

## Corporate Data

### Corporate Headquarters

Axial Retailing Inc.  
18-2 Nakagoya, Nagaoka City, Niigata Prefecture  
954-0193, Japan  
Tel: +81-258-66-6711  
Fax: +81-258-66-6727  
URL: <http://www.axial-r.com/>  
E-mail: [ir@axial-r.com](mailto:ir@axial-r.com)

### Date of Establishment

August 1967

### Number of Employees

2,363

### 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  
Manabu Nakagawa  
Iwao Hosokai (Outside)  
Koichi Niihara (Outside)

### Audit and Supervisory Board Members

Junichi Yako (Outside, Full-Time)  
Tomosaburo Fujita (Full-Time)  
Ryoji Iwasaki (Full-Time)  
Kenzo Kaneko (Outside)

(As of June 24, 2016)



**The Finest Service in Japan**

**ANNUAL REVIEW 2016**

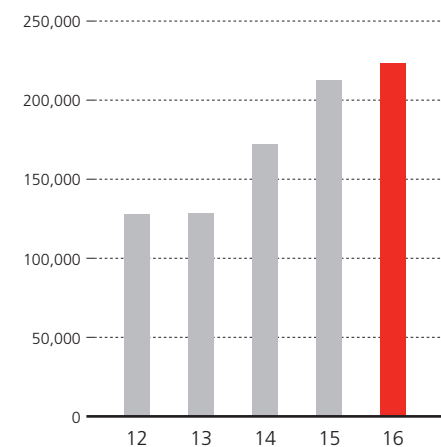
Year ended March 31, 2016

	Millions of Yen					Thousands of U.S. Dollars
	2016	2015	2014	2013	2012	2016
<b>For the Period:</b>						
Net sales	¥223,710	¥212,611	¥172,393	¥128,479	¥126,684	\$1,985,356
Operating income	8,544	6,666	5,519	3,901	4,131	75,824
Profit attributable to owners of parent	4,665	3,296	2,830	2,036	1,758	41,399
<b>At Year-End:</b>						
Total assets	¥93,002	¥ 92,557	¥ 88,690	¥ 55,313	¥ 55,126	\$825,360
Total equity	45,241	41,832	38,800	26,350	24,554	401,500
						U.S. Dollars
<b>Per Share of Common Stock:</b>						
Basic earnings	¥199.84	¥141.21	¥138.71	¥116.29	¥99.99	\$1.77
Dividends paid	58.00	40.00	38.00	35.00	30.00	0.51

Notes: The U.S. dollar amounts are provided, for convenience only, at ¥112.68 to \$1, the approximate rate of exchange at March 31, 2016.

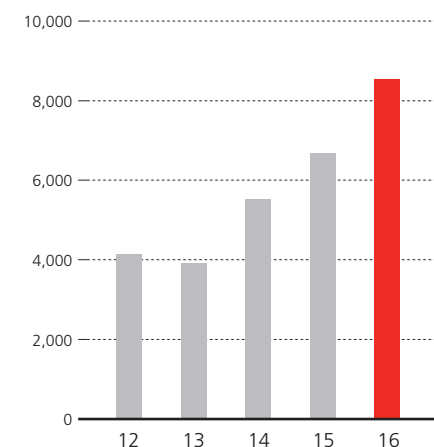
**Net Sales**

(Millions of yen)



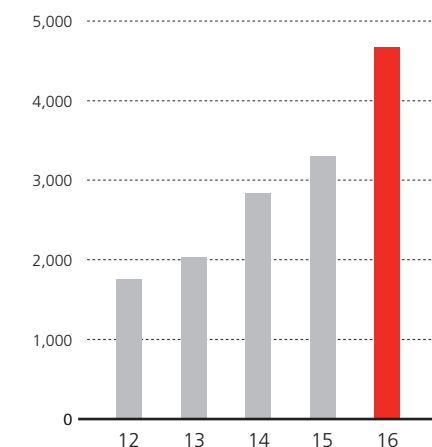
**Operating Income**

(Millions of yen)



**Profit Attributable to Owners of Parent**

(Millions of yen)



**Contents**

Financial Highlights    Message from the President **1**    Performance **2**    Development of Our Supermarket Network and Coverage Area **6**  
 Consolidated Balance Sheets **8**    Consolidated Statements of Income **10**  
 Consolidated Statements of Comprehensive Income / Consolidated Statements of Changes in Equity **11**  
 Consolidated Statements of Cash Flows **12**    Shareholders' Information / Group Management Philosophy **13**    Corporate Data **Back cover**

**Message from the President**

# Keep Changing to Grow and Thrive



It is now two and a half years since Axial Retailing Inc. was inaugurated.

During this period, we have been working under our Medium-Term Management Plan to establish a solid foundation for a more robust store chain in line with our Groupwide management philosophy and vision.

Thanks to these efforts, full-year operating results for fiscal 2016, the year ended March 31, 2016, hit a record high, well exceeding our initial forecasts.

However, we will not be content with these results; rather, we will take on the challenge of achieving further reforms, aiming to realize a store chain capable of bringing ever greater benefits to the members of communities in which it operates.

President  
Kazuhiko Hara



### Overview of Business Operations

In fiscal 2016, the year ended March 31, 2016, the consolidated business performance of the Axial Retailing Group included net sales of ¥223,710 million, up 5.2% year on year, operating income of ¥8,544 million, up 28.2% year on year. Profit attributable to owners of the parent totaled ¥4,665 million, representing a 41.5% increase compared with the previous fiscal year. Thus, the Group achieved record-high figures in all of the aforementioned four performance indicators.

### Overview

Sales grew as consumer spending rebounded from the plunge in the previous fiscal year that followed a consumption tax hike.

Average spending per visit rose 1.8% year on year, while the average value of items sold grew 2.2%. On the other hand, the number of items sold per customer edged down 0.4% compared with the previous fiscal

year. This may have been due to the repercussions of price increases and rising social insurance fees, which have, in turn, robbed some momentum from consumer spending.

To counter this negative trend, the Axial Retailing Group has exhaustively streamlined its operations, thereby freeing additional resources for boosting its initiatives aimed at differentiating itself from competitors.



As a result, total store traffic rose 3.6% year on year, with figures for existing stores edging up 0.5% compared with the previous fiscal year.

### Merchandising Policy

In spring 2015, overall market prices for perishable items were high, leading to ever increasing sales prices. Although this situation dampened growth in the number of items sold, the Group's efforts to develop new products and offerings resulted in a rise in sales value.

In summer, the usual period of extreme heat was followed by an earlier than usual drop in temperatures. Although this led to a rapid change in customer preferences, our efforts to meticulously tailor our offerings to address customer needs allowed us to secure sales.

In autumn, stable weather helped bring a greater number of customers to our stores, while showings of

seasonal products were stagnant.

In winter, due to unusually warm temperatures and poor snowfalls, consumer product selection trends deviated substantially from preceding years. Moreover, we were affected by an upturn in market prices for perishable products. Nevertheless, our seasonal products garnered favorable customer reviews and helped keep the number of items sold per customer steady.

In addition, we enhanced our "Power Price" lineup, which includes an array of reasonably-priced, ready-to-eat and delicious food products, with the aim of simultaneously realizing great quality and unrivalled cost competitiveness. We also expanded the lineup of Axial's unique specialties while stepping up the development of private brand products. Thanks to these ongoing initiatives spanning the fiscal year, our offerings have garnered favorable customer reviews.





### Sales Policy

At Harashin Narus stores, we pursued the rolling out of an automatic ordering system to avoid product shortages and reduce the workload. This enabled us to allocate greater resources on new initiatives to improve storefront conditions and service levels.

Also, we actively held store events with seasonal themes aimed at underlining the attractiveness of our offerings, many of which received favorable customer feedback.

In addition, we strove to ensure the provision of safe and secure offerings by tightening relevant in-house rules.

As a result, gross profit ratio on storefront sales rose 0.3 of a percentage point year on year to 25.5%.

### The Effect of Business Integration

Since the business integration of Harashin Narus Holdings and FRESSAY Holdings, the Axial Retailing Group has been engaging in across-the-board initiatives to curb redundant costs and expenses and integrate operating platforms. These efforts, in turn, created a significant positive effect on cost reduction and profitability.



As a result, the operating income ratio for the supermarket business rose 0.7 of a percentage point to 3.6% compared with the previous fiscal year.

The consolidated operating income ratio increased 0.7 of a percentage point year on year to 3.8%.

### Openings and Closings

During the fiscal year under review, we opened three stores: HARASHIN Meike store (September 2015; Niigata, Niigata Prefecture; Floor space: 2,086 m<sup>2</sup>); FRESSAY Shintoarai store (September; Kita-Gunma, Gunma Prefecture; Floor space: 1,746 m<sup>2</sup>); and FRESSAY Numataonda store (October: Numata, Gunma Prefecture; Floor space: 1,745 m<sup>2</sup>).

We undertook renovations at four stores: HARASHIN Kawasaki store (October: Nagaoka, Niigata Prefecture; Floor space: 2,403 m<sup>2</sup>); FRESSAY Sano store (November; Sano, Tochigi Prefecture; Floor space: 2,126 m<sup>2</sup>); HARASHIN Gosen store (February 2016: Gosen, Niigata

Prefecture; Floor space: 2,091 m<sup>2</sup>); and HARASHIN Nishikimachi store (March; Niigata, Niigata Prefecture; Floor space: 2,163 m<sup>2</sup>).

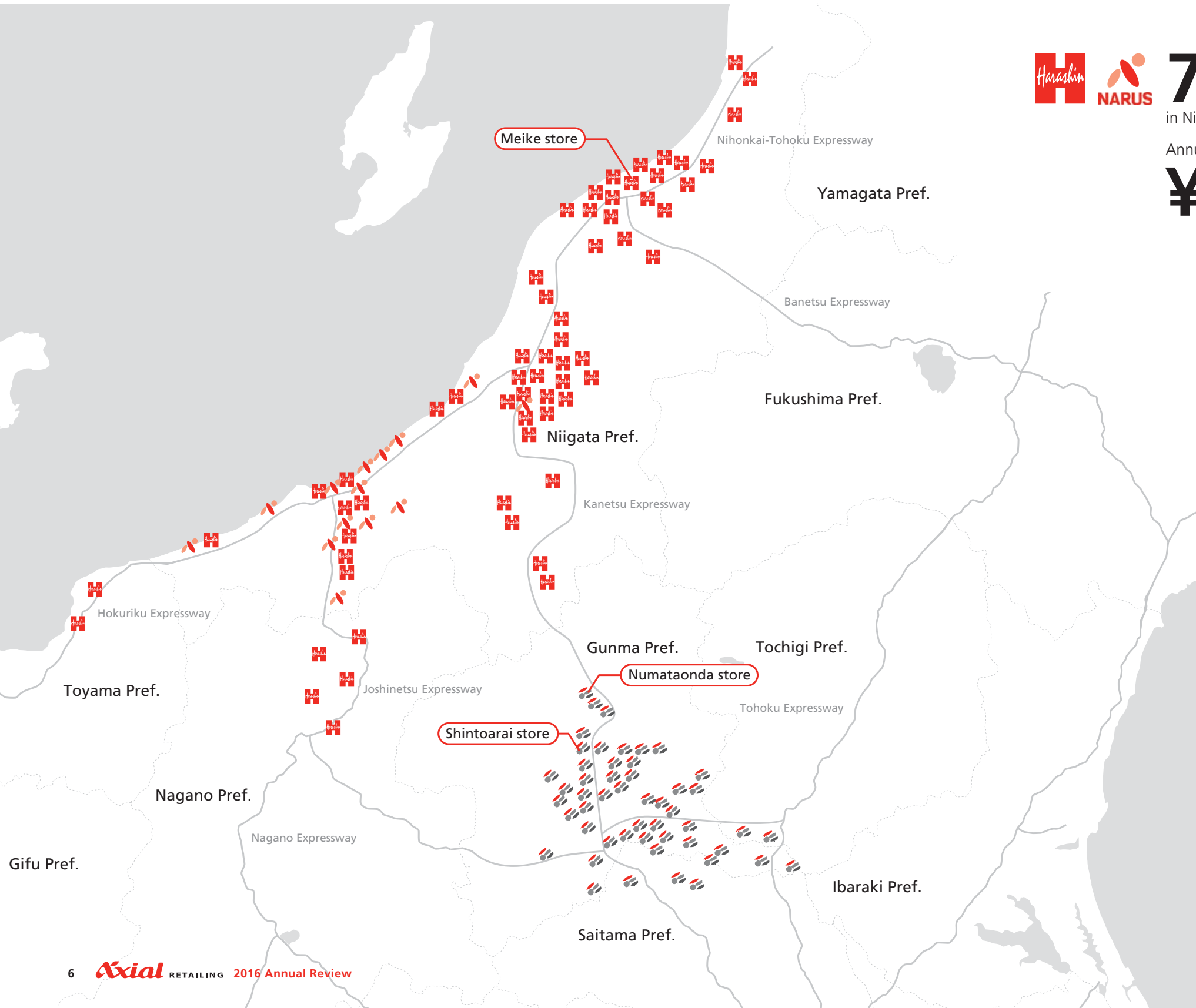
We closed FITS ME Otone fitness club (April; Maebashi, Gunma Prefecture). Also, we transferred the operations of DAISO Takazeki store, a 100-yen shop outlet (January; Takasaki, Gunma Prefecture), to an external company by terminating a franchise contract.





## Development of Our Supermarket Network and Coverage Area

The Axial Retailing Group is a regional chain store operator boasting the network of **127 stores** and annual net sales of approximately **¥211 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.



**76 stores**

in Niigata, Nagano and Toyama prefectures

Annual net sales:

**¥144 billion**



**51 stores**

in Gunma, Tochigi and Saitama prefectures

Annual net sales:

**¥67 billion**

### New Stores

**HARASHIN  
Meike store**

(September 2015, Niigata, Niigata Prefecture)



**FRESSAY  
Shintoarai store**

(September 2015, Kita-Gunma, Gunma Prefecture)



**FRESSAY  
Numataonda store**

(October 2015, Numata, Gunma Prefecture)



**Consolidated Balance Sheets**

March 31, 2016 and 2015

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥11,309	¥12,210	\$100,360
Short-term investments	2	2	18
Receivables:			
Trade notes and accounts	3,283	3,151	29,138
Allowance for doubtful receivables	(13)	(14)	(111)
Inventories	4,989	4,893	44,280
Deferred tax assets	987	899	8,755
Lease investment assets	1,433	1,676	12,721
Prepaid expenses and other current assets	1,454	1,494	12,896
Total current assets	23,444	24,311	208,057
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	20,952	20,649	185,941
Buildings and structures	62,093	59,426	551,056
Machinery and equipment	2,839	2,810	25,196
Lease assets	6,934	6,943	61,539
Construction in progress	731	781	6,484
Other	9,897	8,812	87,832
Total	103,446	99,421	918,048
Accumulated depreciation	(50,525)	(48,000)	(448,390)
Net property, plant and equipment	52,921	51,421	469,658
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities	3,323	3,788	29,486
Long-term loans receivable	27	31	238
Intangible assets	1,846	1,568	16,381
Lease and guarantee deposits	7,928	8,274	70,357
Deferred tax assets	2,419	2,023	21,468
Other asset	1,128	1,175	10,019
Allowance for doubtful accounts	(34)	(34)	(304)
Total investments and other assets	16,637	16,825	147,645
<b>TOTAL ASSETS</b>	<b>¥ 93,002</b>	<b>¥92,557</b>	<b>\$825,360</b>

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
<b>CURRENT LIABILITIES:</b>			
Short-term loans payable	¥ 1,000	¥	\$ 8,875
Current portion of long-term loans payable	4,111	5,431	36,481
Payables:			
Trade	14,251	13,393	126,472
Other	1,790	1,572	15,885
Income taxes payable	1,883	1,479	16,708
Accrued expenses	4,795	4,512	42,552
Other current liabilities	2,074	2,856	18,416
Total current liabilities	29,904	29,243	265,389
<b>LONG-TERM LIABILITIES:</b>			
Long-term loans payable	3,418	6,865	30,335
Lease obligations	3,771	3,888	33,469
Net defined benefit liability	439	404	3,897
Director's retirement benefits	35	30	309
Asset retirement obligations	4,842	4,748	42,972
Long-term lease and guarantee deposited	5,098	5,177	45,247
Other	254	370	2,242
Total long-term liabilities	17,857	21,482	158,471
<b>EQUITY:</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock			
Authorized— 38,000,000 shares			
Issued— 23,388,039 shares in 2016 and 23,388,039 shares in 2015	3,160	3,160	28,041
Capital surplus	15,749	15,749	139,772
Retained earnings	24,990	21,259	221,782
Treasury shares, at cost— 44,967 shares in 2016 and 44,670 shares in 2015	(56)	(55)	(504)
Total shareholders' equity	43,843	40,113	389,091
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>			
Valuation difference on available-for-sale securities	1,357	1,635	12,043
Remeasurements of defined benefit plans	41	84	366
Total accumulated other comprehensive income	1,398	1,719	12,409
Total equity	45,241	41,832	401,500
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>¥93,002</b>	<b>¥92,557</b>	<b>\$825,360</b>

**Consolidated Statements of Income**

Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
<b>NET SALES</b>	<b>¥223,710</b>	¥212,611	<b>\$1,985,356</b>
<b>COST OF SALES</b>	<b>162,366</b>	154,750	<b>1,440,946</b>
<b>GROSS PROFIT</b>	<b>61,344</b>	57,861	<b>544,410</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>52,800</b>	51,195	<b>468,586</b>
<b>OPERATING INCOME</b>	<b>8,544</b>	6,666	<b>75,824</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividends	113	115	999
Interest expense	(128)	(157)	(1,133)
Other—net	(1,086)	(561)	(9,634)
Total other income (expenses)	(1,101)	(603)	(9,768)
<b>PROFIT BEFORE INCOME TAXES</b>	<b>7,443</b>	6,063	<b>66,056</b>
<b>INCOME TAXES:</b>			
Current	3,062	2,735	27,175
Deferred	(284)	32	(2,518)
Total income taxes	2,778	2,767	24,657
<b>PROFIT</b>	<b>4,665</b>	3,296	<b>41,399</b>
Profit attributable to non-controlling interests			
<b>PROFIT ATTRIBUTABLE TO OWNERS OF PARENT</b>	<b>¥ 4,665</b>	¥ 3,296	<b>\$ 41,399</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK:</b>			
Basic earnings	¥ 199.84	¥141.21	\$ 1.77
Dividends paid	58.00	40.00	0.51

**Consolidated Statements of Comprehensive Income**

Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
<b>PROFIT</b>	<b>¥4,665</b>	¥3,296	<b>\$41,399</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Valuation difference on available for sale securities, net of tax	(278)	747	(2,467)
Remeasurements of defined benefit plans, net of tax	(44)	(6)	(385)
Total other comprehensive Income	(321)	741	(2,852)
<b>COMPREHENSIVE INCOME</b>	<b>¥4,343</b>	¥4,037	<b>\$38,547</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of parent	¥4,343	¥4,037	\$38,547

**Consolidated Statements of Changes in Equity**

Years Ended March 31, 2016 and 2015

	Millions of Yen						
	Common Stock	Capital Surplus	Retained Earnings	Treasury shares	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total Equity
<b>BALANCE, MARCH 31, 2014</b>	<b>¥3,160</b>	<b>¥15,749</b>	<b>¥18,967</b>	<b>¥(55)</b>	<b>¥888</b>	<b>¥91</b>	<b>¥38,800</b>
Profit attributable to owners of parent			3,296				3,296
Dividends of surplus			(1,004)				(1,004)
Net disposal (purchase) of treasury shares		0		(0)			(0)
Net changes of items other than shareholders' equity					747	(7)	740
<b>BALANCE, MARCH 31, 2015</b>	<b>¥3,160</b>	<b>¥15,749</b>	<b>¥21,259</b>	<b>¥(55)</b>	<b>¥1,635</b>	<b>¥84</b>	<b>¥41,832</b>
Profit attributable to owners of parent			4,665				4,665
Dividends of surplus			(934)				(934)
Net disposal (purchase) of treasury shares				(1)			(1)
Net changes of items other than shareholders' equity					(278)	(43)	(321)
<b>BALANCE, MARCH 31, 2016</b>	<b>¥3,160</b>	<b>¥15,749</b>	<b>¥24,990</b>	<b>¥(56)</b>	<b>¥1,357</b>	<b>¥41</b>	<b>¥45,241</b>

	Thousands of U.S. Dollars						
	Common Stock	Capital Surplus	Retained Earnings	Treasury shares	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total Equity
<b>BALANCE, MARCH 31, 2015</b>	<b>\$28,041</b>	<b>\$139,772</b>	<b>\$188,670</b>	<b>\$(493)</b>	<b>\$14,510</b>	<b>\$751</b>	<b>\$371,251</b>
Profit attributable to owners of parent			41,399				41,399
Dividends of surplus			(8,287)				(8,287)
Net disposal (purchase) of treasury shares				(11)			(11)
Net changes of items other than shareholders' equity					(2,467)	(385)	(2,852)
<b>BALANCE, MARCH 31, 2016</b>	<b>\$28,041</b>	<b>\$139,772</b>	<b>\$221,782</b>	<b>\$(504)</b>	<b>\$12,043</b>	<b>\$366</b>	<b>\$401,500</b>

## Consolidated Statements of Cash Flows

Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
<b>OPERATING ACTIVITIES:</b>			
Profit before income taxes	¥7,443	¥6,063	\$ 66,056
Adjustments for:			
Income taxes paid	(2,725)	(3,017)	(24,184)
Depreciation and amortization	3,771	3,654	33,470
Impairment loss	1,162	718	10,312
Increase (decrease) in allowance for doubtful receivables	(2)	2	(14)
Loss (gain) on sales and retirement of non-current assets—net	30	(0)	264
Increase in provision for directors' retirement benefits	(31)	(43)	(275)
Changes in assets and liabilities:			
Increase (decrease) in trade notes and accounts receivables	(54)	9	(478)
Decrease (Increase) in inventories	(96)	(184)	(853)
Increase (decrease) in lease investment assets	242	259	2,150
Increase in interest and dividends receivable	(68)	(73)	(604)
Increase in trade payables	858	47	7,613
Increase in interest payable	19	20	170
Other—net	(470)	1,792	(4,178)
Net cash provided by operating activities	10,079	9,247	89,449
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(6,350)	(6,094)	(56,352)
Proceeds from sales of property, plant and equipment	172	28	1,524
Purchase of investments in securities		(36)	
Decrease (Increase) lease and guarantee deposit—net	414	414	3,677
Other—net	(377)	(201)	(3,354)
Net cash used in investing activities	(6,141)	(5,889)	(54,505)
<b>FINANCING ACTIVITIES:</b>			
Increase (decrease) in short-term loans payable—net	1,000	(520)	8,875
Proceeds from long-term loans payable	150	5,300	1,331
Repayments of long-term loans payable	(4,906)	(5,337)	(43,543)
Proceeds from sales and leasebacks	381		3,386
Repayments of lease obligations	(529)	(533)	(4,699)
Purchase of treasury shares	(1)	(1)	(10)
Cash dividends paid	(934)	(1,002)	(8,287)
Net cash used in financing activities	(4,839)	(2,093)	(42,947)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(901)</b>	<b>1,265</b>	<b>(8,003)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>12,210</b>	<b>10,945</b>	<b>108,363</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥11,309</b>	<b>¥12,210</b>	<b>\$100,360</b>

## Shareholders' Information

### Capital Stock

¥3,160 million

### Common Stock

Authorized: 38,000,000 shares

Issued: 23,388,039 shares

Outstanding (excluding treasury shares):

23,343,072 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

7,704

### Major Shareholders

(As of March 31, 2016)

Name	Number of Shares (Thousands)	Shareholding Ratio (%)
Kazuhiko Hara	1,251	5.4
New Sunlife Co.,Ltd.	884	3.8
Nobuhiro Hara	846	3.6
The Daishi Bank, Ltd.	835	3.6
The Shoko Chukin Bank, Ltd.	728	3.1
Axial Group Employees' Stockholding	577	2.5
Toshio Ueki	515	2.2
Takeyuki Ueki	507	2.2
Japan Trustee Service Bank, Ltd. (Trust Account 4)	496	2.1
Sumitomo Mitsui Banking Corporation	398	1.7

\*Shareholding ratio is calculated on the outstanding shares.

### Distribution of Shareholders (%)



## Group Management Philosophy

**“We will provide customers with daily necessities at reasonable prices, thereby helping them enjoy affluent lives”.**

### Axial Retailing Group Vision

### “Creating an Advanced Regional Chain”

We will become a strong and excellent regional chain\* capable of bringing greater benefits to customers through the pursuit of our priority initiatives.

\*A store chain that operates in two or more regions, with a network of multiple stores covering each region

### 1 Provide top-level services in Japan

We will relentlessly enhance the level of our services to ensure customer satisfaction. To this end, we will uphold our basic service policies while maintaining an awareness that our customers always have the final say.

### 2 Develop 200 SSMs\*

We will form an extensive store chain, with each outlet having optimal floor space, while better leveraging the merits of scale to bring benefits to customers.

\*SSM: Super supermarket, an outlet that has floor space amounting to 500-800 tsubo (approximately 1,650-2,650m<sup>2</sup>)

### 3 Win the trust of stakeholders

We will foster a customer-oriented corporate culture to maintain the trust of those who use our stores regularly, as well as residents of communities where we operate, and all other stakeholders surrounding the Axial Retailing Group.