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A member of the Financial Accounting Standards Foundation

Summary of Consolidated Financial Results for Fiscal Year Ended May 2016 (Japanese GAAP)

July 5, 2016

Company name:	ASKUL Corporation		Stock exchange listings: Tokyo
Securities code:	2678	URL: http://www.askul.co.jp/kaisya/ir/	
Representative:	Name: Shoichiro Iwata	Title: President and chief executive officer	
Inquiries:	Name: Tsuguhiro Tamai	Title: Executive officer, Corporate Planning Unit	Tel: (03) 4330-5130
Date of general shareholders' meeting (as planned):		August 3, 2016	
Dividend payable date (as planned):		August 4, 2016	
Annual securities report filing date (as planned):		July 29, 2016	
Supplemental material of annual results:		Yes	
Convening briefing of annual results:		Yes (for institutional investors and analysts)	

(Amounts less than 1 million yen are rounded down.)

1. Consolidated Financial Results for Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)

(1) Consolidated Operating Results

(Percentage figures in parentheses indicate year-on-year changes.)

		Fiscal Year Ended May 2016		Fiscal Year Ended May 2015	
Net sales	million yen	315,024	(13.8%)	276,759	(9.2%)
Operating income	million yen	8,517	(24.4%)	6,849	(60.2%)
Ordinary income	million yen	8,574	(23.2%)	6,959	(56.4%)
Net income attributable to owners of the parent	million yen	5,255	(30.3%)	4,032	(86.3%)
Net income per share	yen	100.50		73.29	
Diluted net income per share	yen	100.46		73.15	
Net income to shareholders' equity ratio	%	9.4		6.8	
Ordinary income to total assets ratio	%	6.3		5.5	
Operating income to net sales ratio	%	2.7		2.5	

(Note) Comprehensive income
Fiscal year ended May 2016: 4,876 million yen (18.4%) Fiscal year ended May 2015: 4,117 million yen (185.5%)

(Reference) Investment profit (loss) on equity method
Fiscal year ended May 2016: — million yen Fiscal year ended May 2015: — million yen

(2) Consolidated Financial Positions

		Fiscal Year Ended May 2016	Fiscal Year Ended May 2015
Total assets	million yen	139,552	132,667
Net assets	million yen	51,242	60,945
Capital adequacy ratio	%	36.6	45.8
Net assets per share	yen	984.64	1,101.12

(Reference) Owner's equity
Fiscal year ended May 2016: 51,097 million yen Fiscal year ended May 2015: 60,749 million yen

(3) Consolidated Cash Flows

(Unit: million yen)

	Fiscal Year Ended May 2016	Fiscal Year Ended May 2015
Cash flows from operating activities	13,831	12,227
Cash flows from investing activities	(11,663)	(8,293)
Cash flows from financing activities	(10,606)	(2,001)
Cash and cash equivalents at end of period	28,826	37,246

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2. Dividends

			Fiscal Year Ended May 2015	Fiscal Year Ended May 2016	Fiscal Year Ending May 2017 (forecast)
Dividend per share	First quarter	yen	—	—	—
	Second quarter	yen	15.00	15.00	18.00
	Third quarter	yen	—	—	—
	Fiscal year end	yen	15.00	18.00	18.00
	Total	yen	30.00	33.00	36.00
Total dividend paid		million yen	1,648	1,713	
Payout ratio (consolidated)		%	40.9	32.8	34.0
Ratio of total amount of dividends to net assets (consolidated)		%	2.8	3.2	

3. Consolidated Forecasts for Fiscal Year Ending May 2017 (May 21, 2016 through May 20, 2017)

(Percentage figures in parentheses indicate year-on-year changes.)

		First Half of Fiscal Year Ending May 2017		Fiscal Year Ending May 2017	
Net sales	million yen	166,000	(10.7%)	348,000	(10.5%)
Operating income	million yen	3,200	(-28.1%)	9,500	(11.5%)
Ordinary income	million yen	3,200	(-27.8%)	9,500	(10.8%)
Net income attributable to owners of the parent	million yen	1,800	(-35.2%)	5,500	(4.6%)
Net income per share	yen	34.69		105.98	

* Others

(1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from changes in subsidiaries): Yes

Number of subsidiaries newly consolidated: One company
(Name of subsidiary newly consolidated: ecohai Co., Ltd.)
Number of subsidiaries excluded from consolidation: — companies
(Name of subsidiaries excluded from consolidation:)

(2) Changes in accounting policies and accounting estimates, retrospective restatement

1) Changes in accounting policies based on revisions of accounting standard: Yes
2) Changes in accounting policies other than 1): No
3) Changes in accounting estimates: Yes
4) Retrospective restatement: No

Note: For further details, see "4. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements" on page 26 of Attached Materials.

(3) Number of issued and outstanding shares (common stock)

1) Number of issued and outstanding shares at the end of fiscal year (including treasury stock)
Fiscal year ended May 2016: 55,259,400 shares
Fiscal year ended May 2015: 55,199,900 shares
2) Number of treasury stock at the end of fiscal year
Fiscal year ended May 2016: 3,364,559 shares
Fiscal year ended May 2015: 29,459 shares
3) Average number of shares
Fiscal year ended May 2016: 52,293,894 shares
Fiscal year ended May 2015: 55,018,828 shares

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(Reference) Summary of Non-Consolidated Financial Results

Non-Consolidated Financial Results for Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)

(1) Non-Consolidated Operating Results

(Percentage figures in parentheses indicate year-on-year changes.)

		Fiscal Year Ended May 2016		Fiscal Year Ended May 2015	
Net sales	million yen	288,365	(13.1%)	254,905	(8.4%)
Operating income	million yen	7,940	(21.6%)	6,528	(57.7%)
Ordinary income	million yen	8,101	(22.4%)	6,620	(53.9%)
Net income	million yen	5,423	(27.4%)	4,255	(63.3%)
Net income per share	yen	103.72		77.36	
Diluted net income per share	yen	103.67		77.20	

(2) Non-Consolidated Financial Positions

		Fiscal Year Ended May 2016	Fiscal Year Ended May 2015
Total assets	million yen	132,058	126,942
Net assets	million yen	52,161	61,686
Capital adequacy ratio	%	39.5	48.5
Net assets per share	yen	1,004.67	1,116.23

(Reference) Owner's equity
Fiscal year ended May 2016: 52,136 million yen Fiscal year ended May 2015: 61,583 million yen

* Expression of implementation status of audit procedures

This Summary of Consolidated Financial Results is not subject to audit procedures pursuant to the Financial Instruments and Exchange Act. The audit procedures of consolidated financial statements pursuant to the Financial Instruments and Exchange Act had not been completed at the time of the release of this Summary of Consolidated Financial Results.

* Notes for using forecasted information and others

Earnings forecasts and other forward-looking statements contained in this document are based on the information ASKUL has obtained to date and on certain assumptions it considers reasonable. As such, these forecasts and statements are not intended as a commitment by the Company to achieve them. Note also that actual results and other future events may differ materially from these forecasts and statements due to a variety of factors. For the assumptions on which earnings forecasts are based and the notes and information on the use of earnings forecasts, see "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results" on page 2 of Attached Materials.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

1) Overview of performance in fiscal year ended May 2016

During the period under review (May 21, 2015 through May 20, 2016), Japan's corporate earnings remained solid, especially at large enterprises, and the job market continued improving. Nonetheless, the country's economic recovery stalled as seen in sluggish corporate investment and flagging consumer spending.

In this environment, the e-commerce business (business of commerce conducted via the Internet and other electronic means) that the ASKUL Group engages in enjoyed rapid market growth but experienced intensifying provider competition. In striving for broader product offerings and better services, the Group set two priority objectives for its e-commerce business: in the B-to-B business, to achieve increasing returns to scale and become the overwhelming leader in the entire workplace market; and, in the LOHACO B-to-C business, to embark on more active promotional activities and the reform of its earnings structure. The Group also took multiple measures to strengthen logistics operations, a source of its competitive advantage. The distribution centers in Fukuoka and Yokohama were relocated and expanded, armed with state-of-the-art logistics equipment; and deployment verification of picking robots was performed with a view to taking distribution center automation to the next level and thereby achieving even greater productivity. Further, continued efforts were exerted to reinforce delivery services, adding ecohai Co., Ltd. to the Group companies.

During the period under review, the Group achieved double-digit net sales growth, recording a 13.8% year-on-year increase to 315,024 million yen and breaking the 300 billion yen mark for the first time since the inception of the business. What made this possible was the greater net sales generated by the B-to-B business and the LOHACO business, the core and growth areas of the e-commerce business, respectively. In addition to these two, ecohai Co., Ltd., which became a consolidated subsidiary in the period under review, also made a contribution. The Group significantly raised its profitability as well. The B-to-B business realized increasing returns to scale, driven in particular by an ongoing effort to reduce procurement costs and by the price revisions that had been implemented in the preceding fiscal year in a manner keeping the Group's competitive advantage intact. The LOHACO business accomplished the higher gross profit margin, making steady progress in improving the earnings structure. Among the contributing factors was the synergy with the B-to-B business that manifested itself as LOHACO's net sales growth boosted the transaction volume of the two businesses put together. Similarly, Company-wide initiatives carried on to lower fixed costs generated tangible effects.

As a result of these developments, for the period under review, the Group increased operating income by 24.4% year-on-year to 8,517 million yen and ordinary income by 23.2% to 8,574 million yen. It recognized extraordinary income of 1,855 million yen owing primarily to grant income of 1,474 million yen, while reporting an extraordinary loss of 1,859 million yen due mainly to a loss on reduction of noncurrent assets of 1,474 million yen. Consequently, net income attributable to owners of the parent grew by 30.3% to 5,255 million yen.

Operating results by segment were as outlined below.

E-commerce business

The B-to-B business delivered year-on-year net sales growth, buoyed by the increased number of customers, as well as by the larger number of items purchased and greater spending per customer that benefited from effective marketing measures utilizing big data. In terms of strategies by product category, the focus was on expanding the range of products for the strategic fields that primarily consist of factories, construction sites, laboratories, and health and nursing care facilities, and on publishing special catalogues featuring PB products.(Note 1) These efforts brought about a double-digit increase in net sales of MRO supplies(Note 2) for use in factories, construction sites, and laboratories; of detergents frequently used especially at health and nursing care facilities and stores; and of beverages and other living supplies consumed at offices. In

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addition to these categories that propelled the B-to-B business growth, copier paper and other long sellers in categories such as OA&PC supplies and stationery posted solid performance. Consequently, net sales of the B-to-B business grew firmly by 9.2%, or 23,427 million yen, year-on-year to 278,552 million yen.

In the LOHACO business, efforts were redoubled to acquire new customers. Specifically, television commercials were aired to boost the brand's visibility exponentially, promotional measures were carried out in collaboration with suppliers, and extra reward points were offered in partnership with Yahoo Japan Corporation. These resulted in a steady increase in the number of new customers and strong growth of net sales. Enhanced and updated in August 2015 reflecting customer feedback, the LOHACO App for smartphones helped encourage customers to continually use the service. Furthermore, collaboration with suppliers started to yield tangible outcomes. A notable example was the development of superbly designed products blending into a living space that was conducted in partnership with the suppliers participating in the LOHACO E-commerce Marketing Lab,(Note 3) a standing institution established inside the Company. These products have been launched as items only available at ASKUL. Efforts will continue to be made to deepen cooperation with suppliers in developing new products and services. In consequence, net sales of the LOHACO business rose by 64.7%, or 12,901 million yen, year-on-year to 32,845 million yen.

In November 2015, ASKUL opened a full-scale store on Tmall Global, an e-commerce site on which non-Chinese entities can directly serve Chinese consumers. The Company will continue to work steadily toward building an e-commerce platform that connects Japanese suppliers to customers in China, a country with the enormous retail e-commerce market.

As a result, the combined net sales of the two businesses rose by 13.2% year-on-year to 311,398 million yen. "Gross profit—net" grew by 15.3% to 70,194 million yen, spurred particularly by increased net sales of OA&PC supplies, living supplies, and high gross-margin MRO supplies.

Selling, general and administrative expenses were 61,187 million yen, up 13.5% year-on-year. The main reasons were increases in shipment expenses and other variable costs associated with higher net sales, and a number of proactive investments made in anticipation of the Group's ongoing growth. Such investments were mainly threefold: increased advertising expenses for airing television commercials to raise the visibility of LOHACO; expenses incurred in conjunction with the completion of relocating and expanding ASKUL Logi PARK Fukuoka and ASKUL Logi PARK Yokohama, which included onetime increases in consumables costs and in taxes and dues, as well as rents incurred during the preparatory period before the start of operations; and expenses to perform deployment verification of picking robots aimed at automating distribution center operations and thereby raising productivity. While making these proactive investments, the Group kept on working to improve profitability. Fixed-cost reduction was sought, principally, by pursuing Company-wide kaizen activity projects and by cutting back on infrastructure expenses through the completion of the amortization of the Company's main system software. As a result of these consistent efforts, the ratio of selling, general and administrative expenses to net sales came to 19.6%, virtually unchanged from the preceding fiscal year.

Consequently, for the period under review the e-commerce business generated operating income of 9,007 million yen, up 29.4% year-on-year.

Logistics business

In the period under review, the ASKUL Group strived to expand the logistics business. For instance, the consolidated subsidiary Bizex Corporation(Note 4) started providing a contracted delivery service for manufacturers to deliver their products sold through mail-order channels. This undertaking draws on the logistics expertise the e-commerce business has accumulated. Also, ASKUL acquired shares in ecohai Co., Ltd. and made it a consolidated subsidiary, in an attempt primarily to address the delivery worker shortage expected in the coming years and differentiate its delivery services from those of other e-commerce providers. These initiatives led to net sales growth.

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As a result, for the period under review, the logistics business recorded a 90.4% year-on-year increase in net sales to 3,218 million yen, and recognized an operating loss of 445 million yen, compared to the operating loss of 113 million yen for the preceding fiscal year.

Focusing exclusively on its pickup areas in the Tokyo, Nagoya, and Osaka regions, ecohai Co., Ltd. engages in innovative, ecological, and economical courier services that use bicycles as the primary means of delivery. Although currently running at an operating loss, the company is working on a number of initiatives, such as the one aimed at increasing the opportunities for the customers of the e-commerce business to use ecohai services. By capitalizing on synergy with the e-commerce business, the company will seek to increase net sales and improve profitability.

Other

During the period under review, Tsumagoimeisui Corporation, a company producing and selling drinking water, became a consolidated subsidiary through the acquisition of shares in August 2015. The company's net sales, which had floundered prior to the consolidation, have been steadily recovering and growing. Further, the company reported a profit on a single month basis in March 2016 with other performance indicators improving, too. As a result, the period under review ended with net sales of 475 million yen and an operating loss of 47 million yen.

Notes:

1. PB stands for private brand. A private-brand product is an item that a retailer develops on its own and has a manufacturer produce to sell under the retailer's own brand name.
2. MRO is the acronym for maintenance, repair, and operations. The term "MRO supplies" denotes indirect materials in general, including consumables and repair supplies, for use in factories, construction sites, and other workplaces.
3. The LOHACO E-commerce Marketing Lab has been established to enrich people's lives through the realization of an efficient social system that will be accomplished by developing leading-edge marketing methods for the rapidly growing and advancing e-commerce market and thus facilitating the proliferation of e-commerce. Toward that end, the laboratory scientifically and logically analyzes big data, that is, a massive volume of data obtained from LOHACO and elsewhere in the market, and tests the results in the real environment of LOHACO.
4. Bizex Corporation was renamed ASKUL LOGIST Corporation on May 21, 2016.

2) Outlook for fiscal year ending May 2017

In the fiscal year ending May 2017, the ASKUL Group plans to make proactive investments amounting to 700 million yen to prepare for launching a LOHACO Happy on Time delivery service. This new service will make three commitments regarding delivery time—a choice of a one-hour delivery window, a 30-minute delivery window notification, and a 10-minute pre-delivery notification. That way, customers will be able to receive their purchases with no waiting time and enjoy stress-free shopping. Also, the service is designed to minimize its impact on the environment by addressing the social problem of the high rate of package redelivery, as well as by reducing waste through delivering purchases in plastic shopping bags and taking back cardboard boxes from customers. The Group, at the same time, will endeavor to improve profitability by bolstering LOHACO's highly profitable categories and by reducing procurement costs and other expenses through taking advantage of economies of scale from increased net sales. Taking these positive effects into account, the Group forecasts at this stage that both net sales and profits will increase for the fiscal year ending May 2017, with net sales growing by 10.5% year-on-year to 348.0 billion yen, operating income rising by 11.5% to 9.5 billion yen, ordinary income increasing by 10.8% to 9.5 billion yen, and net income attributable to owners of the parent climbing by 4.6% to 5.5 billion yen.

Segment-by-segment outlook for the fiscal year ending May 2017 is as described below.

E-commerce business

The B-to-B business is likely to continue operating in a positive economic environment. Marketing strategies harnessing big data are expected to bring increases in the number of items purchased and in spending per customer. Also, in the strategic fields that primarily consist of factories, construction sites, laboratories, and health and nursing care facilities, broader product offerings are

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anticipated to lead to steady ongoing growth. Accordingly, net sales of the B-to-B business are projected to grow by 5.9% year-on-year to 295.0 billion yen.

The LOHACO business is expected to continue increasing the number of new customers. To ensure this, a number of avenues will be pursued: enhancing the ability to attract visitors by combining ASKUL's expertise and human resources with those of Yahoo Japan Corporation, the business and capital alliance partner; leveraging marketing methods in collaboration with suppliers to realize a highly value-added e-commerce business tailored to society's needs; broadening the range of products than any other B-to-C companies; airing television commercials to boost the brand's visibility exponentially; and carrying out promotional measures linked with the commercials in partnership with suppliers. It is thus projected that LOHACO's net sales will grow by 46.1% year-on-year to 48.0 billion yen.

In view of these, for the fiscal year ending May 2017, the e-commerce business is forecast to increase net sales by 10.1% year-on-year to 343.0 billion yen and operating income by 11.0% to 10.0 billion yen.

Logistics business, other, adjustments, etc.

For the fiscal year ending May 2017, these are projected to record a 37.9% year-on-year increase in net sales to 5.0 billion yen, and report an operating loss of 500 million yen, compared to the operating loss of 489 million yen for the period under review.

(2) Analysis of Financial Position

1) Assets, liabilities, and net assets

(Assets)

Consolidated total assets stood at 139,552 million yen at the end of the period under review, an increase of 6,884 million yen from the end of the preceding fiscal year. This was primarily attributable to the following: a 1,798 million yen increase in "notes and accounts receivable—trade" and a 1,687 million yen increase in merchandise and finished goods, both owing to greater net sales; a 4,166 million yen increase in "accounts receivable—other" resulting in part from selling and then leasing back equipment; a 6,553 million yen increase in property, plant and equipment due largely to the construction of ASKUL Logi PARK Fukuoka and ASKUL Logi PARK Yokohama; and a 1,048 million yen increase in goodwill resulting from the acquisition of shares in ecohai Co., Ltd. and other developments. Meanwhile, the main factor that decreased assets was an 8,420 million yen decrease in cash and deposits, chiefly on account of acquiring treasury stock and investing in distribution centers.

(Liabilities and net assets)

Consolidated liabilities came to 88,309 million yen, an increase of 16,587 million yen from the end of the preceding fiscal year. The principal reasons were a 5,329 million yen increase in "notes and accounts payable—trade" as procurement value increased in tandem with net sales growth; a total of 5,057 million yen increase in current portion of long-term loans payable and long-term loans payable; and a 2,473 million yen increase in "accounts payable—other" and a 2,235 million yen increase in long-term lease obligations owing primarily to investment in distribution centers.

Net assets stood at 51,242 million yen, a decrease of 9,702 million yen from the end of the preceding fiscal year. This was mainly caused by a 13,029 million yen increase in treasury stock. In the meantime, the primary factor contributing to a rise in net assets was a 3,577 million yen increase in retained earnings, which largely resulted from net income attributable to owners of the parent of 5,255 million yen and the payment of dividends of 1,605 million yen. Consequently, the capital adequacy ratio came to 36.6%, compared with 45.8% at the end of the preceding fiscal year.

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2) Cash flows

Consolidated cash and cash equivalents (hereinafter "Funds") at the end of the period under review were 28,826 million yen, a decrease of 8,420 million yen from the end of the preceding fiscal year.

The cash flows from each of operating, investing, and financing activities for the period under review and the underlying factors were as explained below.

(Cash flows from operating activities)

Net Funds provided by operating activities were 13,831 million yen, an increase of 1,603 million yen from the preceding fiscal year. The main factors contributing to an increase in Funds were income before income taxes of 8,569 million yen; depreciation and amortization of noncurrent assets, depreciation of software, and amortization of goodwill totaling 4,436 million yen; a 6,387 million yen increase in "notes and accounts payable—trade"; and a 2,012 million yen increase in "accounts payable—other." Meanwhile, the factors leading to a decrease in Funds included a 1,785 million yen increase in "notes and accounts receivable—trade," an 1,839 million yen decrease in accrued consumption taxes, and income taxes paid amounting to 3,851 million yen.

(Cash flows from investing activities)

Net Funds used in investing activities were 11,663 million yen, an increase of 3,369 million yen from the preceding fiscal year. The main items were 9,577 million yen paid for the purchase of property, plant and equipment and 1,997 million yen paid for the purchase of software.

(Cash flows from financing activities)

Net Funds used in financing activities were 10,606 million yen, an increase of 8,605 million yen from the preceding fiscal year. The main item leading to an increase in Funds was proceeds from long-term loans payable of 6,900 million yen. On the other hand, the items resulting in a decrease in Funds included a 2,342 million yen repayment of long-term loans payable (on a net basis), 13,281 million yen paid for the purchase of treasury stock, and cash dividends paid of 1,605 million yen.

The table below shows the trend of key cash flow indicators.

	Fiscal Year Ended May 2012	Fiscal Year Ended May 2013	Fiscal Year Ended May 2014	Fiscal Year Ended May 2015	Fiscal Year Ended May 2016
Capital adequacy ratio (%)	46.7	51.0	48.0	45.8	36.6
Capital adequacy ratio at market value (%)	46.2	87.7	104.7	134.3	152.8
Cash flow to interest-bearing liabilities ratio (years)	0.6	1.0	0.6	0.6	1.1
Interest coverage ratio (times)	169.6	99.7	128.2	136.7	139.6

Notes:

Capital adequacy ratio at market value = Market capitalization / Total assets

Cash flow to interest-bearing liabilities ratio = Interest-bearing liabilities / Cash flows

Interest coverage ratio = Cash flows / Interest payment

* The market capitalization is calculated by multiplying the closing share price at end of period by the number of issued and outstanding shares (net of treasury stock) at end of period.
* The amount of cash flows from operating activities is used as the amount of cash flows.
* "Interest-bearing liabilities" refers to all the liabilities bearing interest and reported on the consolidated balance sheet.

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* The amount of interest payment used to compute the interest coverage ratio is the amount of interest expenses presented in the consolidated statement of income.

(3) Basic Policy on Allocation of Earnings and Dividends for Fiscal Years Ended May 2016 and Ending May 2017

ASKUL's policy is to allocate earnings based on the comprehensive assessment of various factors, striking a good balance between two goals—namely, "securing sufficient internal reserves for financing capital expenditures to increase the corporate value over a mid- to long-term period" and "pursuing a dividend policy as a means to deliver appropriate returns to meet the expectations of shareholders"—while ensuring strong cash flows and sound financial position.

At present, ASKUL is working to grow the scale of the LOHACO business in order to maximize future profitability, while expanding the B-to-B business to serve workplaces of all kinds. The Company as a whole has entered a new growth stage with both net sales and profits on the rise.

Going forward, the Company will make continued efforts to expand the businesses and to increase profits. In terms of delivering returns to shareholders, the Company will adhere to the basic policy of paying dividends commensurate with earnings while also endeavoring to continue distributing dividends in a consistent manner.

In view of these circumstances, as the distribution of surplus for the period under review, ASKUL intends to increase its annual dividend by 3 yen to 33 yen (an interim dividend of 15 yen and a fiscal year-end dividend of 18 yen) per share.

In the fiscal year ending May 2017, ASKUL expects net sales and profits to continue rising. The Company thus plans to increase its annual dividend by 3 yen to 36 yen (an interim dividend of 18 yen and a fiscal year-end dividend of 18 yen) per share, compared with the one to be paid for the period under review. This is expected to bring the payout ratio to 34.0%.

(4) Business and Other Risks

Factors that may affect the ASKUL Group's operating results, financial positions, share price, and other matters include those described below.

1) Details of the business and capital alliance agreement with Yahoo Japan Corporation, stock dilution, etc.

Since the conclusion of the business and capital alliance agreement of April 27, 2012, ASKUL and Yahoo Japan Corporation have respected one another's independence in business operations and shared each other's resources in a spirit of equal partnership. Such resources include their abilities to attract visitors, customer bases, suppliers, settlement systems, Internet service systems, Internet service design technology, logistics and delivery facilities, and capabilities to manage logistics and delivery operations, along with the associated know-how and personnel. To achieve the ambitious goal of providing the best e-commerce experience to customers, the two companies have launched and grown the LOHACO business, which ASKUL operates, at a speed never before seen in the e-commerce industry.

On May 19, 2015, the two companies renewed the business and capital alliance agreement. This was based on their belief that the best way for LOHACO to make a leap forward and raise profitability is to take their relationship of trust nurtured over the previous three years to the next level and thereby enhance the partnership.

Under the renewed agreement, the two companies work together to ensure that LOHACO will become the overwhelming leader in the e-commerce industry.

In the event that ASKUL intends to take an action diluting voting rights of shares in the Company(Note) on and after the date of the renewed agreement, the Company shall notify in writing Yahoo Japan Corporation of its intention to take such an action and the terms and conditions thereof, and shall carry out, in a proper and timely manner, all the measures necessary to maintain the ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation immediately prior to the action diluting voting rights taken. Moreover, in the event that, as a result of the Company's exercise of subscription rights to shares or of other potential common shares, or conversion of them into shares (hereinafter "the Exercise of Subscription Rights to Shares, Etc."), the ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation at the time immediately after the Exercise of Subscription Rights to Shares, Etc., (i) has decreased by one-hundredth or more from the ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation and its subsidiaries at the time of completing the treasury stock acquisition of August 27, 2015, and (ii) has decreased by one-hundredth or more from the ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation and its subsidiaries at the time of the aforementioned measures last carried out, the Company shall notify in writing Yahoo Japan Corporation of such situations and shall take all the steps necessary to restore such ratio to, or maintain, the ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation and its subsidiaries at the time of completing the treasury stock acquisition of August 27, 2015. Therefore, if such measures or steps are taken, voting rights of shares in the Company may be diluted.

In the event that, on and after the date of the renewed agreement, Yahoo Japan Corporation wishes to acquire or have a third party acquire additional shares in the Company (including an acquisition conducted in a way that will enable Yahoo Japan Corporation or said third party to indirectly own shares in the Company by acquiring shares or equities in another third party who holds shares in the Company [provided that such another third party shall be limited to an entity whose shareholding in the Company is reasonably recognizable through a list of the principal shareholders contained in an annual securities report or a quarterly statement]), Yahoo Japan Corporation shall give advance written notice to the Company and implement said acquisition in accordance with a written agreement between Yahoo Japan Corporation and the Company.

Furthermore, in the event that the ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation and companies becoming its subsidiaries after the agreement renewal (hereinafter "the Yahoo Japan Group") has increased by one-hundredth or more from the aggregate ratio of voting rights of the shares in the Company held by the Yahoo Japan Group at the time of completing the treasury stock acquisition of August 27, 2015, Yahoo Japan Corporation shall promptly sell or have a third party sell its shares in the Company through market transactions and other means, or shall take other steps necessary to restore the aggregate ratio of voting rights of the shares in the Company held by the Yahoo Japan Group to the aggregate ratio of voting rights of the shares in the Company held by Yahoo Japan Corporation at the time of completing said treasury stock acquisition. However, the provisions of the foregoing sentence shall not apply where the aggregate ratio of voting rights of the shares in the Company held by the Yahoo Japan Group has increased as a result of a transaction conducted in accordance with the written agreement between Yahoo Japan Corporation and the Company stipulated above, of the Company's acquisition of treasury stock, or of factors other than actions taken by the Yahoo Japan Group. The developments described above, among other things, may affect the share price and other indicators.

Note: An "action diluting voting rights" shall refer to any acts that may dilute voting rights of shares in the Company. (Such acts shall include the issuance of shares for subscription, the disposal of treasury stock, reorganization accompanied by the issuance of shares, and other actions that actually dilute voting rights, as well as actions that may dilute voting rights in the future, such as the issuance of subscription rights to shares, of class shares convertible to shares with voting rights, and of other potential common shares; provided, however, that the following shall be excluded: the issuance of shares in the Company and the resultant delivery of treasury stock upon exercise of the subscription rights to shares already issued, or the Company's sale of treasury stock it owns to a shareholder who holds shares in the Company in a number less than one unit and submits a demand for the sale of shares less than one unit in accordance with paragraph1, Article 194 of the Companies Act and Article 10 of the Company's Articles of Incorporation.)

2) ASKUL's mail-order business model

a. Concept underpinning the business model

The ASKUL Group's primary business is supported by a number of partner companies, such as suppliers; agents that play a unique role in acquiring customers, collecting bills, and managing receivables, all virtually on behalf of the Group; delivery companies; and firms that develop, maintain, and operate information systems. The Group's fundamental policy is based on the concept of a value chain in which participants fulfill their functions, share roles, complement each other, collaborate strategically as partners, eliminate duplicate operations and functions, and minimize wasted time and money so that maximum value is delivered to customers. The Group makes every effort to maintain good relationships with the partner companies that support its business model. However, if it becomes impossible to continue outsourcing operations to a partner company due to changes in its business conditions and other circumstances, the Group's financial results may be affected.

b. Agent's roles in the B-to-B mail-order business model

A main feature of ASKUL's B-to-B mail-order business model is the adoption of an agent system, under which individual agents assume the risk of collecting bills from customers while the Company takes the risk of collecting accounts receivable from an approximate total of 1,400 agents. The Company offers incentive plans and schemes to encourage agents' growth and boost their activities, and takes various other measures to strengthen their business foundations. If an agent's bankruptcy and similar events occur due to deteriorating economic conditions and other reasons, the agent's customers will be promptly taken over by the Group, and eventually by a successor agent. Such events, therefore, are expected to have a limited impact on the Group's operating results. Nonetheless, there is the potential possibility that an agent's bankruptcy and similar events may generate collection risk, which may affect the Group's financial results.

ASKUL has no intention of indefinitely increasing the number of agents for the sake of prioritizing customer acquisition. It has established certain criteria and procedures for selecting, and concluding a contract with, a new agent to ensure that each agent has sufficient financial and other resources to engage in ASKUL's business and understands the Group's business concept.

c. Linkage between advertisements and agents

While agents work to acquire new customers, the ASKUL Group conducts advertising and other publicity campaigns on a nationwide basis using newspaper and Internet ads and other media. As a result of these campaigns, the Group has received numerous sign-up applications directly from potential customers. Upon receiving such an application, an agent in charge is assigned in accordance with the internal rules to engage in collecting bills and managing receivables. Agents so assigned pay the Group an advertisement cooperation fee, which is determined based on the number of customers each agent has acquired, to cover a part of the Group's advertising expenses. If the Group's advertising and other publicity campaigns become less effective, the direct application rate may decline. In that case, the amount of advertisement cooperation fee paid by agents may also decline and/or the Group's advertising expenses may rise due to increased advertising and other costs. Such events may affect the Group's financial results.

d. Risk involved in catalog publication

Whereas most of orders for ASKUL are placed over the Internet, the Company also publishes catalogs that list its main items. When choosing items to include in, and creating, catalogs, the Company takes the utmost care, establishing a unit dedicated to controlling the quality of product descriptions. Nevertheless, if there is a critical defect in a catalog product description, the catalog may have to be recalled. In that event, the Group's financial results may be affected.

3) Risk involved in the procurement and inventory of products

The ASKUL Group has requested its suppliers to build a stable product supply system that meets the Group's selling power. Still, if the Group is unable to procure products in a consistent manner for some reasons, its financial results may be affected. Such reasons include sharp changes in exchange rates, as well as limited production or increased cost of production due to the rising prices of, or the difficulty in procuring, raw materials caused by changing socioeconomic conditions. The Group endeavors to procure a product sold in large quantities from more than one

supplier. Despite that, if a particular supplier stops supply due to disaster, accident, and other emergency situations and swiftly replacing that supplier with another proves to be difficult, the Group's sales activities may be hampered. As part of its product strategy, the Group analyzes customers' purchasing behavior using its Demand Forecast System, and shares inventory and demand forecast information with suppliers through the SYNCHROMART system. These systems allow suppliers to formulate production plans and maintain inventory levels in line with demand forecasts, thereby enabling the Group to reduce missed sales opportunities caused by out-of-stock situations and to minimize drops in customer satisfaction levels.

Some products, however, may become out of stock if supply temporarily fails to meet demand. Products that involve such risk include an item the Group newly offers, summer beverages and other seasonal products, sanitary products used for protection against infectious diseases, and items needed at the time of disaster or accident. In addition, offering an extensive range of products is imperative for LOHACO to meet the diverse and fast-changing needs of general consumers. In the light of these factors, the Group continues its efforts to improve the accuracy of demand forecasts, maintain effective collaboration with suppliers, and manage the demand chain efficiently so that it can keep proper inventory levels, eliminating the risk of being out of stock or of having an overly large inventory of some products. Yet, there is the possibility that inaccurate forecasts, system troubles, and other problems may cause inadequate or excessive inventory levels. In that event, the Group's financial results may be affected.

4) Risk of degrading product safety and quality

When producing food, beverages, and other merchandise, the ASKUL Group employs every possible means to provide safe products to customers, in particular by being equipped with sufficient food-hygiene facilities and establishing effective quality-check systems. It is however possible that, in the event of quality defects, errors in product information, and other problems occurring, the Group may have to recall the product or may be exposed to product liability damages. In that event, the Group's financial results may be affected.

5) Capital expenditures

The ASKUL Group's core competencies are underpinned by information technology (IT) to a considerable degree. To respond to rapid advances in IT and Internet technology ahead of others, the Group continues to invest in software and other resources. However, if the faster-than-expected development of IT results in shorter useful lives of software and other investments than originally projected, the Group may need to depreciate the remaining book value of such assets at one time, which may affect its financial results. Furthermore, in the case of follow-on investment in software, which is implemented on an ongoing basis, and of system redesign that involves major upgrade, the development schedule may delay due to software bugs and other problems, or software quality issues may arise after it is put into operation. These may also affect the Group's financial results. In addition to investment in software, the Group continues to invest in the construction of a new distribution center and in the extension and renovation of the existing ones to accommodate its business growth. The Group is also making large investment in new logistics infrastructure and information systems to expand the LOHACO business. Before making any capital expenditures, the Group thoroughly examines the return on investment. However, if an investment does not generate sufficient returns, or takes longer than expected to generate them, the Group's financial results may be affected.

6) Internet mail order

a. Internet failures, etc.

In addition to taking orders via fax based on catalogs, the ASKUL Group accepts orders over the Internet, primarily through its ASKUL, SOLOEL ARENA, SOLOEL Enterprise, and LOHACO sites.

With the use of the Internet growing exponentially, the share of orders placed on the Internet is increasing at the Group. In such circumstances, the Group's exposure to social or technological risk inherent in the Internet is likely to increase. In view of this, the Group ensures its Internet servers are decentralized and up to date, augments network capacity, duplicates the main system

and builds the real-time backup system in preparation for system failures and other troubles, and reinforces network security to protect against unauthorized access and computer viruses. In January 2006, the Group was authorized to use a PrivacyMark by the Japan Information Processing Development Corporation (JIPDEC) after being examined for compliance with the requirements of the JIS Q 15001 standard relating to personal information protection management systems. The Group has built the management system in accordance with the requirements, and developed the management framework needed to protect customer and personal information as well. The Group will continue to enhance its network security and information management. However, as it is difficult to completely prevent or avoid the main system's failure, network troubles, virus infection, and other problems, there is the possibility that the Group's business operation may be materially interrupted, or that customer information leak and similar incidents may lower the Group's credibility in society and/or lead to a claim for damages. Such events may affect the Group's financial results.

b. Laws and regulations applicable to Internet mail order

The ASKUL Group is engaged in the mail-order business. In addition, its ASKUL, SOLOEL ARENA, LOHACO, and other services fall in the category of electronic commerce via the Internet. Accordingly, the Group is subject to the relevant laws and regulations, including the Act on Specified Commercial Transactions, the Act against Unjustifiable Premiums and Misleading Representations, and the Act on Regulation of Transmission of Specified Electronic Mail. The Group's business operations also comply with the industry's voluntary regulations that include the Japan Direct Marketing Association's Guidelines for Electronic Commerce in the Mail Order Industry. If these laws and regulations are amended or new laws and regulations are adopted in the future, the Group's financial results may be affected.

7) Logistics service

a. Quality of logistics service

The ASKUL Group makes every effort to provide high-quality services. Nonetheless, if significant damage to packages, lost packages, and other troubles occur, or if customer information contained in shipping labels and elsewhere leaks to third parties due to insufficient information management, the Group may lose credibility in society and/or be demanded to pay damages. In that event, the Group's financial results may be affected.

b. Serious traffic accidents

When using vehicles in delivery operations, the ASKUL Group takes safety measures and provides education to ensure compliance with traffic laws and regulations. Nevertheless, if a serious traffic accident or a material violation of laws and regulations occurs, the Group may lose credibility in society and/or receive an administrative disposition. Such events may affect the Group's financial results.

c. Market prices of fuels and other resources

The ASKUL Group is committed to delivering products in an efficient manner, promoting a variety of activities to conserve the environment and eliminate inefficiencies. However, if vehicle fuel prices soar or the fuel supply chain is disrupted by disaster and other unforeseen events, the Group's financial results may be affected.

8) Regulatory control under the Pharmaceutical Affairs Act and other applicable laws and regulations

The ASKUL Group offers a diverse range of products, including supplies for health and nursing care facilities; specialized items for medical institutions; and pharmaceuticals, health foods, and alcoholic beverages for general consumers. The sale and management of some of these products are governed by the Pharmaceutical Affairs Act and other applicable laws and regulations. The Group has completed the required procedures, such as obtaining licenses and permits and making registrations and notifications.

The Group has also obtained licenses and permits and made registrations and notifications as required by laws in other fields. These include license for ordinary construction business, license for specific construction business, registration for first class consigned freight forwarding business, license for general motor truck transportation business, notification for light motor truck transportation business, and registration for warehousing business.

If the relevant laws and regulations are amended, new laws and regulations are adopted, or the Group fails to comply with them, its operations may be restricted and financial results may be affected.

9) Product procurement

Sharp fluctuations in raw material prices or exchange rates worldwide may cause increases in procurement prices and other negative effects. Even in such a case, however, an increase in procurement prices may not be able to be fully passed on to customers. Although the ASKUL Group makes a unified effort to reduce costs, this effort alone may not be sufficient to absorb the increase in procurement prices. In addition, there may be a case where the Group is unable to sufficiently supply a particular product, for example because the supply and demand balance of the product deteriorates due to temporary popularity, disaster, and other causes or because the sustainable raw materials are not adequately available. In that case, the Group's financial results may be affected. The Group has established a unit in charge of product quality management to ensure that its products and suppliers are selected and managed in the most appropriate manner possible. Nonetheless, if product recalls and other negative events occur due to quality problems, the Group's financial results may be affected.

10) Country risk

The ASKUL Group handles imported products and otherwise engages in overseas transactions, including merchandise sales in China and elsewhere through its consolidated subsidiary. As such, the Group is exposed to country risk, which arises from government's regulatory control and law amendments, political and economic instability, underdeveloped credit markets, restrictions on capital movement, and other elements in foreign countries. Though the Group endeavors to control country risk by taking risk avoidance measures in individual projects, eliminating country risk completely is not possible. If this risk materializes, the Group's financial results may be affected.

11) Natural disaster risk

The ASKUL Group, especially its previous head office and Sendai distribution center, suffered enormous damage from the Great East Japan Earthquake that occurred on March 11, 2011. Prior to the earthquake, the Group had developed a business continuity plan, assuming fire and an outbreak of a new strain of influenza, avian flu, and other infectious diseases; and its order centers, contact centers, and distribution centers had been built in multiple locations in an attempt to disperse risk. Following the earthquake, in light of the damage sustained, the Group reviews its business continuity plan on an ongoing basis. However, given that the probability of earthquakes, typhoons, and other natural disasters occurring remains high, there is the risk that the Group's offices and facilities may be damaged by a larger-than-expected earthquake or other natural disaster. In that event, the Group's financial results may be affected.

12) Risk involved in securing personnel

Securing high-quality staff is crucial to the ASKUL Group businesses where customer relationships are underpinned by labor-intensive operations, such as warehousing at distribution centers and delivery to customers. For sustained growth, the Group must hire talented employees and create a working environment conducive to retaining them so as to take on the ongoing challenge of expanding businesses and evolving services. If the Group fails to realize these and to secure necessary personnel, its financial results may be affected.

13) Risk of impairment of investment securities and other assets

ASKUL has invested in companies synergistic with its businesses to ensure sustained growth and development, and in start-ups with superior technologies and outstanding engineers to create next-generation innovations. Prior to investment, a thorough examination is made of a potential investee's financial positions, management status, business plans, and other conditions; and after investment, the Company endeavors to constantly monitor the investee's financial performance. It is, however, conceivable that an investee will suffer deteriorating profitability and other negative consequences owing to its failure to grow the business as planned. If that occurs, an impairment loss may be recognized on the securities whose value has been impaired, and/or the amounts invested, lent, or otherwise contributed to the investee may become unrecoverable. In that event, the Group's financial results may be affected.

Notes regarding forecasts

Descriptions of the full-year results and forward-looking statements set forth in this document contain forecasts based on the plans, projections, and management strategy and policies of ASKUL Corporation and the ASKUL Group as of the release date of this document. Although these descriptions and statements were made on the basis of information available to ASKUL Corporation and the ASKUL Group as of the release date, they include risk and uncertainties. Please be aware that actual results and other future events may differ materially from the forecasts set forth herein due to a variety of factors, such as economic conditions and market trends surrounding ASKUL Corporation's and the ASKUL Group's businesses.

2. Management Policy

(1) Basic Management Policy and Medium- to Long-Term Management Strategy

The ASKUL Group, true to its corporate philosophy of "evolving for our customers," has pioneered in developing the total office support service that delivers products and services needed in offices in a swift and reliable manner. Since the inception of the business in 1993, the Group has been continually advancing its products, services, and systems, listening to the voices of customers. By catering to the diverse needs of customers, ranging from globally competing corporations to small and medium offices supporting them, the Group has established itself as the overwhelming leader in the field. Recently, demand for e-commerce is rapidly growing even among consumers, as information technology advances, birthrate declines, the proportion of the elderly increases, more women participate in the workforce, and other changes occur in social structures and lifestyles. Seeing this trend as an excellent opportunity for growth, the Group launched the LOHACO service, an Internet mail-order site for general consumers, on November 20, 2012. Under the mission of "realizing innovative living infrastructure that delivers what you want, when you want it, anytime, anywhere, to anybody in the most eco-friendly manner," the Group aspires to transform itself from the leader in the office product mail-order business into the leading company in second-generation e-commerce.

The B-to-B business seeks to achieve increasing returns to scale and become the overwhelming leader in the entire workplace market in order to build a stronger business foundation and generate greater revenue. Toward that end, the Group endeavors to increase the number of customers in the strategic fields that primarily consist of factories, construction sites, laboratories, and health and nursing care facilities; to significantly broaden its product offerings centered on MRO supplies; and to carry out marketing measures that utilize big data and other advanced technologies.

The LOHACO business aspires to support the everyday lives of working women, help advance diversity, and assist those women in coping with the aging of their parents' generation. To acquire one million loyal customers—that is, repeat customers satisfying certain criteria—as envisaged in the medium-term management strategy, the Group strives to boost LOHACO's visibility as quickly as possible. Also, the Group works to heighten the ability to attract visitors by combining its expertise and human resources with those of Yahoo Japan Corporation, the business and capital alliance partner. Products that differentiate ASKUL from others will be launched by utilizing marketing methods in collaboration with the suppliers participating in the LOHACO E-commerce

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Marketing Lab. Further, a new LOHACO Happy on Time delivery service will begin that will make three commitments regarding delivery time—a choice of a one-hour delivery window, a 30-minute delivery window notification, and a 10-minute pre-delivery notification. Through these and other endeavors, the Group will build the e-commerce business that is superior to the competition in every way.

At the same time, the Group undertakes to lower procurement costs by taking advantage of economies of scale from greater net sales in the B-to-B and LOHACO businesses, and to raise advertising and other income by increasing LOHACO's media value, with a view to significantly enhancing profitability.

In addition to the construction and expansion of the core distribution centers in eastern and western Japan—namely, ASKUL Logi PARK Tokyo Metropolitan and Osaka DMC—that had been implemented over the past years, the Group undertook the relocation and expansion of the distribution centers in Fukuoka and Yokohama. The aim was to further improve efficiency in logistics and delivery operations to boost the Group's advantages. Renamed ASKUL Logi PARK Fukuoka and ASKUL Logi PARK Yokohama, the two distribution centers began operations anew in December 2015 and May 2016, respectively.

In December 2017, ASKUL Logi PARK Kansai is scheduled to be operational. The new distribution center will be equipped with cutting-edge machinery to attain the highest possible productivity and meet e-commerce demand that continues to expand and grow. ASKUL Logi PARK Kansai will be one of the largest single-tenant logistics facilities in the distribution industry of the Kansai region.

To improve customer services and lower costs through more efficient logistics operations, the Group continues to pursue higher logistics productivity by optimizing inventory placement, leveling off the packing and restocking workload, and introducing state-of-the-art equipment that reduces man-hours.

(2) Target Performance Indicators

Prioritizing the inherent profitability of a business, the ASKUL Group aims to raise the operating income to net sales ratio by improving gross profit margins through higher market shares and a broader lineup of original products and high-value items, as well as by lowering operating costs through ongoing cost restructuring initiatives. Furthermore, from the perspective of shareholder-oriented management, the Group makes all-out efforts to boost its return on equity (ROE) over the medium to long term to increase the corporate value.

For the period under review, the Group achieved solid net sales growth and improved both the gross profit margin and logistics productivity. These led to an increase in the operating income to net sales ratio to 2.7%, from 2.5% for the preceding fiscal year. The Group's ROE also rose to 9.4%, from 6.8% for the preceding fiscal year.

For the fiscal year ending May 2017, the Group plans to make proactive investments amounting to 700 million yen to prepare for the new LOHACO Happy on Time delivery service. Nevertheless, by raising the gross profit margin and logistics productivity as well as lowering the fixed-cost ratio through cost-cutting initiatives and net sales growth, the Group aims to achieve an operating income to net sales ratio of 2.7% and an ROE of more than 10%. Over the medium to long term, it aspires to achieve even higher goals.

(3) Challenges Ahead

The ASKUL Group has earned the trust of customers by consistently delivering products by next day, fulfilling the pledge to customers. The Group is keenly aware that it has a responsibility to serve as a social infrastructure by delivering the products customers need, always on the promised date. To function and fulfill its responsibility as such a social infrastructure, the Group believes that its organization, mechanisms, and infrastructure must be built in a way that allows the Group to continue its operations and satisfy customer demand not only in normal times but also in times of

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emergencies. It thus enhances the entire supply chain that constitutes a foundation for customer services, through such measures as procuring products in a more continuous and consistent manner, decentralizing the logistics network, installing seismic reinforcement in distribution bases, and dispersing offices and facilities that include order and contact centers.

At the same time, the Group is working to transform itself into a technology company by combining emerging technologies, such as big data, artificial intelligence, and robotics, with its core competencies of logistics, marketing, and co-creation with suppliers.

The Group continues to pursue the following five goals:

- Broadening customer base (actively broadening the clientele through four channels targeting very large corporations, medium to large enterprises, small and medium offices, and individuals, respectively, while aiming to acquire more than one million loyal customers in the individuals segment);
- Extending product range (besides B-to-B items that the Group has long been offering, significantly expanding the range of medical supplies, such as health and nursing care products, and of MRO supplies used in factories, construction sites, laboratories, and other places of business so as to quickly become the leading player in these categories as well; and accelerating the growth of LOHACO by increasing the range of living supplies, over-the-counter drugs, alcoholic beverages, cosmetics, manufacturer-direct products, and other B-to-C items);
- Enhancing business platform (building a market platform on which customers, suppliers, and ASKUL will be able to share the benefits by achieving even greater logistics efficiency through the construction of distribution centers equipped with robots and other cutting-edge equipment; by differentiating ASKUL from other B-to-C companies through the launching and expanding areas of the new LOHACO Happy on Time delivery service that will make three commitments regarding delivery time—a choice of a one-hour delivery window, a 30-minute delivery window notification, and a 10-minute pre-delivery notification; and by capitalizing on big data);
- Expanding into the Asian market (laying the foundation for global business over the medium term, targeting the Asian market); and
- Making the logistics business profitable.

(4) Green Activities

Staying true to the corporate philosophy of "evolving for our customers," ASKUL strives to streamline conventional distribution structures to increase efficiency throughout society. The Company was founded based on the concept of a "business model optimized for society," which is aimed at achieving both greater business efficiency and lower environmental impacts. In March 2004, all of the Company's major offices received ISO 14001 certification, an international standard for environmental management systems (hereinafter "EMS"). EMS has since been implemented throughout the Company as the basis of its environmental management.

During the period under review, the Company continued to work on improvement initiatives designed to achieve its long-term environmental goals by fiscal 2020 that were set in terms of CO_2 emissions and resource consumption.

One of the efforts made at ASKUL's distribution centers and offices was the installation of around 2,400 solar panels (600 kW) on the roof of ASKUL Logi PARK Fukuoka. On March 1, 2016, the Company started selling the electricity generated by those panels, which are projected to produce about 650,000 kWh of electricity per annum. This is the second site where the Company has introduced renewable energy, the first being the ASKUL Logi Park Tokyo Metropolitan solar plant that has been operational since March 2014.

In May 2016, Bizex Corporation deployed a total of 10 Nissan e-NV200 electric vehicles, which are now in use to deliver merchandise from distribution centers to customers in certain areas of Tokyo. As electric vehicles produce neither CO_2 nor other tailpipe emissions while driving, they are expected to greatly help the Group reduce the environmental impact of delivery operations.

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Recognizing its responsibility as a company using forest resources, ASKUL has run a project named "1 box for 2 trees"(Note 1) since August 2010 to ensure the sustainability of a raw material for its copier paper made in Indonesia. The project confirmed that, as of May 2016, at least 54 million trees had been properly planted in a manner that enables them to serve as a raw material for the production of copier paper in the future. In April 2015, those trees started to be cut down, whereupon they began being used as a raw material by the manufacturers to which the Company outsources the production of its copier paper. In February 2016, the Company started selling such copier paper as products certified by the Programme for the Endorsement of Forest Certification (PEFC).(Note 2)

ASKUL has also engaged in an initiative entitled "20 ha project" in Indonesia. The goal of this project is to contribute to the development of local communities and conserve biodiversity by helping reforestation in one of the nation's biosphere reserves. By September 2012, the project had planted about 8,000 trees indigenous to Indonesia. These trees spreading over 20 ha of land have since been maintained and cared for together with the local people. The progress of the 1 box for 2 trees and 20 ha projects, along with the Company's initiatives on copier paper, is disclosed on the dedicated website (http://1for2.askul.co.jp [in Japanese only]).

Over the period from September 2013 to March 2016, ASKUL participated in the REDD+(Note 3) demonstration activity in the Socialist Republic of Vietnam with the cooperation of the Japan International Cooperation Agency, together with other private-sector companies. Conducted in Dien Bien Province of northwestern Vietnam, the project supported comprehensive efforts involving local communities and demonstrated their effectiveness as climate change mitigation measures. In the province, climate change mitigation measures will continue to be implemented after April 2016.

In an attempt to promote environmental management, ASKUL joins and interacts with a variety of external organizations and projects, one of which is the Japan Climate Leaders' Partnership (Japan-CLP).(Note 4) As a member of this network that aspires to build a sustainable low-carbon society, the Company has been working on measures to combat climate change, creating opportunities for discussions among the member companies, policy makers, the business community, citizens, and other interested parties.

ASKUL believes that its social responsibility lies in delivering, in the most efficient way possible, the products its customers can use with peace of mind. With this awareness in mind, the Company will continue to build and advance a distribution platform that is more environmentally friendly, constantly listening to the voices of customers and other stakeholders.

Notes:

1. The 1 box for 2 trees project refers to an initiative in which, at every purchase of one box of ASKUL original copier paper made in Indonesia, a portion of the price paid by the customer is spent to plant at least two trees for the purpose of securing a raw material, and confirmation is made that trees will be able to serve as a sustainable raw material.
2. PEFC is an organization that ensures mutual certification and guarantees compatibility and equivalence among national forest certification schemes worldwide to reduce illegal logging and promote sustainable forest development.
3. REDD+ (REDD-plus) is an international undertaking to build a society that thrives in harmony with forests. REDD+ is working to curb CO_2 emissions and increase carbon absorption and fixation by preventing deforestation and conserving forests in developing countries.
4. Japan-CLP is a network of enterprises that view a pioneering effort to shift to a sustainable low-carbon society as an opportunity to expand the business and take the company to the next level.

(5) Corporate Social Responsibility Activities

During the period under review, ASKUL took a variety of actions to support disaster-hit regions, represented by the LOHACO's initiative to solicit and deliver donations in response to requests from people stricken by the Kumamoto Earthquake of April 2016. The Company also carried on a number of programs to assist the communities hit by the Great East Japan Earthquake. They include the ASKUL Kodomo Art Project launched in the fiscal year ended May 2011 to support children in the affected areas, and the Products with Donations scheme, under which a part of the sales of certain products originally designed by the Company are used to help reconstruct the disaster-stricken areas.

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The ASKUL Kodomo Art Project has the following framework: first, using as motifs the paintings drawn by children in the affected areas, the Company develops original products, including paper cups, binder clips, and cube box tissues; then, 3% of the sales of these products are used, as an art usage fee and through a nongovernmental organization (NGO), to hold art workshops for children.

Besides these support initiatives through merchandise sales, ASKUL is involved in diverse community activities. For example, the Company supports and participates in the annual Tour de Tohoku cycling event that is held to help reconstruction from the Great East Japan Earthquake.

In addition to these efforts, the Company endeavors to provide the employees with opportunities to participate in outreach activities as well. Such activities include making notebooks by hand out of usable returned products and donating them to children in developing countries via an international NGO; participating in inspections and packing of donated stationery at an international NGO; and soliciting donations that can be made through the purchase of boxed meals.

The Company will continue to engage in a variety of community and outreach activities, always keeping in mind how it can contribute to society through business.

3. Basic Thinking on Selection of Accounting Standards

The ASKUL Group is in the process of closely monitoring how the adoption of International Financial Reporting Standards (IFRS) expands in Japan, including the timing when companies start applying IFRS. The Group has not yet decided whether to adopt the standards in the future.

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4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Unit: million yen)

	Fiscal Year Ended May 2015 (As of May 20, 2015)	Fiscal Year Ended May 2016 (As of May 20, 2016)
Assets		
Current assets		
Cash and deposits	37,246	28,826
Notes and accounts receivable—trade	34,906	36,704
Securities	500	1,260
Merchandise and finished goods	10,432	12,119
Raw materials and supplies	115	120
Costs on uncompleted construction contracts	145	93
Accounts receivable—other	4,302	8,469
Consumption taxes receivable	—	604
Deferred tax assets	1,049	1,207
Other	1,188	948
Allowance for doubtful accounts	(195)	(185)
Total current assets	89,690	90,169
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	13,685	19,885
Accumulated depreciation	(2,539)	(3,484)
Buildings and structures, net	11,146	16,400
Machinery, equipment and vehicles	3,389	5,186
Accumulated depreciation	(1,702)	(2,126)
Machinery, equipment and vehicles, net	1,687	3,059
Land	7,245	6,543
Lease assets	5,926	8,922
Accumulated depreciation	(1,466)	(1,980)
Lease assets, net	4,459	6,942
Other	3,031	3,382
Accumulated depreciation	(2,225)	(2,435)
Other, net	806	947
Construction in progress	2,212	215
Total property, plant and equipment	27,557	34,110
Intangible assets		
Software	3,555	3,976
Software in progress	491	562
Goodwill	2,470	3,519
Other	8	10
Total intangible assets	6,526	8,068
Investments and other assets		
Investment securities	3,573	1,639
Long-term prepaid expenses	205	184
Guarantee deposits	3,363	3,706
Deferred tax assets	1,746	1,668
Other	122	123
Allowance for doubtful accounts	(118)	(120)
Total investments and other assets	8,893	7,203
Total noncurrent assets	42,976	49,382
Total assets	132,667	139,552

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(Unit: million yen)

	Fiscal Year Ended May 2015 (As of May 20, 2015)	Fiscal Year Ended May 2016 (As of May 20, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	36,872	42,202
Electronically recorded obligations—operating	14,329	15,616
Short-term loans payable	570	615
Current portion of long-term loans payable	730	1,680
Accounts payable—other	4,498	6,971
Income taxes payable	2,604	2,142
Accrued consumption taxes	1,423	192
Provision for bonuses	77	302
Provision for sales promotion expenses	424	444
Provision for sales returns	24	29
Asset retirement obligations	56	59
Other	1,197	2,106
Total current liabilities	62,809	72,362
Noncurrent liabilities		
Long-term loans payable	962	5,070
Net defined benefit liability	2,084	2,304
Lease obligations	4,260	6,495
Provision for bonuses	82	107
Provision for directors' bonuses	51	90
Asset retirement obligations	1,042	1,237
Other	428	639
Total noncurrent liabilities	8,912	15,946
Total liabilities	71,721	88,309
Net assets		
Shareholders' equity		
Capital stock	21,121	21,189
Capital surplus	23,633	23,669
Retained earnings	15,822	19,399
Treasury stock	(49)	(13,079)
Total shareholders' equity	60,528	51,179
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	250	(0)
Deferred gains or losses on hedges	(3)	(19)
Foreign currency translation adjustment	36	27
Remeasurements of defined benefit plans	(63)	(89)
Total accumulated other comprehensive income	220	(81)
Subscription rights to shares	104	25
Noncontrolling interests	92	119
Total net assets	60,945	51,242
Total liabilities and net assets	132,667	139,552

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(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Net sales	276,759	315,024
Cost of sales	215,948	244,690
Gross profit	60,810	70,333
Reversal of provision for sales returns	28	24
Provision for sales returns	24	29
Gross profit—net	60,814	70,328
Selling, general and administrative expenses	*1 53,965	*1 61,810
Operating income	6,849	8,517
Non-operating income		
Interest income	61	54
Electricity sales income	29	31
Gain on disposal of inventories	7	7
Foreign exchange gains	25	—
Subsidy income	49	22
Grant income	13	97
Other	67	22
Total non-operating income	254	237
Non-operating expenses		
Interest expenses	89	99
Loss on transfer of receivables	14	18
Electricity sales expenses	15	19
Commission fee	3	20
Other	21	21
Total non-operating expenses	144	180
Ordinary income	6,959	8,574
Extraordinary income		
Gain on sales of noncurrent assets	3	—
Grant income	—	*2 1,474
Gain on sales of investment securities	—	292
Gain on forgiveness of debts	—	66
Gain on reversal of subscription rights to shares	90	21
Other	5	—
Total extraordinary income	99	1,855
Extraordinary loss		
Impairment loss	*4 9	*4 56
Loss on reduction of noncurrent assets	—	*2 1,474
Loss on retirement of noncurrent assets	*3 106	*3 167
Cancellation penalty	39	26
Loss on step acquisitions	—	72
Loss on valuation of investment securities	—	43
Other	5	18
Total extraordinary loss	161	1,859
Income before income taxes	6,897	8,569
Income taxes—current	2,886	3,334
Income taxes—deferred	(9)	54
Total income taxes	2,877	3,388
Net income	4,019	5,181
Net loss attributable to noncontrolling interests	(12)	(74)
Net income attributable to owners of the parent	4,032	5,255

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(Consolidated Statements of Comprehensive Income)

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Net income	4,019	5,181
Other comprehensive income		
Valuation difference on available-for-sale securities	101	(250)
Deferred gains or losses on hedges	(3)	(16)
Foreign currency translation adjustment	12	(10)
Remeasurements of defined benefit plans, net of tax	(11)	(26)
Total other comprehensive income	* 97	* (304)
Comprehensive income	4,117	4,876
Comprehensive income attributable to:		
Owners of the parent	4,129	4,952
Noncontrolling interests	(11)	(76)

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(3) Consolidated Statements of Changes in Net Assets

Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	20,801	23,313	13,438	(49)	57,502
Changes of items during period					
Issuance of new shares	320	320			641
Dividends from surplus			(1,648)		(1,648)
Net income attributable to owners of the parent			4,032		4,032
Purchase of treasury stock					—
Disposal of treasury stock					—
Net changes of items other than shareholders' equity					
Total changes of items during period	320	320	2,384	—	3,025
Balance at end of period	21,121	23,633	15,822	(49)	60,528

	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balance at beginning of period	148	—	26	(51)	123
Changes of items during period					
Issuance of new shares					
Dividends from surplus					
Net income attributable to owners of the parent					
Purchase of treasury stock					
Disposal of treasury stock					
Net changes of items other than shareholders' equity	101	(3)	10	(11)	96
Total changes of items during period	101	(3)	10	(11)	96
Balance at end of period	250	(3)	36	(63)	220

	Subscription rights to shares	Noncontrolling interests	Total net assets
Balance at beginning of period	342	104	58,073
Changes of items during period			
Issuance of new shares			641
Dividends from surplus			(1,648)
Net income attributable to owners of the parent			4,032
Purchase of treasury stock			—
Disposal of treasury stock			—
Net changes of items other than shareholders' equity	(237)	(11)	(152)
Total changes of items during period	(237)	(11)	2,872
Balance at end of period	104	92	60,945

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Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	21,121	23,633	15,822	(49)	60,528
Changes of items during period					
Issuance of new shares	67	67			135
Dividends from surplus			(1,605)		(1,605)
Net income attributable to owners of the parent			5,255		5,255
Purchase of treasury stock				(13,281)	(13,281)
Disposal of treasury stock		(32)	(72)	252	147
Net changes of items other than shareholders' equity					
Total changes of items during period	67	35	3,577	(13,029)	(9,348)
Balance at end of period	21,189	23,669	19,399	(13,079)	51,179

	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balance at beginning of period	250	(3)	36	(63)	220
Changes of items during period					
Issuance of new shares					
Dividends from surplus					
Net income attributable to owners of the parent					
Purchase of treasury stock					
Disposal of treasury stock					
Net changes of items other than shareholders' equity	(250)	(16)	(9)	(26)	(302)
Total changes of items during period	(250)	(16)	(9)	(26)	(302)
Balance at end of period	(0)	(19)	27	(89)	(81)

	Subscription rights to shares	Noncontrolling interests	Total net assets
Balance at beginning of period	104	92	60,945
Changes of items during period			
Issuance of new shares			135
Dividends from surplus			(1,605)
Net income attributable to owners of the parent			5,255
Purchase of treasury stock			(13,281)
Disposal of treasury stock			147
Net changes of items other than shareholders' equity	(79)	27	(354)
Total changes of items during period	(79)	27	(9,702)
Balance at end of period	25	119	51,242

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(4) Consolidated Statements of Cash Flows

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Cash flows from operating activities		
Income before income taxes	6,897	8,569
Loss (gain) on step acquisitions	—	72
Gain on forgiveness of debt	—	(66)
Depreciation and amortization	1,916	2,228
Depreciation of software	1,997	1,525
Amortization of long-term prepaid expenses	188	92
Amortization of goodwill	644	682
Gain on reversal of subscription rights to shares	(90)	(21)
Increase (decrease) in allowance for doubtful accounts	192	(21)
Increase (decrease) in provision for sales promotion expenses	5	19
Increase (decrease) in provision for sales returns	(4)	5
Increase (decrease) in provision for bonuses	(0)	248
Increase (decrease) in provision for directors' bonuses	(8)	39
Increase (decrease) in net defined benefit liability	246	184
Loss (gain) on valuation of investment securities	—	43
Loss (gain) on sales of investment securities	—	(291)
Increase (decrease) in provision for loss on store closing	(32)	—
Interest income	(61)	(54)
Impairment loss	9	56
Loss on reduction of noncurrent assets	—	1,474
Loss on retirement of noncurrent assets	68	163
Loss (gain) on sales of noncurrent assets	(3)	—
Grant income	(13)	(1,572)
Interest expenses	89	99
Decrease (increase) in notes and accounts receivable—trade	(5,899)	(1,785)
Decrease (increase) in inventories	(835)	(1,573)
Decrease (increase) in accounts receivable—other	(520)	(1,322)
Increase (decrease) in notes and accounts payable—trade	19,310	6,387
Increase (decrease) in accounts payable—other	930	2,012
Increase (decrease) in factoring payable	(14,573)	—
Increase (decrease) in accrued consumption taxes	2,000	(1,839)
Other, net	837	797
Subtotal	13,292	16,154
Proceeds from grant income	13	1,572
Interest and dividends income received	61	54
Interest expenses paid	(89)	(98)
Income taxes paid	(1,050)	(3,851)
Cash flows from operating activities	12,227	13,831

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(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,806)	(9,577)
Purchase of software	(1,422)	(1,997)
Purchase of long-term prepaid expenses	(86)	(84)
Payments for guarantee deposits	(55)	(364)
Proceeds from collection of guarantee deposits	35	12
Payments of short-term loans receivable	(500)	(44)
Collection of loans receivable	—	508
Purchase of securities	(500)	—
Proceeds from redemption of securities	—	500
Proceeds from sales of investment securities	—	497
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	35	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	*3 (1,074)
Purchase of investment securities	(3,001)	(0)
Payments for asset retirement obligations	—	(37)
Other, net	7	(0)
Cash flows from investing activities	(8,293)	(11,663)
Cash flows from financing activities		
Increase in short-term loans payable	20	45
Proceeds from long-term loans payable	1,050	6,900
Repayment of long-term loans payable	(1,422)	(2,342)
Repayments of lease obligations	(494)	(547)
Proceeds from issuance of common stock	492	105
Proceeds from issuance of subscription rights to shares	1	5
Proceeds from disposal of treasury stock	—	114
Purchase of treasury stock	—	(13,281)
Cash dividends paid	(1,648)	(1,605)
Cash flows from financing activities	(2,001)	(10,606)
Effect of exchange rate change on cash and cash equivalents	(2)	18
Net increase (decrease) in cash and cash equivalents	1,929	(8,420)
Cash and cash equivalents at beginning of period	35,316	37,246
Cash and cash equivalents at end of period	*1 37,246	*1 28,826

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(5) Notes to Consolidated Financial Statements

(Notes regarding the Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

(Application of accounting standard for business combinations and other rules)

From the period under review, ASKUL has applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21: September 13, 2013; hereinafter "Business Combination Accounting Standard"), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22: September 13, 2013; hereinafter "Consolidated Accounting Standard"), the Accounting Standard for Business Divestitures (ASBJ Statement No. 7: September 13, 2013; hereinafter "Business Divestiture Accounting Standard"), and other rules. Accordingly, the Company has switched to a method whereby a differential arising from a change in the Company's shareholding in a subsidiary under its ongoing control is recognized as capital surplus, and acquisition-related costs are accounted for as expenses in the fiscal year in which the costs are incurred.

For a business combination carried out at and after the beginning of the period under review, the Company has switched to a method whereby the revised purchase price allocation resulting from the finalization of provisional accounting treatment is reflected in the consolidated financial statements for the fiscal year to which the date of the business combination belongs.

Additionally, the Company has changed the presentation of net income and other items, and replaced the term "minority interests" with "noncontrolling interests." To reflect these changes to presentation, reclassifications were made to the consolidated financial statements for the preceding fiscal year.

The aforementioned accounting standards and rules have been applied prospectively from the beginning of the period under review, in accordance with the transitional treatment stipulated in paragraph 58-2(4) of the Business Combination Accounting Standard, paragraph 44-5(4) of the Consolidated Accounting Standard, and paragraph 57-4(4) of the Business Divestiture Accounting Standard.

In the consolidated statement of cash flows for the period under review, cash flows relating to the purchase or sale of shares of subsidiaries not resulting in change in the scope of consolidation are reported on the cash flows from financing activities section; on the other hand, cash flows related to costs associated with the purchase of shares of subsidiaries resulting in change in the scope of consolidation or to costs incurred in relation to the purchase or sale of shares of subsidiaries not resulting in change in the scope of consolidation are reported on the cash flows from operating activities section.

These changes had an insignificant impact on the consolidated financial statements for the period under review.

(Change of depreciation method)

From the period under review, ASKUL and its consolidated subsidiaries located in Japan have applied the Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (ASBJ PITF No. 32: June 17, 2016) following amendments to the Corporation Tax Act. Accordingly, the Company and the subsidiaries have switched the depreciation method of the facilities attached to buildings and the structures acquired on and after April 1, 2016, from the declining-balance method to the straight-line method.

This change had an insignificant impact on the consolidated financial statements for the period under review.

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(Changes to Presentation)

(Consolidated balance sheets)

"Accounts receivable—other," previously included in other of the current assets section, is presented as a separate item from the period under review due to its increased importance in terms of value. To reflect this change to presentation, certain reclassifications were made to the consolidated financial statements for the preceding fiscal year.

As a result, the 5,491 million yen presented in other of the current assets section on the consolidated balance sheet for the preceding fiscal year was reclassified into 4,302 million yen in "accounts receivable—other" and 1,188 million yen in other.

(Consolidated statements of income)

Commission fee, previously included in other of the non-operating expenses section, is presented as a separate item from the period under review due to its increased importance in terms of value. To reflect this change to presentation, certain reclassifications were made to the consolidated financial statements for the preceding fiscal year.

As a result, the 24 million yen presented in other of the non-operating expenses section on the consolidated statement of income for the preceding fiscal year was reclassified into 3 million yen in commission fee and 21 million yen in other.

(Consolidated statements of cash flows)

Grant income, previously included in income before income taxes of the cash flows from operating activities section, is presented as a separate item from the period under review due to its increased importance in terms of value. In conjunction with this, proceeds from grant income is also presented as a separate item on the line below the subtotal of the cash flows from operating activities section. To reflect these changes to presentation, certain reclassifications were made to the consolidated financial statements for the preceding fiscal year.

As a result, minus 13 million yen in grant income and 13 million yen in proceeds from grant income are presented on the consolidated statement of cash flows for the preceding fiscal year.

(Changes in Accounting Estimates)

(Change of useful life)

In the period under review, ASKUL revised the period of use of some of its purchasing sites. Accordingly, the Company reduced the useful life of the software that will be used for a shorter period of time than initially anticipated, and applied the change prospectively.

This change had an insignificant impact on the consolidated financial statements for the period under review.

(Change in estimates of asset retirement obligations)

In the period under review, ASKUL changed the estimates of the asset retirement obligations that represent contractual commitments to return its distribution centers to original condition upon lease termination. The change was made based on the new information the Company obtained about the restitution costs to be required at the time of vacating. As a result, a 57 million yen increase due to changes in estimates was added to the balance of asset retirement obligations that had been recognized prior to the change.

This change had an insignificant impact on the consolidated financial statements for the period under review.

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(Notes to Consolidated Statements of Income)

*1. Of selling, general and administrative expenses, principal items and their amounts were as shown below.

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Shipment expenses	11,899	14,734
Provision for sales promotion expenses	424	444
Salaries and allowances	10,993	11,379
Business consignment expenses	6,253	8,168
Subcontract expenses	2,900	2,770
Retirement benefit expenses	311	330
Provision of allowance for doubtful accounts	216	10
Rents	5,087	5,665

*2. Grant income and loss on reduction of noncurrent assets

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

Grant income was earned in accordance with the Fukuoka City ordinance for promoting business establishment. The loss on reduction of noncurrent assets was recognized as a result of the reduction entry of the noncurrent assets (buildings and structures; machinery, equipment and vehicles; and land) purchased with said grant.

*3. The breakdown of loss on retirement of noncurrent assets was as shown below.

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Buildings and structures	13	8
Machinery, equipment and vehicles	1	0
Other of property, plant and equipment	11	8
Software	39	11
Software in progress	—	135
Dismantling and removal costs	40	4
Total	106	167

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*4. Impairment loss

The ASKUL Group recognized impairment losses on the asset groups indicated below.

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

Location	Purpose of use	Category	Amount (million yen)
Koto-ku, Tokyo	SOLOEL Enterprise	Other of property, plant and equipment	1
		Software	7
		Long-term prepaid expenses	1

The ASKUL Group categorizes its assets in the following manner: for the businesses in which merchandise is delivered from the Group's distribution centers, the assets are grouped by distribution center; for the businesses in which merchandise is not delivered from the Group's distribution centers, the assets are grouped by business; and head office facilities and other assets are classified as shared assets.

Regarding SOLOEL Enterprise, the Group judged it difficult to recover investments in the business within the remaining depreciation or amortization period. Accordingly, the book value was reduced to the recoverable amount, and the amount of that reduction was recorded as an impairment loss (9 million yen) in the extraordinary loss section.

The recoverable amount, based on value in use calculations, was valued zero in each of the assets above.

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

Location	Purpose of use	Category	Amount (million yen)
Koto-ku, Tokyo	SOLOEL Enterprise	Software in progress	42
Agatsuma-gun, Gunma	Tsumagoimeisui Corporation (Consolidated subsidiary)	Machinery, equipment and vehicles	13

The ASKUL Group categorizes its assets in the following manner: for the businesses in which merchandise is delivered from the Group's distribution centers, the assets are grouped by distribution center; for the businesses in which merchandise is not delivered from the Group's distribution centers, the assets are grouped by business; and head office facilities and other assets are classified as shared assets.

Regarding SOLOEL Enterprise, the Group judged it difficult to recover investments in the business within the remaining amortization period. Accordingly, the book value was reduced to the recoverable amount, and the amount of that reduction was recorded as an impairment loss (42 million yen) in the extraordinary loss section. The recoverable amount, based on value in use calculations, was valued zero in the asset above.

At the consolidated subsidiary Tsumagoimeisui Corporation, the decision was made to introduce a new production line and sell the existing one. Accordingly, the book value was reduced to the recoverable amount, and the amount of that reduction was recorded as an impairment loss (13 million yen) in the extraordinary loss section. The recoverable amount was based on the net realizable value, which was the expected selling price minus the estimated costs of disposal.

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(Notes to Consolidated Statements of Comprehensive Income)

* Reclassification adjustments and tax effects relating to other comprehensive income

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Valuation difference on available-for-sale securities		
Amount arising during period	138	(78)
Reclassification adjustment	—	(292)
Before tax effect	138	(370)
Tax effect	(36)	119
Valuation difference on available-for-sale securities	101	(250)
Deferred gains or losses on hedges		
Amount arising during period	(5)	(23)
Reclassification adjustment	—	—
Before tax effect	(5)	(23)
Tax effect	1	7
Deferred gains or losses on hedges	(3)	(16)
Foreign currency translation adjustment		
Amount arising during period	12	(10)
Reclassification adjustment	—	—
Before tax effect	12	(10)
Tax effect	—	—
Foreign currency translation adjustment	12	(10)
Remeasurements of defined benefit plans, net of tax		
Amount arising during period	(35)	(60)
Reclassification adjustment	21	24
Before tax effect	(13)	(35)
Tax effect	1	9
Remeasurements of defined benefit plans, net of tax	(11)	(26)
Total other comprehensive income	97	(304)

(Notes to Consolidated Statements of Changes in Net Assets)

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

1. Matters concerning the class and number of issued and outstanding shares and of treasury stock

(Unit: share)

	Number of shares at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Number of shares at the end of the fiscal year
Issued and outstanding shares				
Common stock(Note)	54,929,700	270,200	—	55,199,900
Total	54,929,700	270,200	—	55,199,900
Treasury stock				
Common stock	29,459	—	—	29,459
Total	29,459	—	—	29,459

Note: The 270,200 share increase in issued and outstanding shares of common stock was due to the exercise of subscription rights to shares.

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2. Matters concerning subscription rights to shares and treasury subscription rights to shares

Category	Details of subscription rights to shares	Class of shares underlying subscription rights to shares	Number of shares underlying subscription rights to shares (shares)				Balance at the end of the fiscal year (million yen)
			Beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	End of the fiscal year	
Reporting company (parent)	Subscription rights to shares as stock options	—	—	—	—	—	84
Reporting company (parent)	Stock options with charge(Notes 1, 2)	Common stock	540,000	442,500	—	982,500	18
Consolidated subsidiaries	Stock options with charge(Note 1)	Common stock	—	280	—	280	0
Total			540,000	442,780	—	982,780	104

Notes:

1. The issuance of stock options with charge during the fiscal year resulted in the increases of 442,500 shares of such stock options of the reporting company (parent) and of 280 shares of such stock options of consolidated subsidiaries.
2. Of the stock options with charge listed above, the first date of the exercise period of 442,500 shares was yet to come.

3. Matters concerning dividends from surplus

(1) Dividends paid

Approved by	Class of shares	Total dividend paid (million yen)	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting of August 6, 2014	Common stock	823	15	May 20, 2014	August 7, 2014
Board of directors' meeting of December 17, 2014	Common stock	825	15	November 20, 2014	January 23, 2015

(2) Dividend whose record date belonging to the fiscal year and effective date belonging to the following fiscal year

Approved by	Class of shares	Total dividend paid (million yen)	Dividend resource	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting of August 5, 2015	Common stock	827	Retained earnings	15	May 20, 2015	August 6, 2015

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Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

1. Matters concerning the class and number of issued and outstanding shares and of treasury stock

(Unit: share)

	Number of shares at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Number of shares at the end of the fiscal year
Issued and outstanding shares				
Common stock(Note 1)	55,199,900	59,500	—	55,259,400
Total	55,199,900	59,500	—	55,259,400
Treasury stock				
Common stock(Notes 2,3)	29,459	3,400,000	64,900	3,364,559
Total	29,459	3,400,000	64,900	3,364,559

Notes:
1. The 59,500 share increase in issued and outstanding shares of common stock was due to the exercise of subscription rights to shares.
2. The 3,400,000 share increase in treasury common stock was due to the purchase of those shares.
3. The 64,900 share decrease in treasury common stock was due to the disposal of those shares.

2. Matters concerning subscription rights to shares and treasury subscription rights to shares

Category	Details of subscription rights to shares	Class of shares underlying subscription rights to shares	Number of shares underlying subscription rights to shares (shares)				Balance at the end of the fiscal year (million yen)
			Beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	End of the fiscal year	
Reporting company (parent)	Stock options with charge(Notes 1, 2)	Common stock	982,500	510,000	—	1,492,500	24
Consolidated subsidiaries	Stock options with charge	Common stock	280	—	—	280	0
Total		—	982,780	510,000	—	1,492,780	25

Notes:
1. The 510,000 share increase in stock options with charge of the reporting company (parent) during the fiscal year was due to the issuance of such stock options.
2. Of the stock options with charge listed above, the first date of the exercise period of 510,000 shares has yet to come.

3. Matters concerning dividends from surplus

(1) Dividends paid

Approved by	Class of shares	Total dividend paid (million yen)	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting of August 5, 2015	Common stock	827	15	May 20, 2015	August 6, 2015
Board of directors' meeting of December 15, 2015	Common stock	778	15	November 20, 2015	January 22, 2016

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(2) Dividend whose record date belonging to the fiscal year and effective date belonging to the following fiscal year

The Company plans to seek shareholders' approval of the proposal outlined below.

To be approved by	Class of shares	Total dividend to be paid (million yen)	Dividend resource	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting of August 3, 2016	Common stock	934	Retained earnings	18	May 20, 2016	August 4, 2016

(Notes to Consolidated Statements of Cash Flows)

*1. Relationship between cash and cash equivalents at end of period and the amounts of items stated in the consolidated balance sheet

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Cash and deposits	37,246	28,826
Cash and cash equivalents	37,246	28,826

2 Details of material noncash transactions

(1) Transactions related to asset retirement obligations

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Asset retirement obligations	108	247

(2) Assets and liabilities related to finance lease transactions

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Assets and liabilities related to finance lease transactions	322	56

*3. Main asset and liability items of a company that has become a consolidated subsidiary through the acquisition of shares

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

ASKUL made ecohai Co., Ltd. a consolidated subsidiary through the acquisition of shares. Below is the main asset and liability items of the company at the beginning of consolidation, along with the relationship between the acquisition cost of, and net expenditure to acquire, the company.

	(Unit: million yen)
Current assets	1,069
Noncurrent assets	105
Current liabilities	(845)
Noncurrent liabilities	(1)
Goodwill	1,443
Noncontrolling interests	(103)
Acquisition cost paid prior to obtaining control	(90)
Loss on step acquisitions	72
Acquisition cost of ecohai Co., Ltd.	1,650
Cash and cash equivalents held by ecohai Co., Ltd.	(559)
Net expenditure to acquire ecohai Co., Ltd.	1,090

With respect to another company that was made a consolidated subsidiary through the acquisition of

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shares during the period under review, the amounts of its assets and liabilities are not presented as they are deemed immaterial.

(Asset Retirement Obligations)

Asset retirement obligations recorded on the consolidated balance sheets

1. Outline of the asset retirement obligations

These asset retirement obligations are primarily associated with contractual commitments to return the Company's head office, distribution centers, and other leased properties to original condition upon lease termination.

2. Method of calculating the asset retirement obligations

The asset retirement obligations were calculated using the discount rates ranging from minus 0.10% to plus 1.81% over the period of use estimated to be 3 to 20 years from lease commencement.

3. Changes in the total amount of the asset retirement obligations

(Unit: million yen)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Balance at beginning of period	981	1,098
Increase resulting from purchase of property, plant and equipment	108	189
Adjustment for passage of time	9	9
Increase due to changes in estimates	—	57
Decrease due to payments for asset retirement obligations	—	(58)
Balance at end of period	1,098	1,297

4. Change in the estimates of the asset retirement obligations

In the period under review, ASKUL changed the estimates of the asset retirement obligations that represent contractual commitments to return its distribution centers to original condition upon lease termination. The change was made based on the new information the Company obtained about the restitution costs to be required at the time of vacating. As a result, a 57 million yen increase due to changes in estimates was added to the balance of asset retirement obligations that had been recognized prior to the change.

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(Segment Information)

Segment information

1. Overview of reportable segments

ASKUL's reportable segments are defined as components of the Company about which separate financial information is available that is evaluated regularly by the board of directors in deciding how to allocate management resources and in assessing performance.

The Company formulates comprehensive strategies for domestic and overseas markets to carry out its business operations.

From the period under review, the Company reports on its two segments under new names: the segment previously called "office product sales business" has been renamed "e-commerce business," and the one previously called "delivery business" has been renamed "logistics business." These changes of segment names had no impact on the Company's segment information.

The e-commerce business derives revenue from the sale of OA&PC supplies, office supplies, office amenities, office furniture, food, alcoholic beverages, medical supplies, cosmetics, and other products. The logistics business provides logistics and small-cargo delivery services for enterprises.

2. Basis of measurement of net sales, income or loss, assets, liabilities, and other items by reportable segment

Methods of accounting for reportable segments are generally the same as those adopted to prepare consolidated financial statements. Intersegment revenue and transfers are based on prevailing market prices.

(Application of accounting standard for business combinations and other rules)

From the period under review, ASKUL has switched to a method whereby costs related to the acquisition of shares in subsidiaries and affiliates are accounted for as expenses in the fiscal year in which the costs are incurred. This change had an insignificant impact on segment income for the period under review.

(Change of depreciation method)

From the period under review, ASKUL has applied the Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (ASBJ PITF No. 32: June 17, 2016) following amendments to the Corporation Tax Act. Accordingly, the Company has switched the depreciation method of the facilities attached to buildings and the structures acquired on and after April 1, 2016, from the declining-balance method to the straight-line method. This change had an insignificant impact on segment income for the period under review.

3. Net sales, income or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

The net sales, operating income, and assets of the e-commerce business accounted for more than 90% of the total net sales, operating income, and assets of all segments, respectively. Accordingly, information on segments other than the e-commerce business is deemed immaterial and segment-based information is not presented.

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Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

(Unit: million yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount on consolidated financial statements (Note 3)
	E-commerce business	Logistics business	Subtotal				
Net sales							
Net sales to external customers	311,398	3,218	314,617	406	315,024	—	315,024
Intersegment sales or transfers	—	—	—	68	68	(68)	—
Total	311,398	3,218	314,617	475	315,092	(68)	315,024
Segment income (loss)	9,007	(445)	8,561	(47)	8,514	2	8,517
Segment assets	136,419	2,236	138,656	895	139,552	—	139,552
Other items							
Depreciation	3,703	36	3,739	17	3,756	(2)	3,753
Amortization of goodwill	596	64	660	21	682	—	682
Increase in property, plant and equipment and intangible assets	10,753	1,308	12,062	452	12,514	—	12,514

Notes:

1. "Other" contains business segments not included in the reportable segments, such as the production business.
2. The adjustment of 2 million yen to segment income includes the elimination of intersegment transactions amounting to 2 million yen.
3. Segment income was adjusted for operating income reported on the consolidated financial statements.

Related information

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

1. Information by product or service

The net sales of a single product and service category to external customers accounted for more than 90% of the net sales reported on the consolidated statement of income. Accordingly, this information is not presented.

2. Information by geographical area

i. Net sales

Net sales to external customers located in Japan accounted for more than 90% of the net sales reported on the consolidated statement of income. Accordingly, this information is not presented.

ii. Property, plant and equipment

Property, plant and equipment located in Japan accounted for more than 90% of the property, plant and equipment reported on the consolidated balance sheet. Accordingly, this information is not presented.

3. Information by primary customer

No external customer accounted for 10% or more of the net sales reported on the consolidated statement of income. Accordingly, this information is not presented.

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

1. Information by product or service

This information is not presented as similar data is disclosed in the segment information section above.

2. Information by geographical area

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i. Net sales

Net sales to external customers located in Japan accounted for more than 90% of the net sales reported on the consolidated statement of income. Accordingly, this information is not presented.

ii. Property, plant and equipment

Property, plant and equipment located in Japan accounted for more than 90% of the property, plant and equipment reported on the consolidated balance sheet. Accordingly, this information is not presented.

3. Information by primary customer

No external customer accounted for 10% or more of the net sales reported on the consolidated statement of income. Accordingly, this information is not presented.

Impairment loss on noncurrent assets by reportable segment

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

(Unit: million yen)

	Reportable segment		
	E-commerce business	Logistics business	Total
Impairment loss	9	—	9

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

(Unit: million yen)

	Reportable segment			Other(Note)	Total
	E-commerce business	Logistics business	Subtotal		
Impairment loss	42	—	42	13	56

Note: The amount stated in "Other" pertains to the production business.

Amortized amount and unamortized balance of goodwill by reportable segment

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

(Unit: million yen)

	Reportable segment		
	E-commerce business	Logistics business	Total
Amount amortized during the fiscal year	644	—	644
Unamortized balance at the end of the fiscal year	2,470	—	2,470

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

(Unit: million yen)

	Reportable segment			Other(Note)	Total
	E-commerce business	Logistics business	Subtotal		
Amount amortized during the fiscal year	596	64	660	21	682
Unamortized balance at the end of the fiscal year	2,033	1,220	3,253	266	3,519

Note: The amounts stated in "Other" pertain to the production business.

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Gain on bargain purchase by reportable segment

Fiscal year ended May 2015 (May 21, 2014 through May 20, 2015)

Not applicable.

Fiscal year ended May 2016 (May 21, 2015 through May 20, 2016)

Not applicable.

(Per Share Information)

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Net assets per share (yen)	1,101.12	984.64
Net income per share (yen)	73.29	100.50
Diluted net income per share (yen)	73.15	100.46

Note: Net income per share and diluted net income per share were computed based on the figures below.

	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)	Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)
Net income per share		
Net income attributable to owners of the parent (million yen)	4,032	5,255
Net income not attributable to common shareholders (million yen)	—	—
Net income attributable to owners of the parent related to common stock (million yen)	4,032	5,255
Average number of shares (thousand shares)	55,018	52,293
Diluted net income per share		
Adjustments to net income attributable to owners of the parent for dilution (million yen)	—	—
Increase in number of shares of common stock (thousand shares)	107	22
(Of which, subscription rights to shares [thousand shares])	(107)	(22)
Outline of potential common shares not included in calculation of diluted net income per share due to absence of dilutive effects	—	—

(Significant Subsequent Events)

Not applicable.

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5. Others

(1) Changes in Officers

1) Change in representative director

Not applicable.

2) Changes in other officers

- Candidate for new director
  Director: Hironori Koshimizu (Current position: Executive officer; Executive officer of LOHACO Publicity and Sales Promotion Unit, B-to-C Company)
- Director to retire
  Director: Hiroyuki Toyoda

3) Date of taking office and resigning (tentative)

August 3, 2016

(2) Details of Selling, General and Administrative Expenses (Consolidated)

Item	Fiscal Year Ended May 2015 (May 21, 2014 through May 20, 2015)		Fiscal Year Ended May 2016 (May 21, 2015 through May 20, 2016)		
	Amount (million yen)	Ratio to Sales (%)	Amount (million yen)	Ratio to Sales (%)	Year-on-year Change (%)
Personal expenses*1	14,883	5.4	16,111	5.1	108.2
Shipment expenses*2	11,899	4.3	14,734	4.7	123.8
Provision for sales promotion expenses	424	0.2	444	0.1	104.6
Subcontract expenses	2,900	1.0	2,770	0.9	95.5
Business consignment expenses*2	6,253	2.3	8,168	2.6	130.6
Rents*3	5,087	1.8	5,665	1.8	111.4
Provision of allowance for doubtful accounts	216	0.1	10	0.0	4.8
Depreciation*4	1,892	0.7	2,168	0.7	114.6
Amortization of software*5	1,979	0.7	1,473	0.5	74.4
Other expenses*6	8,427	3.0	10,263	3.2	121.8
Total	53,965	19.5	61,810	19.6	114.5

Notes:

*1. Personal expenses for the period under review rose from a year earlier. This was mainly due to the impact of increases in share-price-linked bonuses and other payments.

*2. Shipment expenses and business consignment expenses for the period under review rose from a year earlier. This was mainly due to the impact of net sales growth.

*3. Rents for the period under review rose from a year earlier. This was mainly due to the impact of the construction of ASKUL Logi PARK Yokohama.

*4. Depreciation for the period under review rose from a year earlier. This was mainly due to the impact of the operations of ASKUL Logi PARK Fukuoka and ASKUL Logi PARK Yokohama.

*5. Amortization of software for the period under review decreased from a year earlier. This was mainly due to the impact of the completion of the amortization of the main system's software in the preceding fiscal year.

*6. Other expenses for the period under review rose from a year earlier. This was mainly due to the impact of increased advertising expenses for airing television commercials for LOHACO and of onetime expenses including taxes and dues associated with the construction of ASKUL Logi PARK Fukuoka.