Consolidated Statements of Changes in Equity

Years Ended March 31, 2015 and 2014

	Millions of Yen						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total Equity
BALANCE, MARCH 31, 2013	¥3,160	¥6,406	¥16,748	¥(673)	¥709		¥26,350
Net income			2,830				2,830
Cash dividends			(611)				(611)
Net increase (decrease) in treasury stock				(0)			(0)
Increase by share exchanges		9,114					9,114
Disposal of treasury stock		229		618			847
Net changes of items other than shareholders' equity					179	91	270
BALANCE, MARCH 31, 2014	¥3,160	¥15,749	¥18,967	¥(55)	¥888	¥91	¥38,800
Net income			3,296				3,296
Cash dividends			(1,004)				(1,004)
Net increase (decrease) in treasury stock		0		(0)			(0)
Net changes of items other than shareholders' equity					747	(7)	740
BALANCE, MARCH 31, 2015	¥3,160	¥15,749	¥21,259	¥(55)	¥1,635	¥84	¥41,832

	Thousands of U.S. Dollars						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total Equity
BALANCE, MARCH 31, 2014	\$26,294	\$131,059	\$157,832	\$(458)	\$7,391	\$756	\$322,874
Net income			27,431				27,431
Cash dividends			(8,353)				(8,353)
Net increase (decrease) in treasury stock		1		(5)			(4)
Net changes of items other than shareholders' equity					6,215	(52)	6,163
BALANCE, MARCH 31, 2015	\$26,294	\$131,060	\$176,910	\$(463)	\$13,606	\$704	\$348,111

Consolidated Statements of Cash Flows

Years Ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
OPERATING ACTIVITIES:			
Income before income taxes	¥6,063	¥5,020	\$50,450
Adjustments for:			
Income taxes paid	(3,017)	(1,458)	(25,103)
Depreciation and amortization	3,654	3,097	30,408
Impairment losses on fixed assets	718	683	5,974
Allowance for doubtful receivables	2	(10)	20
Loss on sales and retirement of noncurrent assets—net	(0)	59	(2)
Employees' retirement benefits	(43)	(2)	(355)
Changes in assets and liabilities:			
Increase in trade notes and accounts receivables	9	(184)	75
Decrease (Increase) in inventories	(184)	(46)	(1,528)
Increase in lease investment assets	259	170	2,150
Increase in interest and dividends receivable	(73)	(69)	(611)
Increase in trade payables	47	772	394
Increase in interest payable	20	9	165
Other—net	1,792	339	14,918
Net cash provided by operating activities	9,247	8,380	76,955
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	28	120	233
Purchases of property, plant and equipment	(6,094)	(6,308)	(50,716)
Decrease lease and guarantee deposit—net	414	(56)	3,449
Proceeds from purchase of shares of subsidiaries resulting in change in scope consolidation		3,654	
Purchase of investments in securities	(36)		(297)
Other—net	(201)	(270)	(1,673)
Net cash used in investing activities	(5,889)	(2,860)	(49,004)
FINANCING ACTIVITIES:			
Increase in short-term loans payable—net	(520)	(1,187)	(4,327)
Proceeds from long-term loans payable	5,300	5,600	44,104
Repayments of long-term loans payable	(5,337)	(3,701)	(44,412)
Repayments of lease obligations	(533)	(467)	(4,438)
Increase in treasury stock	(1)	(0)	(5)
Dividends paid	(1,002)	(611)	(8,339)
Net cash used in financing activities	(2,093)	(366)	(17,417)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,265	5,154	10,534
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,945	5,791	91,075
CASH AND CASH EQUIVALENTS, END OF YEAR	¥12,210	¥10,945	¥101,609

Shareholders' Information**Paid-in Capital**

¥3,160 million

Number of Shares of Common Stock

Authorized: 38,000,000 shares

Issued: 23,388,039 shares

Outstanding (excluding treasury stock):

23,343,369 shares

Stock Exchange Listing

Tokyo Stock Exchange, First Section

Listing Date: March 2007

Code: 8255

Transfer Agent and Registrar

Mitsubishi UFJ Trust and Banking Corporation

1-4-5, Marunouchi, Chiyoda-ku,

Tokyo 100-8212, Japan

Number of Shareholders

8,059

Major Shareholders

(As of March 31, 2015)

Name	Number of Shares (Thousands)	Shareholding Ratio (%)
Kazuhiko Hara	1,251	5.3
New Sunlife CO.,Ltd	884	3.7
Nobuhiro Hara	845	3.6
The Daishi Bank, Ltd.	835	3.5
The Shoko Chukin Bank, Ltd.	728	3.1
Axial Group Employees' Stockholding	639	2.7
Toshio Ueki	600	2.5
Takeyuki Ueki	507	2.1
Japan Trustee Service Bank, Ltd. (Trust Account 4)	479	2.0
Sumitomo Mitsui Banking Corporation	398	1.7

*Ratio of Shareholding is calculated on the outstanding shares.

Distribution of Shareholders (%)