BELLUNA

Annual Report 2017

For the year ended March 31, 2017

Belluna Co., Ltd.

Code:9997

Profile

A comprehensive mail order merchant company with an advanced database-centered business model

As a major player in Japan's mail order industry, Belluna possesses superior management resources that include a database of over 18 million customers in Japan cultivated in the General Mail Order business as well as related expertise and infrastructure. By utilizing these strengths to achieve a higher rate of growth and profitability, we are pursuing stable growth in the General Mail Order business, which includes online mail order sales, expansion of the Specialty Mail Order business, expansion and profit improvement in the Retail Store Sales business, and strengthening of the Property business toward a mature portfolio.

Belluna aims for the full realization of its "comprehensive mail order merchant company" business model so as to achieve a high rate of growth and profitability and is working to enhance corporate value by harnessing synergistic effects yielded by its multiple businesses.

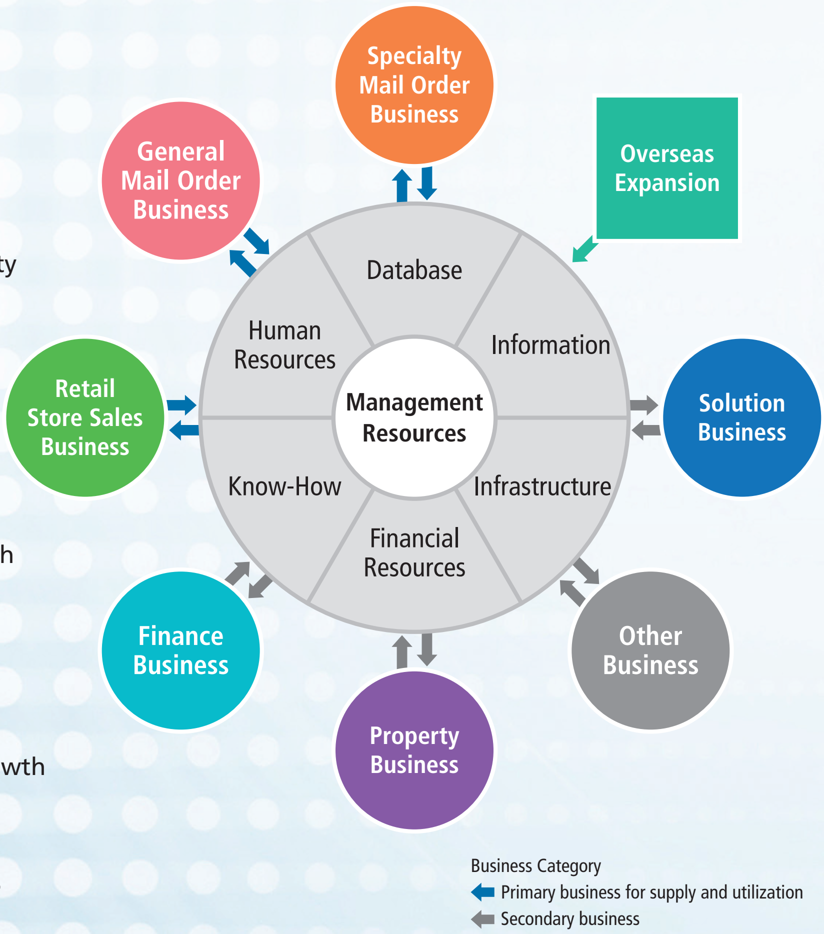
Looking ahead, based on our desire to "help improve the lifestyles and well-being of our customers," we will operate businesses that fulfill people's needs for food, clothing, lifestyle, and recreation.

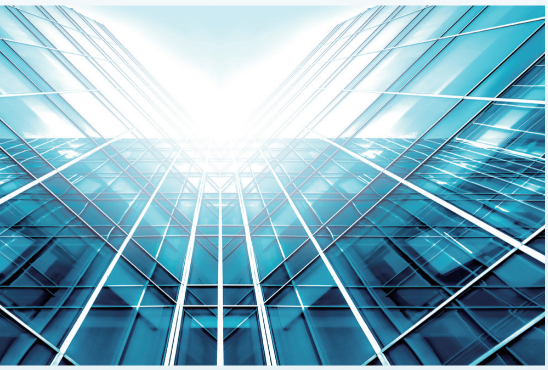
Business Model

1. Building a stable earnings platform in our database-related businesses, which include specialty mail order and commission-type businesses, by leveraging the customer database cultivated in our General Mail Order Business.

2. Generating extra profit through our crop of new businesses, which include wholesale operations and Retail Store Sales Business operations.

3. Nurturing the buds of future growth by identifying and surmounting strategic challenges, including expansion into overseas markets.





Contents

Forward-Looking Statements

This annual report contains forward-looking statements that reflect Belluna Co., Ltd.'s current views and judgments with respect to current plans, strategies and beliefs. They are based upon currently available information, and do not constitute promises, commitments or guarantees. The forward-looking statements involve both real and potential risks and uncertainties that can cause actual events and results to differ materially from those anticipated in these statements. Risks that can cause actual results to differ materially from those stated or implied in the forward-looking statements and from historical events include, but are not limited to, future economic trends, competition in the industrial sector in which Belluna operates, market demand, rates of exchange, and other social, political and economic factors.

Increased sales and profit in the first year of the 3rd Business Plan. Strengthened online sales contributing to operating performance.

Kiyoshi Yasuno

Kiyoshi Yasuno
President and CEO

Q.1 Could you give us a snapshot of the business environment and Belluna's operating performance during the fiscal year under review?

In fiscal 2017, the year ended March 31, 2017, uncertainties concerning overseas economies made prospects for the Japanese economy less predictable. Despite improvement in the employment environment, personal consumption is weak and conditions for the retail industry remain severe.

In this business environment, the Belluna Group implemented the key measures of the 3rd Business Plan. As a result, consolidated net sales in fiscal 2017 increased 10.9% year on year to ¥146,083 million. Operating income increased 30.1% year on year to ¥10,882 million, mainly owing to higher profits in both the General Mail Order business and the mail order business for nurses, which is part of the Specialty Mail Order business. Ordinary income increased 71.5% to ¥12,188 million as a result of recording of foreign exchange gains amounting to ¥410 million in non-operating income, and profit attributable to owners of parent increased 63.7% year on year to ¥5,802 million.

Regarding Belluna's financial position, total assets increased ¥17,968 million compared to the figure at March 31, 2016, to ¥179,024 million, and liabilities rose ¥10,841 million to ¥91,251 million. As a result, net assets increased ¥7,126 million to ¥87,773 million, and the shareholders' equity ratio stood at 47.4%.

Q.2 How is execution of the 3rd Business Plan progressing and what initiatives did Belluna pursue during the fiscal year under review?

Belluna is implementing the 3rd Business Plan covering the period from fiscal 2017 to fiscal 2019. In accordance with this plan, we aim to evolve and grow as a "comprehensive mail order merchant company" based on four management policies: achieve stable growth in the General Mail Order business, expand the Specialty Mail Order business, expand the Retail Store Sales business through new store openings, and strengthen the Property business toward a mature portfolio.

In the fiscal year under review, the first year of the plan, the three pillars fueled growth of both sales and profit, with online sales driving performance in the General Mail Order business, online sales of imported sundry goods and the mail order business for nurses delivering a strong performance for the Specialty Mail Order business, and newly acquired companies such as

Growth of the general mail order business

Strengthen Internet operations

Improvement of CVR (conversion rates) × **Strengthening of customer attraction**

- Improvement of the sites
- Improvement of the efficiency of customer attraction
- **Introduction of products available exclusively via the Internet**

- Start of sales via the Internet
- Link with TV commercials
- Implementation of coupon function

Strengthen operations via the Internet ~ expansion of Internet-dedicated goods

Percentage of sales of Internet-dedicated goods

Actuals for FY2017	Target for FY2018
6%	12%

Improve CVR through the substantial expansion of Internet-dedicated goods

http://belluna.jp

http://belluna.jp/ryuryu/

Maimu CO., LTD. in the clothing rental business, contributing to higher sales of the Retail Store Sales business. Furthermore, businesses other than the three pillars are delivering robust results. For instance, the Solution business contributed greatly to the profit increase thanks to solid results for mail order business outsourcing services. We are also actively pursuing M&A aimed at revenue diversification and steadily strengthening the Group's capabilities as a comprehensive mail order merchant company. For instance, in July 2016 we acquired Min Co., Ltd. and other companies that operate online mail order sales businesses specializing in large sizes.

Q.3 How are Belluna's online sales initiatives faring?

The Belluna Group is continuously working to strengthen online sales with the aim of enhancing the growth potential of the General Mail Order business. Since fiscal 2015, we have focused on improving the conversion rate (CVR) by enhancing the website and the efficiency with which we attract customers. In fiscal 2017, we focused on measures to strengthen our ability to attract customers, such as launching online sales events as well as a coupon program and promotional linkage with TV commercials. As a result, the CVR improved 7.9% and the number of website inflows increased 24.0% year on year, and our sales over the Internet are steadily rising. We will continue to focus on increasing online sales in fiscal 2018 and, with a view to further improving the CVR, we plan to increase the sales contribution from products available only online from 6% in fiscal 2017 to 12%.

Q.4 What message do you have for shareholders?

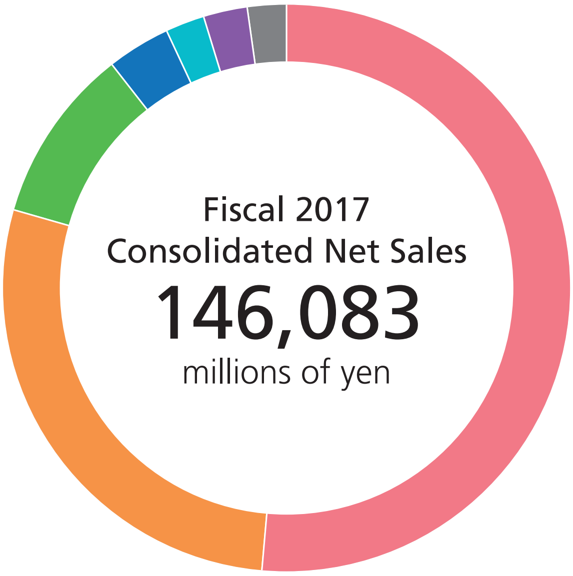
For the fiscal year ending March 31, 2018, we expect to achieve net sales of ¥160 billion and operating income of ¥13 billion. We will press ahead with various measures to achieve these targets, including further strengthening of the three pillars in fiscal 2018 in line with the management policies of the 3rd Business Plan.

Belluna considers rewarding shareholders for their constant support through enhancement of corporate value to be an important policy. The Company paid a total annual dividend of ¥12.50 per share in fiscal 2017, consisting of an interim dividend of ¥6.25 and a year-end dividend of ¥6.25. We plan to pay a total annual dividend of ¥12.50 per share again in fiscal 2018.

Belluna will continue to faithfully uphold its commitment to being a customer-driven, customer-focused company in keeping with the core philosophy it has maintained since its foundation. Belluna aims to become a company supported by many customers, offering complete lifestyle support, with a range of products and services that serve the demands of modern life, from food and clothing to recreation options and everything a home could need.

We appreciate your ongoing understanding and support for the Belluna Group.

Review of Business Operations



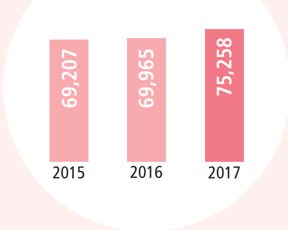
- General Mail Order Business 51.3%
- Specialty Mail Order Business 27.9%
- Retail Store Sales Business 10.0%
- Solution Business 3.7%
- Finance Business 2.1%
- Property Business 2.5%
- Other Business 2.5%

General Mail Order Business

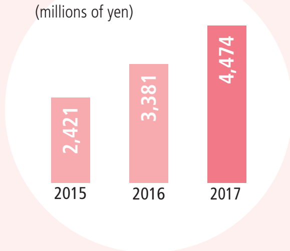
Business Outline

The General Mail Order business, Belluna's core operation, entails diverse activities. We are promoting the sales expansion of a wide range of products, including apparel, sundry goods and home furnishings, through various media, including catalogs and the Internet. We are expanding the mail order business using the Internet and smartphones with a focus on young women.

Net Sales
(millions of yen)



Segment Income
(millions of yen)



Overview

The operating environment remains severe, reflecting the growing popularity of online sales, intensifying competition with retail stores and increasing consumer preference for inexpensive products. In the General Mail Order business, segment net sales increased 7.6% compared with the previous fiscal year to ¥75,258 million, driven by strong online sales. Segment income (operating income) surged 32.3% to ¥4,474 million, mainly because of improved ratios of media costs and logistics costs in addition to an increase in revenue.

Outlook

In fiscal 2018 we aim to achieve segment net sales of ¥82,200 million (up 9.2% year on year) and segment income (operating income) of ¥4,050 million (down 9.5%). Although we have budgeted for a decrease in profit, taking into account the impact of rising courier costs, we will concentrate on further expansion of sales in the EC business by raising the conversion rate (CVR) on the Internet by introducing products available only online and improved website design. By harnessing synergistic effects resulting from multiple channels such as catalogs, the Internet, and retail stores, we expect an improved responsiveness in the mail order business, improved CVR on the Internet, and increased revenue in retail stores. We continue to aim at stable growth by taking advantage of these synergistic effects.

1

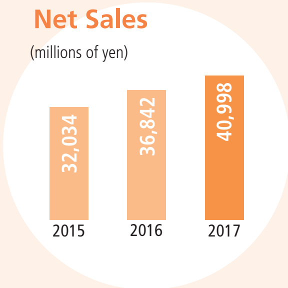
2

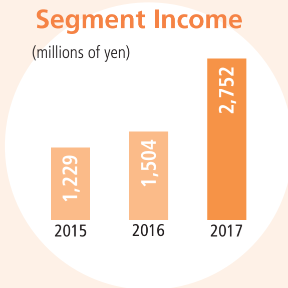
3

4


1 *BELLUNA* is a general fashion catalog aimed at middle-aged women.
2 *LE FRANT* is a general fashion and sundry goods catalog aimed at middle-aged women.
3 *Ranan* is a fashion catalog for women in their 40s.
4 *RyuRyu* offers fashion items for young women in their 20s.

Specialty Mail Order Business





Business Outline

The Specialty Mail Order business, one of the Company's profit drivers, specializes in such products as food, wine, cosmetics, health food and nursing supplies. The products sold in this business tend to attract repeat orders for the same products by the same customers, a major factor contributing to the high profits the business generates.

Overview

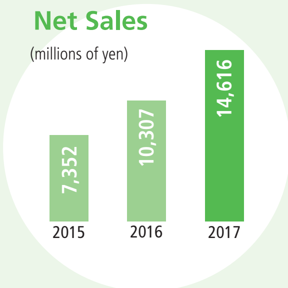
Segment net sales rose 11.3% year on year to ¥40,998 million, reflecting the strong performance of the mail order business for nurses and the sales contribution of MARUCHO CO., LTD. Segment income (operating income) surged 82.9% to ¥2,752 million.

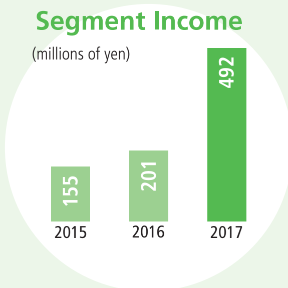
Outlook

The Specialty Mail Order business plays an important role as an income-generating pillar of Belluna's business portfolio. Segment net sales for fiscal 2018 are forecast to increase 10.9% year on year to ¥45,480 million, and segment income is forecast to rise 21.7% to ¥3,350 million. Looking ahead, we are aiming for further growth in our cosmetics, health food, gourmet food, and wine divisions, etc. as well as in our mail order business for nurses. At the same time, we will strive to reinforce segment profitability by enhancing the contents of each business division in the Specialty Mail Order business.

1 ***Egao no Haregohan*** is a gourmet catalog. 2 ***My Wine CLUB*** is a wine catalog. 3 ***OZIO*** is a cosmetics catalog.
4 ***Refre*** is a health food catalog. 5 ***Nursery*** is a catalog for nursing-related clothing. 6 ***Infirmiere*** is a catalog for nursing-related clothing.
7 ***Best Thanks*** is a gift catalog.

Retail Store Sales Business





Business Outline

Belluna Co., Ltd. operates general apparel retail store business, and subsidiary BANKAN Wamonoya Co., Ltd. operates retail stores specializing in the Japanese traditional clothing retail store business.

Overview

As a result of new store openings coupled with the acquisition of the shares of Maimu CO., LTD., segment net sales increased 41.8% compared with the previous fiscal year to ¥14,616 million, and segment income surged 144.0% to ¥492 million.

Outlook

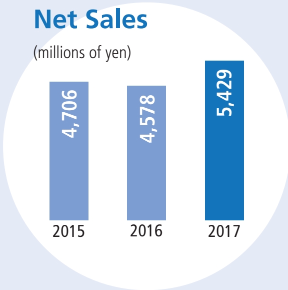
Segment net sales for fiscal 2018 are forecast to increase 10.3% year on year to ¥16,120 million, and segment income is forecast to increase 89.0% to ¥930 million. In the apparel retail store business, we will emphasize profitability over expansion of the store network, closing unprofitable stores and boosting profitability at existing stores. We operated 64 apparel stores as of March 31, 2017 and expect to operate around 54 stores as of March 31, 2018. In the Japanese traditional clothing retail store business, we operated 72 retail stores as of March 31, 2017 and aim to expand to 86 stores as of March 31, 2018.

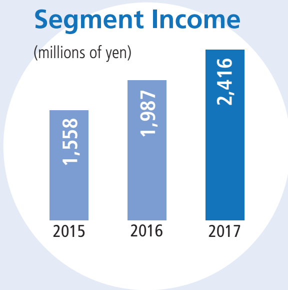
We will continue to increase the number of stores and develop the Retail Store Sales business into a new pillar of the business portfolio.

Solution Business

Business Outline

The Solution business takes advantage of the Belluna Group's database and service infrastructure to provide client support services. These services include providing corporate clients with mail order business outsourcing services such as to enclose and mail out their sales promotion materials with the catalogs and products that the Company sends to its customers and services such as order processing, direct marketing, and product dispatch services.





Overview

The mail order business outsourcing services business achieved profitability and solid sales growth, and the enclosing and mailing services business delivered a strong performance. Consequently, segment net sales increased 18.6% compared with the previous fiscal year to ¥5,429 million, and segment income increased 21.5% to ¥2,416 million.

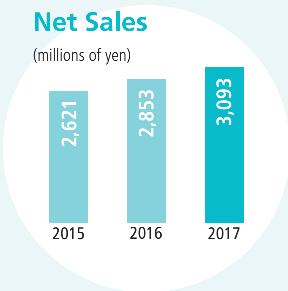
Outlook

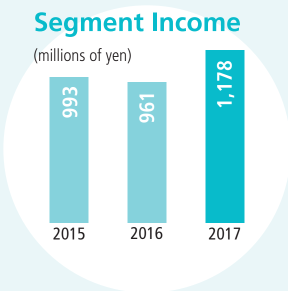
For the business segment as a whole, net sales in fiscal 2018 are forecast to increase 7.2% year on year to ¥5,820 million and segment income is forecast to rise 1.8% to ¥2,460 million, through the gaining of new customers for enclosing and mailing services and boosting of the profitability of mail order business outsourcing services. We will continue to pursue business scale expansion while securing profitability through cost control measures.

Finance Business

Business Outline

The Finance business provides consumer financing services that utilize the extensive customer database compiled by Belluna's mail order sales businesses. This business mainly targets customers of the mail order sales business.





Overview

The Finance business recorded an 8.4% year-on-year increase in segment net sales to ¥3,093 million and a 22.6% increase in segment income to ¥1,178 million as a result of an increase in the balance of trade loans.

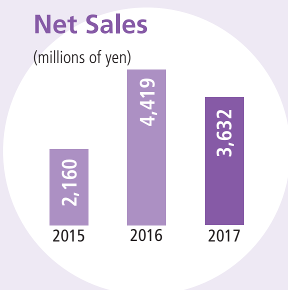
Outlook

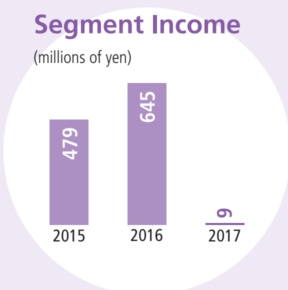
We expect the balance of trade loans in the Finance business to steadily increase accompanying the growth in the mail order sales businesses and forecast a 12.2% year-on-year rise in segment net sales to ¥3,470 million and an 18.8% rise in segment income to ¥1,400 million.

Property Business

Business Outline

The Property business leases, develops, and remodels office buildings and other real estate while also engaging in hotel business.





Overview

Net sales in the Property business decreased 17.8% year on year to ¥3,632 million owing to the non-recurrence of real estate sales recorded in fiscal 2016. Segment income decreased 98.6% year on year to ¥9 million, partly due to the burden of upfront investment in photovoltaic power generation.

Outlook

The Company will realize increased sales from the development business and the hotel business in fiscal 2018 while earning stable rental income from the leasing business. We began operating KYOTO GRANBELL HOTEL (Kyoto Prefecture) in July 2017. Segment net sales for fiscal 2018 are forecast to rise 44.5% year on year to ¥5,250 million, and segment income is forecast to be ¥1,080 million.

Corporate Governance

The Company transitioned into a board with audit committee structure in June 2015 in order to strengthen its auditing and supervising function for legal compliance and appropriateness of management and operation. Establishing multiple outside directors without engaging in management and operation enables the Company to separate supervision from management and operation, and thereby further reinforce the corporate governance. Through these measures, the Company achieves highly transparent management.

Governance System

Board of Directors

As of June 2017, the Board of Directors consisted of nine directors, makes decisions on management objectives and management strategy, etc., and supervises the management and operation of directors. The Board of Directors actively requests members of the Audit & Supervisory Committee to express opinions about resolutions on matters set forth in laws and regulations and the Articles of Incorporation, the status of management and operation, and other important managerial matters. In this manner, the Board of Directors releases reports and deliberates and adopts resolutions while securing fair and objective decisions.

Audit & Supervisory Committee

The Audit & Supervisory Committee consists of three members (including two outside directors) and audits the status of corporate governance, management and operation, and the daily activities of management, including directors. Two of the outside directors are independent directors as stipulated by the Tokyo Stock Exchange. The Company aims to ensure a highly transparent management auditing system by utilizing the abundant experience and balanced viewpoints of outside directors. Moreover, it has been determined that the objective and neutral monitoring provided by the outside directors is sufficient to maintain system effectiveness in the area of management supervision functions.

Executive Officer System

The Company introduced an executive office system in April 2011 to clarify responsibility for executing operations and increase management efficiency. With the introduction of this system, the Company aims to achieve agile decision making and train the next crop of senior managers.

Compliance

In addition to the governance system, which focuses on management decision making, execution and supervision, the Company works to reinforce the maintenance and operation of the governance and risk management structures, including compliance, taking into account the increasing importance of compliance-related risk management in recent years.

Compliance Committee

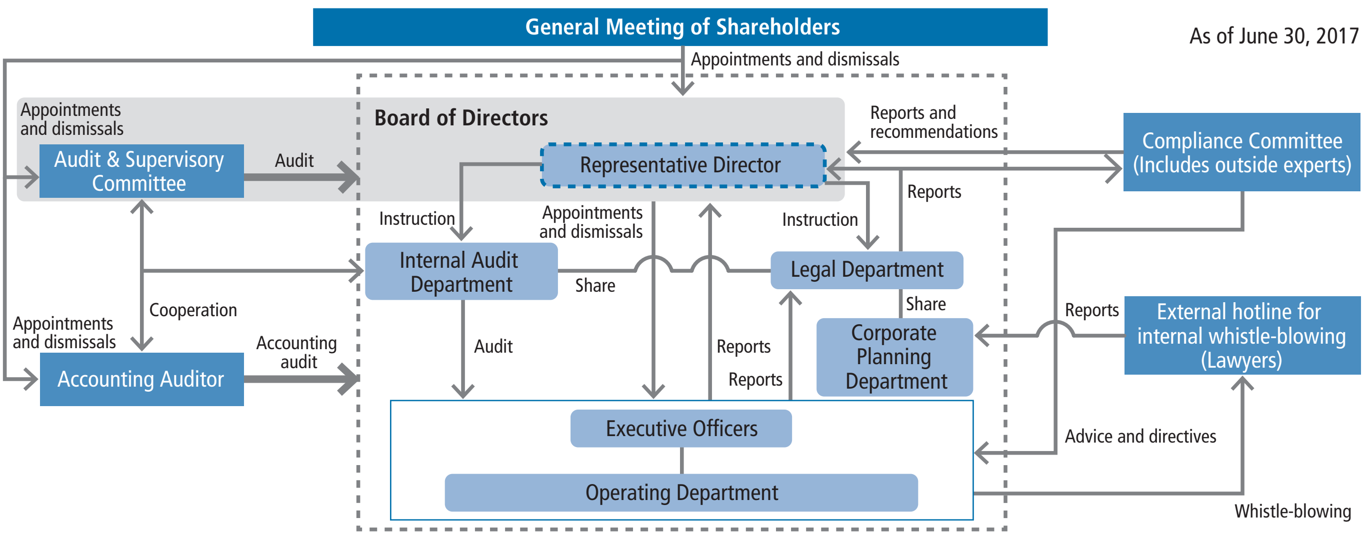
To reinforce its compliance structure, in September 2008 the Company established the Compliance Committee, which is chaired by the manager of corporate planning department and features the participation of outside experts. The Compliance Committee provides advice to the Board of Directors and the Representative Director and possesses the authority to order improvements or suspensions of operations at operating divisions.

Compliance Promotion Structure

The Company maintains the Internal Audit Department under the direct control of the Representative Director. This department is charged with auditing and ensuring the appropriateness and effectiveness of Company-wide administrative systems and the execution of operations. The Internal Audit Department coordinates with members of the Audit Committee in the monitoring of all areas of operation. The Internal Audit, Legal and Corporate Planning departments share information and cooperate in order to rapidly identify and solve problems as well as reduce risk.

Beyond these measures, the Company revised rules for sharing important information and strengthened standards for submitting reports with the purpose of bolstering its information gathering system. In addition, to ensure anonymity the Company established an external hotline as part of its internal whistle-blowing system. Through this and other measures, the Company is upgrading operational flow to ensure the improved functioning of the system. In addition, the Company strives to improve the effectiveness of its compliance structure through such measures as ongoing employee training and education.

Corporate Governance System



Financial Section

Six-Year Financial Summary

Belluna Co., Ltd. and Consolidated Subsidiaries

	Millions of yen [1]						Thousands of U.S. dollars [2]
Years ended March 31	2012	2013	2014	2015	2016	2017	2017
For the year:							
Net sales	110,300	117,884	125,412	120,689	131,742	**146,083**	**1,303,730**
Cost of sales	48,670	52,155	56,677	53,543	59,241	**64,306**	**573,905**
Gross profit—net	61,621	65,719	68,739	67,158	72,500	**81,762**	**729,692**
Selling, general and administrative expenses	54,215	58,638	60,940	60,782	64,134	**70,880**	**632,575**
Operating income	7,406	7,080	7,798	6,376	8,366	**10,882**	**97,117**
Income before income taxes and minority interests	6,785	8,974	9,982	9,612	6,026	**9,773**	**87,220**
Net income	4,294	5,870	7,013	6,394	3,544	**5,802**	**51,780**
Capital investment	869	8,948	9,276	20,171	7,366	**8,635**	**77,064**
Depreciation	2,184	2,282	2,367	2,506	2,481	**2,655**	**23,695**
At year-end:							
Current assets	58,292	65,091	66,667	69,855	74,189	**84,792**	**756,734**
Property, plant and equipment	28,587	35,230	42,748	55,804	59,459	**64,258**	**573,476**
Total assets	99,174	115,079	130,648	152,224	161,055	**179,024**	**1,597,715**
Current liabilities	27,718	38,723	33,701	36,516	37,428	**40,352**	**360,125**
Long-term liabilities	10,650	9,743	23,466	36,197	42,981	**50,898**	**454,244**
Total liabilities	38,369	48,466	57,167	72,713	80,409	**91,251**	**814,378**
Net assets	60,805	66,612	73,480	79,510	80,646	**87,773**	**783,338**
Number of shares issued (thousands)	56,592	56,592	113,184	113,184	113,184	**97,236**	
Number of employees	1,020	1,139	1,212	1,430	1,377	**1,708**	
	Yen						U.S. dollars [2]
Per share data:							
Net income per share [3]	86.53	60.18	72.12	65.77	36.45	**59.68**	**0.53**
Shareholders' equity per share [3, 4]	1,241.73	685.03	755.67	814.97	824.56	**872.86**	**7.79**
Cash dividends per share [3]	15	7.5	12.5	12.5	12.5	**12.5**	**0.11**
	Percentage (%)						
Financial ratios:							
Operating income margin	6.7	6.0	6.2	5.3	6.4	**7.4**	
Net income margin	3.9	5.0	5.6	5.3	2.7	**4.0**	
Return on equity (ROE) [5]	7.3	9.2	10.0	8.4	4.4	**7.0**	
Return on assets (ROA) [6]	7.2	6.9	6.9	5.0	5.8	**6.8**	
Shareholders' equity ratio [5]	61.3	57.9	56.2	52.1	49.8	**47.4**	

Notes: 1. Amounts less than one million yen have been omitted. As a result, the total amounts in Japanese yen shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sums of the individual amounts.

2. The U.S. dollar amounts have been translated from yen, for the convenience of the reader outside Japan, at the rate of ¥112.05=US$1.00, the approximate rate on the Tokyo foreign exchange market on March 31, 2017. Amounts of less than the indicated unit have been truncated.

3. Belluna executed a 2-for-1 stock split on October 1, 2013. The above figures for net income per share, shareholders' equity per share and cash dividends per share for the years ended March 31, 2013 and 2014 have been adjusted based on the assumption that the stock split was executed at the beginning of the year ended March 31, 2013. Amounts for the prior years (prior to the year ended March 31, 2013) are not restated to reflect this stock split.

4. Net assets per share is presented as the line item Shareholders' equity per share. In the calculation of net assets per share, the amount of net assets less minority interests is used.

5. In the calculation of ROE and the Shareholders' equity ratio, the amount of net assets less minority interests is used as shareholders' equity.

6. ROA is the total of operating income and interest and dividend income divided by average total assets.

Financial Review

Overview and Net Sales

In fiscal 2017, the year ended March 31, 2017, the Japanese economy remained on a moderate recovery trend but faced future uncertainties against the backdrop of unpredictable overseas economies. Furthermore, personal consumption remained stagnant in spite of improved employment conditions.

Under these conditions, the Belluna Group continued its measures to strengthen its three pillars of business.

As a result, consolidated net sales for fiscal 2017 increased 10.9% year on year to ¥146,083 million. In the year under review, operating income increased 30.1% year on year to ¥10,882 million largely due to increases in operating income from the general mail order business and mail order business for nurses. Ordinary income soared 71.5% to ¥12,188 million due to the posting of ¥416 million of foreign exchange gains under non-operating income, a favorable result unlike the previous fiscal year. Profit attributable to owners of parent also surged, rising 63.7% year on year to ¥5,802 million.

Earnings per segment were as follows.

Net Sales and Earnings per Segment

In Belluna's mainstay General Mail Order business, segment net sales increased 7.6% compared with the previous fiscal year to ¥75,258 million, buoyed by favorable sales through the Internet. Segment (operating) income surged 32.3% to ¥4,474 million mainly because of improved ratios of media costs and logistics costs, in addition to an increase in revenue.

The Specialty Mail Order business recorded an 11.3% year-on-year increase in segment net sales to ¥40,998 million due to a strong contribution to sales by MARUCHO CO., LTD., together with favorable sales in the mail order business for nurses. Segment (operating) income jumped 82.9% to ¥2,752 million.

In the Retail Store Sales business, several new store openings took place while the shares of Maimu CO., LTD. were acquired during the fiscal year under review. As a result, segment net sales increased 41.8% compared with the previous fiscal year to ¥14,616 million and segment (operating) income surged 144.0% to ¥492 million.

In the Solution business, direct-marketing outsourcing services returned to profitability and recorded higher sales, while sales of enclosing and mailing services progressed favorably. Consequently, segment net sales increased 18.6% compared with the previous fiscal year to ¥5,429 million and segment (operating) income increased 21.5% to ¥2,416 million.

The Finance business recorded an 8.4% year-on-year increase in segment net sales to ¥3,093 million with a higher balance of trade loans in the domestic consumer finance business. Segment (operating) income also increased 22.6% to ¥1,178 million.

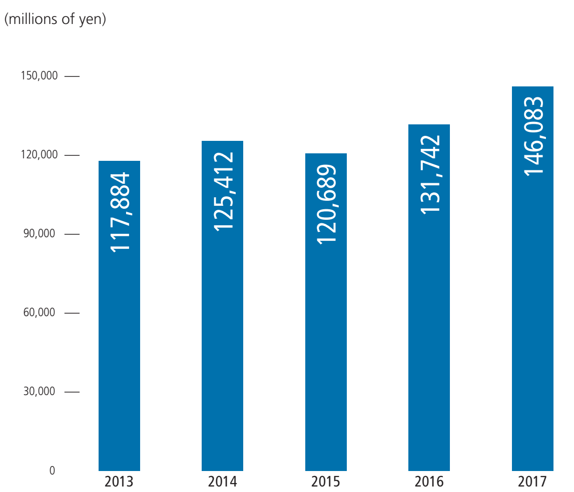
The Property business experienced a 17.8% drop in segment net sales year on year to ¥3,632 million, mainly due to the absence of real estate sales recorded in the previous fiscal year. Segment (operating) income declined 98.6% to ¥9 million, mainly due to prior investment in solar power generation and other areas.

In Other business, sales of wholesale business, etc. increased. As a result, segment net sales increased 11.1% compared with the previous fiscal year to ¥3,670 million. Meanwhile, a segment (operating) loss of ¥147 million was recorded for the year under review, in comparison with a segment (operating) loss of ¥127 million in the previous fiscal year.

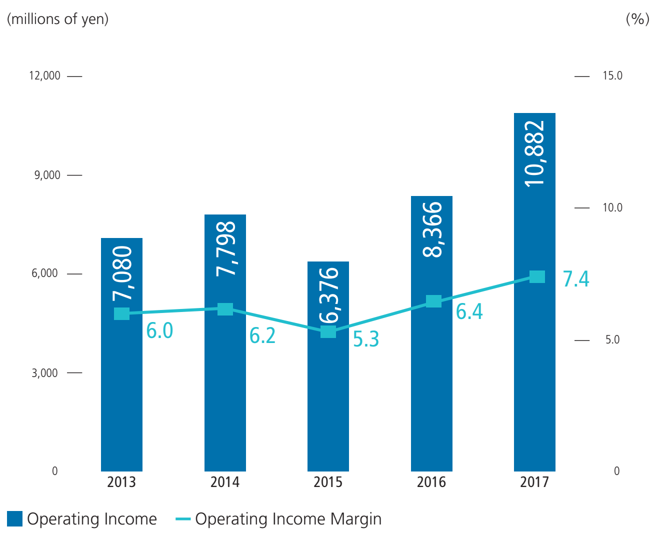
Financial Condition

Total assets as of March 31, 2017 stood at ¥179,024 million, an increase of ¥17,968 million from the previous fiscal year-end. In particular, current assets rose ¥10,603 million to ¥84,792 million, primarily reflecting increases of ¥879 million in trade loans, ¥854 million in marketable securities, ¥2,931 million in real estate for sale and ¥ 3,191 million in real estate for sale in process. As of the end of the fiscal year, fixed assets stood at ¥94,231 million, an increase of ¥7,364 million. This was mainly due to increases

Net Sales



Operating Income and Operating Income Margin



of ¥1,973 million in buildings and structures, ¥2,757 million in construction in progress, and ¥5,032 million in "other" under intangible fixed assets, in spite of a ¥1,323 million decrease in investment securities.

Total liabilities increased by ¥10,841 million compared with the previous fiscal year-end to ¥91,251 million. Specifically, current liabilities increased by ¥2,924 million year on year to ¥40,352 million, primarily because the ¥2,105 million increase in trade notes and accounts payable, ¥2,052 million increase in income taxes payable and ¥926 million increase in accrued expenses outweighed the ¥2,185 million decrease in short-term borrowings. Long-term liabilities grew by ¥7,917 million to ¥50,898 million, largely due to the ¥7,797 million increase in long-term borrowings.

Net assets as of March 31, 2017 totaled ¥87,773 million, a ¥7,126 million rise compared with the previous fiscal year-end. As a result, the shareholders' equity ratio was 47.4%.

Cash Flows

Net cash provided by operating activities during the fiscal year under review decreased from ¥9,176 million provided in the previous fiscal year to ¥8,214 million. The main factors leading to this decrease were a ¥4,638 million increase in real estate for sale and ¥2,136 million of income taxes paid, which offset ¥9,773 million of profit before income taxes, ¥2,655 million of depreciation, and a ¥2,050 million increase in notes and accounts payable.

Net cash used in investing activities during the fiscal year under review increased from ¥9,497 million used in the previous fiscal year to ¥9,945 million. This increase was largely due to a year-on-year rise in cash outflows for ¥993 million of payments into time deposits, ¥7,730 million of payments for the acquisition of property, plant and equipment, ¥1,219 million of payments for the acquisition of investment securities, ¥2,623 million of purchase of shares of subsidiaries, and ¥5,092 million of payments for guarantee deposits, which offset ¥1,378 million of proceeds from withdrawal of time deposits, ¥1,549 million of proceeds from sales of investment securities, and ¥4,982 million of proceeds from collection of guarantee deposits.

Net cash provided by financing activities during the fiscal year under review decreased from ¥3,059 million provided in the previous fiscal year to ¥2,995 million. The main factors leading to this decrease were ¥2,753 million of net decrease in short-term borrowings, ¥4,114 million of repayments of long-term borrowings and ¥1,215 million of dividends paid, which offset ¥11,753 million of proceeds from long-term borrowings.

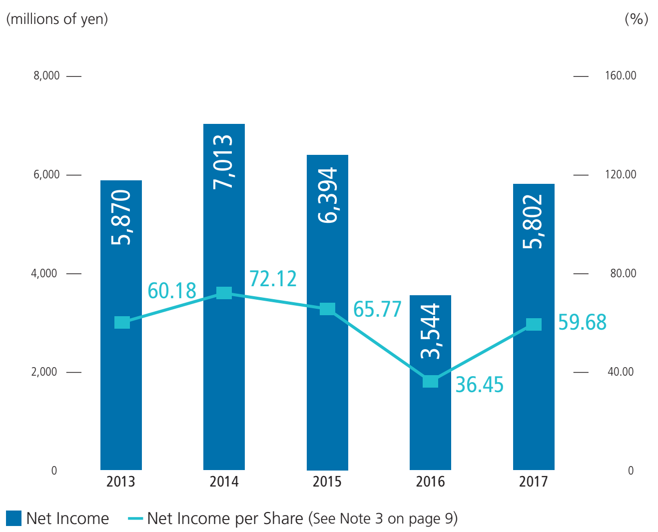
Forecasts for Fiscal 2018

Going forward, the Japanese economy is projected to remain uncertain mainly due to unpredictable overseas economies and the prevalence of a budget-saving sentiment among consumers.

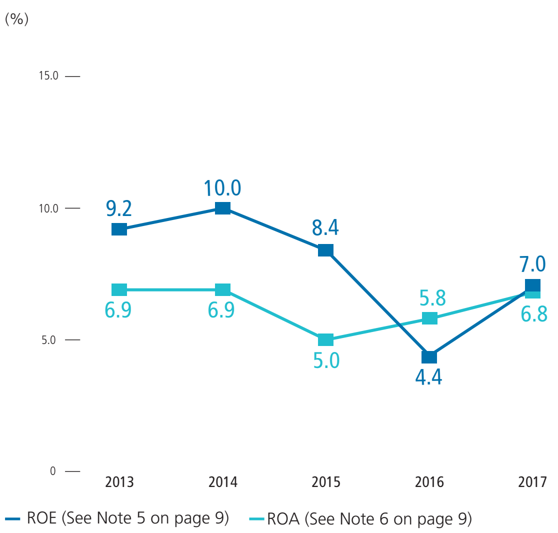
Against this backdrop, the Belluna Group will remain committed to strengthening its three pillars of business in accordance with the management policy of the 3rd Business Plan.

Regarding the forecast for fiscal 2018, we anticipate net sales of ¥160,000 million, operating income of ¥13,000 million, ordinary income of ¥13,500 million, and profit attributable to owners of parent of ¥8,800 million. When business risks and other risks increase more than the Group currently recognizes, there may be changes to these forecasts. Nonetheless, these forecasts have been made based on all factors, predictable as of this document's release, that may impact the Group financially, as well as the current conditions of the Group's operations. Hereafter, any factor that may affect our business results or financial forecasts will be announced promptly.

Net Income and Net Income per Share*



ROE and ROA



Business Risks

1. Statutory Regulations and Litigation

a) Belluna's Finance business is regulated by the Money Lending Business Act and the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, as well as related laws and regulations. The Belluna Group's operating performance could be affected in cases where the decrease in the number of borrowers exceeds forecasts. In addition, the Group provides funds to address future repayment claims for past loans that exceed interest rate limitations stipulated by the Interest Rate Restriction Act. However, in the event that the actual number and monetary amount of claims exceeds current forecasts, the Group's operating performance and financial situation may be adversely affected.

b) The General Mail Order and Specialty Mail Order businesses are subject to a variety of laws and regulations, including the Act against Unjustifiable Premiums and Misleading Representations, the Act on Standardization and Proper Quality Labeling of Agricultural and Forestry Products, the Pharmaceuticals and Medical Devices Law and the Act on Specified Commercial Transactions. The Belluna Group has established internal control and administrative systems to promote strict compliance with such laws and regulations. Despite these initiatives, however, the possibility exists that certain laws and regulations may be breached due to illegal activity or the actions of vendors. In the event that a violation should occur, the Company's reputation may suffer. In addition, the Group may be required to make certain compensatory payments, significantly impacting the Group's operating performance and financial situation.

c) In the case that the Property business must adhere to new obligations and incur cost burdens arising from revisions to or the formulation of new regulations related to the Building Standards Act, Building Lots and Building Transaction Business Act, Financial Instruments and Exchange Act or other real estate-related law, the Group's operating performance and financial situation may be adversely affected.

d) The Group is exposed to the risk of litigation during the execution of its business operations. In the case of an unfavorable judgment, the Group's operating performance and financial situation may be adversely affected.

2. Product Safety

Having established its own quality control standards, the Belluna Group works to increase the quality of the products it offers. However, in the event that future safety-related problems occur with regard to products it sells, the Group's operating performance and financial situation may be adversely affected due to damage caused to its reputation and the costs incurred in addressing such issues. Furthermore, in the event that a serious accident connected to products handled by the Group occurs, its operating performance and financial situation could be negatively impacted given the possible costs that would be incurred for correcting any mishap associated with those products.

3. Climate and Seasonal Risks

Although the Belluna Group formulates sales plans based on seasonal product trends, inclement weather, including cool summers, warm winters and extended periods of heavy rain, may place downward pressure on sales activities and cause additional problems such as excess inventories. As a result, the Group's operating performance and financial situation may be negatively affected.

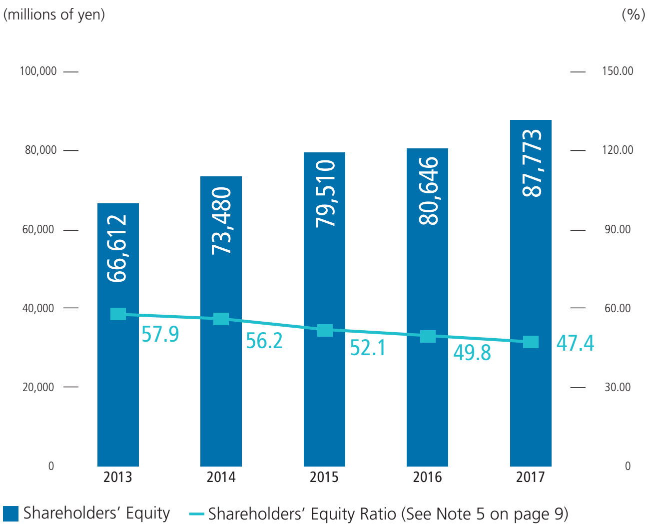
4. Natural Disaster Risks

In the event of a natural disaster, order processing, product delivery and purchasing, credit control and other operations may be significantly impacted. In order to minimize such impact, the Group has increased the earthquake resistance of its information systems as well as dispersed its fulfillment service centers, including call and distribution centers. However, Belluna's operations may be disrupted, wholly or in part, or may be impacted by a major disaster in the event that social infrastructure is significantly damaged, there is an outbreak of disease or the Group's facilities are damaged. As a result, the Group's operating performance and financial situation may be adversely affected.

5. Risks from Changes in the Political and Economic Situation of Producing Countries

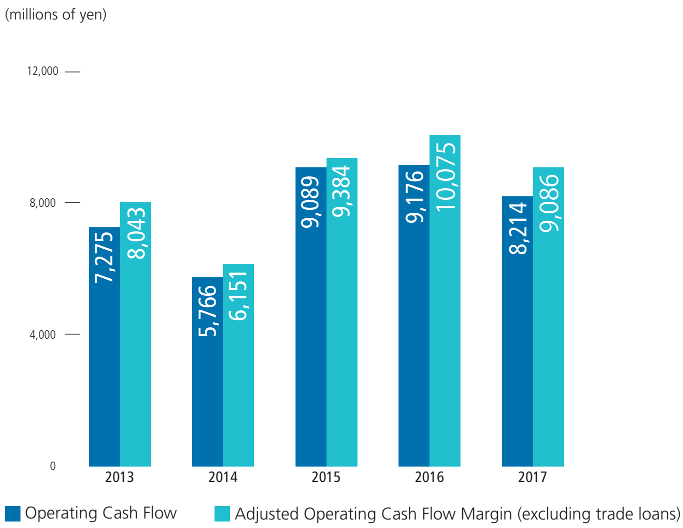
The Belluna Group procures the majority of its products overseas, particularly from China, in an effort to produce competitive

Shareholders' Equity* and Shareholders' Equity Ratio



* Net assets less minority interests

Operating Cash Flow and Adjusted Operating Cash Flow Margin



products and to reduce manufacturing costs. A wide variety of factors, including changes in the political environment, unforeseen amendments to laws and regulations, a shortage in labor supply, strikes, demonstrations, a deterioration in economic conditions and natural disasters, could result in the Group's operating performance and financial situation being negatively affected.

6. Risk from Fluctuations in Raw Material and Other Markets

In the event that the market prices of such raw materials as pulp (which is used to produce catalogs and other items) exceeds Group expectations or there is an increase in the cost of consigned dispatch services by carriers, mainly reflecting an increase in crude oil prices, the Group's operating performance and financial situation may be adversely affected.

7. Overseas Business Development Risks

The Group has developed the property business in U.S. and Southeast Asia. When developing business overseas, factors such as changing political and economic circumstances, the establishment and amendment of laws and regulations and various rules, changes in regional working environments could impact the Belluna Group's overall operating performance and financial situation.

8. Foreign Exchange Risks

In the natural course of its business activities, the Belluna Group imports certain products for which payment is denominated in foreign currencies. In an effort to minimize the risk from foreign exchange rate fluctuations, the Group enters into forward foreign exchange rate contracts. Despite these initiatives, a substantial movement in foreign exchange rates could affect the Group's operating performance and financial situation.

9. Personal Information Leakage Risks

As an organization that handles personal information, the Belluna Group is subject to the Act on the Protection of Personal Information, which came into effect in April 2005. The Group makes every effort to adhere strictly to all relevant laws and regulations while strengthening the control systems within Group companies and contractors we outsource to in order to prevent the unauthorized outflow of information. If, however, any such information should be leaked, the Group may incur significant damage to its reputation and deterioration in its operating performance and financial situation.

10. System Risk

The Belluna Group has installed firewalls and antivirus software in its computer systems to protect the Group against unauthorized access, computer viruses and related events. The Group is also taking steps to augment security by developing mechanisms that apply the latest hotfix programs and prevent computer misuse within the Group. However, despite the use of every conceivable state-of-the-art measure available at the time, the possibility exists that Belluna will incur a loss caused by system disruptions and malfunctions related to unauthorized access and the infiltration of computer viruses from outside the Group. Given that nearly all of the Group's business operations are computerized, should an extended computer malfunction arise, Belluna could incur significant costs up to the time of full recovery, placing downward pressure on the Group's operating performance and financial situation.

11. Real Estate Market Trend Risks

The Property business is susceptible to the influence of such economic conditions as economic trends, land price fluctuations and changes in the overall financial environment. Such factors could have an impact on the Belluna Group's operating performance and financial condition. In the event of a deterioration in real estate markets, the Finance business's collateralized real estate financing services may be subject to an increased risk of insufficient collateral for loan claims caused by a drop in prices of collateralized real estate as well as a heightened risk of late payment or bankruptcy due to a decreased ability to reimburse customers. As a result, the Group's operating performance and financial situation may be adversely affected.

12. Risk from Fluctuations in Marketable Security Prices

The Belluna Group possesses marketable securities. In the case of a major drop in market prices of these securities, losses related to marketable securities held and valuation losses may be incurred. As a result, the Group's operating performance and financial situation may be adversely affected.

13. Financial Risks

The Belluna Group has concluded commitment contracts and other agreements containing financial covenants that require it to ensure that the level of net assets stated on its year-end consolidated balance sheets remains at least at 75% when compared with the sum total of net assets recorded at the end of the previous fiscal year. Any infringement of such financial covenants may result in the issuance of a claim to repay the borrowed funds in advance. In the event that such a breach occurs, the ensuing loss of term profits could potentially impact the operating performance and financial situation of the Belluna Group. In event that Belluna's credit rating is lowered, fund procurement costs will increase, while the ability to obtain funds in both public and private bonds markets will decrease. As a result, the Group's operating performance and financial situation may be adversely affected.

14.Risk from M&As and Business Partnerships

The Belluna Group has striven to strengthen Group businesses mainly through M&As and business partnerships. Though the Group works to avoid any and all risks relating to targeted companies, unrecognized liabilities may emerge after acquisition and results initially expected may not materialize. As a result, the Group's operating performance and financial situation may be adversely affected.

15. Loss related to Stores

The Belluna Group closes unprofitable stores, while at the same time promoting new store openings. In the event that newly opened stores fail to record revenue as initially planned or recovery in performance does not proceed in spite of efforts made to increase sales and reduce selling, general, and administrative expenses, the Group will be forced to post impairment loss and loss on withdrawal from stores. As a result, the Group's operating performance may be adversely affected.

Consolidated Financial Statements

The following is an English-language translation of the audited consolidated financial statements section of the Yukashoken Hokokusho (annual securities report), originally issued in Japanese, of Belluna Co., Ltd. and its consolidated subsidiaries for the year ended March 31, 2017 (with comparative figures for the previous year).

Consolidated Balance Sheets

		In millions of yen		
		March 31, 2016		**March 31, 2017**
Assets				
Current assets				
Cash and deposits		19,478	*2	**20,176**
Trade notes and accounts receivable		9,279		**9,668**
Trade loans		18,082		**18,962**
Marketable securities		346		**1,201**
Merchandise and finished goods		15,610		**15,972**
Raw materials and supplies		1,220		**1,069**
Real estate for sale		999	*2	**3,931**
Real estate for sale in process		3,173	*2	**6,364**
Deferred tax assets		684		**743**
Other current assets		6,417		**7,244**
Allowance for doubtful accounts		(1,104)		**(542)**
Total current assets		74,189		**84,792**
Fixed assets				
Property, plant and equipment				
Buildings and structures	*2	34,652	*2	**37,943**
Accumulated depreciation	*1	(13,311)	*1	**(14,628)**
Buildings and structures (net)		21,341		**23,314**
Machinery and equipment		2,211		**2,312**
Accumulated depreciation		(1,308)	*1	**(1,499)**
Machinery and equipment (net)		902		**812**
Furniture and fixtures		2,195		**1,772**
Accumulated depreciation	*1	(1,816)	*1	**(1,393)**
Furniture and fixtures (net)		378		**378**
Land	*2	35,400	*2	**35,563**
Leased assets		569		**684**
Accumulated depreciation		(203)	*1	**(323)**
Leased assets (net)		366		**361**
Construction in progress		1,069		**3,827**
Total property, plant and equipment		59,459		**64,258**
Intangible fixed assets				
Goodwill		3,231		**3,222**
Leased assets		1,612		**1,124**
Other		3,498		**8,530**
Total intangible fixed assets		8,342		**12,876**
Investments and other assets				
Investment securities	*3	14,561	*3	**13,237**
Long-term lending		1,580		**1,501**
Claims provable in bankruptcy, claims provable in rehabilitation and other		239		**220**
Deferred tax assets		1,007		**733**
Other assets		1,952		**2,120**
Allowance for doubtful accounts		(276)		**(717)**
Total investments and other assets		19,065		**17,096**
Total fixed assets		86,866		**94,231**
Total assets		161,055		**179,024**

	In millions of yen	
	March 31, 2016	**March 31, 2017**
Liabilities		
Current liabilities		
Trade notes and accounts payable	15,633	**17,738**
Short-term borrowings	*2, *4, *5 8,109	*2, *4, *5 **5,924**
Accrued expenses	7,880	**8,806**
Lease obligations	680	**573**
Income taxes payable	951	**3,003**
Provision for bonuses	569	**687**
Provision for sales returns	67	**80**
Provision for point program	599	**552**
Other current liabilities	2,936	**2,986**
Total current liabilities	37,428	**40,352**
Long-term liabilities		
Long-term borrowings	*2, *5 38,359	*2, *5 **46,157**
Provision for loss on interest repayment	1,048	**920**
Lease obligations	1,316	**947**
Net defined benefit liability	65	**42**
Provision for retirement benefits for directors and corporate auditors	252	**263**
Asset retirement obligations	505	**515**
Other long-term liabilities	1,433	**2,051**
Total long-term liabilities	42,981	**50,898**
Total liabilities	80,409	**91,251**
Net assets		
Shareholders' equity		
Common stock	10,607	**10,607**
Capital surplus	11,003	**11,002**
Retained earnings	68,449	**63,359**
Treasury stock	(9,677)	**(0)**
Total shareholders' equity	80,382	**84,969**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	584	**1,060**
Foreign currency translation adjustments	(811)	**(1,148)**
Remeasurements of defined benefit plans	22	**(7)**
Total accumulated other comprehensive income	(204)	**(95)**
Non-controlling interests	468	**2,899**
Total net assets	80,646	**87,773**
Total liabilities and net assets	161,055	**179,024**

Consolidated Statements of Income

In millions of yen

		Year ended March 31, 2016		Year ended March 31, 2017
Net sales		131,742		**146,083**
Cost of sales	*1	59,241	*1	**64,306**
Gross profit		72,501		**81,776**
Reversal of provision for sales returns		66		**67**
Provision for sales returns		67		**80**
Gross profit—net		72,500		**81,762**
Selling, general and administrative expenses	*2	64,134	*2	**70,880**
Operating income		8,366		**10,882**
Non-operating income				
Interest income		330		**356**
Dividend income		310		**336**
Rent income		32		**37**
Extinction of debt		28		**34**
Compensation received		97		**140**
Foreign exchange gains		—		**374**
Subsidy income		211		**148**
Gain on valuation of derivatives		—		**41**
Other		563		**467**
Total non-operating income		1,574		**1,937**
Non-operating expenses				
Interest expense		129		**123**
Commission fee		208		**128**
Loss on valuation of derivatives		1,942		**—**
Depreciation		136		**122**
Loss on closing of stores		65		**68**
Other		353		**188**
Total non-operating expenses		2,835		**631**
Ordinary income		7,105		**12,188**
Extraordinary gains				
Gain on sales of investment securities		107		**0**
Total extraordinary gains		107		**0**
Extraordinary losses				
Loss on sales of fixed assets	*3	312	*3	**28**
Loss on retirement of fixed assets	*4	14	*4	**285**
Impairment loss		—		**43**
Settlement package		300		**867**
Loss on valuation of investment securities		560		**514**
Provision of allowance for doubtful accounts		—		**674**
Total extraordinary losses		1,187		**2,414**
Profit before income taxes		6,026		**9,773**
Income taxes—current		2,446		**4,037**
Income taxes—deferred		64		**43**
Total income taxes		2,511		**4,080**
Profit		3,514		**5,693**
Loss attributable to non-controlling interests		(29)		**(109)**
Profit attributable to owners of parent		3,544		**5,802**

Consolidated Statements of Comprehensive Income

	In millions of yen	
	Year ended March 31, 2016	**Year ended March 31, 2017**
Profit	3,514	**5,693**
Other comprehensive income		
Valuation difference on available-for-sale securities	(729)	**476**
Foreign currency translation adjustments	(670)	**(338)**
Remeasurements of defined benefit plans, net of tax	(39)	**30**
Total other comprehensive income	*1 (1,439)	*1 **107**
Comprehensive income	2,075	**5,801**
Comprehensive income attributable to owners of parent	2,147	**5,911**
Comprehensive income attributable to non-controlling interests	(71)	**(110)**

Consolidated Statements of Changes in Net Assets

(In millions of yen)

Year ended March 31, 2016	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of year	10,607	11,003	66,120	(9,676)	78,054	1,313	(183)	61	1,191	264	79,510
Changes during year:											
Dividends paid			(1,215)		(1,215)						(1,215)
Profit attributable to owners of parent			3,544		3,544						3,544
Purchase of treasury stock				(0)	(0)						(0)
Disposal of treasury stock		0		0	0						0
Retirement of treasury stock					—						—
Net changes of items other than shareholders' equity					—	(729)	(628)	(39)	(1,396)	204	(1,191)
Total changes of items during year	—	0	2,328	(0)	2,328	(729)	(628)	(39)	(1,396)	204	1,136
Balance at end of year	10,607	11,003	68,449	(9,677)	80,382	584	(811)	22	(204)	468	80,646

(In millions of yen)

Year ended March 31, 2017	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of year	**10,607**	**11,003**	**68,449**	**(9,677)**	**80,382**	**584**	**(811)**	**22**	**(204)**	**468**	**80,646**
Changes during year:											
Dividends paid			**(1,215)**		**(1,215)**						**(1,215)**
Profit attributable to owners of parent			**5,802**		**5,802**						**5,802**
Purchase of treasury stock				**(0)**	**(0)**						**(0)**
Disposal of treasury stock				**—**	**—**						**—**
Retirement of treasury stock		**(0)**	**(9,677)**	**9,677**	**—**						**—**
Net changes of items other than shareholders' equity					**—**	**476**	**(337)**	**(30)**	**108**	**2,430**	**2,539**
Total changes of items during year	**—**	**(0)**	**(5,089)**	**9,677**	**4,587**	**476**	**(337)**	**(30)**	**108**	**2,430**	**7,126**
Balance at end of year	**10,607**	**11,002**	**63,359**	**(0)**	**84,969**	**1,060**	**(1,148)**	**(7)**	**(95)**	**2,899**	**87,773**

Consolidated Statements of Cash Flows

		In millions of yen		
		Year ended March 31, 2016		**Year ended March 31, 2017**
Cash flows from operating activities				
Profit before income taxes		6,026		**9,773**
Depreciation		2,481		**2,655**
Increase (decrease) in provision for sales returns		0		**13**
Impairment loss		14		**285**
Amortization of goodwill		448		**523**
Increase (decrease) in allowance for doubtful accounts		472		**(90)**
Increase (decrease) in provision for bonuses		3		**97**
Increase (decrease) in net defined benefit liability		(64)		**(66)**
Increase (decrease) in provision for retirement benefits for directors and corporate auditors		8		**7**
Increase (decrease) in provision for point program		(49)		**(47)**
Increase (decrease) in provision for loss on interest repayment		(49)		**(128)**
Interest and dividend income		(640)		**(692)**
Interest expense		129		**123**
Loss (gain) on valuation of derivatives		1,942		**(41)**
Loss (gain) on sales of investment securities		(107)		**43**
Loss (gain) on valuation of investment securities		300		**867**
Foreign exchange losses (gains)		1,152		**148**
Loss on retirement of fixed assets		312		**28**
Decrease (increase) in trade notes and accounts receivable		851		**(290)**
Decrease (increase) in trade loans		(899)		**(872)**
Decrease (increase) in inventories		823		**(83)**
Decrease (increase) in real estate for sale		(2,103)		**(4,638)**
Decrease (increase) in other current assets		(376)		**(1,299)**
Increase (decrease) in notes and accounts payable		454		**2,050**
Increase (decrease) in other current liabilities		569		**890**
Increase (decrease) in other long-term liabilities		10		**315**
Other		635		**229**
Sub-total		12,345		**9,803**
Interest and dividends received		591		**645**
Interest paid		(129)		**(123)**
Refund of income taxes		6		**26**
Income taxes paid		(3,637)		**(2,136)**
Net cash provided by operating activities		9,176		**8,214**
Cash flows from investing activities				
Payments into time deposits		(1,190)		**(993)**
Proceeds from withdrawal of time deposits		1,463		**1,378**
Proceeds from sales of marketable securities		677		**325**
Acquisition of property, plant and equipment		(5,264)		**(7,730)**
Proceeds from sales of property, plant and equipment		65		**9**
Acquisition of intangible fixed assets		(1,280)		**(460)**
Acquisition of investment securities		(5,433)		**(1,219)**
Proceeds from sales of investment securities		2,400		**1,549**
Purchase of shares of subsidiaries	*2	(85)	*2	**(2,623)**
Payments of loans receivable		(187)		**(110)**
Collection of loans receivable		23		**19**
Payments for guarantee deposits		(666)		**(5,092)**
Proceeds from collection of guarantee deposits		54		**4,982**
Payments of other investments		(74)		**(218)**
Collection of other investments		1		**238**
Net cash used in investing activities		(9,497)		**(9,945)**
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings		1,755		**(2,753)**
Proceeds from long-term borrowings		31,544		**11,753**
Repayments of long-term borrowings		(28,455)		**(4,114)**
Redemption of bonds		—		**(45)**
Proceeds from share issuance to non-controlling shareholders		42		**78**
Purchase of treasury stock		(0)		**(0)**
Dividends paid		(1,215)		**(1,215)**
Repayments of lease obligations		(609)		**(707)**
Other		0		**—**
Net cash provided by financing activities		3,059		**2,995**
Effect of exchange rate change on cash and cash equivalents		(601)		**(88)**
Net increase (decrease) in cash and cash equivalents		2,137		**1,176**
Cash and cash equivalents at beginning of year		16,102		**18,239**
Cash and cash equivalents at end of year	*1	18,239	*1	**19,416**

Notes to Consolidated Financial Statements

Basis for preparation of consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 44 companies

From the fiscal year ended March 31, 2017, the Company included the newly established LABB CAPITAL LLC and Ozio (Taiwan) co.,Ltd. into the scope of consolidation. Also, the Company acquired the shares of Maimu CO., LTD., Min Co., Ltd., Julan Limited Liability Company, Rin Co., Ltd., and LAKE LEISURE HOLDINGS PVT. LTD., and included them into the scope of consolidation.

Names of major consolidated subsidiaries:

Refre Co., Ltd., Ozio Co., Ltd., Friendly Co., Ltd., Sunstage Co., Ltd., BANKAN Wamonoya Co., Ltd., El Dorado Co., Ltd., Nursery Co., Ltd., Texas Co., Ltd., Infirmiere Co., Ltd. and Best Thanks Co., Ltd.

(2) Names of major non-consolidated subsidiaries:

Human Resource Management Co., Ltd., etc.

Reason why the above subsidiaries are excluded from the scope of consolidation:

These non-consolidated subsidiaries are small in size, and their total assets, total net sales, total net income or loss (attributable to the equity interest) and total retained earnings (attributable to the equity interest) do not have a material effect on the consolidated financial statements of the Company. Therefore, they have been excluded from the scope of consolidation.

2. Application of equity method

(1) Number of non-consolidated subsidiaries accounted for by the equity method: None

(2) Number of affiliated companies for which the equity method is applied: 1

(3) Non-consolidated subsidiaries (Human Resource Management Co., Ltd., etc.) are excluded from the scope of the equity method application because they do not have a significant effect on the consolidated net income or loss, consolidated retained earnings, etc., of the Company, nor do they have materiality as a whole.

3. Accounting period of consolidated subsidiaries

The accounting periods of ten consolidated subsidiaries, namely BELL-STAGE CO., LTD., BELLUNA CAPITAL, INC., MADISON GRANBELL LLC, MADISON GRANBELL 2 LLC, BELLUNA CORONA LLC, GRANBELL CORONA LLC, MADISON GRANBELL 3 LLC, GRANBELL EUCLID LLC, LABB CAPITAL LLC and Ozio (Taiwan) co.,Ltd., end on December 31. Nevertheless, the financial statements of BELL-STAGE CO., LTD., BELLUNA CAPITAL, INC., MADISON GRANBELL LLC, MADISON GRANBELL 2 LLC, BELLUNA CORONA LLC, GRANBELL CORONA LLC, MADISON GRANBELL 3 LLC, GRANBELL EUCLID LLC, LABB CAPITAL LLC and Ozio (Taiwan) co.,Ltd. are used as the basis for consolidation since the difference between their financial closing dates and the consolidated financial closing date does not exceed three months.

The necessary adjustments for consolidation have been made to reflect any significant transactions that occurred during the period between those companies' closing dates and the consolidated balance sheet date.

4. Significant accounting policies

(1) Valuation method of significant assets

i) Securities:

(a) Held-to-maturity debt securities:

Held-to-maturity debt securities are amortized at cost (straight-line method).

(b) Available-for-sale securities:

Available-for-sale securities with available fair value:

Available-for-sale securities with available fair value are carried at their fair market value based on the market prices at the consolidated fiscal year-end, with any changes in unrealized gain or loss, net of the applicable income taxes, directly included in net assets. Cost of securities sold is calculated by the moving average method.

Available-for-sale securities with no available fair value:

These securities are carried at cost determined by the moving average method.

Investments in limited liability investment business partnerships and similar partnerships, defined as a security under Article 2, Paragraph 2 of the Japanese Financial Instruments and Exchange Law, reflect net income or loss attributable to the equity interest, based on the latest available financial information as stipulated in the partnership agreements.

ii) Derivatives:

Derivatives are stated at their fair value.

iii) Inventories:

Merchandise and finished goods:

Merchandise and finished goods are stated at cost determined by the moving average method (with the book value reduction method based on a decline in profitability for balance sheet carrying amounts).

Raw materials and supplies:

Raw materials and supplies are stated at the latest purchase price.

Real estate for sale:

Real estate for sale is stated at cost by the individual price method (with the book value reduction method based on a decline in profitability for balance sheet carrying amounts).

Real estate for sale in process:

Real estate for sale in process is stated at cost by the individual price method (with the book value reduction method based on a decline in profitability for balance sheet carrying amounts).

(2) Method of depreciation and amortization

i) Depreciation of property, plant and equipment (excluding leased assets):

For the depreciation of these properties, the Company and domestic consolidated subsidiaries apply the declining balance method, and overseas consolidated subsidiaries, the straight-line method.

For buildings (excluding accompanying facilities) acquired on or after April 1, 1998 and accompanying facilities and structures acquired on or after April 1, 2016, the Company and domestic consolidated subsidiaries apply the straight-line method.

ii) Amortization of intangible assets (excluding leased assets):

The amortization of intangible assets is calculated by the straight-line method. Capitalized costs for computer software for internal use are amortized over the estimated useful life of said software (five years).

iii) Leased assets:

Finance lease transactions that do not transfer the ownership of the leased assets to the lessee:

The depreciation of leased assets is calculated by the straight-line method based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

(3) Basis for the provision of significant allowances and reserves

i) Allowance for doubtful accounts:

Allowances for doubtful accounts are provided at amounts determined based on the historical default rates with respect to ordinary receivables, and allowances for specific doubtful receivables at estimated amounts considered to be uncollectible after reviewing individual collectibility.

ii) Provision for bonuses:

Provision for bonuses is provided based on the estimated amount to be paid to employees for the current fiscal year.

iii) Provision for sales returns:

Provision for sales returns is provided for the estimated loss on the sales returns to arise after the year-end, at an amount equivalent to the gross profit on sales returns estimated based on the historical rate of sales returns.

iv) Provision for point program:

Provision for point program is provided for the future expense caused by the consumption of points, and is an estimate of the future consumption amount calculated at the year-end based on the historical rate of consumption.

v) Provision for loss on interest repayment:

Provision for loss on interest repayment is provided for expected refund claims of interest on trade loans that exceed the upper limit of the interest rate prescribed under the Interest Rate Restriction Act.

vi) Provision for retirement benefits for directors and corporate auditors:

Provision for retirement benefits for directors and corporate auditors is provided at the amount to be paid at the year-end based on internal rules.

(4) Accounting method for retirement benefits:
  i) Method of attributing projected benefits to periods:
     Projected retirement benefits are attributed to periods through the current fiscal year-end on a straight-line basis in determining retirement benefit obligation.
  ii) Treatment of actuarial gains and losses:
     Actuarial gains and losses are amortized by the straight-line method in equal installments over a certain period (5 years), which falls within the average remaining years of service of employees when incurred. The amortization of such gains and losses begins in the year in which they arise.
  iii) Application of short-cut method by small-scale companies:
     Certain consolidated subsidiaries, in calculating retirement benefit liability and retirement benefit costs, apply a short-cut method in which the benefit amount payable for voluntary retirement is defined as the retirement benefit obligation.

(5) Method and period of amortization of goodwill
  Goodwill is amortized by the straight-line method over a period of 4 to 10 years.

(6) Cash and cash equivalents in the consolidated statements of cash flows
  These consist of cash on hand, cash in banks that can be withdrawn on demand, and short-term investments that will become due within three months from the acquisition date and can easily be converted into cash with negligible risk of value change.

(7) Other significant accounting policies
  i) Accounting for consumption taxes:
     Transactions subject to consumption and local consumption taxes are recorded at amounts exclusive of these taxes.
  ii) Application of the consolidated taxation system:
     The Company has applied the consolidated taxation system.

Changes in Accounting Policy

Effective the fiscal year under review, the Company applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ PITF No. 32 issued on June 17, 2016) in accordance with an amendment to the Corporation Tax Law. Accordingly, the Company revised the method for depreciating accompanying facilities and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of these changes on the consolidated net income or loss for the fiscal year under review is immaterial.

Additional Information

Effective from the fiscal year under review, the Company applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016).

Notes to the Consolidated Balance Sheets

*1. Accumulated impairment loss is included in "Accumulated depreciation."

*2. Pledged assets and secured liabilities

Assets pledged as collateral and secured liabilities are as follows.

(In millions of yen)

	March 31, 2016	March 31, 2017
Cash and deposits	—	5
Real estate for sale	—	226
Real estate for sale in process	—	1,362
Buildings and structures	6,761	7,203
Land	12,618	13,955
Total	19,380	22,753

Liabilities secured by the above are as follows.

(In millions of yen)

	March 31, 2016	March 31, 2017
Short-term borrowings	1,798	1,901
Long-term borrowings	33,353	34,268
Total	35,151	36,170

*3. Investment in equities of non-consolidated subsidiaries and affiliated companies are as follows:

(In millions of yen)

	March 31, 2016	March 31, 2017
Investment securities (stocks)	605	617

*4. The Company maintains overdraft agreements and lending commitments with banks for the timely financing of working capital. The unexecuted balance granted under these facilities at March 31, 2016 and 2017 is summarized as follows:

(In millions of yen)

	March 31, 2016	March 31, 2017
Total of the overdraft limit and lending commitments	13,410	19,630
Executed loans	5,050	2,300
Unexecuted balance	8,360	17,330

*5. Restrictive financial covenants

Of the consolidated borrowings balance, up to ¥23,853 million was subject to restrictive financial covenants under relevant loan agreements, by which it is pledged, among others, that the net asset amount (on a consolidated basis) shall be maintained at the level of 75% or more of the net asset amount as of the end of the preceding fiscal year.

*6. Joint and several liability on guarantee

The Company provides a joint and several guarantee as follows:

(In millions of yen)

	March 31, 2016	March 31, 2017
Shurei Co., Ltd. (Note)	254	227

Note: The Company provides a joint and several guarantee for the borrowings from financial institutions.

Notes to the Consolidated Statements of Income

*1. The amount of inventories on the balance sheet at the fiscal year-end is the amount after book value reduction to reflect a decline in profitability. The amount of loss on such revaluation of inventories included in the cost of sales is as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
	457	824

*2. Major items of selling, general and administrative expenses are as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Freightage and packing expenses	8,746	9,561
Advertising expenses	17,661	18,915
Sales promotion expenses	3,096	3,588
Provision of allowance for doubtful accounts	495	510
Provision for point program	592	544
Provision for loss on interest repayment	419	371
Salaries and allowances	9,640	10,672
Provision for bonuses	532	701
Provision for retirement benefits for directors and corporate auditors	10	10
Retirement benefit expenses	51	63
Communication expenses	6,111	6,406
Commission fee	7,672	9,693

*3. Breakdown of loss on retirement of fixed assets is as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Buildings and structures	311	23
Machinery and equipment	—	0
Furniture and fixtures	1	1
Software	—	3
Leased assets (intangible)	—	0
Total	312	28

*4. Impairment loss

For the year ended March 31, 2016

The Group recorded impairment losses on the following asset groups in the year ended March 31, 2016.

Usage	Type	Location
Assets for business	Buildings and structures, furniture and fixtures	Kawasaki-shi, Kanagawa Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Hikone-shi, Shiga Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Obu-shi, Aichi Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Himeji-shi, Hyogo Prefecture

(Method for grouping assets)
The Group bundles assets for business based on segments under managerial accounting, while real estate for rental and idle assets are grouped individually.

(Process through which impairment loss was recognized)
In the year ended March 31, 2016, a review by the above grouping indicated deteriorating operating results and no prospects for a performance recovery in the short-term. Consequently, the Group wrote down the carrying amounts to recoverable amounts and recorded the amount written off as an impairment loss (¥14 million).

(Components of amounts of impairment loss by type of fixed assets)
Amounts of components of impairment loss are as follows: ¥10 million of buildings and structures and ¥3 million of furniture and fixtures.

(Method for calculating the recoverable amounts)
The recoverable amounts of the relevant assets are measured by net sales values on the assumption that the net sales values equal to zero.

For the year ended March 31, 2017
The Group recorded impairment losses on the following asset groups in the year ended March 31, 2017.

Usage	Type	Location
Assets for lease (real estate for sale)	Land	Tama-shi, Tokyo
Assets for business	Buildings and structures, furniture and fixtures, other (investments and other assets)	Sanyo Onoda-shi, Yamaguchi Prefecture
Assets for business	Buildings and structures, other (investments and other assets)	Kushiro-shi, Hokkaido
Assets for business	Buildings and structures, other (investments and other assets)	Daisen-shi, Akita Prefecture
Assets for business	Buildings and structures, furniture and fixtures, other (investments and other assets)	Kobe-shi, Hyogo Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Ise-shi, Mie Prefecture
Assets for business	Buildings and structures, furniture and fixtures, machinery, leased assets, other (investments and other assets)	Hiki-gun, Saitama Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Misato-shi, Saitama Prefecture
Assets for business	Furniture and fixtures, other (intangible fixed assets)	Ageo-shi, Saitama Prefecture
Other	Goodwill	—

(Method for grouping assets)
The Group bundles assets for business based on segments under managerial accounting, while real estate for rental and idle assets are grouped individually.

(Process through which impairment loss was recognized)
In the year ended March 31, 2017, with respect to assets for lease, the Company decided to change the purpose of holding assets from assets for lease to real estate for sale based on a review by the above grouping. Consequently, the Company wrote down the carrying amount of the assets for lease to net sales values. With respect to assets for business, a review by the above grouping indicated deteriorating operating results and no prospects for a performance recovery in the short-term. Consequently, the Group wrote down the carrying amounts of the assets for business to recoverable amounts. The Company recorded the amount written off as an impairment loss (¥285 million).

(Components of amounts of impairment loss by type of fixed assets)
Amounts of components of impairment loss are as follows: ¥78 million of land, ¥95 million of buildings and structures, ¥2 million of furniture and fixtures, ¥17 million of machinery, ¥1 million of leased assets, ¥60 million of other (intangible fixed assets), ¥1 million of other (investments and other assets), and ¥28 million of goodwill.

(Method for calculating the recoverable amounts)
The recoverable amounts of the relevant asset groups are measured by value in use or net sales values. Value in use is calculated by discounting future cash flows at 3.1%. If future cash flows are negative, the asset group is assessed at zero. Net sales values are calculated by making reasonable adjustments based on the appraisal value under the Real Estate Appraisal Standards or the assessed value for fixed assets tax.

Notes to the Consolidated Statements of Comprehensive Income

*1. The components (reclassification adjustments and tax effects) of other comprehensive income are as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Valuation difference on available-for-sale securities:		
Gains (losses) incurred during the year	(1,774)	456
Reclassification adjustment to net income	678	190
Amount before tax effect	(1,095)	646
Tax effect	365	(170)
Valuation difference on available-for-sale securities	(729)	476
Foreign currency translation adjustments:		
Gains (losses) incurred during the year	(670)	(338)
Reclassification adjustment to net income	—	—
Foreign currency translation adjustments	(670)	(338)
Remeasurements of defined benefit plans, net of tax:		
Gains (losses) incurred during the year	(34)	(33)
Reclassification adjustment to net income	(23)	(9)
Amount before tax effect	(58)	(43)
Tax effect	19	13
Remeasurements of defined benefit plans, net of tax	(39)	(30)
Total other comprehensive income	(1,439)	107

Notes to the Consolidated Statements of Changes in Net Assets

Year ended March 31, 2016

1. Class and number of shares issued and in treasury

(In thousands of shares)

	Beginning of the year	Increase during the year	Decrease during the year	End of the year
Shares issued:				
Common stock	113,184	—	—	113,184
Total	113,184	—	—	113,184
Treasury stock:				
Common stock (Notes 1, 2)	15,946	0	0	15,947
Total	15,946	0	0	15,947

Notes: 1. The increase of 0 thousand shares of treasury stock (common stock) resulted from the purchase of less-than-a-unit shares.
2. The decrease of 0 thousand shares of treasury stock (common stock) was due to additional purchase requests from odd-lot shareholders.

2. Dividends

(1) Dividends paid:

Resolution adopted	Class of shares	Aggregate amount (millions of yen)	Amount per share (yen)	Record date	Effective date
Shareholders' meeting on June 26, 2015	Common stock	607	6.25	March 31, 2015	June 29, 2015
Board of Directors' meeting on October 29, 2015	Common stock	607	6.25	September 30, 2015	December 4, 2015

(2) Dividends with a record date during the year ended March 31, 2016, payable in the following fiscal year:

Resolution adopted	Class of shares	Aggregate amount (millions of yen)	Source of dividends	Amount per share (yen)	Record date	Effective date
Shareholders' meeting on June 28, 2016	Common stock	607	Retained earnings	6.25	March 31, 2016	June 29, 2016

Year ended March 31, 2017

1. Class and number of shares issued and in treasury

(In thousands of shares)

	Beginning of the year	Increase during the year	Decrease during the year	End of the year
Shares issued:				
Common stock (Note 1)	113,184	—	15,948	97,236
Total	113,184	—	15,948	97,236
Treasury stock:				
Common stock (Notes 1, 2)	15,947	0	15,948	0
Total	15,947	0	15,948	0

Notes: 1. The decrease of 15,948 thousand shares of shares issued (common stock) and the decrease of 15,948 thousand shares of treasury stock (common stock) were due to the retirement of treasury stock.
2. The increase of 0 thousand shares of treasury stock (common stock) resulted from the purchase of less-than-a-unit shares.

2. Dividends

(1) Dividends paid:

Resolution adopted	Class of shares	Aggregate amount (millions of yen)	Amount per share (yen)	Record date	Effective date
Shareholders' meeting on June 28, 2016	Common stock	607	6.25	March 31, 2016	June 29, 2016
Board of Directors' meeting on October 31, 2016	Common stock	607	6.25	September 30, 2016	December 2, 2016

(2) Dividends with a record date during the year ended March 31, 2017, payable in the following fiscal year:

Resolution adopted	Class of shares	Aggregate amount (millions of yen)	Source of dividends	Amount per share (yen)	Record date	Effective date
Shareholders' meeting on June 28, 2017	Common stock	607	Retained earnings	6.25	March 31, 2017	June 29, 2017

Notes to the Consolidated Statements of Cash Flows

*1. Reconciliation between the fiscal year-end cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets

(In millions of yen)

	March 31, 2016	March 31, 2017
Cash and deposits	19,478	20,176
Time deposits with original maturities of more than three months	(1,266)	(842)
MMFs, etc. included in marketable securities	27	82
Cash and cash equivalents	18,239	19,416

*2. Major components of assets and liabilities of the subsidiaries newly consolidated through share acquisition

Year ended March 31, 2016

This disclosure is omitted due to immateriality.

Year ended March 31, 2017

Components of assets acquired and liabilities assumed at the time of consolidation of the subsidiaries newly consolidated through share acquisition, and the relationship with the share acquisition cost and net payment for share acquisition, are as follows:

(In millions of yen)

Current assets	648
Fixed assets	5,725
Goodwill	543
Current liabilities	(725)
Long-term liabilities	(1,081)
Non-controlling interests	(2,185)
Share acquisition cost	2,924
Cash and cash equivalents	300
Net payment for share acquisition	2,623

*3. Breakdown of significant non-monetary transactions

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Retirement of treasury stock	—	9,677

Notes Regarding Lease Transactions

1. Finance lease transactions

(As lessee)

Finance lease transactions that do not transfer the ownership of the leased assets to the lessee:

1. Description of leased assets
   (a) Tangible fixed assets (property, plant and equipment):
   Mainly furniture and fixtures in use by the general mail order and specialty mail order businesses.
   (b) Intangible fixed assets:
   Software.

2. Depreciation method for leased assets:
   The depreciation method employed is as stated in "4. Significant accounting policies, item (2) Method of depreciation and amortization" under "Significant Accounting Policies" herein.

2. Operating lease transactions

(As lessee)

Future lease payments under non-cancellable operating leases in operating lease transactions

(In millions of yen)

	March 31, 2016	March 31, 2017
Due within one year	257	257
Due over one year	879	622
Total	1,137	879

Notes Regarding Financial Instruments

1. Status of financial instruments

(1) Policy for financial instruments:

In consideration of its business plan, the Company and its subsidiaries (collectively, the "Group") raise necessary funds mainly through bank borrowings. Temporary cash surpluses, if any, are invested in low risk financial instruments. The Group uses derivatives mainly for the purpose of evading the currency exchange rate fluctuation risk associated with foreign currency-denominated trade payables, and does not engage in speculative transactions as its policy.

(2) Types of financial instruments, related risks and management thereof:

Trade receivables (trade notes and accounts receivable) as well as trade loans are exposed to customer credit risk. Belluna manages such risk by maintaining a credit line control based on its screening standards, along with controls of due dates and outstanding receivables balances. Marketable securities and investment securities are also exposed to the risk of market price fluctuations, against which the Group periodically monitors market price thereof and reports thereon to the representative director (president).

Trade payables (trade notes and accounts payable) and accrued expenses mostly have due dates within one year. They partly include those related to imports denominated in foreign currencies and, as such, they are exposed to the currency exchange rate fluctuation risk. Such risk is partly hedged by derivative transactions. Borrowings are used mainly for raising the funds necessary to carry out the business plan. The borrowings are exposed to the interest rate fluctuation risk.

Derivative transactions utilized by the Company include forward foreign currency exchange contracts and currency option and currency swap contracts for the purpose of hedging the exchange rate fluctuation risk. The Company's derivative transactions are conducted in accordance with the Company's derivative transaction control regulations, which stipulate such matters as transaction authorization and ceilings, whereby the transaction status, outstanding balances, etc., are periodically checked and confirmed. For information regarding the hedge accounting adopted by the Company, including hedge method and hedge items, hedge policy and method of evaluation of hedge effectiveness, please see "4. Significant accounting policies, item (5) Principal hedge accounting policies" under "Significant Accounting Policies" herein.

(3) Supplementary explanation concerning fair values of financial instruments:

The fair values of financial instruments include, besides values based on the market price, rationally calculated values in cases where market price is not available. In the calculation of such values, variable factors are also taken into consideration and, therefore, the values calculated may change depending on the factors or assumptions employed.

2. Fair values of financial instruments

The balance sheet carrying amounts, fair values and unrealized gains/losses of the financial instruments are as presented below, provided, however, that financial instruments whose fair values are not readily determinable are excluded from these tables (see [Note 2] below.):

As of March 31, 2016

(In millions of yen)

	Balance sheet carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	19,478	19,478	—
(2) Trade notes and accounts receivable	9,279		
Allowance for doubtful accounts (*1)	(358)		
	8,921	8,921	—
(3) Trade loans	18,082		
Allowance for doubtful accounts (*1)	(736)		
	17,346	17,586	240
(4) Marketable securities and investment securities			
Held-to-maturity debt securities	329	361	32
Available-for-sale securities	9,409	9,409	—
	9,739	9,771	32
Assets total	55,484	55,757	272
(1) Trade notes and accounts payable	15,633	15,633	—
(2) Short-term borrowings	8,109	8,109	—
(3) Long-term borrowings	38,359	38,363	4
Liabilities total	62,102	62,106	4
Derivative transactions (*2)	(34)	(34)	—

(*1) Allowances for doubtful accounts recognized on each of trade notes and accounts receivable and trade loans are deducted.
(*2) Receivables and payables incurred by derivative transactions are presented in net amounts. Net payables are presented in parenthesis.

As of March 31, 2017

(In millions of yen)

	Balance sheet carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	20,176	20,176	—
(2) Trade notes and accounts receivable	9,668		
Allowance for doubtful accounts (*1)	(354)		
	9,314	9,314	—
(3) Trade loans	18,962		
Allowance for doubtful accounts (*1)	(188)		
	18,774	19,004	230
(4) Marketable securities and investment securities			
Held-to-maturity debt securities	171	173	1
Available-for-sale securities	9,793	9,793	—
	9,965	9,967	1
Assets total	58,230	58,463	232
(1) Trade notes and accounts payable	17,738	17,738	—
(2) Short-term borrowings	5,924	5,924	—
(3) Long-term borrowings	46,157	46,156	(1)
Liabilities total	69,820	69,819	(1)
Derivative transactions (*2)	7	7	—

(*1) Allowances for doubtful accounts recognized on each of trade notes and accounts receivable and trade loans are deducted.
(*2) Receivables and payables incurred by derivative transactions are presented in net amounts. Net payables are presented in parenthesis.

[Note 1] Calculation methods of fair values of financial instruments and related information concerning marketable securities and derivative transactions:

Assets

(1) Cash and deposits and (2) Trade notes and accounts receivable:

These assets are recorded using book values because their fair values approximate book values, reflecting their short-term maturity nature.

(3) Trade loans:

The fair values of these items are calculated on the basis of present values obtained by discounting the estimated values of principal and interest to be received (such estimation is reflective of the collectibility checked category by category of receivables classified by the maturity dates) using the assumed interest rates deemed appropriate in the light of the interest rates for new lending and credit risks. With respect to those secured by collateral, however, the estimated bad debt amounts are calculated based on the estimated collectible amounts and, since their fair values approximate the amounts of balance sheet carrying amounts less the currently estimated bad debts amounts, such amounts are determined as fair values.

(4) Marketable securities and investment securities:

Of these securities, fair values of stocks are determined using the quoted stock exchange prices, while those of bonds are determined based on the quoted stock exchange prices or prices offered by the trading financial institutions. Fair values of investments in investment trusts are determined using the published base prices.

For the information regarding the securities classified by the purpose of holding, please see "Notes Regarding Securities" appearing later.

Liabilities

(1) Trade notes and accounts payable

These items are recorded using book values because their fair values approximate book values reflective of their short-term settlement nature.

(2) Short-term borrowings and (3) Long-term borrowings:

Borrowings bearing fixed interest rates are calculated by discounting the aggregate values of principal and interest using an interest rate to be applied when the same type of borrowings is newly made.

Meanwhile, borrowings bearing variable interest rates (floating rate types) are recorded using book values because their fair values approximate book values as they quickly reflect market interest rates within a short period of time.

Derivative transactions

See "Notes Regarding Derivatives."

[Note 2] Financial instruments, fair values of which are not readily determinable:

(In millions of yen)

Category	March 31, 2016	March 31, 2017
Unlisted equity securities	3,632	2,959
Unlisted debt securities	—	105
Investments in partnerships for investment business	1,536	1,408

These instruments are not included in "(4) Marketable securities and investment securities," because there are no market quoted prices and it is thus considered difficult to identify their fair values.

[Note 3] Redemption schedule subsequent to fiscal year-end of financial assets and securities with contractual maturities:

The following information includes the securities, fair values of which are not readily determinable.

As of March 31, 2016

(In millions of yen)

Due	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	19,439	—	—	—	—	—
Trade notes and accounts receivable	9,279	—	—	—	—	—
Trade loans	5,547	5,509	4,076	2,605	341	1
Marketable securities and investment securities:						
Held-to-maturity debt securities:						
(1) National and local government bonds	—	—	—	—	—	—
(2) Corporate bonds	182	146	—	—	—	—
(3) Other	—	—	—	—	—	—
Available-for-sale securities with contractual maturities:						
(1) National and local government bonds	—	236	—	—	—	119
(2) Corporate bonds	—	428	440	107	—	82
(3) Other	173	511	100	1,392	361	1,212
Total	34,622	6,831	4,617	4,106	703	1,416

As of March 31, 2017

(In millions of yen)

Due	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	20,115	—	—	—	—	—
Trade notes and accounts receivable	9,668	—	—	—	—	—
Trade loans	5,566	5,439	4,390	3,142	421	1
Marketable securities and investment securities:						
Held-to-maturity debt securities:						
(1) National and local government bonds	—	—	—	—	—	—
(2) Corporate bonds	171	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Available-for-sale securities with contractual maturities:						
(1) National and local government bonds	242	—	—	—	—	153
(2) Corporate bonds	560	439	655	—	—	227
(3) Other	353	100	675	204	204	1,662
Total	36,679	5,979	5,721	3,347	625	2,044

[Note 4] Repayment schedule subsequent to fiscal year-end of borrowings:

As of March 31, 2016

(In millions of yen)

Due	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term borrowings	5,050	—	—	—	—	—
Long-term borrowings	3,059	12,225	2,725	2,725	2,762	17,921
Total	8,109	12,225	2,725	2,725	2,762	17,921

As of March 31, 2017

(In millions of yen)

Due	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term borrowings	2,326	—	—	—	—	—
Long-term borrowings	3,598	3,764	14,607	3,680	3,240	20,863
Total	5,924	3,764	14,607	3,680	3,240	20,863

Notes Regarding Securities

1. Marketable held-to-maturity debt securities

As of March 31, 2016

(In millions of yen)

	Type of securities	Balance sheet carrying amount	Market value	Unrealized gain (loss)
Securities with market value exceeding balance sheet carrying amount	(1) National and local government bonds	—	—	—
	(2) Corporate bonds	246	285	38
	(3) Other	—	—	—
	Subtotal	246	285	38
Securities with market value not exceeding balance sheet carrying amount	(1) National and local government bonds	—	—	—
	(2) Corporate bonds	82	76	(6)
	(3) Other	—	—	—
	Subtotal	82	76	(6)
Total		329	361	32

As of March 31, 2017

(In millions of yen)

	Type of securities	Balance sheet carrying amount	Market value	Unrealized gain (loss)
Securities with market value exceeding balance sheet carrying amount	(1) National and local government bonds	—	—	—
	(2) Corporate bonds	171	173	1
	(3) Other	—	—	—
	Subtotal	171	173	1
Securities with market value not exceeding balance sheet carrying amount	(1) National and local government bonds	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		171	173	1

2. Available-for-sale securities

As of March 31, 2016

(In millions of yen)

	Type of securities	Balance sheet carrying amount	Acquisition cost	Unrealized gain (loss)
Securities with balance sheet carrying amount exceeding the acquisition cost	(1) Equity securities	2,552	1,660	891
	(2) Debt securities:			
	1. National and local government bonds	195	156	39
	2. Corporate bonds	—	—	—
	3. Other bonds	—	—	—
	(3) Other	1,774	976	797
	Subtotal	4,522	2,793	1,728
Securities with balance sheet carrying amount not exceeding the acquisition cost	(1) Equity securities	698	985	(286)
	(2) Debt securities:			
	1. National and local government bonds	159	301	(141)
	2. Corporate bonds	1,060	1,239	(178)
	3. Other bonds	748	892	(143)
	(3) Other	2,220	2,597	(377)
	Subtotal	4,886	6,015	(1,128)
Total		9,409	8,809	600

As of March 31, 2017

(In millions of yen)

	Type of securities	Balance sheet carrying amount	Acquisition cost	Unrealized gain (loss)
Securities with balance sheet carrying amount exceeding the acquisition cost	(1) Equity securities	2,698	1,663	1,035
	(2) Debt securities:			
	1. National and local government bonds	395	333	62
	2. Corporate bonds	932	880	52
	3. Other bonds	97	62	35
	(3) Other	2,121	1,359	762
	Subtotal	6,246	4,298	1,947
Securities with balance sheet carrying amount not exceeding the acquisition cost	(1) Equity securities	541	691	(149)
	(2) Debt securities:			
	1. National and local government bonds	—	—	—
	2. Corporate bonds	845	1,009	(164)
	3. Other bonds	246	250	(3)
	(3) Other	1,913	2,173	(260)
	Subtotal	3,547	4,124	(577)
Total		9,793	8,423	1,370

3. Marketable held-to-maturity debt securities sold during the fiscal year

(In millions of yen)

	For the year ended March 31, 2016			For the year ended March 31, 2017		
Type of securities	Cost of securities sold	Proceeds of sales	Gain/loss on sales	Cost of securities sold	Proceeds of sales	Gain/loss on sales
Corporate bonds	60	62	1	—	—	—

Reason for the sale

The Company sold the bonds because the issuer of the bonds requested for early redemption.

4. Available-for-sale securities sold during the fiscal year

Year ended March 31, 2016

(In millions of yen)

Type of securities	Proceeds of sales	Gain on sales	Loss on sales
(1) Equity securities	637	164	9
(2) Debt securities	0	—	5
(3) Other	1,869	13	60
Total	2,507	177	74

Year ended March 31, 2017

(In millions of yen)

Type of securities	Proceeds of sales	Gain on sales	Loss on sales
(1) Equity securities	386	23	10
(2) Debt securities	92	—	37
(3) Other	325	—	56
Total	805	23	104

5. Securities for which impairment loss was recorded

In the fiscal year ended March 31, 2016, the Company recorded ¥300 million as impairment of value with respect to securities (¥66 million as impairment of value of equity securities with no fair market value, ¥24 million as impairment of value of equity securities with fair market value, and ¥208 million as impairment of value of corporate bonds with fair market value within "available-for-sale securities").

In the fiscal year ended March 31, 2017, the Company recorded ¥867 million as impairment of value with respect to securities (¥758 million as impairment of value of equity securities with no fair market value and ¥109 million as impairment of value of "other" within "available-for-sale securities").

The impairment is automatically recorded when the market value of a security declines to a level 50% or more below its acquisition cost. When the market value of a security declines to a level 30 to 50% below its acquisition cost, the impairment is also recorded for an amount deemed necessary upon giving consideration to the recoverability of the fair value.

Notes Regarding Derivatives

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives:

As of March 31, 2016

(In millions of yen)

Category	Type of transaction	Contract amount	Over 1 year contract	Fair value	Unrealized gain (loss)
Transactions other than market transactions	Currency swaps:				
	Buy				
	US dollars	17,961	12,358	20	20
	Euro	2,200	898	(56)	(56)
Total		20,161	13,257	(35)	(35)

Note: Calculation method of fair value:
Fair values are determined based on the prices offered by financial institutions.

As of March 31, 2017

(In millions of yen)

Category	Type of transaction	Contract amount	Over 1 year contract	Fair value	Unrealized gain (loss)
Transactions other than market transactions	Currency swaps:				
	Buy				
	US dollars	10,510	5,759	234	234
	Euro	996	498	(226)	(226)
Total		11,506	6,257	7	7

Note: Calculation method of fair value:
Fair values are determined based on the prices offered by financial institutions.

(2) Compound financial instruments:

As of March 31, 2016

(In millions of yen)

Category	Type of transaction	Contract amount	Over 1 year contract	Fair value	Unrealized gain (loss)
Transactions other than market transactions	Deposits incorporating derivatives	300	—	1	1
Total		300	—	1	1

Notes: 1. Fair values are determined based on the prices offered by financial institutions.
2. The fair value of deposits incorporating derivatives has been obtained by sorting out built-in derivatives from compound financial instruments.
3. The contract amount represents the principal amount of deposits incorporating derivatives, and the amount itself does not indicate the market risk pertaining to derivative transactions.

As of March 31, 2017

None applicable.

2. Derivative transactions to which hedge accounting is applied

Interest-related derivatives:

None applicable.

Notes Regarding Retirement Benefits

1. Summary of retirement benefit plans

The Company and its consolidated subsidiaries maintain defined benefit corporate pension plans and lump-sum severance payment plans for employees as defined benefit plans.

Certain consolidated subsidiaries apply a short-cut method in calculating retirement benefit obligation and retirement benefit expenses, regarding their defined benefit corporate pension plans and lump-sum severance payment plans.

2. Defined benefit plans

(1) Changes in retirement benefit obligation for the years ended March 31, 2016 and 2017 (excluding the portion of the plans to which the short-cut method is applied):

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Balance of retirement benefit obligation at beginning of year	922	1,008
Service cost	80	74
Interest cost	13	7
Actuarial gains and losses	14	16
Benefits paid	(32)	(22)
Other	9	—
Balance of retirement benefit obligation at end of year	1,008	1,084

(2) Changes in plan assets for the years ended March 31, 2016 and 2017 (excluding the plans to which the short-cut method is applied):

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Balance of plan assets at beginning of year	908	979
Expected return on plan assets	32	28
Actuarial gains and losses	(29)	(25)
Contribution from the employer	100	106
Benefits paid	(32)	(22)
Balance of plan assets at end of year	979	1,067

(3) Changes in liability for retirement benefits under the plans to which the short-cut method is applied:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Balance of liability for retirement benefits at beginning of year	20	37
Retirement benefit costs	4	11
Retirement benefits paid	(5)	(13)
Contribution to the plans	(10)	(9)
Other	27	—
Balance of liability for retirement benefits at end of year	37	25

(4) Reconciliation between the year-end balances of retirement benefit obligation and plan assets and the defined benefit liability and defined benefit assets recorded in the consolidated balance sheet:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Funded retirement benefit obligation	1,054	1,135
Plan assets	(1,024)	(1,118)
	30	17
Unfunded retirement benefit obligation	35	25
Net liability (asset) recorded in the consolidated balance sheet	65	42
Defined benefit liability	65	42
Defined benefit assets	—	—
Net liability (asset) recorded in the consolidated balance sheet	65	42

Note: The above includes the benefit plans for which the short-cut method has been applied.

(5) Retirement benefit costs and the components thereof for the years ended March 31, 2016 and 2017:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Service cost	80	74
Interest cost	13	7
Expected return on plan assets	(32)	(28)
Amortization of actuarial gains and losses	(14)	(1)
Retirement benefit costs calculated by short-cut method	4	11
Retirement benefit costs on defined benefit plans	51	63

(6) Remeasurements of defined benefit plans, net of tax:
Components of remeasurements of defined benefit plans, net of tax (before adjusting for tax effects) are as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Actuarial gains and losses	(58)	(43)

(7) Remeasurements of defined benefit plans:
Components of remeasurements of defined benefit plans (before adjusting for tax effects) are as follows:

(In millions of yen)

	March 31, 2016	March 31, 2017
Unrecognized actuarial gains and losses	(32)	11

(8) Plan assets:

1. Main components of plan assets:
   Plan assets consisted of the following portfolio categories:

(% of total plan assets)

	March 31, 2016	March 31, 2017
Debt securities	19.0%	22.5%
Equity securities	15.1	9.3
General accounts	56.9	57.5
Cash and deposits	8.6	10.3
Other	0.4	0.4
Total	100.0%	100.0%

2. Method of determining the expected rate of return on plan assets:
   The expected rate of return on plan assets is determined by considering the current and anticipated future portfolio of plan assets and long-term rates of return expected currently and in the future from a diversified range of plan assets managed.

(9) Assumptions in actuarial calculation:

Assumptions used in actuarial calculation at the end of the years ended March 31, 2016 and 2017 are as follows (presented on a weighted-average basis):

	Year ended March 31, 2016	Year ended March 31, 2017
Discount rate	0.55%	0.65%
Long-term expected rate of return on plan assets	3.54	2.94
Expected rate of salary increase	1.56	1.49

Notes Regarding Deferred Income Taxes

1. Significant components of deferred tax assets and liabilities

(In millions of yen)

	March 31, 2016	March 31, 2017
Deferred tax assets:		
Excess provision for bonuses	210	255
Excess allowance for doubtful accounts	264	974
Excess provision for sales returns	20	24
Excess provision for point program	184	169
Excess provision for loss on interest repayment	360	316
Bad debt expenses	44	41
Loss on valuation of investment securities	94	122
Defined benefit liability	34	13
Loss on valuation of real estate for sale	13	24
Excess impairment loss of fixed assets	389	460
Loss on transfer of receivables	243	243
Loss carried forward	545	594
Asset adjustment account	872	484
Other	574	713
Deferred tax assets subtotal	3,854	4,439
Valuation allowance	(1,523)	(2,206)
Deferred tax assets total	2,330	2,233
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(258)	(422)
Liability adjustment account	(79)	(48)
Reserve for special depreciation	(195)	(160)
Asset retirement expense	(66)	(63)
Valuation difference on land of consolidated subsidiaries	—	(583)
Other	(89)	(93)
Deferred tax liabilities total	(691)	(1,371)
Net deferred tax assets (liabilities)	1,639	862

2. Significant components of difference between the statutory tax rate and the effective tax rate

	March 31, 2016	March 31, 2017
Statutory tax rate:	32.8%	30.6%
Items, including entertainment expenses, not eternally deductible for tax purposes	0.1	0.1
Items, including dividends received, not eternally inclusive of gross revenue for tax purposes	(0.1)	(0.0)
Equal installments of inhabitant taxes	0.9	0.6
Tax rate difference of subsidiaries	2.6	3.9
Valuation allowance change	3.9	6.7
Changes in deferred tax assets and liabilities due to tax rate revision	0.8	(0.3)
Income taxes for prior years	0.8	0.1
Other	(0.1)	(0.0)
Effective tax rate	41.7%	41.7%

3. Adjustment of amounts of deferred tax assets and liabilities due to change in corporate income tax rate

On November 18, 2016, the "Law to Amend Part of the Law, etc. to Amend Part of Consumption Tax Law for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" and the "Law to Amend Part of the Law, etc. to Amend Part of Local Tax Law and Local Allocation Tax Law for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" were enacted at the Diet session. Accordingly, the statutory tax rate to be used in computing deferred tax assets and liabilities for the year ended March 31, 2017 has been changed from that for the year ended March 31, 2016.

As a result, the amount of net deferred tax assets (after subtracting the amount of deferred tax liabilities) increased ¥25 million, while income taxes-deferred decreased ¥25 million.

Notes Regarding Business Combinations

Business combination through acquisition

(1) Summary of the business combination

i) Name and main business of the acquired company:
Name of the acquired company: LAKE LEISURE HOLDINGS PVT. LTD.
Main business: Real estate development business

ii) Main reason for the business combination:
The acquired company is a company established for the purpose of the development of commercial complex in Colombo, Sri Lanka. It has the preferential right to acquire the right to lease the rare development sites on Beira Lake. We have decided to acquire the shares of the acquired company based on the judgment that through the said acquisition of shares, we will acquire the right to lease for the said development site and the rights and permissions that are beneficial to the act of development on the said site and will be able to facilitate and carry out advantageously the future development projects.

iii) Date of the business combination:
February 16, 2017 (the acquisition date)
March 31, 2017 (the deemed acquisition date)

iv) Legal form of the business combination:
Share acquisition

v) Company name after the business combination:
Unchanged

vi) Percentage of shares with voting rights acquired:
50.3%

vii) Main reason for deciding the acquiring company:
BELLUNA LANKA PVT. LTD., a consolidated subsidiary of the Company, acquired 50.3% of the voting rights of LAKE LEISURE HOLDINGS PVT. LTD. by way of a share acquisition with cash consideration.

(2) Period over which the acquired company's financial results are included in the Company's consolidated financial statements

The deemed acquisition date was March 31, 2017 and the accounts of the acquired company have been consolidated based on its financial statements as of March 31, 2017. Accordingly, the business results of the acquired company were not included in the consolidated statements of income of the Company for the year ended March 31, 2017.

(3) Acquisition cost and type of consideration for the acquired company

(In millions of yen)

Consideration for acquisition	Cash	2,207
Acquisition cost		2,207

(4) Details and amount of major acquisition-related expenses

(In millions of yen)

Expenses directly required for the acquisition	Advisory fees, etc.	49

(5) Amount, reason for recognition, and amortization method and period for goodwill incurred from the acquisition
No goodwill was incurred from the acquisition.

(6) The amounts and major components of assets acquired and liabilities assumed on the date of the business combination

(In millions of yen)

Current assets	1
Fixed assets	4,974
Current liabilities	0
Long-term liabilities	583

In allocating acquisition cost, the amount allocated to intangible fixed assets other than goodwill totals ¥4,970 million, the major component of which is leasehold right of ¥4,970 million (not amortized).

(7) The estimated amount of the impact of the business combination on the consolidated statements of income for the year ended March 31, 2017 based on the assumption that the business combination was completed on the commencement date of the fiscal year, and the method for calculation
Disclosure is omitted because the amount of the impact was immaterial.

Notes Regarding Asset Retirement Obligations

Asset Retirement Obligations Recorded on Consolidated Balance Sheets

(1) Outline of relevant asset retirement obligations:
Part of the Belluna Group's facilities are leased or rented under lease or rental contracts with the landowners and, to reflect the obligations thereunder to restore the facilities to their original state at the time of evacuation, asset retirement obligations were recorded. In addition, asset retirement obligations were also recorded for the obligation to remove harmful substances used in certain buildings.

(2) Basis for calculation of the amount of relevant asset retirement obligations:
The amounts of asset retirement obligations were calculated by estimating the projected period of use of facilities to be 9 to 50 years, depending on the useful life of each relevant building or facility, and using a discount rate between 1.54% to 2.30%.

(3) Increase or decrease in total amount of relevant asset retirement obligations:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Balance at beginning of the year	494	505
Increase due to acquisition of property, plant and equipment	2	—
Adjustment due to passage of time	9	9
Other increase (decrease)	(1)	—
Balance at the end of the year	505	515

Notes Regarding Investment and Rental Property

The Company and a certain number of its consolidated subsidiaries own rental office buildings and rental commercial facilities in Tokyo and certain other regions for the purpose of obtaining rental revenue. A portion of the rental office buildings is occupied by the Company and, accordingly, categorized as "property that includes a portion used as rental property."

The balance sheet carrying amounts, increases or decreases in such carrying amounts during the years ended March 31, 2016 and 2017 and the fair values of the rental property and the property that includes a portion used as rental property are as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Rental property:		
Balance sheet carrying amount:		
Balance at the beginning of the year	23,252	24,085
Increase (decrease) during the year	832	4,920
Balance at the end of the year	24,085	29,005
Fair value at the end of the year	26,090	32,595
Property that includes a portion used as rental property:		
Balance sheet carrying amount:		
Balance at the beginning of the year	411	405
Increase (decrease) during the year	(5)	(4)
Balance at the end of the year	405	400
Fair value at the end of the year	215	207

Notes: 1. The above carrying amounts are the amounts after subtracting the accumulated depreciation and accumulated impairment loss from the acquisition costs.

2. In the above increase (decrease) of rental property, the increase in rental property during the year ended March 31, 2016 was caused mainly by the acquisition of rental office buildings (including land) (¥1,205 million). The increase in rental property during the year ended March 31, 2017 was caused primarily by changes from in-house use to rental use (¥3,176 million) and the acquisition of rental office buildings (including land) (¥2,104 million). The decrease in rental property during the year ended March 31, 2017 was caused mainly by transfer to real estate for sale (¥766 million).

3. The above carrying amounts in the year ended March 31, 2016 include asset retirement obligations of ¥29 million, while the above carrying amounts in the year ended March 31, 2017 include asset retirement obligations of ¥28 million.

4. The fair values of the major properties at the end of the fiscal year under review are recorded at the amounts determined using real estate appraisal certificates provided by outside real estate assessors. However, in cases where it is deemed that no significant changes since the time of the acquisition from the third party or the time of the latest appraisal have occurred in the indices that are considered to properly reflect the formal appraisal value or market price, the fair values are recorded at the amounts adjusted using such appraised value or such indices. As for the properties that have little materiality, the fair values are recorded mainly at the amounts determined based on the indices that are considered to fairly reflect the formal appraisal value or market price.

5. Some rental housing properties (balance sheet carrying amount of ¥20 million) are excluded from the above table because their fair value is not readily determinable as the development is still in the initial stage.

Income and expenses related to the rental property and the property that includes a portion used as rental property were as follows:

(In millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Rental property:		
Rental income	1,425	1,609
Rental expenses	750	719
Difference	674	889
Other (Gain/loss on sales)	303	151
Property that includes a portion used as rental property:		
Rental income	12	16
Rental expenses	2	4
Difference	9	12

Note: Income from the property that includes a portion used as rental property does not include the revenue from renting the portion of the property used by the Company. Expenses incidental to the relevant property (such as depreciation, repairing expenses, taxes and public charges, and commission fees) are included in rental expenses.

Segment Information, etc.

[Segment information]

1. Outline of reportable segments

The Belluna Group's reportable segments consist of operating segments representing components of the entity, for each of which discrete financial information is available and periodic reviews are given by the Board of Directors in order to make decisions on the allocation of resources as well as to assess business performance.

The Belluna Group is aiming to become a comprehensive mail order merchant company that provides services addressing diversified customer needs through the effective use of management resources. The Group has identified seven operating segments comprising "general mail order," "specialty mail order," "retail store sales," "solution," "finance," "property" and "other" as reportable segments.

The principal business lines of the respective reportable segments are as follows:

(1) General mail order:	mail order sales of daily life-related merchandise, including clothing, household goods and furniture, and related services.
(2) Specialty mail order:	mail order sales of specialty single items, including food, cosmetics and supplements, and sales focusing on specific customers.
(3) Retail store sales:	retail store sales of casual clothing, Japanese clothing-related merchandise, etc.
(4) Solution:	commission-type businesses that outsource to the Company. These include operations involving the insertion of other companies' leaflets into the Company's merchandise catalogs or merchandise packages and their dispatching.
(5) Finance:	consumer loan services and secured loan services.
(6) Property:	rental of real estate, remodeling and development of real estate, etc., and hotel business.
(7) Other:	wholesale businesses, management of golf courses, etc.

2. Basis of measuring the amounts of segment sales, segment income or loss, segment assets, segment liabilities and other material items

The basis of the accounting treatment for the reported operating segments is substantially the same as described herein under "Significant Accounting Policies."

Segment income represents operating income (before amortization of goodwill)-based amount.

Inter-segment revenues and transfer amounts are calculated based on the prevailing market value

3. Segment sales, segment income or loss, segment assets, segment liabilities and other material items

Year ended March 31, 2016

(In millions of yen)

Due	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Adjustments (Note 1)	Consolidated carrying amount (Note 2)
Net sales:									
Sales to third parties	69,831	36,823	10,307	4,253	2,853	4,400	3,272	—	131,742
Inter-segment sales or transfers	133	18	—	324	—	19	32	(528)	—
Total	69,965	36,842	10,307	4,578	2,853	4,419	3,304	(528)	131,742
Segment income (loss)	3,381	1,504	201	1,987	961	645	(127)	(188)	8,366
Segment assets	61,410	21,667	5,390	5,474	19,115	40,335	4,024	3,636	161,055
Other items:									
Depreciation (Note 3)	1,294	505	213	123	48	329	89	—	2,603
Amortization of goodwill	—	—	—	—	—	—	—	448	448
Increase in property, plant and equipment and intangible fixed assets (Note 3)	783	442	533	11	48	5,595	173	78	7,665

Notes: 1. Amounts of adjustments are as follows:
(1) Adjustments in segment income (loss) represent ¥260 million from inter-segment elimination minus ¥448 million for amortization of goodwill.
(2) Adjustments in segment assets include ¥405 million for the Company's employee welfare facilities and ¥3,231 million as the year-end balance of goodwill.
2. Segment income (loss) has been reconciled with operating income in the consolidated financial statements.
3. Depreciation and increase in property, plant and equipment and intangible fixed assets include long-term prepaid expenses and amortization of such expenses.

Year ended March 31, 2017

(In millions of yen)

Due	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Adjustments (Note 1)	Consolidated carrying amount (Note 2)
Net sales:									
Sales to third parties	75,054	40,891	14,616	5,197	3,093	3,610	3,620	—	146,083
Inter-segment sales or transfers	204	106	—	231	—	22	50	(615)	—
Total	75,258	40,998	14,616	5,429	3,093	3,632	3,670	(615)	146,083
Segment income (loss)	4,474	2,752	492	2,416	1,178	9	(147)	(292)	10,882
Segment assets	63,084	19,558	8,046	5,380	20,461	54,670	4,199	3,622	179,024
Other items:									
Depreciation (Note 3)	1,364	468	280	121	56	310	100	—	2,702
Amortization of goodwill	—	—	—	—	—	—	—	523	523
Increase in property, plant and equipment and intangible fixed assets (Note 3)	554	210	413	3	3	7,428	20	543	9,178

Notes: 1. Amounts of adjustments are as follows:
(1) Adjustments in segment income (loss) represent ¥231 million from inter-segment elimination minus ¥523 million for amortization of goodwill.
(2) Adjustments in segment assets include ¥400 million for the Company's employee welfare facilities and ¥3,222 million as the year-end balance of goodwill.
2. Segment income (loss) has been reconciled with operating income in the consolidated financial statements.
3. Depreciation and increase in property, plant and equipment and intangible fixed assets include long-term prepaid expenses and amortization of such expenses.

[Related information]

Year ended March 31, 2016

1. Information by products and services

Presentation of this information is omitted herein since similar information is provided in “Segment information, etc.”

2. Information by region

(1) Sales:

This information is not provided herein since sales to third parties in Japan represented more than 90% of the sales amount in the consolidated statement of income.

(2) Property, plant and equipment:

This information is not provided herein since the amount of property, plant and equipment located in Japan accounted for more than 90% of the amount of property, plant and equipment in the consolidated balance sheet.

3. Information by major customers

This information is not provided herein since, of the sales to third parties, sales to no single customer accounted for 10% or more of the sales amount in the consolidated statement of income.

Year ended March 31, 2017

1. Information by products and services

Presentation of this information is omitted herein since similar information is provided in “Segment information, etc.

2. Information by region

(1) Sales:

This information is not provided herein since sales to third parties in Japan represented more than 90% of the sales amount in the consolidated statement of income.

(2) Property, plant and equipment:

This information is not provided herein since the amount of property, plant and equipment located in Japan accounted for more than 90% of the amount of property, plant and equipment in the consolidated balance sheet.

3. Information by major customers

This information is not provided herein since, of the sales to third parties, sales to no single customer accounted for 10% or more of the sales amount in the consolidated statement of income.

[Impairment loss of fixed assets by reportable segment]

Year ended March 31, 2016

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Impairment loss	—	—	14	—	—	—	—	—	14

Year ended March 31, 2017

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Impairment loss	—	—	167	—	—	78	10	28	285

[Amortization and unamortized balance of goodwill by reportable segment]

Year ended March 31, 2016

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Amortization for the year	—	—	—	—	—	—	—	448	448
Unamortized balance at end of the year	—	—	—	—	—	—	—	3,231	3,231

Year ended March 31, 2017

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Amortization for the year	—	—	—	—	—	—	—	523	523
Unamortized balance at end of the year	—	—	—	—	—	—	—	3,222	3,222

[Gain on bargain purchase by reportable segment]

Year ended March 31, 2016
None applicable.

Year ended March 31, 2017
None applicable.

Related Party Transactions

1. Transactions with related parties

(1) Transactions of the Company filing consolidated financial statements with related parties:

(a) Parent company and major shareholders (limited to corporations, etc.) of the Company filing consolidated financial statements:

Year ended March 31, 2016

Attribution	Name	Address	Capital stock (millions of yen)	Business line	Percentage of voting rights owning (or owned)	Relationship with related party		Nature of transaction	Transaction amount (millions of yen)	Account title	Year-end balance (millions of yen)
						Interlocking directors or corporate auditors	Business relation				
Corporations, etc., where a majority of voting rights is held by directors and their close family members	Friend Stage Co., Ltd. (Note 2)	Ageo, Saitama	50	Seal stamp sales, etc.	34.4% (owned, directly)	1	Consignment of business activities	Rendering of services (Note 3)	11	Accounts receivable —trade	0
								Receipt of commission on consignment (Note 3)	48	Other current assets	13
								Intermediation of premiums (Note 4)	99	Other current assets	32

Notes: 1. Consumption taxes are not included in the above transaction amounts, but are included in the year-end balance.
2. A majority of the voting rights of the above company is held by the Company's directors and their close family members.
3. Terms and conditions of the transaction and the policy for determination thereof:
The terms and conditions for the rendering of services and the commission on consignments were determined upon mutual consultation between both parties with due consideration of the contents of the business operations.
4. Terms and conditions of the transaction and the policy for determination thereof:
Premiums were paid on the same conditions as ordinary premiums.

Year ended March 31, 2017

Attribution	Name	Address	Capital stock (millions of yen)	Business line	Percentage of voting rights owning (or owned)	Relationship with related party		Nature of transaction	Transaction amount (millions of yen)	Account title	Year-end balance (millions of yen)
						Interlocking directors or corporate auditors	Business relation				
Corporations, etc., where a majority of voting rights is held by directors and their close family members	Friend Stage Co., Ltd. (Note 2)	Ageo, Saitama	50	Seal stamp sales, etc.	34.4% (owned, directly)	1	Consignment of business activities	Rendering of services (Note 3)	52	Other current assets	9
								Intermediation of premiums (Note 4)	96	Other current assets	25

Notes: 1. Consumption taxes are not included in the above transaction amounts, but are included in the year-end balance.
2. A majority of the voting rights of the above company is held by the Company's directors and their close family members.
3. Terms and conditions of the transaction and the policy for determination thereof:
The terms and conditions for the rendering of services were determined upon mutual consultation between both parties with due consideration of the contents of the business operations.
4. Terms and conditions of the transaction and the policy for determination thereof:
Premiums were paid on the same conditions as ordinary premiums.

(b) Companies, etc. having the same parent company as the Company filing consolidated financial statements and the subsidiaries, etc. of other affiliated companies of the Company filing consolidated financial statements:statements:

For the year ended March 31, 2016

None applicable.

For the year ended March 31, 2017

None applicable.

(2) Transactions of the consolidated subsidiaries of the Company filing consolidated financial statements with related parties:

(a) Parent company and major shareholders (limited to corporations, etc.) of the Company filing consolidated financial statements:

Year ended March 31, 2016

Attribution	Name	Address	Capital stock (millions of yen)	Business line	Percentage of voting rights owning (or owned)	Relationship with related party		Nature of transaction	Transaction amount (millions of yen)	Account title	Year-end balance (millions of yen)
						Interlocking directors or corporate auditors	Business relation				
Corporations, etc., where a majority of voting rights is held by directors and their close family members	Friend Stage Co., Ltd. (Note 2)	Ageo, Saitama	50	Seal stamp sales, etc.	34.4% (owned, directly)	1	Consignment of business activities	Guarantee deposits of hotel facilities (Note 3)	330	Investments and other assets	500
								Rent of hotel facilities (Note 4)	222	Other current assets	—
								Commission on consignment (Note 5)	15	Other current assets	2

Notes: 1. Consumption taxes are not included in the above transaction amounts, but are included in the year-end balance.
2. A majority of the voting rights of the above company is held by the Company's directors and their close family members.
3. Terms and conditions of the transaction and the policy for determination thereof:
Guarantee deposits of hotel facilities were determined with due consideration of the trading market prices and other factors.
4. Terms and conditions of the transaction and the policy for determination thereof:
Rent of hotel facilities was determined in reference to the assessed value provided by real estate assessors.
5. Terms and conditions of the transaction and the policy for determination thereof:
Commission on consignment was determined upon mutual consultation between both parties with due consideration of the contents of business activities.

Year ended March 31, 2017

Attribution	Name	Address	Capital stock (millions of yen)	Business line	Percentage of voting rights owning (or owned)	Relationship with related party		Nature of transaction	Transaction amount (millions of yen)	Account title	Year-end balance (millions of yen)
						Interlocking directors or corporate auditors	Business relation				
Corporations, etc., where a majority of voting rights is held by directors and their close family members	Friend Stage Co., Ltd. (Note 2)	Ageo, Saitama	50	Seal stamp sales, etc.	34.4% (owned, directly)	1	Consignment of business activities	Guarantee deposits of hotel facilities (Note 3)	—	Investments and other assets	500
								Rent of hotel facilities (Note 4)	240	—	—
								Advance payment for employees seconded from the Company (Note 5)	—	Other current assets	13

Notes: 1. Consumption taxes are not included in the above transaction amounts, but are included in the year-end balance.
2. A majority of the voting rights of the above company is held by the Company's directors and their close family members.
3. Terms and conditions of the transaction and the policy for determination thereof:
Guarantee deposits of hotel facilities were determined with due consideration of the trading market prices and other factors.
4. Terms and conditions of the transaction and the policy for determination thereof:
Rent of hotel facilities was determined in reference to the assessed value provided by real estate assessors.
5. Terms and conditions of the transaction and the policy for determination thereof:
An amount equivalent to personnel expenses relating to employees seconded from the Company was paid in advance in accordance with a secondment agreement.

(b) Companies, etc. having the same parent company as the Company filing consolidated financial statements and the subsidiaries, etc. of other affiliated companies of the Company filing consolidated financial statements:

Year ended March 31, 2016

None applicable.

Year ended March 31, 2017

Attribution	Name	Address	Capital stock (millions of yen)	Business line	Percentage of voting rights owing (or owned)	Relationship with related party		Nature of transaction	Transaction amount (millions of yen)	Account title	Year-end balance (millions of yen)
						Interlocking directors or corporate auditors	Business relation				
Subsidiary of other affiliated company	FSY101 Co., Ltd. (Note 1)	Shibuya-ku, Tokyo	8	Real estate renting, etc.	—	—	Hotel facilities leasing	Guarantee deposits of hotel facilities (Note 2)	15	Investments and other assets	15

Notes: 1. The above company is a subsidiary of the Company, a majority voting rights of which is held by the Company's directors and their close family members.
2. Terms and conditions of the transaction and the policy for determination thereof:
Guarantee deposits of hotel facilities was determined with due consideration of the trading market prices and other factors.

Per Share Information

(In yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Net assets per share	824.56	872.86
Basic net income per share	36.45	59.68
Diluted net income per share	—	—

Notes: 1. Amounts of diluted net income per share are not provided in the above, because there were no dilutive shares.
2. Basis for the calculation of net income per share is as follows:

	Year ended March 31, 2016	Year ended March 31, 2017
Net income per share:		
Profit attributable to owners of parent (millions of yen)	3,544	5,802
Amount not attributable to holders of common stock (millions of yen)	—	—
Profit attributable to owners of parent relating to common stock (millions of yen)	3,544	5,802
Average number of shares of common stock during the year (thousands of shares)	97,237	97,236

Significant Subsequent Events

None applicable.

Supplementary Schedules

Bonds

None applicable.

Borrowings

	In millions of yen		Average interest rate	Repayment date
	Beginning balance on April 1, 2016	Ending balance on March 31, 2017		
Short-term borrowings	5,050	2,326	0.15%	—
Current portion of long-term borrowings (due within 1 year)	3,059	3,598	0.20	—
Current portion of lease obligations (due within 1 year)	680	573	1.16	—
Long-term borrowings (except current portion)	38,359	46,157	0.20	From 2018 to 2026
Lease obligations (except current portion)	1,316	947	1.16	From 2018 to 2021
Total	48,466	53,602	—	—

Notes: 1. Average interest rate is the average during the year.
2. The repayment schedule of long-term borrowings and lease obligations (both except current portion) in the next 5 years is as follows:

(In millions of yen)

Due dates	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Long-term borrowings	3,764	14,607	3,680	3,240
Lease obligations	441	318	167	20

Schedule of asset retirement obligations

As the amount of asset retirement obligations fell within 1% of the total of liabilities and net assets at the beginning and the end of the fiscal year ended March 31, 2017, presentation of the schedule of these obligations is omitted herein in accordance with the provisions of Article 92-2 of the Regulations for Consolidated Financial Statements.

Other

(1) Quarterly information for the year ended March 31, 2017:

(In millions of yen)

(Cumulative period)	First quarter ended June 30, 2016	Second quarter ended September 30, 2016	Third quarter ended December 31, 2016	Year ended March 31, 2017
Net sales	37,193	66,679	109,639	146,083
Profit (loss) before income taxes	(1,471)	(995)	9,200	9,773
Profit (loss) attributable to owners of parent	(1,084)	(827)	6,321	5,802
Net income (loss) per share (in yen)	(11.16)	(8.51)	65.01	59.68

(In yen)

(Accounting period)	First quarter ended June 30, 2016	Second quarter ended September 30, 2016	Third quarter ended December 31, 2016	Fourth quarter ended March 31, 2017
Basic earnings (loss) per share	(11.16)	2.64	73.52	(5.33)

(2) Conditions subsequent to the fiscal year-end:

None in particular to be remarked.

Corporate Data and Investor Information (as of March 31, 2017)

Company Name
Belluna Co., Ltd.

Head Office
4-2, Miyamoto-cho, Ageo, Saitama
362-8688, Japan
Tel: +81-48-771-7753

Capital Stock
¥10,607 million

Established
June 1977

Number of Employees
1,708

Directors and Corporate Auditors
President and CEO:
Kiyoshi Yasuno

Directors and Executive Officers:
Yuichiro Yasuno
Junko Shishido
Takeo Shimano
Masakazu Oikawa
Hideshi Shimokawa
Tomohiro Matsuda

Director and Audit and Supervisory Committee:
Yasuo Hagiwara

Outside Director (Independent Director) and Audit and Supervisory Committee Member:
Yukimitsu Watabe
Hideki Yamagata

Consolidated Subsidiaries
Refre Co., Ltd.
Ozio Co., Ltd.
Friendly Co., Ltd.
Sunstage Co., Ltd.
BANKAN Wamonoya Co., Ltd.
El Dorado Co., Ltd.
Nursery Co., Ltd.
Texas Co., Ltd.
Infirmiere Co., Ltd.
Best Thanks Co., Ltd.
Granbellhotel Co., Ltd.
Marucho Co., Ltd.
Maimu Co., Ltd.
Others

Common Stock
Stock Exchange Listing:
Tokyo Stock Exchange, 1st Section

Number of Shares of Common Stock Issued
97,236,456

Number of Shareholders
7,076

Transfer Agent
Mizuho Trust & Banking Co., Ltd.

ADRs
Traded:
OTC (U.S.A.)

Ratio
1 ADR = 1 share of common stock

Symbol
BLUNY

CUSIP
07986W102

Depositary
The Bank of New York Mellon
Tel: (212)-815-2042
U.S. Toll Free: 888-269-2377 (888-BNY-ADRS)
URL: http://www.adrbnymellon.com

Major Shareholders

Names	Percentage of total shares
Friend Stage Co., Ltd.	34.4%
Kiyoshi Yasuno	11.2%
BBH for Fidelity Low Price Stock Fund (Principal All Sector Subportfolio)	9.4%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.1%
Kimi Yasuno	3.4%
Sumitomo Mitsui Banking Corporation	2.3%
The Nomura Trust and Banking Co., Ltd.	2.0%
Belluna Mutual Benefit Society	2.0%
Mizuho Trust & Banking Co., Ltd Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted	1.5%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1.5%

* In addition to the above, Belluna retains 20 treasury shares.

For Further Information
URL: http://www.belluna.co.jp/en/
E-mail: ir-belluna@belluna.co.jp

Notice Concerning English-Language Financial Statements and Independent Auditors' Report

The consolidated financial statements and notes to consolidated financial statements contained in this annual report are an English-language translation of those in the Company's annual securities report (Yukashoken Hokokusho), a statutory disclosure document in Japan.

In order to view the Company's annual securities report, including the original text of the consolidated financial statements, notes to the consolidated financial statements and independent auditors' report, please refer to the Company's Website:
http://www.belluna.co.jp/en/irinfo/financial/

BELLUNA

4-2, Miyamoto-cho, Ageo, Saitama 362-8688, Japan
http://www.belluna.co.jp/irinfo/