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Securities Code: 8248

February 24, 2016

To Those Shareholders with Voting Rights

Nobuyuki Ichiba
President and Representative Director
Nissen Holdings Co., Ltd.
26 NishiKujoinmachi,
Minami-ku, Kyoto

NOTICE OF THE 46th ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 46th Ordinary General Meeting of Shareholders of the Company. The meeting will be held as described below.

If you are unable to attend the meeting, you can exercise your voting rights by paper ballot or electromagnetic means (over the Internet). Please review the Reference Documents for the General Meeting of Shareholders, and either return the Voting Rights Exercise Form with your selections by mail or vote via the website (<http://www.evotep.jp/>) by no later than 5:30 p.m., Wednesday, March 16, 2016.

* Please refer to the items stipulated in "Information on Exercising Voting Rights" on pages 63 to 64 when exercising your voting rights electronically (over the Internet).

1. **Date and Time** 10:00 a.m., Thursday, March 17, 2016
2. **Place** Kiratto Plaza Kyoto Sangyo Kaikan, 8F, Silk Hall
80 Hakoyahoko-machi, Muromachi Higashiiru, Shijo-Dori, Shimogyo-ku, Kyoto
3. **Agenda of the Meeting:**
Matters to be reported:
 - (1) Business Report, Consolidated Financial Statements for the 46th Fiscal Term (from December 21, 2014 to December 20, 2015) and results of audits by the Accounting Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
 - (2) Non-Consolidated Financial Statements for the 46th Fiscal Term (from December 21, 2014 to December 20, 2015)**Proposals to be resolved:**
 - Proposal No. 1:** Partial Amendments to the Articles of Incorporation
 - Proposal No. 2:** Election of Nine Directors
 - Proposal No. 3:** Election of Two Audit & Supervisory Board Members
 - Proposal No. 4:** Election of Two Substitute Audit & Supervisory Board Members

4. Other Notice Regarding the Exercise of Voting Rights by Proxy

- (1) If you plan to exercise your voting rights by proxy, the proxy can only be another shareholder with voting rights of the Company. In this case, please hand in your letter of proxy together with your Voting Rights Exercise Form at the front desk.
- (2) If you plan to diversely exercise your voting rights, please send the Company a written notice of this plan and your reasons for it by no later than three days prior to the date of this General Meeting of Shareholders.

- Notes: 1. If you plan to attend the meeting, please hand in your Voting Rights Exercise Form at the front desk when you arrive at the venue. In addition, please bring this Notice of the General Meeting of Shareholders.
2. Subsequent amendments to the Reference Documents for the General Meeting of Shareholders and the Attached Documents (if any) will be listed on the Company's website (<http://www.nissen.info/ir/governance.htm>).

Attached Documents

BUSINESS REPORT (from December 21, 2014 to December 20, 2015)

1. Current Status of the Company Group

(1) Business Status for the Current Year

1) Business performance and results

In the current fiscal year, the economy followed a mild recovery trend with continued improvements in the employment and income environment, against a backdrop of the government's economic measures and monetary easing policies by the Bank of Japan. However, there are concerns about the impact of the economic downturn in emerging Asian countries including China, and therefore the economic outlook remains uncertain.

Under such environment, in order to pursue "implementation of business structural reform and early improvement in profitability," the Nissen Group has focused on liquidating and downsizing unprofitable businesses and non-core businesses, recovering the profitability of Nissen Co., Ltd., the main force of the Group, reforming the SHADDY-related business and the finance business, and realizing synergy with the Seven & i Group.

The Group will work to strengthen high value-added products and services while creating new corporate value through participation in the Seven & i Group's Omni Channel Strategy and cooperation with Group companies aiming for growth and development.

As for the consolidated business results of the Nissen Group in the current fiscal year, sales were impacted by factors such as the impact of decreased sales and profits at Nissen Co., Ltd., the main force of the commerce business; the effect of reflecting a 15-month accounting period for the results of some consolidated subsidiaries for the previous fiscal year following the changes in their fiscal year-ends of some consolidated subsidiaries such as the three SHADDY-related consolidated companies (SHADDY CO., LTD. and its wholly owned subsidiaries Enicil Co., Ltd. and Three Heart Corporation Co., Ltd. are collectively referred to as "the three SHADDY-related consolidated companies"); and the recording of a loss on business liquidation of 4,835 million yen, a loss on business of affiliates of 130 million yen, and amortization of goodwill of 538 million yen as extraordinary loss, in association with the withdrawal from the large furniture business, the solicitation of voluntary retirement, and the closure of overseas offices as part of measures to streamline management in order to achieve profitability at the earliest possible date. As a result, net sales for the current fiscal year decreased by 24.5% year on year to 157,289 million yen, operating loss was 8,159 million yen (operating loss for the same period of the previous year was 6,628 million yen), ordinary loss was 7,363 million yen (ordinary loss for the same period of the previous year was 7,725 million yen), and net loss was 13,324 million yen (net loss for the same period of the previous year was 8,510 million yen).

With regard to the Company's non-consolidated results, impairment loss was recognized because of a significant decline in the actual value of shares of Nissen Co., Ltd., the Company's consolidated subsidiary, due to its deteriorating business performance and financial position, and an extraordinary loss of 10,925 million yen was recorded as loss on write-down of affiliates stock. At the same time, as Nissen Co., Ltd. has excess liabilities, with respect to the Company's claims, etc., to Nissen Co., Ltd., provision of allowance for doubtful receivables of 2,719 million yen, an amount corresponding to the excess liabilities, was recognized under extraordinary loss. Nevertheless, this has no impact on the consolidated business results because it is eliminated in the consolidated financial statements.

With regard to year-end dividends, upon comprehensively taking into account our business results and financial condition, we have regrettably decided to suspend dividend payment. It is much to our regret that we may have disappointed our shareholders but we are committed to recovering our business performance through the united efforts of officers and employees in order to resume dividend payment at the earliest possible date.

2) Results by business segment of the corporate group

Segment sales and segment income/loss for each reporting segment were as follows. The segment income/loss figures for the reporting segments are based on ordinary loss.

Commerce business segment

In the commerce business segment, segment sales in the current fiscal year decreased by 24.4% year on year to 152,446 million yen and segment loss was 7,718 million yen (segment loss for the same period of the previous year was 6,214 million yen).

Nissen Co., Ltd., which serves as the main force of the commerce business, steadily pursued business

structural reform aimed at a recovery in performance through initiatives including the development of high valued-added products, the promotion of a customer strategy with the core target of working mothers and families, the development of a joint model shop with Ito-Yokado for the “smiLeLand” ladies apparel brand that offers sizes from L to 10L, and improvements in catalogue distribution efficiency through a shift to the Internet. Efforts were also made to improve convenience for customers, such as the launch of a Seven-Eleven store pickup service for Nissen products (limited to products ordered via the Internet). Net sales were lower than the results of the same period of the previous year as a result of efforts to prioritize reductions in advertising and sales promotion expenses, mainly a reduction in the number of new catalogue distribution, in order to improve cost efficiency through the optimization of promotion expenses in line with a review of the product development structure for the 2016 spring issue. Despite the implementation of cost structure reform, including advertising and sales promotion expenses, operating income decreased year on year due mainly to the increase in the cost ratio resulting from the priority given to the disposal of product inventory from the previous fall and winter and the disposal of product inventory accompanying withdrawal from the large furniture business.

As for the three SHADDY-related consolidated companies, the catalogue gift “AS YOU LIKE” series was placed at Ito-Yokado stores to pursue group synergy, private label products were developed based on the concept of “Gifts that bring joy to everyday life,” products and services such as home delivery service were strengthened, and new customers were attracted through the introduction of common points. In terms of business performance, net sales and operating income were lower than the results of the same period of the previous year due mainly to a decrease in store channel sales and contraction of the formal gift market related to ceremonial occasions, in addition to the effect of reflecting a 15-month accounting period for the results of the previous year following a change in the fiscal year-end from March 31 to December 31 in the previous year.

As a result of considerations on the possibilities of future improvements in profitability in the commerce business at Nissen Co., Ltd. as announced in the “Notice on Implementation of Measures to Streamline Management for Early Achievement of Profitability and Recording of an Extraordinary Loss” on August 17, 2015, the Group formulated management streamlining measures for achieving profitability at the earliest possible date, including the withdrawal from the large furniture business and the simultaneous reinforcement of resource allocation for the strategic core businesses, the solicitation of voluntary retirement in order to streamline the overall organization structure, and the closure of overseas offices.

Finance business segment

In the finance business segment, segment sales in the current fiscal year decreased by 7.6% year on year to 1,159 million yen, and segment income was 886 million yen (segment loss for the same period of the previous year was 889 million yen).

Although efforts were made at Nissen Life Co., Ltd. to improve profitability by expanding the web service and face-to-face channel for comparative proposals of insurance products of multiple companies to meet customer needs, net sales and operating income were down compared to the results of the same period of the previous year as a result of factors such as a decrease in the number of insurance policies sold through print media.

At GE Nissen Credit Co., Ltd., an equity method affiliate of the Company, the shopping transaction volume increased due to the steady shift to “Magical Club T Card JCB,” which allows holders to save points. Equity in earnings/losses of affiliates was up compared to the results of the same period of the previous year, reflecting the impact of recording deferred tax assets, in addition to a significant decrease in doubtful debts related expenses due to the stable number of requests for the refunds of excess interest payments.

Other business segment

In the other business segment, segment sales in the current fiscal year decreased by 32.9% year on year to 3,710 million yen, and segment loss was 25 million yen (segment income for the same period of the previous year was 63 million yen).

At oriental diamond inc. and TRECENTI Co., Ltd., as a result of the effect of reflecting a 15-month accounting period for the results of the previous year following a change in the fiscal year-end from September 30 to December 31 in the previous year combined with sluggish performance due to factors including the rebound from the last year’s rush demand associated with the consumption tax increase, both segment sales and segment income/loss were down compared to the results of the same period of the previous year.

3) Status of capital investments

The total capital investments of the corporate group during the fiscal year under review amounted to 5,424 million yen, mainly as a result of investment in systems-related software and logistics facilities.

4) Status of funding

The Company and its consolidated subsidiaries (Nissen Co., Ltd., SHADDY CO., LTD., Enicil Co., Ltd.,

Three Heart Corporation Co., Ltd., n Beauty Science Co., Ltd., oriental diamond inc. and TRECENTI Co., Ltd.) have signed overdraft agreements with ten correspondent financial institutions to ensure efficient procurement of working capital. The balance of unused credit lines under these agreements as of the end of the fiscal year was as follows:

Current account of overdraft	34,600 million yen
Credit used	19,900 million yen
Credit available	14,700 million yen

5) Status of transfer of business, absorption-type company split and incorporation-type company split
Notes are omitted because it is insignificant.

(2) Business Results and Summary of Assets for the three immediately preceding fiscal terms

	Fiscal term ended December 20, 2012 (43rd Term)	Fiscal term ended December 20, 2013 (44th Term)	Fiscal term ended December 20, 2014 (45th Term)	Fiscal term ended December 20, 2015 (46th Term)
Net sales (Millions of yen)	176,613	196,467	208,370	157,289
Ordinary income (loss) (Millions of yen)	988	(2,943)	(7,725)	(7,363)
Net income (loss) (Millions of yen)	239	(2,877)	(8,510)	(13,324)
Net income (loss) per share (Yen)	4.00	(47.42)	(133.96)	(208.61)
Total assets (Millions of yen)	105,866	95,403	106,788	83,009
Net assets (Millions of yen)	29,434	26,451	20,329	5,875
Net assets per share (Yen)	484.60	435.68	318.29	92.00

(3) Major parent company and subsidiaries

1) Parent company

Name of Company	Location	Major Business	Date of Establishment	Capital (Millions of yen)	Percentage of Voting Rights of the Company Held by the Parent Company (%)
Seven & i Holdings Co., Ltd.	Chiyoda-ku, Tokyo	Pure holding company	September 1, 2005	50,000	50.74 (50.74)
Seven & i Netmedia Co., Ltd.	Chiyoda-ku, Tokyo	IT-related business	July 11, 2008	7,665	50.74

Notes: 1. Parenthesis in the column of percentage of voting rights indicates percentage of indirect ownership.

2. One officer has been seconded to the Company from the parent company.

3. The Company is entrusted with the call center business and other businesses from the parent companies.

Matters concerning transactions with the parent company, etc., are as follows.

The Company determines transactions with the parent company upon mutual consultation, taking into account the details of transactions, and therefore believes the transactions to be appropriate. The Company also makes its own decisions centered on its Board of Directors and believes that there is no issue with the legitimacy of the decision-making procedure.

2) Major subsidiaries

Name of Company	Capital	Percentage of Voting Rights of Subsidiaries, etc. Held by the Company	Major Activities
Nissen Co., Ltd.	100 million yen	100.0%	Mail-order business, store retailing business plus sales representation business
SHADDY CO., LTD.	3,445 million yen	100.0%	Gift-related business
Enicil Co., Ltd.	100 million yen	100.0%	Gift-related business
Three Heart Corporation Co., Ltd.	300 million yen	100.0%	Logistics business
Kurashino Design, Inc.	300 million yen	100.0%	Advertising business and publishing/sales business
n Beauty Science Co., Ltd.	63 million yen	100.0%	Planning, development, sales and wholesale of cosmetics and quasi-drugs
Nissen Life Co., Ltd.	100 million yen	100.0%	Life insurance solicitation business and non-life insurance agency business
oriental diamond inc.	100 million yen	100.0%	Import/sales of precious metals and jewelry
TRECENTI Co., Ltd.	200 million yen	100.0%	Sales of precious metals and jewelry

Notes: 1. Shares of Enicil Co., Ltd. and Three Heart Corporation Co., Ltd. are held indirectly by the Company through SHADDY CO., LTD.

2. Mail & e Business Logistics Service Co., Ltd. merged with Nissen Co., Ltd. on June 21, 2015.

3) Other major affiliated companies

Name of Company	Capital	Percentage of Voting Rights of Affiliated Companies Held by the Company	Major Activities
GE Nissen Credit Co., Ltd.	4,050 million yen	50.0%	Consumer credit card business, finance business, non-life insurance agency business, etc.

4) Specified wholly owned subsidiaries at the end of the fiscal year

Name of Company	Address	Total Book Value	Total Assets of the Company
SHADDY CO., LTD.	6-1-11, Shimbashi, Minato-ku, Tokyo	12,993 million yen	42,311 million yen

(4) Key issues

In order to pursue “implementation of business structural reform and early improvement in profitability,” the Nissen Group is pressing ahead with management streamlining measures, such as the liquidation and downsizing of unprofitable businesses and non-core businesses and improvements in the profit structure of the main force Nissen Co., Ltd.

On August 17, 2015, the Group decided to withdraw from the large furniture business, and in line with that, formulated management streamlining measures for achieving profitability at the earliest possible date. The measures included the simultaneous reinforcement of resource allocation for strategic core businesses, the solicitation of voluntary retirement in order to streamline the overall organization structure, and also the closure of overseas offices.

For the fiscal year ending December 20, 2016, the Group will pursue fundamental sales reform, including a shift of product policy from that based upon price appeal to value appeal, major changes to the catalogue editing policy, and a complete renewal of the web site, for the spring 2016 catalogue to be issued in January 2016.

The Group recorded significant operating loss, ordinary loss, and net loss in the current fiscal year, and recorded operating loss consecutively up to the current fiscal year. As a result, there is an event or situation that may cast significant doubt about the going concern assumption. However, in order to resolve such event or situation, the Group has already implemented management streamlining measures including the withdrawal from the large furniture business while working on the business structural reform at Nissen Co., Ltd., reform of SHADDY-related business and the finance business, and the realization of synergy with the Seven & i Group.

Furthermore, as there are no concerns regarding financing, the Group deems that there are no significant uncertainties relating to the going concern assumption.

(5) Significant business activities (as of December 20, 2015)

- 1) Mail-order business, store retailing business, sales representation business and gift-related business
- 2) Life insurance solicitation business, non-life insurance agency business, credit card business and finance and loan business
- 3) Sales of precious metals and jewelry

(6) Main Offices (as of December 20, 2015)

Offices		Location
Nissen Holdings Co., Ltd.	Head office	Kyoto
	Information Center	Kyoto
Nissen Co., Ltd.	Head office	Kyoto
	Domestic centers	Kyoto; Muko, Kyoto Prefecture; Awara, Fukui Prefecture; Inabe, Mie Prefecture; Tokyo, others
	Overseas centers	Shanghai, Qingdao, Ho Chi Minh, others
	Directly managed stores	Ageo, Saitama Prefecture; Tokyo, others; Chiba Prefecture, others; Kanagawa Prefecture, others; Amagasaki, Hyogo Prefecture; Osaka Prefecture, others; Sendai, Miyagi Prefecture
SHADDY CO., LTD.	Head office	Minato, Tokyo
	Domestic centers	Matsubara, Osaka Prefecture; Tochigi, Tochigi Prefecture; Higashiomi, Shiga Prefecture; Eniwa, Hokkaido; Asakura, Fukuoka Prefecture; Iwade, Wakayama Prefecture

(7) Employees (as of December 20, 2015)

- 1) Number of employees of Nissen Group

Number of employees	Increase/decrease from end of previous fiscal year
1,271	151 (Decrease)

Note: Contract employees and temporary employees (non-regular employees) are excluded.

- 2) Number of employees of the Company

Number of employees	Increase/decrease from end of previous fiscal year	Average age	Average length of employment
55	25 (Decrease)	44 years, 10 months	15 years, 7 months

Note: Contract employees and temporary employees (non-regular employees) are excluded.

(8) Principal lenders (as of December 20, 2015)

Lenders	Outstanding amount of loan (Millions of yen)
Resona Bank, Limited	9,522
Bank of Kyoto, Ltd.	6,700
Mizuho Bank, Ltd.	3,883
Sumitomo Mitsui Banking Corporation	3,450
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,292

(9) Other significant matters related to the corporate group

Proceedings are continuing regarding the lawsuit filed on November 28, 2012, by Nissen Life Co., Ltd. against Zurich Life Insurance Company Ltd, seeking payment of surplus funds (unsettled money) from the transfer of the mutual aid contract portfolio and Nissen Co., Ltd. succeeds the position of plaintiff in this lawsuit due to the organizational restructuring within the Group on September 21, 2013 (succession of the mutual aid activities of Nissen Life Co., Ltd. by Nissen Co., Ltd. by means of an absorption-type company split).

2. Status of the Company

(1) Information on shares to be issued by the Company (as of December 20, 2015)

- | | | |
|---|---------------|--------------------|
| 1) Number of shares authorized to be issued | | 140,000,000 shares |
| 2) Number of shares issued | Common shares | 66,669,432 shares |
| 3) Number of shareholders | | 13,136 persons |
| 4) Ten largest shareholders of the Company | | |

Name of shareholder	Investment in the Company	
	Number of shares held (Thousand shares)	Percentage of voting rights (%)
Seven & i Netmedia Co., Ltd.	32,387	50.71
Nihon Unisys, Ltd.	1,501	2.35
Nissen Kyoekai	1,340	2.10
Tetsuo Kawashima	1,337	2.09
Brastsheave Co., Ltd.	1,155	1.81
Nissen Group Employee Shareholding Association	1,001	1.57
Yumiko Nakata	825	1.29
Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Mizuho Bank Account, Re-trustee Trust & Custody Services Bank, Ltd.	649	1.02
NIPPON LIFE INSURANCE COMPANY	556	0.87
Dai Nippon Printing Co., Ltd.	510	0.80

Notes: 1. The Company holds 2,798 thousand shares of treasury stocks and is excluded from the major shareholders list above.

2. The percentage of voting rights is computed after deducting the number of treasury stocks.

3. The 649 thousand shares held by Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Mizuho Bank Account, Re-trustee Trust & Custody Services Bank, Ltd. is the trust asset of retirement benefit trust entrusted to the bank by Mizuho Bank, Ltd., and the authority to give instruction concerning the exercise of voting rights thereof is reserved by Mizuho Bank, Ltd.

(2) Stock acquisition rights, etc. of the Company (as of December 20, 2015)

- 1) Stock acquisition rights allotted in consideration of the performance of duties and held by the Directors and Audit & Supervisory Board Members of the Company
Not applicable
- 2) Stock acquisition rights allotted to employees in consideration of the performance of duties during the fiscal year under review
Not applicable

(3) Corporate officers

1) Directors and Audit & Supervisory Board Members (as of December 20, 2015)

Position	Name	Responsibility or representation in other corporations
President and Representative Director	Nobuyuki Ichiba	President and Representative Director, Nissen Co., Ltd.
Senior Vice President and Representative Director	Fumihiko Nagamatsu	Executive Officer and Assistant to the President, Seven & i Holdings Co., Ltd.
		Senior Vice President and Representative Director, Nissen Co., Ltd.
		Chairman and Director, SHADDY CO., LTD.
Director	Toshiya Tsukushi	Managing Executive Officer, serving concurrently as Chief Financial Officer of the Company
		Vice President and Representative Director, SHADDY CO., LTD.
		Chairman and Director, oriental diamond inc.
		Chairman and Director, TRECENZI Co., Ltd.
		Chairman and Director, Nissen Life Co., Ltd.
		Chairman and Representative Director, GE Nissen Credit Co., Ltd.
Director	Tamaki Wakita	Executive Officer, serving concurrently as General Manger, Corporate Planning Department of the Company
		Director, Nissen Co., Ltd.
Director	Toshiaki Yamaguchi	Outside Director, DAITO TRUST CONSTRUCTION CO., LTD.
		Director, Japan Corporate Governance Network (a non profit organization)
		Outside Corporate Auditor, OSAKA University Venture Capital Co., Ltd.
		Committee Member, Committee on Whistleblower Protection System, Consumer Affairs Agency
Director	Michiko Fujii (maiden name: Hirono)	President, 21LADY Co., Ltd.
		Chairman and Representative Director and President, HIROTA Co, Ltd.
		President and Representative Director, ILLUMS Japan Co., Ltd.
		Outside Director, Japan Post Co., Ltd.
Director	Yukio Fujishima	Director, Sogo & Seibu Co., Ltd.
		Director, Oshman's Japan Co., Ltd.
		Director, Seven & i Publishing Co., Ltd.
Director	Shigetada Aoki	Director, Ito-Yokado Co., Ltd.
		President and Representative Director, Seven & i Publishing Co., Ltd.
Director	Tetsuo Komori	Outside Director, TOMOEGAWA CO., LTD.
		Management Adviser, Unison Capital, Inc.
		Outside Director, ASAHI TEC CORPORATION
		President and CEO, Ken Depot Corporation

Position	Name	Responsibility or representation in other corporations
Full-time Audit & Supervisory Board Member	Yasoji Mori	Corporate Auditor, Nissen Co., Ltd.
		Corporate Auditor, SHADDY CO., LTD.
Audit & Supervisory Board Member	Scott Trevor Davis	Professor, College of Business, Rikkyo University
		Outside Director, Seven & i Holdings Co., Ltd.
		Outside Director, BRIDGESTONE CORPORATION
		Outside Director, Sompo Japan Nipponkoa Holdings, Inc.
Audit & Supervisory Board Member	Osamu Yamada	-

- Notes:
1. The Directors Toshiaki Yamaguchi, Michiko Fujii, Yukio Fujishima, Shigetada Aoki and Tetsuo Komori are Outside Directors, as prescribed by Article 2 Item 15 of the Corporation Act. Incidentally they are designated as the independent directors/audit & supervisory board members who have no potential conflict of interests with general shareholders as mandated by Tokyo Stock Exchange, Inc.
 2. The Audit & Supervisory Board Members Scott Trevor Davis and Osamu Yamada are Outside Audit & Supervisory Board Members, as prescribed by Article 2 Item 16 of the Corporation Act. Incidentally, they are designated as the independent directors/audit & supervisory board members who have no potential conflict of interests with general shareholders as mandated by Tokyo Stock Exchange, Inc.
 3. Mr. Yukio Fujishima, Mr. Shigetada Aoki and Mr. Tetsuo Komori were newly appointed and assumed the office of Directors at the 45th Ordinary General Meeting of Shareholders held on March 18, 2015.
 4. Mr. Toshio Katayama, Mr. Shinya Samura, Mr. Toshio Komada, Mr. Tsuyoshi Kobayashi and Mr. Yasuhiro Suzuki retired as Directors due to the expiration of their term of office at the close of the 45th Ordinary General Meeting of Shareholders held on March 18, 2015.

2) Outline of agreement on limitation of liability

The Company has concluded an agreement to limit liability for damages set forth in Article 423 Paragraph 1 of the Corporation Act with each of the Outside Officers pursuant to the provision of Article 427 Paragraph 1 of the Corporation Act. However, under the agreement, the liability for damages shall be limited to the amount specified in Article 425 Paragraph 1 of the Corporation Act.

3) Total remuneration for Directors and Audit & Supervisory Board Members

A. Outline of the Company's executive remuneration system

In the Company's executive remuneration system, objectivity and reasonableness of the remuneration payment standards and decision-making process are ensured by the arrangement in which all authority to make final decisions concerning executive remuneration is held by the Nominating and Compensation Committee chaired by an independent outside director with the majority of committee members being also independent outside directors. Under this system, executive remuneration (basic remuneration) consists of the three items namely fixed remuneration, performance-linked remuneration and stock-based remuneration, and the items and amounts to be paid are determined by the Nominating and Compensation Committee, according to the nature of work and role involved in each position. For fixed remuneration, fixed amount is paid based on the remuneration table as determined by the Nominating and Compensation Committee, according to the provisions of the Directors' compensation rules. Performance-linked remuneration is determined under the wholly performance-linked principle, payable based on the actual performance of the profit projection for the current fiscal year, but not payable at all given the performance below a certain level. Stock-based remuneration is paid in fixed sum of money in order for the concerned executives to share common corporate goals with shareholders, on the premise that it will eventually be exercised into shares in the Company through the executive shareholding association.

B. Total remuneration for Directors and Audit & Supervisory Board Members for the fiscal year under review and total amount by remuneration type

Title	Total remuneration	Total amount by remuneration type
		Basic remuneration
Directors (12)	76 million yen	76 million yen
Of which, Outside Directors (6)	28 million yen	28 million yen
Audit & Supervisory Board Members (3)	39 million yen	39 million yen
Of which, Outside Audit & Supervisory Board Members (2)	19 million yen	19 million yen
Total	116 million yen	116 million yen

Notes: 1. Total remuneration for Directors does not include remuneration for employees paid to the Directors who are concurrently employed as employees.

2. In addition to the above, 68 million yen was paid as executive remuneration to the Outside Officers by the Company's parent company, or subsidiaries of such parent company.

3. It was resolved at the 33rd Ordinary General Meeting of Shareholders held on March 18, 2003 that the remuneration for Directors should be within the limit of 350 million yen per year (excluding remuneration for employees).

4. It was resolved at the 37th Ordinary General Meeting of Shareholders held on March 14, 2007 that the remuneration for Audit & Supervisory Board Members should be within the limit of 50 million yen per year.

4) Matters related to Outside Officers

A. Positions concurrently held by Outside Officers as executives or outside officers of other legal entities, and the relationships of their legal entities with the Company

Title	Name	Name of legal entity in which an Outside Director concurrently holds a position	Concurrent position	Relationship
Director	Toshiaki Yamaguchi	DAITO TRUST CONSTRUCTION CO., LTD.	Outside Director	-
		Japan Corporate Governance Network (a non profit organization)	Director	-
		OSAKA University Venture Capital Co., Ltd.	Outside Corporate Auditor	-
		Committee on Whistleblower Protection System, Consumer Affairs Agency	Committee Member	-
Director	Michiko Fujii (maiden name: Hirono)	21LADY Co., Ltd.	Representative Director	-
		HIROTA Co, Ltd.	Representative Director	-
		ILLUMS Japan Co., Ltd.	Representative Director	-
		Japan Post Co., Ltd.	Outside Director	-
Director	Yukio Fujishima	Sogo & Seibu Co., Ltd.	Director	Sogo & Seibu Co., Ltd. is the subsidiary of the Company's parent company through indirect shareholding of the Company's shares.
		Oshman's Japan Co., Ltd.	Director	Oshman's Japan Co., Ltd. is the subsidiary of the Company's parent company through indirect shareholding of the Company's shares.
		Seven & i Publishing Co., Ltd.	Director	Seven & i Publishing Co., Ltd. is the subsidiary of the Company's parent company through indirect shareholding of the Company's shares.

Title	Name	Name of legal entity in which an Outside Director concurrently holds a position	Concurrent position	Relationship
Director	Shigetada Aoki	Seven & i Publishing Co., Ltd.	Representative Director	Seven & i Publishing Co., Ltd. is the subsidiary of the Company's parent company through indirect shareholding of the Company's shares.
		Ito-Yokado Co., Ltd.	Director	Ito-Yokado Co., Ltd. is the subsidiary of the Company's parent company through indirect shareholding of the Company's shares.
Director	Tetsuo Komori	TOMOEGAWA CO., LTD.	Outside Director	-
		Unison Capital, Inc.	Management Adviser	-
		ASAHI TEC CORPORATION	Outside Director	-
		Ken Depot Corporation	President and CEO	-
Audit & Supervisory Board Member	Scott Trevor Davis	Seven & i Holdings Co., Ltd.	Outside Director	Seven & i Holdings Co., Ltd. is the Company's parent company through indirect shareholding of the Company's shares.
		BRIDGESTONE CORPORATION	Outside Director	-
		Sompo Japan Nipponkoa Holdings, Inc.	Outside Director	-
Audit & Supervisory Board Member	Osamu Yamada	-	-	-

B. Major activities during the fiscal year under review

(Outside Directors)

Of all 18 Board of Directors' meetings held during the fiscal year under review, Mr. Toshiaki Yamaguchi and Ms. Michiko Fujii participated in 17 and 18 meetings, respectively. Meanwhile, of the 14 Board of Directors' meetings held after the appointment of Mr. Yukio Fujishima, Mr. Shigetada Aoki and Mr. Tetsuo Komori as Directors, Mr. Fujishima, Mr. Aoki and Mr. Komori participated in 12, 12 and 14 meetings, respectively. During those meetings, these Outside Directors offered advices and recommendations for ensuring appropriateness and adequacy of the decision-making at the Board of Directors' meetings, from the experts' point of view in each area of specialty, namely corporate legal affairs and compliance by Mr. Yamaguchi, lifestyle industries by Ms. Fujii, retail and distribution business by Mr. Fujishima, the field of providing lifestyle information by Mr. Aoki and business restructuring by Mr. Komori.

Mr. Yamaguchi also served as Chairman of the Nominating and Compensation Committee and a member of the Corporate Governance Committee, while Ms. Fujii served as a member of the Nominating and Compensation Committee, and Mr. Komori served as a member of the Corporate Governance Committee and the Nominating and Compensation Committee, respectively.

(Outside Audit & Supervisory Board Members)

Of the 18 Board of Directors' meetings and the 11 Audit & Supervisory Board meetings held during the fiscal year under review, Mr. Scott Trevor Davis participated in 15 Board of Directors' meetings and 10 Audit & Supervisory Board meetings, while Mr. Osamu Yamada participated in 18 Board of Directors' meetings and 11 Audit & Supervisory Board meetings, respectively. During those meetings, Mr. Davis raised questions and stated opinions as appropriate mainly from CSR point of view, while Mr. Yamada did the same mainly from finance and accounting point of view.

Mr. Yamada also served as Chairman of the Corporate Governance Committee.

(4) Accounting Auditor

1) Name of Accounting Auditor: KPMG AZSA LLC

2) Amount of remuneration paid to the Accounting Auditor

	Amount paid
1. Amount of remuneration paid to the Accounting Auditor in the fiscal year under review	43 million yen
2. Total amount of remuneration and property benefits to be paid to the Accounting Auditor by the Company and its subsidiaries	86 million yen

Notes: 1. Upon confirming and deliberating the contents of the audit plans of the Accounting Auditor, the status of execution of accounting audits and the grounds for the calculation of the amount of remuneration, the Audit & Supervisory Board approves the amount of remuneration to be paid to the Accounting Auditor, pursuant to Article 399 Paragraph 1 of the Corporation Act.

2. As the audit agreement between the Company and its Accounting Auditor does not differentiate the amount of remuneration for audit under the Corporation Act from the amount of remuneration for audit under the Financial Instruments and Exchange Act, the amount under 1. above shows the total remuneration for both audits.

3) Non-auditing services

Not applicable

4) Policies for decisions on dismissal or non re-appointment of an Accounting Auditor

If it deems that any item of the conditions stipulated in Article 340 Paragraph 1 of the Corporation Act applies to the Accounting Auditor, the Audit & Supervisory Board will consider dismissal of the Accounting Auditor, and if it deems the dismissal to be appropriate, the Audit & Supervisory Board will dismiss the Accounting Auditor, by the unanimous consent of all the Audit & Supervisory Board Members. In this case, the Audit & Supervisory Board Member designated by the Audit & Supervisory Board will report the dismissal of the Accounting Auditor and the reason for the dismissal at the first General Meeting of Shareholders following the dismissal. Additionally, if it is deemed that the performance of proper auditing by the Accounting Auditor is difficult, or in other situations deemed necessary, the Audit

& Supervisory Board will determine the contents of the proposal on the dismissal or non re-appointment of the Accounting Auditor to be submitted to the General Meeting of Shareholders.

- 5) Audits of financial statements of the Company's subsidiaries as conducted by certified public accountants or audit corporations that are not the Company's Accounting Auditor
Not applicable

(5) Systems and Policies of the Company

1) Systems to ensure appropriate execution of duties

The Company resolves as follows at the Board of Directors' meeting, concerning the "development of systems to ensure that the execution of duties by the Directors conforms to laws and the Articles of Incorporation, and other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a stock company and a corporate group comprising such stock company and its subsidiaries" as stipulated by the Corporation Act.

A. Systems to ensure that the execution of duties by the Directors and employees of the corporate group comprising the Company, its parent company and subsidiaries will conform to the laws and Articles of Incorporation

- i) The Company and its subsidiaries declare in our "corporate motto" and "corporate action principles," etc. that we will fulfill our corporate social responsibility as required by society, through ensuring corporate action geared to business ethics and in compliance with laws, rules and social norms, in order to sustain our status as a trustful and honest enterprise; and on this basis, will ensure further enforcement of compliance through the operation of the helpline and promotion of fair transactions as well as thorough instruction of corporate action principles and entity-level guidelines across the Group, under the framework developed, maintained and operated primarily by the CSR Committee of the Company as its core body.
- ii) The Company and its subsidiaries declare that we will cut off all relationships with the so-called anti-social forces. Thus, we will resolutely reject any unjustified demands by anti-social forces, while promptly taking legal measures on civil as well as criminal basis, in cooperation with the external expert organizations such as police agencies and attorneys.
- iii) The internal audit section of the Company or its parent company that is independent of the business execution section will conduct internal audits on, and verify the development and implementation of the compliance system in the Company and its subsidiaries.
- iv) Audit & Supervisory Board Members of the Company and its subsidiaries will verify that execution of duties by their Directors complies with laws and Articles of Incorporation, and will strive to enhance the effectiveness of the monitoring function.

B. Systems for the storage and management of information related to the execution of duties by Directors of the Company and systems for reporting matters related to the execution of duties by Directors of the subsidiaries to the parent company

- i) The Company and its subsidiaries will, according to the relevant laws and basic rules concerning information control, appropriately prepare, store and manage minutes of the General Meeting of Shareholders and those of the Board of Directors' meetings, and other documents (including electromagnetic records; hereinafter the same shall apply) statutorily required to be prepared and stored, as well as requests for managerial decisions and other documents and information necessary for ensuring adequate business execution.
- ii) The Company and its subsidiaries will appoint a Chief Information Officer at each company, who is responsible for overseeing the management of business information, and the designing, planning and promotion of information control. Additionally, the Chief Information Officer of the Company, with its Information Control Committee as a core body, will oversee the management of business information of the Company and its subsidiaries as a whole. Through such measures, an integrated information control will be implemented based on an exhaustive collection of important information, the enhancement of the effectiveness of timely and accurate information disclosure by the division responsible for disclosures and security control over important information including business secrets and personal information. Meanwhile, implementation status of information control shall be reported to the Board of Directors as well as Audit & Supervisory Board Members on a regular basis.
- iii) In the event that an important matter occurs that involves each of the Company's subsidiaries, the Directors and employees of the Company and its subsidiaries will report such matter to the Company's Chief Information Officer. The Company's Chief Information Officer will then report such matter to the Representative Directors and the Chief Information Officer of the parent

company, as well as to the head of the division which manages such matter.

- C. Systems and rules related to loss danger management of the corporate group comprising the Company, its parent company and subsidiaries
- i) In order to adequately analyze, assess and address the risks involved in each business, in light of changes in the business environment and associated risk factors for the Company and its subsidiaries, the integrated risk management system will be established, developed and implemented primarily by the Risk Management Committee as its core body based on the risk management basic rules.
 - ii) System for reporting regularly to the Board of Directors and Audit & Supervisory Board Members of the Company on the status of risk management shall be established, developed and implemented, while the Board of Directors, Directors and responsible persons in the business execution section of the Company will conduct adequate analysis and assessment over the risks associated with business execution, and take remedial actions promptly.
 - iii) In the event of significant business disruption, severe incidents/accidents or major disasters, emergency headquarters shall be established for promptly taking business continuity measures, in an effort to minimize the loss of, or damage to, the Company and its parent company and subsidiaries as a whole.
- D. System to ensure the efficient execution of duties by the Directors of the corporate group comprising the Company, its parent company and subsidiaries
- i) The Company and its subsidiaries, by clearly and appropriately prescribing the detail of decision-making authority of Directors and Executive Officers as well as the section in charge to be involved in each operation in rules, etc. concerning decision-making authority, avoid overlap of work while ensuring flexible decision-making and business execution.
 - ii) The Board of Directors of the Company, with an aim to ensure sustainable growth of the Company, will decide on the priority management objectives and budget allocations of the Company and its subsidiaries, while conducting verification and appropriate review over the efficiency and soundness of the business execution, through regularly receiving reports, etc. from Directors and responsible persons in the business execution section of the Company.
 - iii) The Board of Directors of the Company will promptly make decisions and promote efficient business execution by holding the Board of Directors' meetings at a regular interval on a monthly basis in principle, or otherwise by organizing resolutions at special Board of Directors' meetings or written resolutions as appropriate. The specific operation of the Board of Directors will be in accordance with the Articles of Incorporation and the Board of Directors rules, etc.
- E. System to ensure adequacy of financial reporting by the corporate group comprising the Company, its parent company and subsidiaries
- i) With an aim to provide timely and reliable financial reporting to shareholders, investors, creditors and other stakeholders in accordance with laws and regulations, the Company and its subsidiaries will construct, develop and appropriately implement the internal control system which ensures appropriate accounting treatment and financial reporting based on the internal control rules concerning financial reporting.
 - ii) The internal audit sections of the Company and its parent company that are independent of the business execution section will conduct evaluation and verification over the effectiveness of the development and implementation of the internal controls concerning financial reporting in the Company and its subsidiaries.
 - iii) Directors, Audit & Supervisory Board Members and the Accounting Auditor will appropriately share information among them over the matters deemed likely to have significant impact on our financial conditions.
- F. Systems to ensure the propriety of duties in the corporate group comprising the Company, its parent company, its subsidiaries and subsidiaries having the same parent company
- i) The Company will exercise its voting right legitimately and appropriately, in order to ensure adequacy of business at subsidiaries.
 - ii) Directors of the Company will, even if they concurrently serve as Directors or employees of the parent company or subsidiaries having the same parent company, fulfill their fiduciary duty to the Company at all times, while participating in resolutions and executing their business legitimately and appropriately.
- G. Matters related to the employees when the Audit & Supervisory Board Member of the Company requests the appointment of employees for assistance
- If an Audit & Supervisory Board Member requests the appointment of dedicated employees for assistance, such request will be complied.
- H. Matters related to the independence from the Company's Directors of the employees serving as

assistants to the Company's Audit & Supervisory Board Members and the effectiveness of the directions given thereby

Personnel affairs arrangements and changes thereof regarding the employees serving as dedicated assistants to Audit & Supervisory Board Members shall be subject to approval by the Audit & Supervisory Board Members concerned. Additionally, while such employees shall comply with the employment rules of the Company, the right to supervise and command such employees shall belong to each Audit & Supervisory Board Member, and personnel affair matters of such employees, including compensation and disciplinary actions, shall be determined upon prior consultation with the Audit & Supervisory Board Members.

I. System for reporting to the Audit & Supervisory Board Members

i) System for reporting to the Audit & Supervisory Board Members of the Company by the Directors and employees of the Company

Directors and employees of the Company will immediately report to the Audit & Supervisory Board Members in the event they discovered any fact that may cause material damage to the Company, misconducts and violations of laws and Articles of Incorporation by Directors or employees.

ii) System for reporting to the Audit & Supervisory Board Members of the Company and its parent company by the Directors, Audit & Supervisory Board Members and employees of the Company and its subsidiaries, or by persons who have received reports from them

Directors, Audit & Supervisory Board Members and employees of the Company and its subsidiaries will immediately report to the Audit & Supervisory Board Members of the Company and its parent company in the event they discover any fact that may cause material damage to each of the Company's subsidiaries, misconducts and violations of laws and Articles of Incorporation at each of the Company's subsidiaries. In addition, Directors and employees at each of the Company's subsidiaries may report to the helpline, which also has a significance as a whistleblowing system, at any time, in the event they discover violations of laws, social norms, internal rules, etc. and any fact that may result in losing the society's trust in the Company and its subsidiaries with respect to the businesses of each of the Company's subsidiaries. The CSR committee of the Company shall regularly report to the President and Representative Director and Audit & Supervisory Board Members on the implementation status of the helpline.

J. System to ensure that persons who made reports as described in the preceding paragraph are not subject to unreasonable treatment because of such reporting

The Company shall set forth and appropriately enforce provisions in the internal rules prohibiting unreasonable treatment of persons who have made reports as described in the preceding paragraph because of such reporting.

K. Matters related to the policies concerning prepayment or redemption procedures for expenses incurred in the execution of duties by the Audit & Supervisory Board Members of the Company or other handling procedures for expenses or obligations incurred through the execution of aforementioned duties

Expenses incurred in the execution of duties by the Audit & Supervisory Board Members shall be borne by the Company.

L. Other systems to ensure that auditing by the Audit & Supervisory Board Members of the Company is carried out effectively

i) Audit & Supervisory Board Members of the Company will hold meetings with the President and Representative Director on a regular basis, to exchange opinions on the important agendas concerning audits.

ii) Audit & Supervisory Board Members of the Company will stay in close liaison with the internal audit section, and will be entitled to request the section to carry out an investigation as appropriate.

iii) Audit & Supervisory Board Members of the Company will hold meetings with Audit & Supervisory Board Members of its parent company and subsidiaries on a regular basis, and otherwise cooperate with them as appropriate in carrying out adequate audits in the corporate group.

iv) Audit & Supervisory Board Members of the Company may consult with the Accounting Auditor and/or attorneys as necessary, and the costs incurred therein shall be borne by the Company.

2) Implementation status of the systems to ensure appropriate execution of duties

The summary of the implementation status of the systems to ensure appropriate execution of duties in the fiscal year under review is as follows.

In the fiscal year under review, in response to the revised Corporation Act and the revised Ordinance for Enforcement of the Corporation Act enacted in May 2015, the Company revised the basic policy on

the development of internal controls and related internal rules in July 2015 and has implemented them accordingly.

A. Initiatives for compliance

The Company has established the “corporate action principles” and ensures that all officers and employees are thoroughly familiar with them to act in accordance with basic rules. In case that any violation of laws or the Articles of Incorporation has occurred or is likely to occur as a result of the monitoring by the internal control audits, impartial investigation will be conducted to identify objective facts, and appropriate measures will be taken to prevent recurrence of such misconduct.

B. Initiatives to ensure the appropriateness and efficiency of execution of duties

The Board of Directors promptly makes decisions on important management matters and supervises the execution of duties by Directors and Executive Officers by holding the Board of Directors’ meetings on a monthly basis and special Board of Directors’ meetings as needed. Information concerning the execution of duties by Directors such as minutes of the Board of Directors’ meetings and approval documents for important matters are stored and managed properly based on the document management rules and other internal rules. In addition, to ensure the appropriateness of operations, committees that directly report to the President and Representative Director, namely the CSR Committee, the Risk Management Committee, and the Information Management Committee have been established, and the Company works to develop an operation system that enables integrated management and promotion of business execution by the President and Director.

C. Initiatives for loss danger management

The integrated risk management system has been established, developed and implemented primarily by the Risk Management Committee based on the risk management basic rules to identify, analyze, and appropriately address the risks associated with the Company.

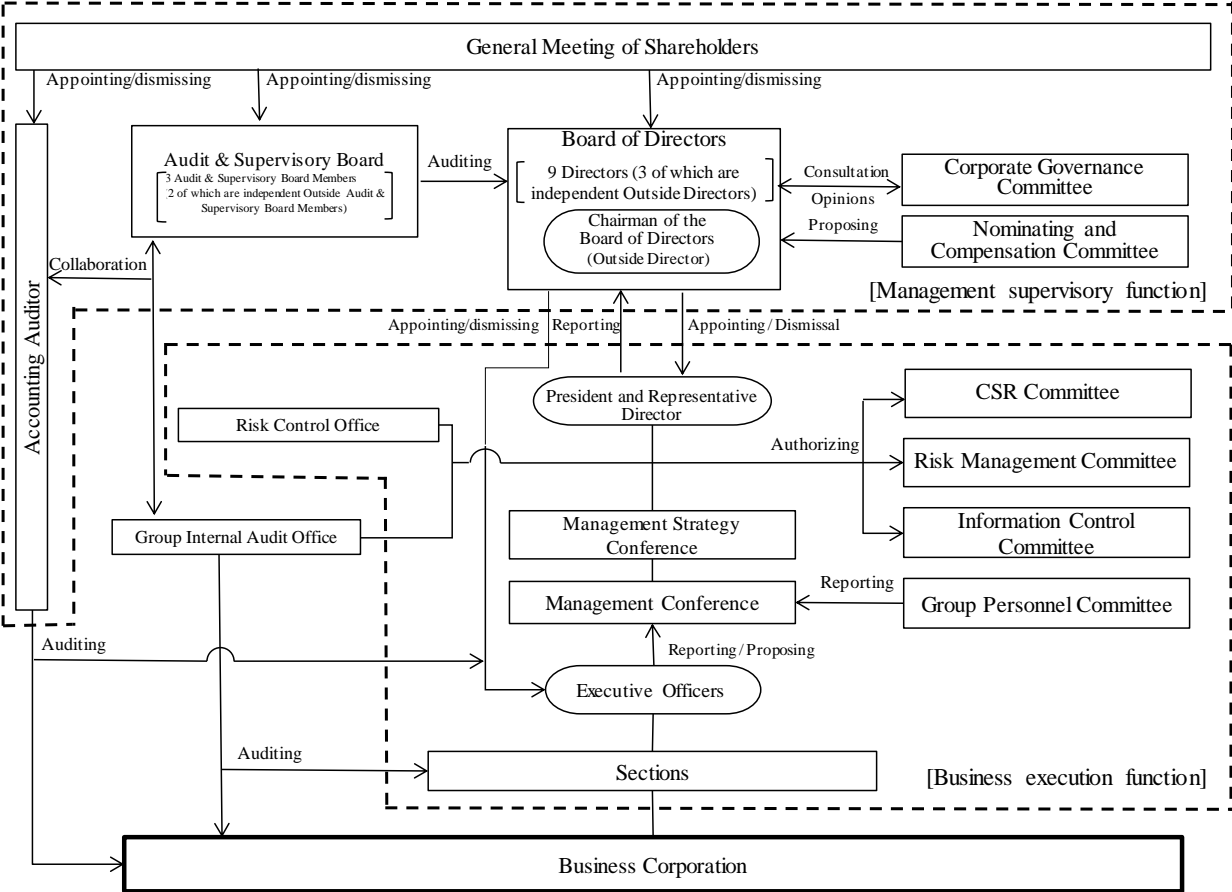
D. Initiatives to ensure the effective audits by Audit & Supervisory Board Members

The Audit & Supervisory Board, comprising three Audit & Supervisory Board Members, two of which are independent Outside Audit & Supervisory Board Members, reports, discusses, and decides on important matters related to audits, in accordance with the auditing policies and the division of duties, by holding the Audit & Supervisory Board meetings on a monthly basis and special Audit & Supervisory Board meetings as needed.

3) The Company's basic policies on the Corporate Governance of the Company

The Company positions the corporate governance as a core element of corporate management in order to enhance the soundness and transparency of management as well as the effectiveness and efficiency of executions. By designing the corporate governance system so as to organically coordinate with the internal controls, the Company will strive to improve the corporate values over the medium and long term and become a corporate group that will continue to develop through all eternity.

(Reference) Governance Organization Chart



4) Basic principles in connection with the control of *Kabushiki Kaisha*

A. Basic policies regarding persons who control the Company's decisions on financial and business matters

The Company believes that when the Company receives a Material Proposal with respect to control of the Company, the decision as to whether to accept the Proposal should ultimately be left up to the shareholders.

B. Special efforts to achieve the basic policies

The Company has been committed to strengthening its corporate governance system including "ensuring three or more independent outside directors serving as board members at a pure holding company," "establishing the Corporate Governance Committee and the Nominating and Compensation Committee, each chaired by independent directors/corporate auditors and made up of a majority of independent directors/corporate auditors," and "establishing chairman of the Board of Directors requiring outside directors as its qualification, aiming at clearly separating management supervisory function from business execution function." With a view to enhancing corporate values on a medium-to-long term, the Company will aim to strengthen its growth potential, profitability and stability through pushing ahead with structural reform of existing businesses, creation of new businesses, fostering and securing of managerial human resources and reinforcement of financial base, along with continuous efforts to strengthen its management infrastructure.

C. Measures to prevent inappropriate parties from controlling the financial and operational policies of the Company under the basic policy

Although the Company has not implemented the so-called anti-takeover measures, we will keep considering this strategy carefully in view of the trends in legislation and court precedents as well as general social trends, while moving ahead with the above measures.

D. Decision of the Company's Board of Directors for taking each of the above measures, and the reasons therefore

The Company believes that the above efforts are measures to be taken to enhance the medium-to-long term corporate values of the Company and the common interests of the shareholders, and that these efforts will contribute to the common interests of shareholders.

Note: Fractional units of monetary amounts and numbers of shares indicated in this Business Report are rounded down. Percentages are rounded to the nearest digit indicated.

Consolidated Balance Sheet

(As of December 20, 2015)

(Millions of yen)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	47,561	Current liabilities	66,475
Cash and deposits	2,952	Notes and accounts payable-trade	20,041
Notes and accounts receivable-trade	19,990	Electronically recorded obligations-operating	4,753
Inventories	13,282	Short-term bank loans	26,418
Prepaid expenses	2,910	Lease obligations	1,490
Deferred tax assets	181	Accounts payable-other	7,507
Accounts receivable-other	7,292	Income taxes payable	207
Forward exchange contracts	973	Allowance for returned goods unsold	119
Others	495	Allowance for returned goods damaged	5
Allowance for doubtful receivables	(519)	Allowance for sales promotion expenses	51
Fixed assets	35,448	Allowance for loss on business liquidation	225
Property, plant and equipment	22,330	Others	5,656
Buildings and structures	10,024	Long-term liabilities	10,658
Machinery equipment and vehicles	1,757	Long-term loans from banks	1,920
Tools, furniture, and fixtures	886	Lease obligations	5,768
Land	5,692	Deferred tax liabilities	61
Lease assets	3,837	Net defined benefit liability	1,663
Construction in progress	132	Asset retirement obligations	308
Intangible assets	6,486	Others	936
Goodwill	26	Total liabilities	77,134
Lease assets	3,245	Net assets	
Software	2,528	Shareholders' equity	5,120
Others	685	Common stock	11,873
Investments and other assets	6,632	Capital surplus	11,895
Investment in securities	4,453	Retained earnings	(17,724)
Others	2,633	Treasury stock	(923)
Allowance for doubtful receivables	(455)	Accumulated other comprehensive income	754
		Net unrealized holding gain (loss) on other securities	10
		Deferred hedge gain (loss)	630
		Remeasurements of defined benefit plans	114
		Total net assets	5,875
Total assets	83,009	Total liabilities and net assets	83,009

Consolidated Statement of Income
(From December 21, 2014 to December 20, 2015)

(Millions of yen)

Item	Amount	
Net sales		157,289
Cost of sales		102,022
Gross profit		55,266
Provision of allowance for returned goods unsold		119
Reversal of allowance for returned goods unsold		175
Gross profit-net		55,323
Selling, general and administrative expenses		63,482
Operating loss		8,159
Non-operating income		
Interest and dividend income	20	
Commission income	52	
Foreign exchange gain	56	
Equity in earnings of affiliates	773	
Miscellaneous income	268	1,170
Non-operating expenses		
Interest expenses	261	
Miscellaneous expenses	113	374
Ordinary loss		7,363
Extraordinary income		
Gain on sales of fixed assets	181	
Gain on sales of investments in securities	366	548
Extraordinary loss		
Loss on sales or retirement of fixed assets	510	
Impairment loss	42	
Loss on write-down of investments in securities	78	
Loss on business liquidation	4,835	
Loss on business of affiliates	130	
Provision for loss on business of affiliates	104	
Amortization of goodwill	538	
Others	23	6,264
Loss before income taxes and minority interest		13,079
Current income taxes	299	
Deferred income taxes	(54)	244
Loss before minority interests		13,324
Net loss		13,324

Consolidated Statement of Changes in Shareholders' Equity, etc.

(From December 21, 2014 to December 20, 2015)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of Dec. 21, 2014	11,873	11,895	(4,400)	(923)	18,445
Change in the fiscal year					
Net loss	—	—	(13,324)	—	(13,324)
Purchase of treasury stocks	—	—	—	(0)	(0)
Changes (net) in items other than shareholders' equity	—	—	—	—	—
Total changes in the fiscal year	—	—	(13,324)	(0)	(13,324)
Balance as of Dec. 20, 2015	11,873	11,895	(17,724)	(923)	5,120

	Accumulated other comprehensive income				Total net assets
	Net unrealized holding gain (loss) on other securities	Deferred hedge gain (loss)	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance as of Dec. 21, 2014	320	1,659	(95)	1,884	20,329
Change in the fiscal year					
Net loss	—	—	—	—	(13,324)
Purchase of treasury stocks	—	—	—	—	(0)
Changes (net) in items other than shareholders' equity	(310)	(1,029)	210	(1,129)	(1,129)
Total changes in the fiscal year	(310)	(1,029)	210	(1,129)	(14,453)
Balance as of Dec. 20, 2015	10	630	114	754	5,875

Notes to Consolidated Financial Statements

1. Basis of preparation of consolidated financial statements

(1) Basis of Consolidation

1) Consolidated subsidiaries

Consolidated subsidiaries: 9

Consolidated subsidiaries

Nissen Co., Ltd.

SHADDY CO., LTD.

Enicil Co., Ltd.

Three Heart Corporation Co., Ltd.

Kurashino Design, Inc.

n Beauty Science Co., Ltd.

Nissen Life Co., Ltd.

oriental diamond inc.

TRECENTI Co., Ltd.

Mail & e Business Logistics Service Co., Ltd., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it was absorbed into Nissen Co., Ltd., the Company's consolidated subsidiary, during the current fiscal year.

2) Non-consolidated subsidiaries

Major non-consolidated subsidiaries

Shanghai Nissen Garments & Inspection Co., Ltd.

(Reason for exclusion from the consolidation)

The consolidated financial statements do not include the accounts of 11 non-consolidated subsidiaries, because these entities are small-scale businesses whose combined total assets, net sales, net income/loss (equity in earnings/loss), and retained earnings (equity in earnings) have no significant effect on the overall results of consolidated financial statements.

(2) Application of the equity method of accounting

1) Affiliates accounted for under the equity method of accounting: 1

The company name:

GE Nissen Credit Co., Ltd.

2) Major non-consolidated subsidiaries and affiliates not accounted for under the equity method of accounting

Shanghai Nissen Garments & Inspection Co., Ltd.

(Reason for exclusion from application of the equity method of accounting)

The aforementioned entity is excluded from the scope of application of the equity method of accounting, because its exclusion has a very minor effect on consolidated financial statements in terms of net income/loss (equity in earnings/loss) and retained earnings (equity in earnings) and it is also relatively insignificant as a whole.

(3) Fiscal years of consolidated subsidiaries

The balance sheet dates of the consolidated subsidiaries are as follows:

Subsidiaries	Year-end Balance sheet dates
Nissen Co., Ltd.	Dec. 20
SHADDY CO., LTD.	Dec. 31
Enicil Co., Ltd.	Dec. 31
Three Heart Corporation Co., Ltd.	Dec. 31
Kurashino Design, Inc.	Dec. 20
n Beauty Science Co., Ltd.	Dec. 20
Nissen Life Co., Ltd.	Dec. 20
oriental diamond inc.	Dec. 31
TRECENTI Co., Ltd.	Dec. 31

In preparation of the consolidated financial statements, the Company consolidated the financial statements for SHADDY CO., LTD., Enicil Co., Ltd., Three Heart Corporation Co., Ltd., oriental diamond inc. and TRECENTI Co., Ltd., each of which was prepared based on their closing date. Appropriate adjustments were made for significant transactions during the period from their respective closing dates to the balance sheet date of the consolidated financial statements.

(4) Accounting principles

1) Valuation criteria and methods for principal assets

A. Securities

Other securities

Securities with market quotations

Other securities that have market value are carried at fair value on the balance sheet date. (Unrealized holding gain or loss is included directly in net assets. The cost of securities sold is determined primarily by the moving-average method.)

Securities without market quotations

Securities without market quotations are stated at cost, cost being determined by the moving-average method.

B. Derivatives

Market value method

C. Inventories

Inventories are stated at cost (determined by the write-down method due to a decrease in profitability.)

Merchandise:

Cost of merchandise is mainly determined by the first-in first-out method.

In certain consolidated subsidiaries, it is determined by the moving-average method.

2) Depreciation and amortization method for principal depreciable assets

A. Property, plant and equipment (excluding lease assets)

Depreciation is computed by the straight-line method.

Useful life of principal assets is as follows:

Buildings and structures: 3-47 years

Machinery equipment and vehicles: 2-15 years

Tools, furniture, and fixtures: 4-15 years

- B. Intangible assets (excluding lease assets)
 Amortization is computed by the straight-line method.
 The development costs for software intended for internal use are amortized over an expected useful life of 5 years or 10 years by the straight-line method.
- C. Lease assets
 Lease assets concerning capitalized finance leases
 Lease assets are depreciated by the same method applied to the depreciation of proprietary fixed assets.
 Lease assets concerning non-capitalized finance leases
 Lease assets are depreciated by the straight-line method over the lease period without residual value.
- 3) Recognition of significant allowances
- A. Allowance for doubtful receivables
 To prepare for credit losses on accounts receivable, allowances equal to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio and for bad receivables based on a case-by-case determination of collectability.
- B. Allowance for returned goods unsold
 To prepare for losses from returned goods unsold, the Company booked an allowance for returned goods unsold at the end of the fiscal year based on the historical rate of returned goods.
- C. Allowance for returned goods damaged
 To prepare for losses from returned goods damaged/discarded, the Company booked an allowance for returned goods damaged at the end of the fiscal year based on the historical rate of returned goods damaged.
- D. Allowance for sales promotion expenses
 To prepare for expenses incurred as a result of usage of various discount coupons for the purpose of sales promotion, the Company booked an allowance for the estimated amount of discount coupon usage during and after the following fiscal year based on the historical usage amount.
- E. Allowance for loss on business liquidation
 To prepare for a loss from the business liquidation of consolidated subsidiaries, the Company booked an allowance for an estimated loss to be incurred in the future.
- 4) Accounting method for retirement benefits
- A. Attribution method of expected retirement benefit payments
 In calculating the amount of retirement benefit obligation, SHADDY CO., LTD. applied the straight-line basis for attributing expected retirement benefit payments to the period up to the end of the current fiscal year.
- B. Accounting method of actuarial differences and past service cost
 Actuarial differences are charged to expenses evenly from the fiscal year following the fiscal year in which the actuarial gain or loss is recognized, over the determined years (10 years) not longer than the average remaining service years of employees at the time of the difference occurring in each fiscal year.
 Past service cost is amortized on a straight-line basis over the determined years (10 years) not longer than the average remaining service years of employees at the time of occurrence of such cost.
- C. Application of simplified method for small scale companies
 For certain employees of Nissen Co., Ltd. and Three Heart Corporation Co., Ltd., the simplified method, where retirement benefit obligation is estimated at the amount of retirement benefit payments required for voluntary retirements at the end of the fiscal year, is applied to calculate the amount of net defined benefit liability and retirement benefit expense.
- 5) Translation of principal currency-dominated assets and liabilities
 Foreign currency-dominated monetary assets and liabilities are exchanged into yen at the spot exchange rate in effect on the consolidated balance sheet date.
- 6) Significant accounting policies for hedges
- A. Hedge accounting method
 Deferred hedge accounting is applied. However, with respect to forward foreign exchange contracts which meet the requirements, a hedge is accounted for by the short-cut method. Interest rate swap contracts which meet the requirements are accounted for as exceptional processing.
- B. Hedging instrument and the risk hedged
 Hedging method:
 Forward foreign exchange contracts, interest rate swap contracts
 Risk hedged:
 Foreign currency-denominated monetary liabilities, bank loans

C. Hedging policy

Nissen Holdings enters into transactions such as forward foreign exchange contracts under a risk-control policy established by the Company, in order to reduce exposure to risks from fluctuations in foreign currency exchange. Nissen Holdings enters into interest rate swap contracts in order to reduce the future risk of interest rate fluctuations from bank loans to a certain level.

D. Assessing the effectiveness of a hedge

Effectiveness is assessed by rate analysis of the sum total of cash flow fluctuation involving hedged transactions and the sum total of cash flow fluctuation involving the hedge method.

Nissen Holdings considers that its hedges are effective, since there was a high correlation between hedging instruments and the risk hedged at the end of the current fiscal year.

With regard to interest rate swaps which meet the requirements of exceptional processing, the assessment of effectiveness is omitted.

7) Amortization method and period of goodwill

Amortization of goodwill is estimated for each period in which it is expected to emerge, and equally amortized over the designated amortization period. Relatively small amounts of goodwill are amortized in lump sums in the years in which they are recognized.

8) Other significant accounting policies in the preparation of consolidated financial statements

Accounting for consumption taxes:

All amounts stated are exclusive of consumption taxes and local taxes.

(5) Changes in accounting policies

Effective from the current fiscal year, the Company has applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012; the "Retirement Benefits Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015; the "Guidance on Retirement Benefits"), pursuant to provisions stated in Paragraph 35 of the Retirement Benefits Accounting Standard and Paragraph 67 of the Guidance on Retirement Benefits. Accordingly, in calculating the amount of retirement benefit obligation and past service cost, the method of determination of the discount rate has been revised to a method using single weighted average discount rate that reflects estimated payment periods of retirement benefits and payment amount of each estimated payment period from a method to determine the rate based on years approximate to the average remaining service years of employees.

The application of such accounting standards and guidance has no impact on the consolidated financial statements.

(6) Changes in accounting policies which are difficult to distinguish from changes in accounting estimates

The Company and its consolidated subsidiaries changed their depreciation method for property, plant and equipment, excluding buildings, from the previous declining-balance method to the straight-line method, effective from the current fiscal year.

This change was carried out since the Company became a consolidated subsidiary of Seven & i Holdings Co., Ltd., and as a result of reviewing the depreciation method for property, plant and equipment from a viewpoint of maintaining consistency of the accounting policies with those of the parent company.

As a result of such reviewing, the Group concluded that the straight-line method will allow expenses to correspond more appropriately to revenue and better reflect the actual management condition than the declining-balance method. This change was based on comprehensive consideration that property, plant and equipment at each company are expected to be used evenly over their useful life, that revenue is generated in a stable manner, and that maintenance and management costs such as repair expenses arise evenly throughout the period. Therefore, the Group changed its depreciation method for property, plant and equipment from the declining-balance method to the straight-line method, effective from the current fiscal year.

As a result of this change, compared with the previous method, operating loss decreased by 271 million yen, and both ordinary loss and loss before income taxes and minority interest by 272 million yen, for the current fiscal year.

(7) Change of presentation

Electronically recorded obligations-operating, which had been included in notes and accounts payable-trade under current liabilities for the previous fiscal year, is separately listed from the current fiscal year since they have become significant in terms of amount. The amount of electronically recorded obligations-operating for the previous fiscal year was 4,919 million yen.

2. Notes to consolidated balance sheets

(1) Breakdown of inventories:	
Merchandise and finished goods	12,876 million yen
Raw materials and supplies	405 million yen
(2) Accumulated depreciation of property, plant and equipment:	27,355 million yen
(3) Loan guarantees:	
Guarantees for loans taken out by Group employees from financial institutions	6 million yen
(4) Liquidation of notes receivable	
The Company transferred part of its notes receivable to liquidate the receivables. As a result of the liquidation of notes receivable-trade, the funds reserved for the purpose of credit enhancement were reported as an element of accounts receivable-other.	
The amount of transferred notes receivable-trade for liquidation	1,333 million yen
The amount of reserved funds for credit enhancement	306 million yen
(5) Overdraft	
The Company and its consolidated subsidiaries, Nissen Co., Ltd., SHADDY CO., LTD., Enicil Co., Ltd., Three Heart Corporation Co., Ltd., n Beauty Science Co., Ltd., oriental diamond inc. and TRECENTI Co., Ltd. have signed overdraft agreements with ten correspondent financial institutions to ensure efficient procurement of working capital. The balance of unused credit lines under these agreements as of the end of the current fiscal year was as follows:	
Current account of overdraft	34,600 million yen
Credit used	19,900 million yen
Credit available	14,700 million yen

3. Notes to consolidated statement of income

(1) The ending balance of inventories is the amount after writing down book values due to a decrease in profitability and the valuation loss on goods stated below is included in cost of sales and extraordinary loss.

Cost of sales	1,231 million yen
Extraordinary loss (loss on business liquidation)	654 million yen
<u>Total</u>	<u>1,885 million yen</u>

(2) Impairment loss

1) Assets for which impairment loss was recognized

Purpose of use	Category	Location
Logistics facility	Buildings and structures	Inabe, Mie Prefecture;
	Land	
	Others	
Directly managed store	Buildings and structures	Shimonoseki, Yamaguchi Prefecture
	Others	

2) Background to recognition of impairment loss

For logistics facility, impairment loss was recognized by reducing the book value to the recoverable amount on assets planned to be sold or retired due to the withdrawal from the large furniture business. For directly managed stores, impairment loss was recognized by reducing the book value to the recoverable amount due to the decision of their closures.

3) Breakdown of amount of impairment loss

A. Logistics facility

Buildings and structures	2,098 million yen
Machinery equipment and vehicles	5 million yen
Tools, furniture, and fixtures	8 million yen
Land	141 million yen
Lease assets (property, plant and equipment)	46 million yen
Lease assets (intangible assets)	95 million yen
Software	41 million yen
<u>Total</u>	<u>2,436 million yen</u>

Note: These are included in loss on business liquidation in the consolidated statement of income.

B. Directly managed store

Buildings and structures	14 million yen
Tools, furniture, and fixtures	1 million yen
Others (intangible assets)	26 million yen
<u>Total</u>	<u>42 million yen</u>

4) Method for grouping the assets

Asset grouping is based on business segments in principle, and idle properties and leased properties are grouped individually. Assets to be disposed of are grouped separately when disposal decisions are made.

5) Calculation method of collectable amount

The net realizable value is used for the collectable amount. For assets to be sold, the estimated disposal cost is deducted from the contract price. For assets to be retired, the disposal value is set at nil.

(3) Loss on business liquidation

This is the loss associated with the withdrawal from the large furniture business, solicitation of voluntary retirement, and decision of the closure of overseas offices. Details of such loss are as follows.

(Withdrawal from the large furniture business)	
Valuation loss on inventories	654 million yen
Loss on disposal of inventories	483 million yen
Impairment loss	2,436 million yen
Provision for loss on business liquidation	192 million yen
Others	208 million yen
(Solicitation of voluntary retirement)	
Special retirement expenses	547 million yen
Purchase of paid leave	105 million yen
Others	70 million yen
(Closure of overseas offices)	
Economic compensation	117 million yen
Others	17 million yen
<u>Total</u>	<u>4,835 million yen</u>

(4) Loss on business of affiliates

The estimated amount of loss associated with the liquidation of non-consolidated subsidiaries is recorded.

4. Notes to consolidated statement of changes in shareholders' equity, etc.

(1) Outstanding shares and treasury stocks

	As of Dec. 21, 2014	Increase	Decrease	As of Dec. 20, 2015
Outstanding shares				
Common shares (Shares)	66,669,432	—	—	66,669,432
Total	66,669,432	—	—	66,669,432
Treasury stock				
Common shares (Shares)	2,798,485	202	—	2,798,687
Total	2,798,485	202	—	2,798,687

(Outlines of changes)

Note: Breakdown of the increase in common shares of treasury stock is as follows.

Purchase of odd-lot shares: 202 shares

(2) Dividend of surplus

1) Dividends payment

Not applicable

2) Dividends with a record date in the current fiscal year and effective date in the following fiscal year

Not applicable

5. Notes to financial instruments

(1) Status of financial instruments

1) Policy for financial instruments

For asset management purpose, the Group invests in short-term deposits only and raises fund through loans from financial institutions such as banks etc. Derivative instruments are used with the objective of avoiding risks as described later, and not for speculative purposes, within the scope of commercial needs in accordance with the internal rules and regulations.

2) Details of financial instruments, their associated risks and risk management system

Notes and accounts receivable-trade and accounts receivable-other, which are operating receivables, are exposed to credit risk resulting from customers' default of payments. With regard to the management of credit risk, a section in charge of credit management manages the payment dates and outstanding balances of each customer's liabilities as well as maintains and operates a system to cope with credit management issues such as problem claims in accordance with the Group's internal rules.

Investment in securities in large part comprises equity shares in the business partners with which the Group has either business or capital tie-up relationships. Although these equity shares are exposed to the risk associated with market price fluctuations, the Group regularly monitors and obtains the latest information regarding market value trends and issuers' (business partners') financial standings, in order to continuously review their holding situations in consideration of the relationship with business partners.

The payment terms of notes and accounts payable-trade, electronically recorded obligations-operating, and accounts payable-other, which are operating debt, are mostly within one year. These include foreign-currency denominated liabilities related to imports of merchandise, etc. They are exposed to the exchange rate fluctuation risk, but the Group uses derivative instruments (i.e. forward foreign exchange contracts) to hedge against the risk.

Lease obligations associated with finance leases are mainly for the purpose of raising funds necessary for capital investments. The maximum redemption period of these obligations is 10 years, following the consolidated balance sheet date.

Bank loans are used for the purpose of financing business investments and operating funds. Part of these funds bears floating interest rates and is exposed to the risk of interest rate fluctuations, but the Group uses derivative instruments (i.e. interest rate swap contracts) to hedge against the risk as necessary. These derivative instruments conducted by the Group involve taking market risks attached to the fluctuations in foreign exchange rates and market interest rates. For details on hedging method and the risk hedged, hedging policy and the method for assessing the effectiveness of a hedge concerning hedge accounting, please refer to the aforementioned "Basis of preparation of consolidated financial statements, (4) Accounting principles, 6) Significant accounting policies for hedges."

Execution and management of derivative instruments are subject to the internal rules that stipulate the trading authority, trading limits, etc. and conducted by the section in charge of financial matters upon obtaining the approval by authorized officers. The Group enters into contracts for derivative instruments only with high credit rated financial institutions, in order to reduce the credit risk of counterparty default on these contracts.

Operating debt and bank loans are exposed to liquidity risk, but the Group manages it by assigning a section in charge of financial matters to compile monthly cash-flow projections and other methods.

3) Supplementary information on the market value of financial instruments

The market value of financial instruments is stated at either their prices as quoted in respective markets or, if no market quotations are available, reasonably estimated values. These estimated values incorporate variable factors, therefore they may vary according to differently employed preconditions, etc. Amounts of derivative instruments in themselves do not represent the market risks associated with derivative instruments.

(2) Market value, etc. for financial instruments

Consolidated balance sheet amounts, market values and the difference between the two as of December 20, 2015 are as follows. Financial instruments whose fair values are not readily determinable are excluded (see (Note 2)).

(Millions of yen)

	Consolidated balance sheet amount	Market value	Difference
1) Cash and deposits	2,952	2,952	—
2) Notes and accounts receivable-trade	19,990		
Allowance for doubtful receivables (*1)	(317)		
Notes and accounts receivable-trade (net)	19,672	19,672	—
3) Accounts receivable-other	7,292		
Allowance for doubtful receivables (*1)	(201)		
Accounts receivable-other (net)	7,090	7,090	—
4) Investment in securities	31	31	—
Total assets	29,748	29,748	—
1) Notes and accounts payable-trade	20,041	20,041	—
2) Electronically recorded obligations-operating	4,753	4,753	—
3) Short-term bank loans	20,190	20,190	—
4) Accounts payable-other	7,507	7,507	—
5) Long-term loans from banks (including those due within one year)	8,148	8,179	31
6) Lease obligations (including those due within one year)	7,259	7,612	353
Total liabilities	67,899	68,284	385
Derivative transactions (*2)	973	973	—

(*1) Allowance for doubtful receivables provided individually on notes and accounts receivable-trade and accounts receivable-other is deducted.

(*2) Net debts and credits arising from derivative instruments are stated at their net amounts, and items for which the total become net debts are presented in parentheses.

Note: 1. Calculating method of market values for financial instruments, and matters regarding securities and derivative instruments:

[Assets]

1) Cash and deposits, 2) Notes and accounts receivable-trade and 3) Accounts receivable-other

These are recorded using book values as their market values approximate their book values because of their short-term maturities.

4) Investment in securities

Market values of stocks are based on their prices quoted on the concerned stock exchange, while those of debt securities are based on their prices quoted either on the concerned exchange, or by the underwriting financial institutions.

[Liabilities]

1) Notes and accounts payable-trade, 2) Electronically recorded obligations-operating, 3) Short-term bank loans and 4) Accounts payable-other

These are recorded using book values as their market values approximate their book values because of their short-term maturities. Forward exchange contracts to which designation was applied, were recognized together with hedged accounts payable-trade, and therefore their market values are included in the market values of the relevant notes and accounts payable-trade.

5) Long-term loans from banks and 6) Lease obligations

Market values of these are calculated as present value obtained by discounting the sum of the principals

and interests at an assumed interest rate for similar new borrowings or leases. Long-term loans from banks with floating rates are tied to interest rate swap contracts and subject to exceptional processing. Their market values are calculated by discounting the sum of the principals and interests accounted for as a unit of the interest rate swap contract at an interest rate for similar borrowings.

[Derivative instruments]

Derivative instruments used are foreign currency-related transactions (forward exchange contracts) and interest rate-related transactions (interest rate swap contracts), to all of which a hedge accounting method is applied. Market values are based on their prices quoted by correspondent financial institutions.

1) Currency-related items

(Millions of yen)

Hedge accounting method	Type of derivative instruments	Hedged item	Contract amount	Of contract amount, more than one year	Market value
Principal procedures	Forward foreign exchange contracts Purchased U.S. dollar	Accounts payable-trade	11,375	—	973
Short-cut method applied to forward exchange contracts, etc.	Forward foreign exchange contracts Purchased U.S. dollar	Accounts payable-trade	328	—	(*)

(*) Forward exchange contracts to which designation was applied, were recognized together with hedged accounts payable-trade, and therefore their market values are included in the market values of the relevant notes and accounts payable-trade.

2) Interest rate-related items

(Millions of yen)

Hedge accounting method	Type of derivative instruments	Hedged item	Contract amount	Of contract amount, more than one year	Market value
Exceptional processing applied to interest rate swap contracts	Interest rate swap contracts (fixed interest payments / floating interest receivables)	Long-term loans from banks	3,762	550	(*)

(*) Interest rate swap contracts to which exceptional processing was applied, were recognized together with hedged long-term loans from banks, and therefore their market values are included in the market values of the relevant long-term loans from banks.

Note: 2. Financial instruments whose fair values are not readily determinable are excluded from the following table:

(Millions of yen)

classification	Consolidated balance sheet amount
Unlisted shares	4,307
Capital investment of Investment LPS	114

(*) The above item is not included in “4) Investment in securities” because there is no market value for unlisted shares and it is very difficult to identify their fair values.

6. Notes to business combination

Transactions under common control

Absorption-type merger between consolidated subsidiaries

(1) Outlines of transaction

1) Names and business of companies involved in the business combination

A. Absorbing company

Name: Nissen Co., Ltd. (consolidated subsidiary of the Company)
Business: Mail-order business via the Internet and catalogues of clothing mainly for women, interior goods, kimono items, etc.

B. Absorbed company

Name: Mail & e Business Logistics Service Co., Ltd. (consolidated subsidiary of the Company)
Business: Logistics, warehousing, and cargo transportation businesses

2) Business combination date

June 21, 2015

3) Legal form of business combination

Absorption-type merger, with Nissen Co., Ltd. as the surviving company, and Mail & e Business Logistics Service Co., Ltd. as the absorbed company

4) Company name after business combination

Nissen Co., Ltd. (consolidated subsidiary of the Company)

5) Outlines of other transactions

A. Purpose of transaction

The Group will enhance the efficiency of its business operations through a merger of two consolidated subsidiaries wholly owned by the Company. Through the vertical integration of the ability of Nissen Co., Ltd. in planning, procurement and sales, and the knowhow of Mail & e Business Logistics Service Co., Ltd. in logistics and distribution, the Group will promote speedy decision-making and optimization of indirect sections' operation, in order to strengthen its competitiveness and further increase its corporate value.

B. Transaction outline

There was no allocation of shares or other properties because this is a merger of two consolidated subsidiaries wholly owned by the Company.

(2) Outlines of accounting treatment

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued on December 26, 2008), we accounted for the merger as a transaction under common control.

7. Notes to real estate for rent, etc.

Notes are omitted because the total amount of real estate for rent, etc. is insignificant.

8. Notes to per share information

(1) Net asset per share	92.00 yen
(2) Net loss per share	208.61 yen

9. Notes to significant subsequent events

Not applicable

Independent Auditors' Report

February 10, 2016

The Board of Directors
Nissen Holdings Co., Ltd.

KPMG AZSA LLC

Shigeo Kobayashi, CPA (Seal)
Designated Partner,
Engagement Partner

Hisaki Nakajima, CPA (Seal)
Designated Partner,
Engagement Partner

Miho Kawabata, CPA (Seal)
Designated Partner,
Engagement Partner

Pursuant to Article 444, Paragraph 4, of the Corporation Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity etc., and notes to the consolidated financial statements of Nissen Holdings Co., Ltd. (the "Company"), for the fiscal year from December 21, 2014 to December 20, 2015.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes an assessment of the accounting policies used and significant estimates made by management, and an evaluation of the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the consolidated group consisting of the Company and its consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

Conflicts of Interest

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Act.

Audit Report on the Consolidated Financial Statements

The Audit & Supervisory Board, following its review and deliberation of the reports prepared by each Audit & Supervisory Board Member concerning the consolidated financial statements (the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity, etc. and notes to consolidated financial statements) for the 46th fiscal year from December 21, 2014 to December 20, 2015, prepared this Audit Report and hereby submits it as follows:

1. Summary of Auditing Methods by the Audit & Supervisory Board Members and Audit & Supervisory Board

The Audit & Supervisory Board established the auditing policies and division of duties, received reports and explanations on the status and results of the audits from each Audit & Supervisory Board Member, received reports and explanations on the status of the execution of duties from the Directors and Accounting Auditor, and requested explanations as necessary.

In accordance with the auditing policies and division of duties determined by the Audit & Supervisory Board, each Audit & Supervisory Board Member received reports and explanations on the consolidated financial statements from the Directors, employees, etc., and requested explanations as necessary. The Audit & Supervisory Board Members monitored the Accounting Auditor to verify that the Accounting Auditor maintained independence and conducted the audits appropriately. Each Audit & Supervisory Board Member also received reports on the status of the execution of duties from the Accounting Auditor and requested explanations as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor, and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the consolidated financial statements for the year ended on December 20, 2015.

2. Results of Audit

The auditing methods and results of the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

February 16, 2016

The Audit & Supervisory Board of Nissen Holdings Co.,
Ltd.

Yasoji Mori (Seal)
Full-time Audit & Supervisory Board Member

Scott Trevor Davis (Seal)
Outside Audit & Supervisory Board Member

Osamu Yamada (Seal)
Outside Audit & Supervisory Board Member

Non-consolidated Balance Sheet

(As of December 20, 2015)

(Millions of yen)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	16,546	Current liabilities	33,117
Cash and deposits	1,016	Notes payable-trade	0
Short-term loans receivable from affiliates	17,197	Short-term bank loans	25,691
Accounts receivable from affiliates	613	Long-term loans due within one year	6,228
Others	439	Lease obligations	239
Allowance for doubtful receivables	(2,720)	Accounts payable-other	787
Fixed assets	25,765	Accounts expenses	44
Property, plant and equipment	3,871	Income taxes payable	79
Buildings	754	Others	45
Structures	1	Long-term liabilities	4,307
Tools, furniture, and fixtures	112	Long-term loans from banks	1,920
Land	816	Lease obligations	1,925
Lease assets	2,186	Allowance for loss on business of affiliates	193
Intangible assets	14	Asset retirement obligations	195
Investments and other assets	21,879	Others	73
Investment in securities	439	Total liabilities	37,424
Affiliates stock	16,216	Net assets	
Long-term loans receivable from affiliates	3,442	Shareholders' equity	4,876
Deferred tax assets	2,161	Common stock	11,873
Guarantee deposits	592	Capital surplus	11,915
Others	94	Additional paid-in capital	11,915
Allowance for doubtful receivables	(1,067)	Retained earnings	(17,988)
		Legal reserves	256
		Other retained earnings	(18,245)
		Special reserves	14,824
		Retained earnings carried forward	(33,070)
		Treasury stock	(923)
		Valuation and translation adjustments	10
		Net unrealized holding gain (loss) on other securities	10
		Total net assets	4,886
Total assets	42,311	Total liabilities and net assets	42,311

Non-consolidated Statement of Income
(From December 21, 2014 to December 20, 2015)

(Millions of yen)

Item	Amount	
Net sales		5,706
Cost of sales		4,159
Gross profit		1,547
Selling, general and administrative expenses		1,226
Operating income		321
Non-operating income		
Interest and dividend income	207	
Commission income	28	
Reversal of allowance for doubtful receivables	197	
Reversal of allowance for loss on business of affiliates	5	
Miscellaneous income	83	522
Non-operating expenses		
Interest expenses	177	
Miscellaneous expenses	54	231
Ordinary income		611
Extraordinary income		
Gain on sales of investment in securities	366	366
Extraordinary loss		
Loss on retirement of fixed assets	5	
Loss on write-down of affiliates stock	10,972	
Loss on business liquidation	128	
Loss on business of affiliates	130	
Provision of allowance for doubtful receivables	2,719	
Provision for loss on business of affiliates	104	14,061
Loss before income taxes		13,083
Current income taxes	103	
Deferred income taxes	68	171
Net loss		13,255

Non-consolidated Statement of Changes in Shareholders' Equity, etc.

(From December 21, 2014 to December 20, 2015)

(Millions of yen)

	Shareholders' equity						
	Common stock	Capital surplus		Legal reserves	Retained earnings		
		Additional paid-in capital	Total capital surplus		Other retained earnings		Total retained earnings
				Special reserves	Retained earnings carried forward		
Balance as of Dec. 21, 2014	11,873	11,915	11,915	256	14,824	(19,814)	(4,733)
Change in the fiscal year							
Net loss	—	—	—	—	—	(13,255)	(13,255)
Purchase of treasury stocks	—	—	—	—	—	—	—
Changes (net) in items other than shareholders' equity	—	—	—	—	—	—	—
Total changes in the fiscal year	—	—	—	—	—	(13,255)	(13,255)
Balance as of Dec. 20, 2015	11,873	11,915	11,915	256	14,824	(33,070)	(17,988)

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Total valuation and translation adjustments	
Balance as of Dec. 21, 2014	(923)	18,132	320	320	18,452
Change in the fiscal year					
Net loss	—	(13,255)	—	—	(13,255)
Purchase of treasury stocks	(0)	(0)	—	—	(0)
Changes (net) in items other than shareholders' equity	—	—	(310)	(310)	(310)
Total changes in the fiscal year	(0)	(13,255)	(310)	(310)	(13,565)
Balance as of Dec. 20, 2015	(923)	4,876	10	10	4,886

Notes to Non-consolidated Financial Statements

1. Significant accounting policies

(1) Valuation standard and method for securities

1) Equity in subsidiaries and affiliated companies

Equity in subsidiaries and affiliated companies is stated at cost, cost being determined by the moving-average method.

2) Other securities

Securities with market quotations

Other securities that have market value are carried at fair value on the balance sheet date. (Unrealized holding gain or loss is included directly in net assets. The cost of securities sold is determined primarily by the moving-average method.)

Securities without market quotations

Securities without market quotations are stated at cost, cost being determined by the moving-average method.

(2) Standards and method of derivative instruments

Derivative instruments are stated at market value.

(3) Depreciation and amortization method for tangible fixed assets

1) Property, plant and equipment (excluding lease assets)

Depreciation is computed by the straight-line method.

Useful life of principal assets is as follows

Buildings: 8-49 years

Structures: 15-30 years

Tools, furniture, and fixtures: 5-15 years

2) Intangible assets (excluding lease assets)

Amortization is computed by the straight-line method.

The development costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.

3) Lease assets

Lease assets concerning capitalized finance leases

Lease assets are depreciated by the same method applied to the depreciation of proprietary fixed assets.

Lease assets concerning non-capitalized finance leases

Lease assets are depreciated by the straight-line method over the lease period without residual value.

(4) Recognition of allowances

1) Allowance for doubtful receivables

To prepare for credit losses on accounts receivable, allowances equal to the estimated amounts of uncollectible receivables are provided based on the historical write-off ratio for normal claims and based on a case-by-case determination of collectability for doubtful claims.

2) Allowance for loss on business of affiliates

To prepare for loss on business of affiliates, the Company booked an allowance for estimated losses at the end of the current fiscal year, considering the financial position of the affiliates.

(5) Significant accounting policies for hedges

1) Hedge accounting method

Deferred hedge method is applied. However, with respect to interest rate swap contracts which meet the requirements are accounted for as exceptional processing.

2) Hedging instrument and the risk hedged

Hedging method:

Interest rate swap contracts

Risk hedged:

Bank loans

3) Hedging policy

Nissen Holdings enters into interest rate swap contracts in order to reduce future risk of interest rate fluctuation from bank loans to a certain level.

4) Assessing the effectiveness of a hedge

Effectiveness is assessed by rate analysis of the sum total of cash flow fluctuation involving hedged transactions and the sum total of cash flow fluctuation involving the hedge method. When the principal, interest, period, and other terms and conditions of assets or liabilities hedged are identical to the terms and conditions of derivative instruments, the effectiveness of a hedge is significantly high. In these cases, the assessment of effectiveness is omitted.

(6) Accounting for consumption taxes

All amounts stated are exclusive of consumption taxes and local taxes.

(7) Changes in accounting policies which are difficult to distinguish from changes in accounting estimates

The Company changed its depreciation method for property, plant and equipment, excluding buildings, from the previous declining-balance method to the straight-line method, effective from the current fiscal year.

This change was carried out since the Company became a consolidated subsidiary of Seven & i Holdings Co., Ltd., and as a result of reviewing the depreciation method for property, plant and equipment from a viewpoint of maintaining consistency of the accounting policies with those of the parent company.

As a result of such reviewing, the Group concluded that the straight-line method will allow expenses to correspond more appropriately to revenue and better reflect the actual management condition than the declining-balance method. This change was based on comprehensive consideration that property, plant and equipment at each company are expected to be used evenly over their useful life, that revenue is generated in a stable manner, and that maintenance and management costs such as repair expenses arise evenly throughout the period. Therefore, the Group changed its depreciation method for property, plant and equipment from the declining-balance method to the straight-line method, effective from the current fiscal year.

As a result of this change, compared with the previous method, both operating income and ordinary income increased by 32 million yen, while loss before income taxes decreased by the same amount, for the current fiscal year.

2. Notes to non-consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment:	2,333 million yen
(2) Loan guarantees:	
Guarantees for loans taken out by Group employees from financial institutions	6 million yen
Guarantee for payment obligation of the following consolidated subsidiaries	
Nissen Co., Ltd.	3,924 million yen
SHADDY CO., LTD.	525 million yen
(3) Liquidation of notes receivable	
The Company transferred part of the notes receivable acquired from consolidated subsidiaries to liquidate the receivables.	
As a result of the liquidation of notes receivable-trade, the funds reserved for the purpose of credit enhancement were reported as an element of others (current assets).	
The amount of transferred notes receivable-trade for liquidation	1,333 million yen
The amount of reserved funds for credit enhancement	306 million yen
(4) Receivables from and payables to subsidiaries and affiliates (excluding those presented separately):	
1) Short-term receivables	23 million yen
2) Short-term payables	6,119 million yen
(5) Overdraft	
The Company has signed overdraft and commitment line agreements with ten correspondent financial institutions to ensure efficient procurement of working capital. The balance of unused credit lines under these agreements as of the end of the fiscal year was as follows:	
Current account of overdraft and commitment line	29,500 million yen
Credit used	19,900 million yen
Credit available	9,600 million yen

3. Notes to non-consolidated statement of income

Operating transactions with subsidiaries and affiliates:	
1) Operating transactions with subsidiaries and affiliates	6,329 million yen
2) Transaction with subsidiaries and affiliates other than operating transactions	236 million yen

4. Notes to statement of changes in shareholders' equity, etc.

Number of treasury stocks

Type of shares	As of Dec. 21, 2014	Increase	Decrease	As of Dec. 20, 2015
Common shares (Shares)	2,798,485	202	—	2,798,687
Total	2,798,485	202	—	2,798,687

(Outlines of changes)

Note: Breakdown of the increase in common shares of treasury stock is as follows.

Purchase of odd-lot shares: 202 shares

5. Deferred tax accounting

(1) Significant components of deferred tax assets and liabilities

	(Millions of yen)
(Deferred tax assets)	
Loss on write-down of affiliates stock	8,113
Adjustment for stocks of majority-owned subsidiaries upon demerger	2,074
Allowance for doubtful receivables	1,219
Loss on write-down of investments in securities	108
Allowance for loss on business of affiliates	62
Asset retirement obligations	62
Correction of contribution	47
Amortization of intangible assets in excess of tax allowance maximum	13
Others	39
Deferred tax assets (subtotal)	<u>11,741</u>
Valuation reserve	<u>(9,518)</u>
Total deferred tax assets	<u>2,223</u>
(Deferred tax liabilities)	
Net unrealized holding gain (loss) on other securities	(1)
Asset retirement cost corresponding to the asset retirement obligation	<u>(36)</u>
Total deferred tax liabilities	<u>(37)</u>
Deferred tax assets-net	<u>2,185</u>

(2) Revision to the amounts of deferred tax assets and deferred tax liabilities due to changes in the rate of corporate income taxes

Pursuant to the “Act on Partial Revision of the Income Tax Act” (Act No. 9 of 2015) and “Act on Partial Revision of the Local Tax Act”(Act No. 2 of 2015), promulgated on March 31, 2015, the rate of corporate income taxes applicable to the fiscal year commencing on or after April 1, 2015 are reduced. Accordingly, the effective statutory tax rates applied to the calculation of deferred tax assets and deferred tax liabilities are reduced to 33.0% from 35.6% for temporary differences that are expected to be settled in the fiscal year commencing on December 21, 2015, and to 32.2% for temporary differences that are expected to be settled from the fiscal year commencing on December 21, 2016 and onward.

As a result, deferred tax assets (after deduction of deferred tax liabilities) decreased by 227 million yen, deferred income taxes and net unrealized holding gain (loss) on other securities that are recorded in the fiscal year ended December 20, 2015 increased by 227 million yen and by 0 million yen, respectively.

6. Notes to fixed assets under lease

Not applicable

7. Notes to transaction with affiliated parties

(1) Parent company and major corporate shareholders

Type	Name of Company, etc.	Ownership of voting rights, etc. (Ownership percentage)	Relationship with affiliated parties	Details of transaction	Amount of transaction (millions of yen)	Account	Balance as of the end of the fiscal term (millions of yen)
Parent company	Seven & i Holdings Co., Ltd.	Indirectly owned 50.7	Combination of offices of Directors or Audit & Supervisory Board Members	Commission income of operation consignment	682	Accounts receivable from affiliates-other	180

Trade conditions and related policies

- Notes:
1. Commission of operation consignment is determined per discussion by both related parties, taking into account the detail of the operation consigned.
 2. In the above, consumption tax and others are not included in the transaction amount, while they are included in the balance as of the end of the fiscal year.

(2) Subsidiaries and affiliates

Type	Name of Company, etc.	Ownership of voting rights, etc. (Ownership percentage)	Relationship with affiliated parties	Details of transaction	Amount of transaction (millions of yen)	Account	Balance as of the end of the fiscal term (millions of yen)
Subsidiary	Nissen Co., Ltd.	Direct ownership 100.0%	Management guidance, borrowing and lending, combination of offices of Directors or Audit & Supervisory Board Members, guarantee liability, and guaranteed liability	Lending of funds (Note 1)	—	Short-term loans receivable from affiliates (Note 9)	10,136
				Receipt of interest (Note 1)	35	—	—
				Recovery of funds (Note 2)	340	Short-term loans receivable from affiliates (Note 9)	6,440
				Receipt of interest (Note 2)	48	Others (current assets)	5
				House rent income (Note 3)	535	Accounts receivable from affiliates-other	48
				Commission income of operation consignment (Note 4)	850	Accounts receivable from affiliates-other	16
						Accounts payable -other	92
				Receipt of system fees (Note 4)	2,611	Accounts receivable from affiliates-other	243
				Payment of system fees (Note 4)	247	Accounts payable -other	6
				Guarantee liability (Note 6)	3,924	—	—
	Guaranteed liability (Note 8)	23,600	—	—			
	SHADDY CO., LTD.	Direct ownership 100.0%	Borrowing and lending, combination of offices of Directors or Audit & Supervisory Board Members, liquidation of receivables and guarantee liability	Borrowing of funds (Note 1)	—	Short-term bank loans	4,401
				Payment of interest (Note 1)	18	—	—
				Liquidation of receivables (Note 5)	10,117	Accounts payable -other	306
				Commission income (Note 5)	6	—	—
				Guarantee liability (Note 7)	525	—	—
	Enicil Co., Ltd.	In-direct ownership 100.0%	Borrowing and lending	Lending of funds (Note 1)	—	Short-term loans receivable from affiliates	620
				Receipt of interest (Note 1)	3	—	—

Type	Name of Company, etc.	Ownership of voting rights, etc. (Ownership percentage)	Relationship with affiliated parties	Details of transaction	Amount of transaction (millions of yen)	Account	Balance as of the end of the fiscal term (millions of yen)
Subsidiary	Mail & e Business Logistics Service Co., Ltd. (Note 10)	Direct ownership 100.0%	Borrowing and lending	Lending of funds (Note 1)	—	—	—
				Receipt of interest (Note 1)	1	—	—
				Recovery of funds (Note 2)	340	—	—
				Receipt of interest (Note 2)	50	—	—
	Three Heart Corporation Co., Ltd.	In-direct ownership 100.0%	Borrowing and lending	Borrowing of funds (Note 1)	—	Short-term bank loans	572
				Payment of interest (Note 1)	2	—	—
	n Beauty Science Co., Ltd.	Direct ownership 100.0%	Borrowing and lending	Borrowing of funds (Note 1)	—	Short-term bank loans	47
				Payment of interest (Note 1)	0	—	—
				Recovery of funds (Note 2)	50	Long-term loans receivable from affiliates (Note 9)	440
				Receipt of interest (Note 2)	6	—	—
	oriental diamond inc.	Direct ownership 100.0%	Borrowing and lending, and combination of offices of Directors or Audit & Supervisory Board Members	Borrowing of funds (Note 1)	—	Short-term bank loans	231
				Receipt of interest (Note 1)	0	—	—
				Payment of interest (Note 1)	0	—	—
				Lending of funds (Note 2)	—	Long-term loans receivable from affiliates (Note 9)	2,500
				Receipt of interest (Note 2)	35	Others (current assets)	16

Trade conditions and related policies

- Notes:
- The Company has introduced the Cash Management System (CMS) to conduct unified management of funds within the Group. However, since it is practically difficult to add up the transaction amounts for each transaction with respect to fund transactions using CMS, only the balance as of the end of the fiscal term is presented. Interest is reasonably determined based on the market rate.
 - Interest on loans receivables is reasonably determined based on the market rate.
 - House rent is determined with reference to the average rent in the neighborhood.
 - Commission of operation consignment and system fees are determined appropriately, taking into account costs incurred.
 - Liquidation of receivables was performed by SHADDY CO., LTD. aiming to transfer notes receivable and collect payment before due date, with its commission rate determined in a similar way with general transaction conditions.
 - The Company guarantees liability for transactions with financial institutions and the payment obligations of Nissen Co., Ltd. The Company does not receive any guarantee fee for these guarantees.
 - The Company guarantees liability for the payment obligations of SHADDY CO., LTD. The Company does not receive any guarantee fee for this guarantee.
 - The Company receives a guarantee from Nissen Co., Ltd. for transactions with financial institutions. The Company does not pay any guarantee fee for this guarantee.
 - The Company records an allowance for doubtful receivables totaling 3,770 million yen for doubtful accounts from subsidiaries. The Company also records provision of allowance for doubtful receivables totaling 2,735 million yen and reversal of allowance for doubtful receivables of 61 million yen in the current fiscal year.
 - Mail & e business Logistics Service Co., Ltd. was absorbed into Nissen Co., Ltd. as of June 21, 2015, and thus is no longer an affiliated party. The transaction amount above represents the amount before the merger.
 - The amount for transactions excludes consumption taxes, and the balance as of the end of the fiscal term includes consumption taxes.

8. Notes to per share information

(1) Net asset per share

76.51 yen

(2) Net loss per share

207.54 yen

9. Significant subsequent events

Not applicable

Independent Auditors' Report

February 10, 2016

The Board of Directors
Nissen Holdings Co., Ltd.

KPMG AZSA LLC

Shigeo Kobayashi, CPA (Seal)
Designated Partner,
Engagement Partner

Hisaki Nakajima, CPA (Seal)
Designated Partner,
Engagement Partner

Miho Kawabata, CPA (Seal)
Designated Partner,
Engagement Partner

Pursuant to Article 436, Paragraph 2, Item 1 of the Corporation Act, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in shareholders' equity etc., and notes to the non-consolidated financial statements of Nissen Holdings Co., Ltd. (the "Company"), for the 46th fiscal term from December 21, 2014 to December 20, 2015, together with the supplementary schedules of the Company for the same term.

Management's Responsibility for the Non-Consolidated Financial Statements, etc.

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

Auditor's Responsibility

Our responsibility is to independently express an opinion on the non-consolidated financial statements and supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the non-consolidated financial statements and supplementary schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and supplementary schedules. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and supplementary schedules, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments we consider internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes an assessment of the accounting policies used and significant estimates made by management, and an evaluation of the overall presentation of the non-consolidated financial statements and supplementary schedules.

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

Opinion

In our opinion, the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

Conflicts of Interest

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Act.

Audit Report

The Audit & Supervisory Board, following its review and deliberations on the reports made by each Audit & Supervisory Board Member concerning the methods and results of the audit of execution of duties by the Directors of the Board for the 46th fiscal term from December 21, 2014 to December 20, 2015, prepared this Audit Report and hereby submits it as follows:

1. Summary of Auditing Methods by the Audit & Supervisory Board Members and Audit & Supervisory Board

(1) The Audit & Supervisory Board established the auditing policies and the division of duties, received reports and explanations on the status and results of audits from each Audit & Supervisory Board Member, received reports and explanations on the status of the execution of duties from the Directors and Accounting Auditor, and requested explanations as necessary.

(2) In compliance with the auditing standards of Audit & Supervisory Board Members determined by the Audit & Supervisory Board, and in accordance with the auditing policies and the division of duties, each Audit & Supervisory Board Member endeavored to collect information and establish auditing circumstances through communication with Directors, employees of the internal audit section and others, Audit & Supervisory Board Members of the parent company, and other individuals, and also conducted audits based on the following methods.

1) Each Audit & Supervisory Board Member attended the Board of Directors' meeting and other important meetings, received reports on the execution of duties from Directors and employees, requested explanations as necessary, inspected the approved documents, etc., and examined the status of operations and conditions of assets at the Company's head office and principal offices. Additionally, the Audit & Supervisory Board Members received their business reports from subsidiaries as necessary, through communication and information sharing with the Directors and Audit & Supervisory Board Members of the subsidiaries.

2) With respect to the establishment of the system for ensuring that the Directors' duties are executed in conformity with laws, regulations, and the Articles of Incorporation of the Company, which is described in the business reports, and the other system required to ensure the propriety of duties in the corporate group comprising the Company and its subsidiaries set forth in Items 1 and 3 of Article 100 of the Enforcement Regulations of the Corporation Act, each Audit & Supervisory Board Member periodically received reports from Directors and employees, requested explanations as necessary, and expressed his or her opinions on the contents of the resolutions adopted by the Board of Directors thereon and the status of the establishment and operation of the systems (Internal Control System) to be established in accordance with the resolution of the Board of Directors.

3) Each Audit & Supervisory Board Member also reviewed the basic policy stipulated in Item 3 (a), Article 118 of the Enforcement Regulations for the Corporation Act, the activities stipulated in Item 3 (b) of the same Article, the points to note stipulated in Item 5 (a) of the same Article, and the conclusion and its reason as stipulated in Item 5 (b) of the same Article, all of which are described in the business report, based on the deliberations at the Board of Directors' meeting and other meetings.

4) Further, the Audit & Supervisory Board Members monitored and verified that the Accounting Auditor maintains independence and conducts the audits appropriately. Each Audit & Supervisory Board Member also received reports on the status of the execution of duties from the Accounting Auditor and requested explanation, as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor, and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the business reports, together with the supplementary schedules, and the financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in shareholders' equity etc., and notes to the non-consolidated financial statements, together with the supplementary schedules, for the year ended on December 20, 2015.

2. Results of Audit

(1) Results of the audit of business reports

- 1) The business reports and supplementary schedules present fairly the financial condition of the Company in conformity with related laws, regulations, and the Articles of Incorporation of the Company;
 - 2) Regarding the execution of duties by Directors, there were no instances of misconduct or material matters in violation of laws, regulations, or the Articles of Incorporation of the Company; and
 - 3) The resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional mention regarding the details stated in the business reports or the execution of duties by Directors relating to such internal control system.
 - 4) There are no matters to be pointed out with respect to the basic principles on the parties who are to control the decision of the Company's financial and operational policies described in the business reports. Activities described in the business reports in accordance with Item 3 (b), Article 118 of the Enforcement Regulations for the Corporation Act are in line with such basic principles, do not harm the common interests of the shareholders, and are not undertaken with the intention to maintain the positions of Directors or Audit & Supervisory Board Members of the Company.
 - 5) Regarding the transactions with the parent company and other parties described in the business report, there are no matters requiring additional mention regarding attentions to be made in such transactions to avoid harming the interests of the Company, and the Board of Directors' conclusions and reasons on whether or not such transactions will conflict against the Company's interests.
- (2) Results of audit of financial statements and supplementary schedules
The auditing methods and results of the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

February 16, 2016

The Audit & Supervisory Board of Nissen Holdings Co., Ltd.

Yasoji Mori (Seal)
Full-time Audit & Supervisory Board Member
Scott Trevor Davis (Seal)
Outside Audit & Supervisory Board Member
Osamu Yamada (Seal)
Outside Audit & Supervisory Board Member

Reference Documents for the General Meeting of Shareholders

Proposals and references

Proposal No. 1: Partial Amendments to the Articles of Incorporation

(1) Reason for the proposition

With the enforcement of the Act for Partial Revision of the Corporation Act (Act No. 90 of 2014), the scope of corporate officers with whom an agreement on limitation of liability may be concluded has been expanded. Consequently, the Company shall make partial amendments to Article 30 of the existing Articles of Incorporation so that these Directors (excluding those who are executive directors, etc.) may fully perform the roles expected of them.

It should be noted that the Audit & Supervisory Board Members have given their unanimous consent to the amendments to Article 30 of the existing Articles of Incorporation.

(2) Contents of the amendments

The details of the proposed amendments to the Articles of Incorporation are as follows.

(Underlined parts are amended.)

Existing Articles of Incorporation	Proposed Amendments
<p>Article 1. to Article 29. (Omitted)</p> <p>(Agreement on limitation of liability with <u>Outside Directors</u>)</p> <p>Article 30. The Company may enter into an agreement with each of the <u>Outside Directors</u> to limit liability for damages caused due to failure to perform duties pursuant to the provision of Article 427 Paragraph 1 of the Corporation Act; provided, however, that the liability for damages under the agreement shall be limited to the amount specified in the applicable laws and regulations.</p> <p>Article 31. to Article 42. (Omitted)</p>	<p>Article 1. to Article 29. (Unchanged)</p> <p>(Agreement on limitation of liability with Directors)</p> <p>Article 30. The Company may enter into agreements with each of the Directors <u>(excluding those who are executive directors, etc.)</u> to limit liability for damages caused due to failure to perform duties pursuant to the provision of Article 427 Paragraph 1 of the Corporation Act; provided, however, that the liability for damages under the agreement shall be limited to the amount specified in the applicable laws and regulations.</p> <p>Article 31. to Article 42. (Unchanged)</p>

Proposal No. 2: Election of Nine Directors

All of the nine Directors of the Company (Nobuyuki Ichiba, Fumihiko Nagamatsu, Toshiya Tsukushi, Tamaki Wakita, Yukio Fujishima, Toshiaki Yamaguchi, Michiko Fujii, Shigetada Aoki and Tetsuo Komori) will complete their terms of office at the closing of this General Meeting of Shareholders.

Accordingly, the Company proposes the election of a total of nine Directors (of which three are candidates for Outside Directors). These nine candidates comprise the re-election of eight Directors – Nobuyuki Ichiba, Fumihiko Nagamatsu, Toshiya Tsukushi, Tamaki Wakita, Yukio Fujishima, Toshiaki Yamaguchi, Michiko Fujii and Tetsuo Komori and one new candidate for election – Kyozo Okazaki to the position of Director for the coming term of office.

Information on the candidates for Directors is provided below.

Candidate Number	Name (Date of Birth)	Career summary, Position, Assignment, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
1	Nobuyuki Ichiba (January 25, 1954)	<p>April 1977 Joined Nissen Holdings Co., Ltd.</p> <p>February 2000 Elected Executive Officer, serving concurrently as General Manager, Internet Business Promotion, Direct Marketing Division Headquarters</p> <p>March 2001 Elected Director</p> <p>December 2005 Elected Director and Managing Executive Officer, serving concurrently as Head of Corporate Center</p> <p>December 2010 Elected Director and Managing Executive Officer, Corporate Control</p> <p>December 2010 Elected Director of Nissen Co., Ltd.</p> <p>March 2012 Elected Chairman and Representative Director of SHADDY CO., LTD.</p> <p>March 2012 Elected President and Representative Director of Three Heart Corporation Co., Ltd.</p> <p>December 2014 Elected President and Representative Director (current position)</p> <p>December 2014 Elected President and Representative Director of Nissen Co., Ltd. (current position)</p>	72,000 shares
2	Fumihiko Nagamatsu (January 3, 1957)	<p>March 1980 Joined Seven-Eleven Japan Co., Ltd.</p> <p>May 2004 Elected Executive Officer of Seven-Eleven Japan Co., Ltd.</p> <p>February 2014 Seconded to Nissen Holdings Co., Ltd.</p> <p>March 2014 Elected Senior Vice President and Representative Director (current position)</p> <p>April 2014 Elected Director and Senior Vice President of Nissen Co., Ltd.</p> <p>December 2014 Elected Senior Vice President and Representative Director of Nissen Co., Ltd. (current position)</p> <p>March 2015 Elected Executive Officer of Seven & i Holdings Co., Ltd. (current position)</p> <p>July 2015 Elected Chairman and Director of SHADDY CO., LTD. (current position)</p>	0

Candidate Number	Name (Date of Birth)	Career summary, Position, Assignment, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
3	Toshiya Tsukushi (June 23, 1965)	<p>April 1989 Joined Showa Shell Sekiyu K.K.</p> <p>September 1995 Joined Pricewaterhouse Consulting Co., Ltd. (current IBM Japan, Ltd.)</p> <p>July 1999 Joined General Electric Capital Consumer Finance Co., Ltd. (current Shinsei Financial Co., Ltd.)</p> <p>December 2005 Elected Executive Officer of General Electric Capital Consumer Finance Co., Ltd.</p> <p>September 2006 Joined Nissen Holdings Co., Ltd. and elected Executive Officer, serving concurrently as Group Leader of Business Development Group</p> <p>March 2008 Elected Director and Executive Officer, serving concurrently as Manager, Financial Planning Office</p> <p>June 2009 Elected Director and Executive Officer, serving concurrently as Chief Financial Officer</p> <p>March 2010 Elected Director and Managing Executive Officer, serving concurrently as Chief Financial Officer</p> <p>December 2010 Elected Director of Nissen Co., Ltd.</p> <p>March 2012 Elected Director and Managing Executive Officer, Group Strategies and Financial Affairs Control</p> <p>March 2012 Elected Vice President and Representative Director of SHADDY CO., LTD.</p> <p>October 2013 Elected Director and Managing Executive Officer, serving concurrently as Chief Financial Officer (current position)</p> <p>December 2015 Elected Chairman and Representative Director of GE Nissen Credit Co., Ltd. (current position)</p> <p>December 2015 Elected Chairman and Director of Nissen Life Co., Ltd. (current position)</p>	45,300 shares

Candidate Number	Name (Date of Birth)	Career summary, Position, Assignment, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
4	Tamaki Wakita (May 12, 1972)	<p>April 1995 Joined Nichimen Corporation (current Sojitz Corporation)</p> <p>February 2002 Joined General Electric International Inc.</p> <p>February 2003 Joined Nissen Holdings Co., Ltd.</p> <p>June 2006 Elected Executive Officer, serving concurrently as Manager, Corporate Planning Office</p> <p>June 2008 Elected Director of Nissen Co., Ltd.</p> <p>December 2010 Elected Executive Officer, serving concurrently as Manager, Public Relations Planning Office</p> <p>March 2012 Elected Director and Executive Officer, Corporate Marketing Control</p> <p>February 2014 Elected Director and Executive Officer, serving concurrently as General Manager, Corporate Planning Department (current position)</p> <p>October 2015 Elected Director of Nissen Co., Ltd. (current position)</p>	55,700 shares
5	Yukio Fujishima (February 22, 1953)	<p>April 1975 Joined The Seibu Department Stores, Ltd. (current Sogo & Seibu Co., Ltd.)</p> <p>November 2008 Elected Director and Manager, Ikebukuro Main Store of The Seibu Department Stores, Ltd.</p> <p>May 2013 Elected Director and Managing Executive Officer, serving concurrently as General Manager, Merchandise Department of Sogo & Seibu Co., Ltd.</p> <p>May 2013 Elected Director of Oshman's Japan Co., Ltd. (current position)</p> <p>September 2014 Elected Director and Managing Executive Officer, in charge of Store Operations Department, Own Brand Goods Department, Merchandise Department, and Marketing & Sales Planning Department of Sogo & Seibu Co., Ltd.</p> <p>March 2015 Elected Outside Director of Nissen Holdings Co., Ltd. (current position)</p> <p>May 2015 Elected Director of Seven & i Publishing Co., Ltd. (current position)</p> <p>September 2015 Elected Director and Managing Executive Officer, in charge of Store Operations Department, Merchandise Department, Omni-Channel Operations Department, and Marketing & Sales Planning Department of Sogo & Seibu Co., Ltd. (current position)</p>	0

Candidate Number	Name (Date of Birth)	Career summary, Position, Assignment, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
6	Toshiaki Yamaguchi (June 26, 1960)	<p>March 1990 Registered at Osaka Bar Association, Joined Takeuchi and Inoue Law Office</p> <p>April 1995 Set up Yamaguchi Toshiaki Law Office and assumed the representative lawyer (current position)</p> <p>June 2004 Elected Outside Corporate Auditor of FRIENDLY CORPORATION</p> <p>April 2007 Appointed Instructor of the Doshisha University Graduate School of Law</p> <p>April 2008 Elected Member of the Legal Practice Reform Committee, Osaka Bar Association (current position)</p> <p>October 2008 Elected Trustee of the Japan Internal Control Association (current position)</p> <p>July 2010 Elected Director of Association of Certified Fraud Examiners (current position)</p> <p>July 2012 Elected Member of the Legal Practice Reform Committee, Japan Federation of Bar Associations (current position)</p> <p>March 2013 Elected Outside Director of Nissen Holdings Co., Ltd. (current position)</p> <p>June 2013 Elected Outside Director of Daito Trust Construction Co., Ltd. (current position)</p> <p>August 2014 Elected Director of Japan Corporate Governance Network (current position)</p> <p>December 2014 Elected Outside Corporate Auditor of OSAKA University Venture Capital Co., Ltd. (current position)</p> <p>June 2015 Elected Member of the Committee on Whistleblower Protection System, Consumer Affairs Agency (current position)</p>	0

Candidate Number	Name (Date of Birth)	Career summary, Position, Assignment, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
7	Michiko Fujii (maiden name: Hirono) (March 18, 1961)	<p>February 1989 Joined Venture Link Co., Ltd.</p> <p>July 1993 Joined PLAZA CREATE CO., LTD.</p> <p>May 1997 Elected Senior Managing Director of PokkaCreate Co., Ltd.</p> <p>July 1998 Elected Senior Vice President of MVC Corporation</p> <p>July 1998 Elected Vice President and Director of Tully's Coffee Japan Co., Ltd.</p> <p>March 2000 Founded 21LADY Co., Ltd. Elected President of 21LADY Co., Ltd. (current position)</p> <p>June 2002 Elected Representative Director of HIROTA Co, Ltd.</p> <p>March 2010 Elected Representative Director of ILLUMS Japan Co., Ltd. (current position)</p> <p>November 2011 Elected Chairman and Representative Director and President of HIROTA Co, Ltd. (current position)</p> <p>March 2014 Elected Outside Director of Nissen Holdings Co., Ltd. (current position)</p> <p>June 2014 Elected Outside Director of Japan Post Co., Ltd. (current position)</p>	0

Candidate Number	Name (Date of Birth)	Career summary, Position, Assignment, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
8	Tetsuo Komori (December 1, 1958)	<p>April 1984 Joined McKinsey & Company, Inc.</p> <p>December 1993 Elected Principal (Partner) of McKinsey & Company, Inc.</p> <p>April 2002 Elected Director of Unison Media Partners, Inc.</p> <p>June 2002 Elected President and Representative Director, serving concurrently as Chief Executive Officer of ASCII Corporation</p> <p>November 2003 Elected Chairman and Representative Director of MediaLeaves, Inc.</p> <p>June 2004 Elected Corporate Auditor of TOMOEGAWA CO., LTD.</p> <p>June 2005 Elected Outside Director of TOMOEGAWA CO., LTD. (current position)</p> <p>February 2006 Elected Director, serving concurrently as President and Representative Executive Officer, Chief Executive Officer of Kanebo, Ltd.</p> <p>May 2006 Elected Representative Director and Chief Executive Officer of Kanebo Trinity Holdings, Ltd.</p> <p>July 2007 Elected Representative Director and Chief Executive Officer, serving concurrently as President and Executive Officer of Kracie Holdings, Ltd.</p> <p>August 2009 Elected Management Adviser of Unison Capital, Inc. (current position)</p> <p>June 2012 Elected Outside Director of ASahi TEC CORPORATION (current position)</p> <p>March 2015 Elected Outside Director of Nissen Holdings Co., Ltd. (current position)</p> <p>October 2015 Elected President and CEO of Ken Depot Corporation (current position)</p>	0
9	Kyozo Okazaki (September 30, 1960)	<p>March 1984 Joined Ito-Yokado Co., Ltd.</p> <p>September 2004 Elected General Manager, Budget Control Department of Ito-Yokado Co., Ltd.</p> <p>September 2005 Elected Officer, Budget Control Department of Seven & i Holdings Co., Ltd.</p> <p>April 2011 Elected Senior Officer, Budget Control Department of Seven & i Holdings Co., Ltd. (current position)</p> <p>May 2011 Elected Director of Seven & i Asset Management Co., Ltd. (current position)</p> <p>May 2013 Elected Director of Tower Records Japan Inc. (current position)</p>	0

- Notes: 1. There are no special interests between the candidates and the Company.
2. Toshiaki Yamaguchi, Michiko Fujii, and Tetsuo Komori are candidates for Outside Directors.
3. The Company has submitted Independent Directors/Audit & Supervisory Board Members Notification Forms to register Toshiaki Yamaguchi, Michiko Fujii, and Tetsuo Komori as Independent Director at

Tokyo Stock Exchange, Inc.

4. The reasons for the election of candidates for Outside Directors are as follows.

(1) The election of candidates for Outside Directors meets the requirements set forth in 3. Standards for the Election of Outside Directors and Outside Audit & Supervisory Board Members, as stated in the Notice of Measures for the Improvement of Corporate Governance issued on October 23, 2007.

Standards for the Election of Outside Directors

1) The standards for the election of Outside Directors require that elected Outside Director have wide-ranging knowledge and business experience as a corporate manager, as necessary for discussion of proposals at the Board of Directors of a pure holdings company, or have actual experience and a wide variety of knowledge in a specified field necessary for supervision of management.

2) In order to introduce the standpoints of various stakeholders into management, the Company pays attention to the diversification of background upon the election of multiple Outside Directors.

3) In order to meet the original purposes of the election of Outside Directors as spokespersons on behalf of various Shareholder interests, the Company pays attention to the assurance of their independency upon the election of new Outside Directors.

4) When the Company, an enterprise active in a wide range of business fields, elects any business manager as an Outside Director, there is a possibility that conflicts of interest will arise in transactions between the Company and that business manager. The Company responds to conflicts of interest in individual cases through the procedures of the Board of Directors.

(2) Toshiaki Yamaguchi is a lawyer, familiar with corporate legal work. The Company believes that, based on his advanced expertise and knowledge, he will continue to actively express valuable opinions and proposals on the Company's compliance management and internal controls. He has also served as the Chairman of the Board of Directors, Chairman of the Nominating and Compensation Committee and a member of the Corporate Governance Committee. His term of office as an Outside Director will have been three years at the end of this General Meeting of Shareholders.

(3) Michiko Fujii is experienced as a corporate director in the life-style industry. The Company believes that she will continue to actively express valuable opinions and proposals on the Company's medium- to long-term business strategies. She has also served as a member of the Nominating and Compensation Committee. Her term of office as an Outside Director will have been two years at the end of this General Meeting of Shareholders.

(4) Tetsuo Komori has held numerous posts as corporate managers. The Company believes that he will continue to actively express valuable opinions and proposals on the Company's medium- to long-term management reforms, based on his extensive experience and knowledge in business restructuring. He has also served as a member of the Corporate Governance Committee and the Nominating and Compensation Committee. His term of office as an Outside Director will have been one year at the end of this General Meeting of Shareholders.

5. The Company has concluded an agreement to limit liability for damages set forth in Article 423 Paragraph 1 of the Corporation Act with Toshiaki Yamaguchi, Michiko Fujii, Yukio Fujishima and Tetsuo Komori, pursuant to the provision of Article 427 Paragraph 1 of the Corporation Act (provided, however, that the liability for damages under the agreement shall be limited to the amount specified in the applicable laws and regulations). The Company will continue the agreement on limitation of liability with Toshiaki Yamaguchi, Michiko Fujii and Tetsuo Komori upon their election. Additionally, the Company will conclude the same agreement with Yukio Fujishima and Kyoza Okazaki upon their election, on the condition that Proposal No. 1 is approved as originally proposed.

6. The process of selecting candidates for Directors is based on the process determined by the Nominating and Compensation Committee chaired by an independent outside director with the majority of committee members also being independent outside directors. The transparency and objectivity of the selection process is ensured by the arrangement in which the Nominating and Compensation Committee has been established as an advisory body regarding the determination of candidates for the Company's Directors.

Proposal No. 3: Election of Two Audit & Supervisory Board Members

Audit & Supervisory Board Members of the Company, Yasoji Mori and Scott Trevor Davis, will complete their term of office at the closing of this General Meeting of Shareholders.

Accordingly, the Company proposes the election of new candidates, Toshiyuki Minami and Hidetaka Kishi (of which one is an Outside Audit & Supervisory Board Member) to the position of Audit & Supervisory Board Members for the coming term of office. The Audit & Supervisory Board has previously given its approval.

Information on the candidates for Audit & Supervisory Board Members is provided below.

Candidate Number	Name (Date of Birth)	Career summary, Position, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
1	Toshiyuki Minami (August 5, 1966)	<p>April 1991 Joined KYOCERA CORPORATION</p> <p>August 1997 Joined APROS Co., Ltd.</p> <p>December 2002 Joined Inter Group Corporation</p> <p>July 2005 Joined ENZAN KOUBOU CO., LTD.</p> <p>April 2006 Joined Nissen Holdings Co., Ltd.</p> <p>June 2008 Elected Manager of Financial Planning, Finance Department</p> <p>February 2012 Elected Director and General Manager, Corporate Management Department of Mail & e Business Logistics Service Co., Ltd. (current Nissen Co., Ltd.)</p> <p>June 2015 Elected Vice General Manager, Finance Department</p> <p>October 2015 Elected Outside Corporate Auditor of GE Nissen Credit Co., Ltd. (current position)</p>	0
2	Hidetaka Kishi (February 17, 1949)	<p>April 1975 Joined Tohmatsu Awoki & Co. (current Deloitte Touche Tohmatsu LLC)</p> <p>August 1976 Qualified as Certified Public Accountant</p> <p>August 1987 Appointed Partner (current Partner)</p> <p>August 1995 Appointed Representative Partner (current Partner)</p> <p>September 2011 Set up Kishi Certified Public Accountant Office (current position)</p> <p>June 2012 Elected Corporate Auditor of Kansai Paint Sales Co., Ltd.</p> <p>October 2013 Elected Audit and Inspection Commissioner of Nara Prefectural Government (current position)</p> <p>June 2015 Elected Corporate Auditor of KANSAI PAINT CO., LTD. (current position)</p>	0

Notes: 1. There are no special interests between each candidate and the Company.

2. Hidetaka Kishi is a candidate for Outside Audit & Supervisory Board Member. The Company has submitted an Independent Directors/Audit & Supervisory Board Members Notification Form to register him as Independent Audit & Supervisory Board Member at Tokyo Stock Exchange, Inc.

3. The reasons for the election of candidate for Outside Audit & Supervisory Board Member are as follows.

(1) The election of candidate for Outside Audit & Supervisory Board Member meets the requirements set forth in 3. Standards for the Election of Outside Directors and Outside Audit & Supervisory Board Members, as stated in the Notice of Measures for the Improvement of Corporate Governance issued on October 23, 2007.

Standards for the Election of Outside Audit & Supervisory Board Members

- 1) Outside Audit & Supervisory Board Members are selected from among persons with considerable knowledge and experience in various areas. The health and transparency of management is assured by audits conducted from neutral and objective viewpoints.
- 2) Upon the election of new Outside Audit & Supervisory Board Members, the Company pays attention to the assurance of its independency, in order to meet the original purposes of the election of Outside Audit & Supervisory Board Members.
- (2) The Company believes that Hidetaka Kishi will actively express valuable opinions and proposals on the enhancement of the soundness and transparency of management, based on his advanced expertise as a certified public accountant and extensive experience and considerable knowledge as an audit & supervisory board member of listed companies.
4. Upon his election, the Company intends to enter into an agreement on limitation of liability with Hidetaka Kishi. The outline of the agreement is described as follows:

Pursuant to the provision of Article 427 Paragraph 1 of the Corporation Act, the liability for damages caused by an Outside Audit & Supervisory Board Member shall be limited to the amount specified in Article 425 Paragraph 1 of the Corporation Act, provided that the relevant Outside Audit & Supervisory Board Member has performed his/her duties in good faith and without gross negligence.

Proposal No. 4: Election of Two Substitute Audit & Supervisory Board Members

Hidekazu Tamada and Masakatsu Takita were elected as Substitute Audit & Supervisory Board Member of the Company at the previous Ordinary General Meeting of Shareholders. The election will be effective until the beginning of this General Meeting of Shareholders.

In order to prepare for cases where the number of Audit & Supervisory Board Members falls short of the capacity stipulated in laws and regulations, the Company proposes the election of two Substitute Audit & Supervisory Board Members detailed as follows: Subject to the approval of Proposal No. 3 as originally proposed, the election of new candidate Satoshi Fujita as a Substitute Audit & Supervisory Board Member to substitute for Audit & Supervisory Board Member Toshiyuki Minami and the election of new candidate Masahiro Terada as a Substitute Audit & Supervisory Board Member to substitute for Outside Audit & Supervisory Board Members Hidetaka Kishi and Osamu Yamada. The Audit & Supervisory Board has previously given its approval.

Information on the candidates for Substitute Audit & Supervisory Board Members is provided below.

Candidate Number	Name (Date of Birth)	Career summary, Position, and Major Concurrent Positions of Other Companies	Number of Shares of the Company Held
1	Satoshi Fujita (December 7, 1956)	<p>March 1979 Joined Nissen Holdings Co., Ltd.</p> <p>March 2001 Elected Director and Executive Officer, serving concurrently as General Manager, Youbist Business Department</p> <p>June 2007 Elected Executive Officer, serving concurrently as Leader, Personnel Group of Nissen Co., Ltd.</p> <p>June 2008 Elected Executive Officer, serving concurrently as General Manager, Personnel Department</p> <p>December 2010 Elected Corporate Auditor of Nissen Co., Ltd. (current position)</p> <p>March 2012 Elected Corporate Auditor of SHADDY CO., LTD. (current position)</p> <p>December 2015 Elected Corporate Auditor of GE Nissen Credit Co., Ltd. (current position)</p> <p>December 2015 Elected Corporate Auditor of Nissen Life Co., Ltd. (current position)</p>	43,300 shares
2	Masahiro Terada (May 7, 1968)	<p>April 1996 Registered as attorney (Daini Tokyo Bar Association)</p> <p>May 1998 Appointed In-house Counsel of Daiwa Securities Co. Ltd.</p> <p>May 2000 Appointed In-house Counsel of Morgan Stanley Japan Limited (current Morgan Stanley MUFG Securities Co., Ltd.)</p> <p>September 2003 Appointed Visiting Attorney of Nixon Peabody LLP (New York City, U.S.A.)</p> <p>August 2004 Appointed Associate of CITY-YUWA PARTNERS</p> <p>January 2005 Appointed Partner of CITY-YUWA PARTNERS (current position)</p> <p>October 2011 Appointed Part-time Supervisory Director of Ichigo Office REIT Investment Corporation (current position)</p>	0

Notes: 1. There are no special interests between the candidates and the Company.

2. Masahiro Terada is a candidate for Substitute Outside Audit & Supervisory Board Member.

3. The reasons for the election of candidate for Substitute Outside Audit & Supervisory Board Member are as follows.
 - (1) The election of candidate for Substitute Outside Audit & Supervisory Board Member meets the requirements set forth in 3. Standards for the Election of Outside Directors and Outside Audit & Supervisory Board Members, as stated in the Notice of Measures for the Improvement of Corporate Governance issued on October 23, 2007.
Standards for the Election of Outside Audit & Supervisory Board Members
 - 1) Outside Audit & Supervisory Board Members are selected from among persons with considerable knowledge and experience in various areas. The health and transparency of management is assured by audits conducted from neutral and objective viewpoints.
 - 2) Upon the election of new Outside Audit & Supervisory Board Members, the Company pays attention to the assurance of its independency, in order to meet the original purposes of the election of Outside Audit & Supervisory Board Members.
 - (2) Masahiro Terada possesses extensive career experience in the fields of finance and corporate legal as an attorney. The Company believes that he will make use of his experience for the Company's audit.
4. The Company has entered into an agreement on limitation of liability with each of the Outside Audit & Supervisory Board Members. Upon the election of new candidate for Substitute Outside Audit & Supervisory Board Member, the Company will enter into the same agreement with newly appointed candidate as described on page 12.

END

Information on Exercising Voting Rights

1. How votes will be handled if shareholders exercise voting rights more than once by paper ballot and the Internet

In the event a shareholder exercises voting rights twice using the paper ballot and the Internet, and the contents of the votes differ, the Company will consider the voting rights exercised using the Internet to be the effective voting rights.

2. How votes will be handled if shareholders exercise voting rights more than once using the Internet

In the event a shareholder exercises voting rights more than once using the Internet, and the contents of the votes differ, the Company will consider the most recently exercised voting rights to be the effective voting rights.

3. Procedure for exercising voting rights using the Internet

If you will exercise your voting rights using the Internet, please exercise your rights after confirming the following items.

If you will attend the Ordinary General Meeting of Shareholders on the scheduled date, you do not need to use either of the procedures for exercising your voting rights by mail (Voting Rights Exercise Form) or the Internet.

- (1) Website for exercising voting rights

- 1) You can exercise your voting rights using the Internet only by accessing the voting rights exercise site (<http://www.evotep.jp/>) specified by Nissen Holdings Co., Ltd. from a personal computer, smartphone or cellular phone (i-mode, EZweb or Yahoo!-Keitai)*. (Please note, however, the site cannot be accessed between the hours of 2:00 a.m. -5:00 a.m. daily.)

* “i-mode” is a registered trademark of NTT DoCoMo, Inc. “EZweb” is a registered trademark of KDDI Corporation. “Yahoo!” is a registered trademark of Yahoo! Inc. in the United States.

- 2) Depending on your Internet use environment, in some cases you might be unable to exercise your voting rights using a personal computer or smartphone. This includes when you are using a firewall or other measure for your Internet connection, when you have anti-virus software installed, and when you are using a proxy server.

- 3) To exercise your voting rights using a cellular phone, please use the services of i-mode, EZweb or Yahoo!-Keitai. To ensure security, cellular telephone models that cannot handle encrypted transmissions (SSL transmissions) and cellular phone information transmission cannot be utilized.

- 4) Voting rights exercised using the Internet will be accepted until 5:30 p.m. on Wednesday, March 16, 2016. We encourage you to exercise your votes early, however, and to inquire at the help desk shown on the following page when you have any questions.

- (2) Procedure for exercising voting rights using the Internet

- 1) Use the “Login ID” and “provisional password” shown on your Voting Rights Exercise Form to enter the voting rights exercise site (<http://www.evotep.jp/>), and input your affirmative or negative votes by following the instructions on the voting screen.

- 2) To prevent unlawful (“disguised”) computer access and falsification of the voting rights exercise contents by individuals other than shareholders, shareholders using the voting rights exercise site will be requested to revise the “provisional password” on the voting rights exercise site. Please follow the requested procedure.

- 3) Shareholders will be notified of a new “Login ID” and “provisional password” with each notification for the Ordinary General Meeting of Shareholders.

- (3) Costs incurred when accessing the voting rights exercise site

Shareholders are responsible for all charges (dial-up connection fees, telephone charges, etc.) incurred when accessing the voting rights exercise site. In addition, shareholders are also responsible for all costs required for packet transmission charges and other cellular phone usage fees when using a cellular telephone to access the voting rights exercise site.

- (4) Procedure for receiving future notices of shareholder meetings

Shareholders wishing to receive future notices of shareholder meetings automatically by e-mail beginning from the next General Meeting of the Shareholders can do so by using a personal computer or smartphone and following the procedure on the voting rights exercise site.

(This procedure cannot be completed using a cellular phone. Shareholders also cannot designate a cellular telephone mail address for receiving future notices. Your understanding is appreciated.)

Inquiries concerning the voting system etc. Mitsubishi UFJ Trust and Banking Corporation Transfer Agent Department (Help Desk) TEL: 0120-173-027 (Hours: 9:00 a.m. – 9:00 p.m. Free-dial)

4. Platform for exercise of voting rights by institutional investors

Institutional investors that have applied beforehand to use the platform managed by ICJ, Inc. for electronic exercise of voting rights may use that platform as the method to exercise their voting rights by electronic means at the Ordinary General Meeting of Shareholders of Nissen Holdings Co., Ltd.

END