BELLUNA

Annual Report 2018

For the year ended March 31, 2018

Belluna Co., Ltd.

Code:9997

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.

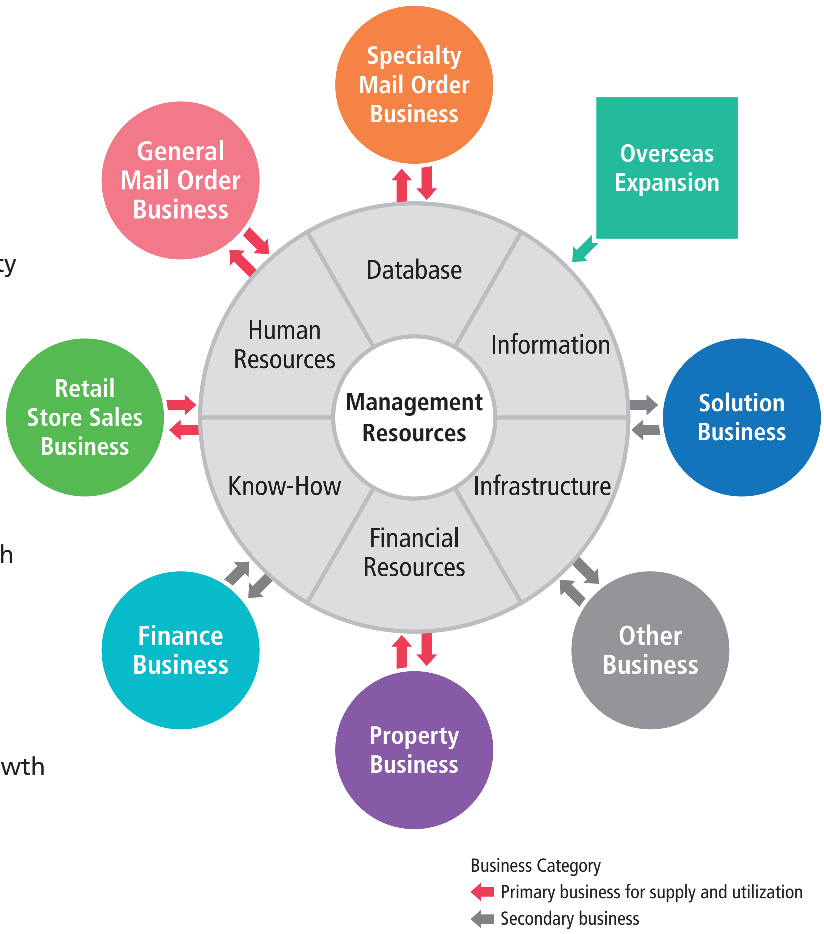
Looking ahead, based on our desire to "help improve the lifestyles and well-being of our customers," we will operate businesses that fulfill people's needs for food, clothing, lifestyle, and recreation.

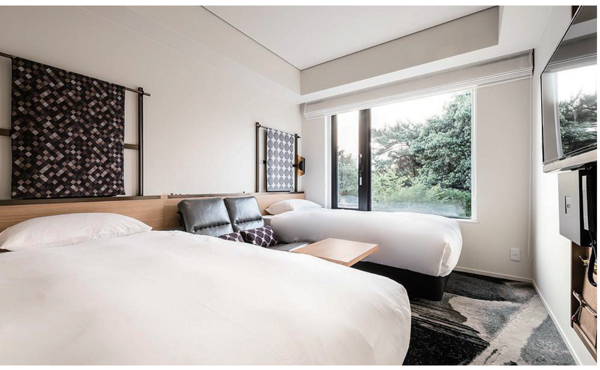
Business Model

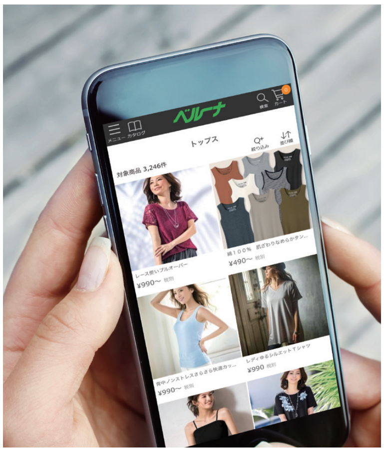
1. Building a stable earnings platform in our database-related businesses, which include specialty mail order and commission-type businesses, by leveraging the customer database cultivated in our General Mail Order Business.

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.







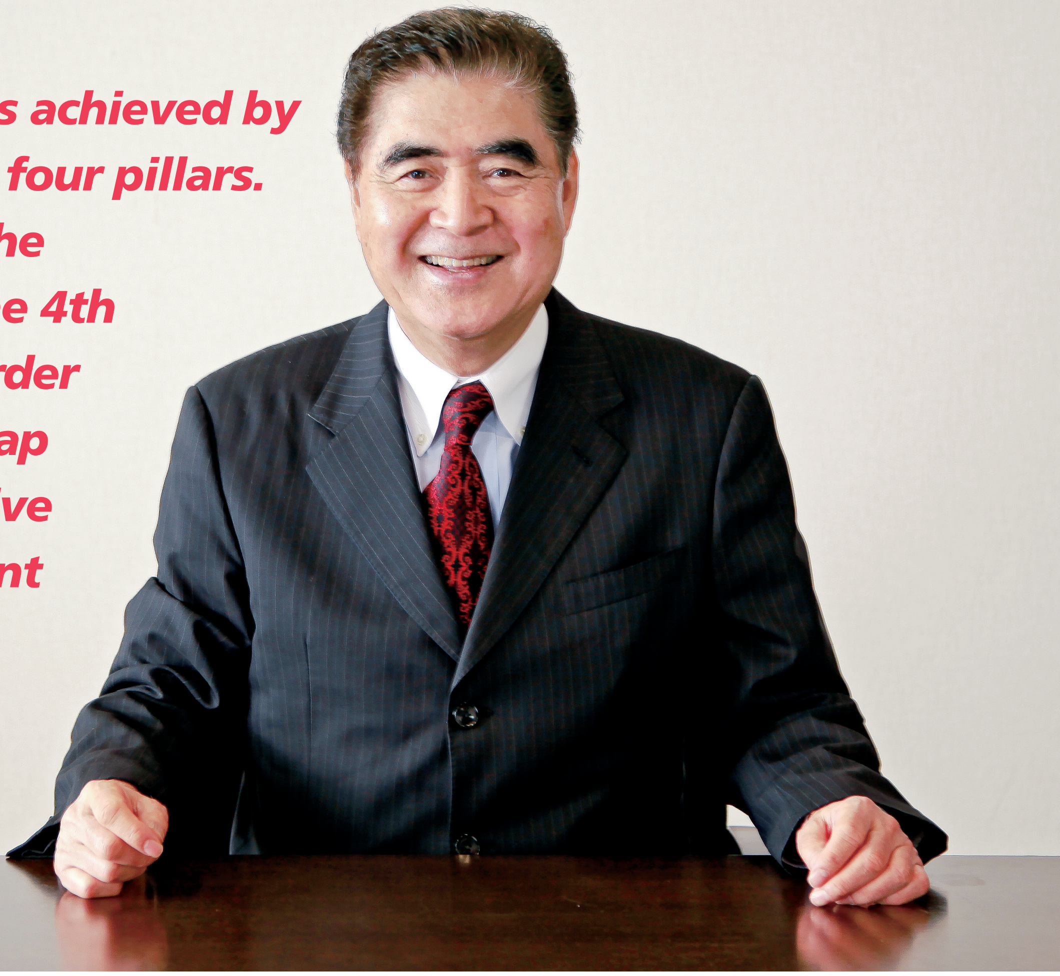
Contents

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.

Interview with the President

Record-high profits achieved by strengthening the four pillars. Starting to build the foundations for the 4th Business Plan in order to make a great leap as a "comprehensive mail order merchant company."



Kiyoshi Yasuno

Kiyoshi Yasuno
President and CEO

Q.1 Could you give us a snapshot of the overview and business environment during the fiscal year under review?

The Japanese economy remained stable as a result of the moderate recovery of domestic and overseas demand. Personal consumption has also been in a recovery trend against the backdrop of an improvement in the employment environment.

However, while the mail order industry is experiencing market expansion due to the rapid growth of e-commerce, the prevalence of a budget-saving sentiment among consumers continues. The Group needs to make additional corporate efforts in view of the intensifying competition among companies and rising logistics costs in the retail industry in which we operate.

Consolidated net sales in the fiscal year under review increased 10.7% year on year to ¥161,673 million. Operating income increased 19.5% year on year to reach a record-high of ¥13,008 million. The Retail Store Sales business and the Property business are showing steady increases in sales. Ordinary income increased 8.7% year on year to ¥13,248 million and profit attributable to owners of parent increased 66.6% year on year to ¥9,665 million.

Regarding Belluna's financial position, liabilities rose ¥11,637 million compared to the figure at March 31, 2017, to ¥102,888 million, partly due to increases in short-term borrowings and corporate bonds. Total assets, however, increased ¥16,922 million year on year to ¥195,946 million. As a result, net assets increased ¥5,285 million to ¥93,058 million, and the shareholders' equity ratio stood at 47.1%, largely the same as the previous fiscal year.

Q.2 Can you tell us about the initiatives Belluna pursued during the fiscal year under review and about the 3rd Business Plan?

Under the 3rd Business Plan that Belluna launched to achieve its evolution as a "comprehensive mail order merchant company," we have continued to work on the growth of our four main businesses in the fiscal year under review: 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 Property business, which engages in real estate leasing, real estate remodeling and development, and the hotel business, performed extremely well. Net sales rose 108.7% year on year, and the Company plans to continue to strengthen this segment. The General Mail Order business grew 4.5% year on year thanks to favorable sales of apparel and sundry home furnishings. The Specialty Mail Order business rose 12.2% year

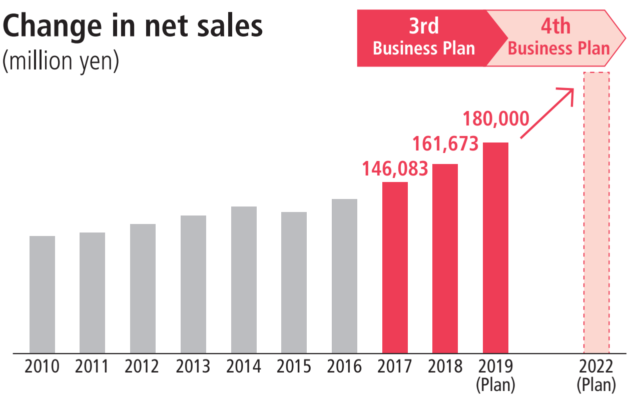
Management Policy

Expansion of four main businesses

1. Expand the **general mail order business** in a stable manner.
2. Expand the **specialty mail order business.**
3. Expand the **retail store sales business** by launching new stores and improve its profitability.
4. Strengthen the **property business** to bring about the maturity of the portfolios.

The fiscal year ending March 2019 is the final fiscal year of our 3rd Business Plan.
To reach the targets for the fiscal year ending March 2019 and towards the 4th Business Plan:

Change in net sales
(million yen)



Our business plans respond to changes in the external environment (changes in the consumption environment and growth of the Internet).

External Environment	Internal environment
■ Intensifying market competition	■ Maturity of portfolio management
■ Lingering deflationary mindset	■ Maturity of organizational structure
■ Growth of the Internet	■ Rejuvenation of businesses
■ Change in distribution environment	

on year as well, due to strong performances by the gourmet food business and cosmetics business. The Retail Store Sales business also grew 16.6% year on year as the result of steady sales increases posted by the apparel retail store business and the Japanese traditional clothing retail store business, signifying that we were able to achieve sales growth in our main businesses.

Net sales increased in all segments. The 3rd Business Plan, which is targeting business expansion, is steadily leading to greater operating performance, assuring us that we are on a firm path toward becoming a "comprehensive mail order merchant company."

Q.3 What can you tell us about Belluna's initiatives and outlook for operating performance in fiscal 2019?

For the fiscal year ending March 31, 2019, we expect to achieve net sales of ¥180.0 billion, operating income of ¥15.0 billion, ordinary income of ¥15.5 billion and profit attributable to owners of parent of ¥10.5 billion.

In fiscal 2019, which is the final year of the 3rd Business Plan, we will continue to strengthen our four pillars in accordance with our management policies. Furthermore, in consideration of the fact this is the year when we form the basis for the start of the 4th Business Plan commencing from the fiscal year ending March 31, 2020, we will further pursue profitability and growth potential, and aim for greater growth as a "comprehensive mail order merchant company."

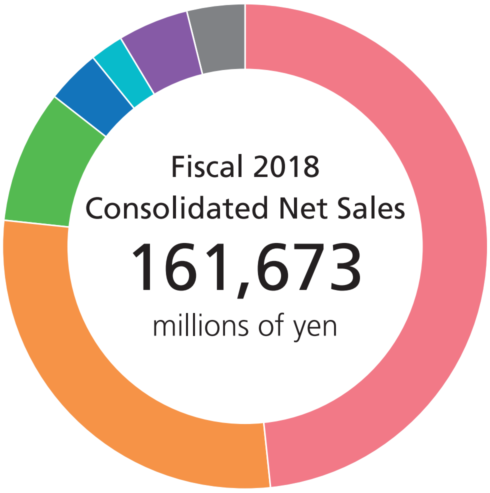
Q.4 What message do you have for shareholders?

Belluna places a great deal of value on responding to the immense support of our shareholders through enhancement of corporate value. The Company paid a total annual dividend of ¥12.50 per share in fiscal 2018, consisting of an interim dividend of ¥6.25 and a year-end dividend of ¥6.25. We plan to increase the total annual dividend by ¥2.50 in fiscal 2019 to ¥15.00. For the purpose of expressing the Company's gratitude to its shareholders for their support, and encouraging more shareholders to hold the Company's shares in the medium and long term by deepening their understanding of the Company's business, we have introduced a shareholder special benefit plan for shareholders who hold 100 shares or more of the Company.

Since its foundation in 1968, the Company has grown by expanding its business leveraging all of our management resources based on our management philosophy, "to provide customers with an abundance of food, clothing, lifestyle and recreational products and services," mainly through the vast database we have cultivated in the mail order business and various related services, under our slogan of being a customer-driven, customer-focused company.

Going forward, the Company will continue to evolve while creating new added value through a diversified approach to our business. We appreciate shareholders' ongoing understanding and support for the Belluna Group.

Review of Business Operations

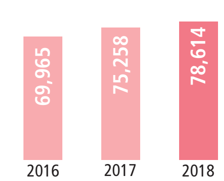


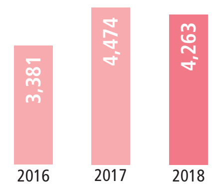
- General Mail Order Business 48.4%
- Specialty Mail Order Business 28.4%
- Retail Store Sales Business 8.8%
- Solution Business 3.8%
- Finance Business 2.1%
- Property Business 4.7%
- Other Business 3.8%

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.





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. Segment net sales increased 4.5% compared with the previous fiscal year to ¥78,614 million due to strong sales of products including apparel and sundry home furnishings. Segment income (operating income) fell 4.7% year on year to ¥4,263 million, mainly due to soaring logistics costs, despite improved ratios of sales costs and media costs.

Outlook

In fiscal 2019, we aim to achieve segment net sales of ¥84,022 million (up 6.9% year on year) and segment income (operating income) of ¥4,360 million (up 2.3%). We will concentrate on further expansion of sales in the EC business by raising the conversion rate (CVR) on the Internet through the introduction of products available only online and improvement of website design. By harnessing synergistic effects resulting from multiple channels such as catalogs, the Internet, and retail stores, we can 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.

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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.

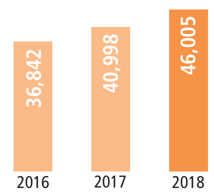
Specialty Mail Order Business

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.

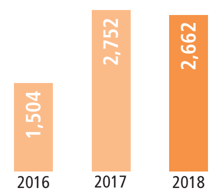
Net Sales

(millions of yen)



Segment Income

(millions of yen)



Overview

Segment net sales rose 12.2% year on year to ¥46,005 million, reflecting the strong performances of our gourmet food business and cosmetics business. However, segment income (operating income) fell 3.2% to ¥2,662 million, partly due to a proactive sales strategy aimed at securing new customers.

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 2019 are forecast to increase 9.6% year on year to ¥50,413 million, and segment income is forecast to rise 39.3% to ¥3,708 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.

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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.

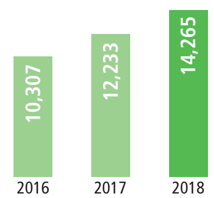
Retail Store Sales Business

Business Outline

Belluna Co., Ltd. operates apparel retail store business for middle-aged women, and subsidiary BANKAN Wamonoya Co., Ltd. operates retail stores specializing in the Japanese traditional clothing retail store business.

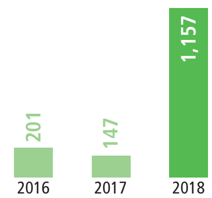
Net Sales

(millions of yen)



Segment Income

(millions of yen)



Overview

As a result of steady sales growth in both the apparel retail store business and the Japanese traditional clothing retail store business, segment net sales increased 16.6% compared with the previous fiscal year to ¥14,265 million. Segment income surged 682.3% year on year to ¥1,157 million due to the closure of unprofitable stores and improved profitability.

Outlook

Segment net sales for fiscal 2019 are forecast to increase 17.4% year on year to ¥16,742 million, and segment income is forecast to decrease 13.0% to ¥1,007 million. In the apparel retail store business, we aim for further growth by accelerating store openings. We operated 59 apparel stores as of March 31, 2018 and expect to operate around 90 stores as of March 31, 2019. In the Japanese traditional clothing retail store business, we operated 79 retail stores as of March 31, 2018 and aim to expand to 92 stores as of March 31, 2019. Additionally, having made SAGAMI GROUP HOLDINGS CO., LTD. a subsidiary, we are aiming for further growth in the Japanese traditional clothing retail store business.

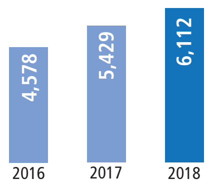
Solution Business

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.

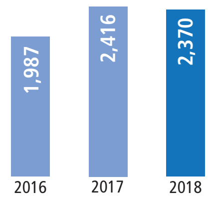
Net Sales

(millions of yen)



Segment Income

(millions of yen)



Overview

Although the mail order business outsourcing services business delivered a strong performance, the enclosing and mailing services business struggled due to a contraction in transactions with major clients. Consequently, segment net sales increased 12.6% compared with the previous fiscal year to ¥6,112 million, and segment income decreased 1.9% to ¥2,370 million.

Outlook

For the business segment as a whole, net sales in fiscal 2019 are forecast to increase 2.5% year on year to ¥6,265 million, and segment income is forecast to decrease 3.1% to ¥2,298 million, through the expansion of enclosing and mailing services. We will continue to pursue business scale expansion while securing profitability through cost control measures.

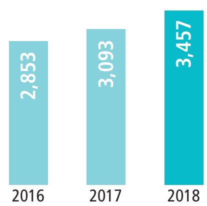
Finance Business

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.

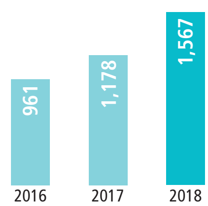
Net Sales

(millions of yen)



Segment Income

(millions of yen)



Overview

The Finance business recorded an 11.8% year on year increase in segment net sales to ¥3,457 million and a 33.0% increase in segment income to ¥1,567 million as a result of an increase in the balance of loans in domestic consumer financing services.

Outlook

The business environment surrounding the Finance business is starting to show signs of picking up. We aim to expand the balance of trade loans with a focus on domestic consumer financing services, and forecast an 11.1% year on year rise in segment net sales to ¥3,840 million and a 10.9% rise in segment income to ¥1,745 million.

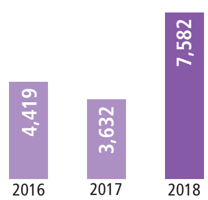
Property Business

Business Outline

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

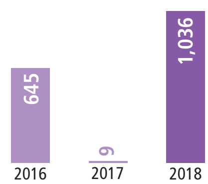
Net Sales

(millions of yen)



Segment Income

(millions of yen)



Overview

Sales of real estate for sale and increased sales in the hotel business contributed to a 108.7% increase year on year in net sales to ¥7,582 million and to segment income of ¥1,036 million (compared with segment income of ¥9 million in the previous fiscal year).

Outlook

The Company will realize increased sales from the development business and the hotel business in fiscal 2019 while earning stable rental income from the leasing business. We began operating Le Grand Karuizawa Hotel and Resort (Nagano Prefecture) in July 2018. Segment net sales for fiscal 2019 are forecast to rise 65.0% year on year to ¥12,508 million, and segment income is forecast to rise 66.4% to ¥1,724 million.

Note: From the fiscal year under review, the reportable segment of the clothing rental business in which Maimu CO., LTD. engages has been transferred from the retail store sales business to other business as a partial amendment to internal segments administration. The descriptions of business results for each reportable segment in comparison to the previous fiscal year are stated according to the figures of each segment after the change.

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 2018, 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.

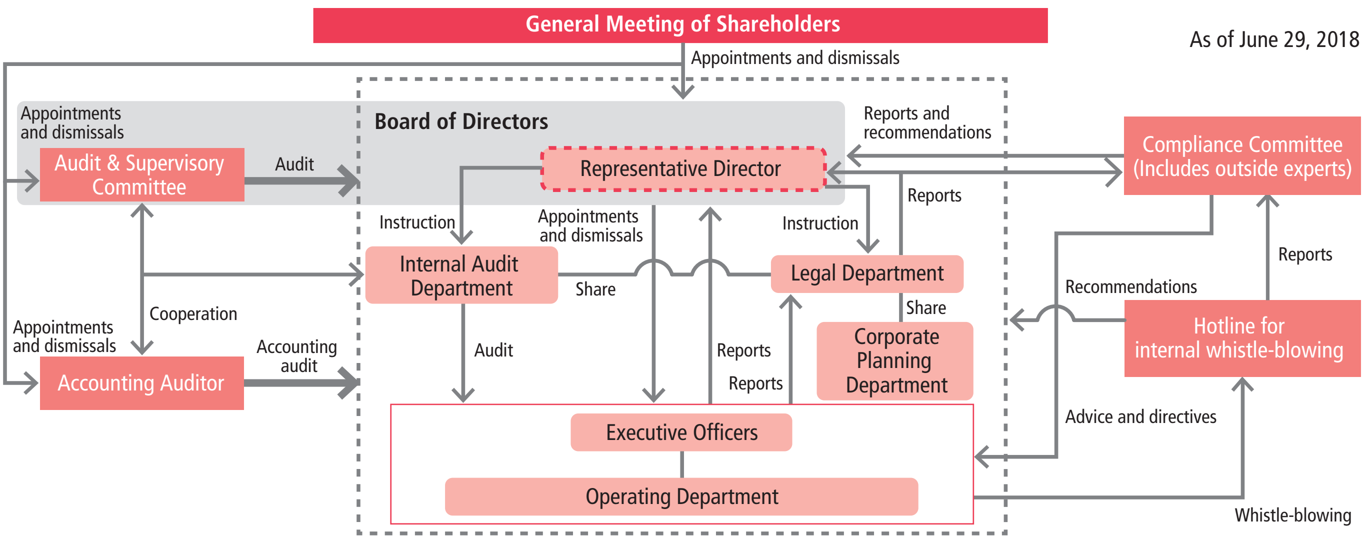
Compliance Committee

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

Years ended March 31	Millions of yen [1]						Thousands of U.S. dollars [2]
	2013	2014	2015	2016	2017	2018	2018
For the year:							
Net sales	117,884	125,412	120,689	131,742	146,083	**161,673**	**1,522,490**
Cost of sales	52,155	56,677	53,543	59,241	64,306	**71,774**	**675,906**
Gross profit—net	65,719	68,739	67,158	72,500	81,762	**89,897**	**846,573**
Selling, general and administrative expenses	58,638	60,940	60,782	64,134	70,880	**76,889**	**724,073**
Operating income	7,080	7,798	6,376	8,366	10,882	**13,008**	**122,501**
Income before income taxes and minority interests	8,974	9,982	9,612	6,026	9,773	**13,734**	**129,336**
Net income	5,870	7,013	6,394	3,544	5,802	**9,665**	**91,025**
Capital investment	8,948	9,276	20,171	7,366	8,635	**15,687**	**147,723**
Depreciation	2,282	2,367	2,506	2,481	2,655	**2,495**	**23,496**
At year-end:							
Current assets	65,091	66,667	69,855	74,189	84,792	**90,851**	**855,555**
Property, plant and equipment	35,230	42,748	55,804	59,459	64,258	**75,549**	**711,455**
Total assets	115,079	130,648	152,224	161,055	179,024	**195,946**	**1,845,242**
Current liabilities	38,723	33,701	36,516	37,428	40,352	**42,331**	**398,642**
Long-term liabilities	9,743	23,466	36,197	42,981	50,898	**60,556**	**570,266**
Total liabilities	48,466	57,167	72,713	80,409	91,251	**102,888**	**968,907**
Net assets	66,612	73,480	79,510	80,646	87,773	**93,058**	**876,335**
Number of shares issued (thousands)	56,592	113,184	113,184	113,184	97,236	**97,236**	
Number of employees	1,139	1,212	1,430	1,377	1,708	**1,742**	
	Yen						U.S. dollars [2]
Per share data:							
Net income per share [3]	60.18	72.12	65.77	36.45	59.68	**99.41**	**0.94**
Shareholders' equity per share [3, 4]	685.03	755.67	814.97	824.56	872.86	**949.70**	**8.94**
Cash dividends per share [3]	7.5	12.5	12.5	12.5	12.5	**12.5**	**0.12**
	Percentage (%)						
Financial ratios:							
Operating income margin	6.0	6.2	5.3	6.4	7.4	**8.0**	
Net income margin	5.0	5.6	5.3	2.7	4.0	**6.0**	
Return on equity (ROE) [5]	9.2	10.0	8.4	4.4	7.0	**10.9**	
Return on assets (ROA) [6]	6.9	6.9	5.0	5.8	6.8	**7.3**	
Shareholders' equity ratio [5]	57.9	56.2	52.1	49.8	47.4	**47.1**	

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 ¥106.19=US$1.00, the approximate rate on the Tokyo foreign exchange market on March 31, 2018. 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 2018, the year ended March 31, 2018, the Japanese economy remained steady, supported by a moderate recovery trend in domestic and overseas demand. Personal consumption also showed moderate recovery mainly against the backdrop of improved employment conditions. In the mail order sales industry, meanwhile, harsh situations persisted chiefly due to the prevalence of a deep-rooted budget-saving sentiment among consumers, intensified price competition among companies, and rising distribution costs, in spite of the ongoing market expansion driven by the rapid growth of EC.

Under these conditions, the Belluna Group continued its measures to strengthen its four pillars of business (the general mail order business, the specialty mail order business, the retail store sales business, and the property business).

As a result, consolidated net sales for fiscal 2018 increased 10.7% year on year to ¥161,673 million. In the year under review, operating income increased 19.5% year on year to ¥13,008 million largely due to an increase in operating income from the retail store sales business and the sales of real estate in the property business. Ordinary income increased 8.7% to ¥13,248 million and profit attributable to owners of parent surged 66.6% year on year to ¥9,665 million.

Earnings per segment were as follows.

From the fiscal year under review, the reportable segment of the clothing rental business in which Maimu CO., LTD. engages has been transferred from the retail store sales business to other business as a partial amendment to internal segments administration. The following descriptions of business results for each reportable segment in comparison to the previous fiscal year are stated according to the figures of each segment after the change.

Net Sales and Earnings per Segment

In the General Mail Order business, segment net sales increased 4.5% compared with the previous fiscal year to ¥78,614 million due to favorable sales of apparel and home furnishings and sundry goods. Segment (operating) income decreased 4.7% to ¥4,263 million mainly because surging distribution costs outweighed the improved ratios of sales costs and media costs.

The Specialty Mail Order business recorded a 12.2% year-on-year increase in segment net sales to ¥46,005 million due to favorable sales in the gourmet business and cosmetics business. Segment (operating) income decreased 3.2% to ¥2,662 million mainly due to an active sales strategy oriented toward acquisition of new customers.

In the Retail Store Sales business, the apparel retail store business and the Japanese traditional clothing retail store business both steadily increased their sales. As a result, segment net sales increased 16.6% compared with the previous fiscal year to ¥14,265 million. Segment (operating) income surged 682.3%, to ¥1,157 million due to the closing of unprofitable stores and improved profitability.

In the Solution business, enclosing and mailing services struggled due to reduced transactions with major clients, though direct-marketing outsourcing services progressed steadily. Consequently, segment net sales increased 12.6% compared with the previous fiscal year to ¥6,112 million and segment (operating) income decreased 1.9% to ¥2,370 million.

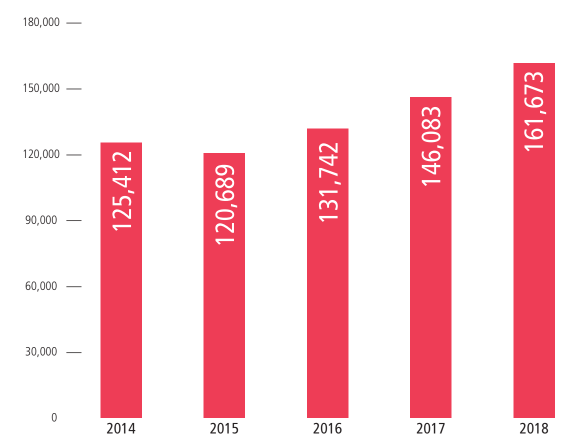
The Finance business recorded an 11.8% year-on-year increase in segment net sales to ¥3,457 million with a higher balance of trade loans in the domestic consumer finance business. Segment (operating) income also increased 33.0% to ¥1,567 million.

The Property business recorded a 108.7% year-on-year increase in segment net sales to ¥7,582 million, mainly due to the sales of real estate for sale and increased sales from the hotel business. A segment (operating) income of ¥1,036 million was recorded for the year under review, in comparison with a segment (operating) income of ¥9 million in the previous fiscal year.

In Other business, sales of wholesale business, etc. increased. As a result, segment net sales increased 7.6% compared with the previous fiscal year to ¥6,511 million. Segment (operating) income also increased 12.0% to ¥220 million.

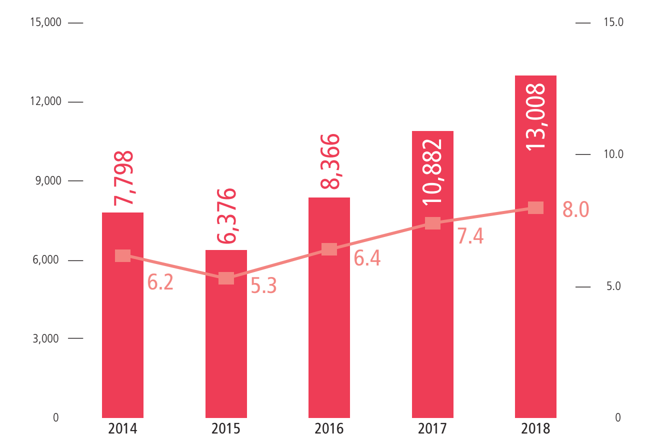
Net Sales

(millions of yen)



Operating Income and Operating Income Margin

(millions of yen) (%)



Operating Income — Operating Income Margin

Financial Condition

Total assets as of March 31, 2018 stood at ¥195,946 million, an increase of ¥16,921 million from the previous fiscal year-end. In particular, current assets rose ¥6,058 million to ¥90,851 million, primarily reflecting increases of ¥2,571 million in cash and deposits, ¥1,852 million in trade loans and ¥2,002 million in merchandise and finished goods. As of the end of the fiscal year, fixed assets stood at ¥105,094 million, an increase of ¥10,863 million. This was mainly due to increases of ¥2,933 million in land, ¥8,738 million in construction in progress, and ¥1,033 million in investment securities.

Total liabilities increased by ¥11,637 million compared with the previous fiscal year-end to ¥102,888 million. Specifically, current liabilities increased by ¥1,978 million year on year to ¥42,331 million, primarily because of a ¥1,728 million increase in short-term borrowings. Long-term liabilities grew by ¥9,658 million to ¥60,556 million, largely due to the ¥10,000 million increase in bonds payable.

Net assets as of March 31, 2018 totaled ¥93,058 million, a ¥5,284 million rise compared with the previous fiscal year-end. As a result, the shareholders' equity ratio was 47.1%.

Cash Flows

Net cash provided by operating activities during the fiscal year under review increased from ¥8,214 million provided in the previous fiscal year to ¥8,924 million. The main factors leading to this increase were ¥13,734 million of profit before income taxes, ¥2,495 million of depreciation, and a ¥1,297 million gain on valuation of derivatives, which offset a ¥1,884 million increase in trade loans, a ¥2,180 million increase in inventories, and ¥4,850 million of income taxes paid.

Net cash used in investing activities during the fiscal year under review increased from ¥9,945 million used in the previous fiscal year to ¥12,853 million. This increase was largely due to a year-on-year rise in cash outflows for ¥1,783 million of payments into time deposits, ¥14,910 million of payments for the acquisition of property, plant and equipment, and ¥3,019 million of payments for the acquisition of investment securities, which offset ¥1,750 million of proceeds from withdrawal of time deposits, ¥1,061 million of proceeds from sales of marketable securities, ¥2,891 million of proceeds from sales of property, plant and equipment, and ¥1,720 million of proceeds from sales of investment securities.

Net cash provided by financing activities during the fiscal year under review increased from ¥2,995 million provided in the previous fiscal year to ¥6,942 million. The main factors leading to this increase were a ¥1,363 million of increase in short-term borrowings, ¥3,985 million of proceeds from long-term borrowings, and ¥10,000 million of proceeds from issuance of bonds, which offset ¥4,237 million of repayments of long-term borrowings, ¥2,248 million of payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation, and ¥1,215 million of dividends paid.

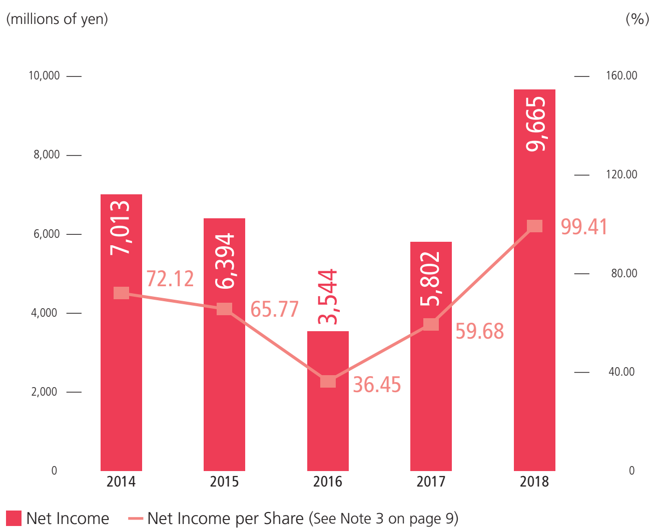
Forecasts for Fiscal 2019

Going forward, the Japanese economy is expected to remain on a gradual recovery trend on the back of improved employment and income conditions in Japan amid an ongoing expansion trend in the global economy, though personal consumption is projected to remain uncertain.

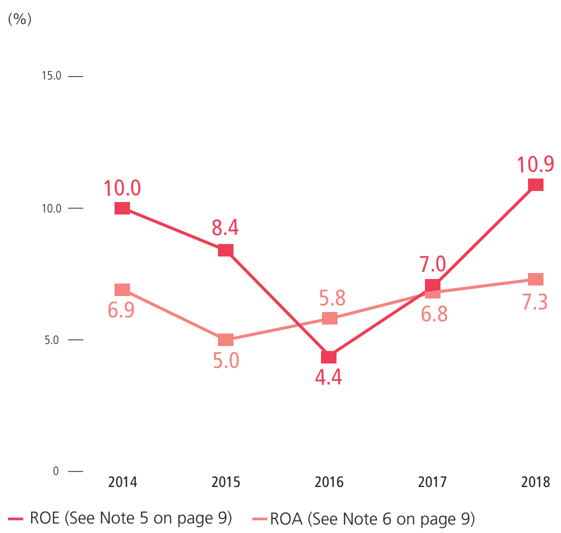
Against this backdrop, the Belluna Group will remain firmly committed to strengthening its four pillars of business in accordance with the management policy in the last year of the 3rd Business Plan. At the same time, viewing fiscal 2019 as a year to lay the groundwork toward the commencement of the upcoming 4th Business Plan, the Group will aim to further enhance profitability and growth potential.

Regarding the forecast for fiscal 2019, we anticipate net sales of ¥180,000 million, operating income of ¥15,000 million, ordinary income of ¥15,500 million, and profit attributable to owners of parent of ¥10,500 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

The Belluna Group develops businesses in Japan and overseas and by doing so exposes itself to risks relating to a variety of statutory procedures, litigations, etc. by regulatory authorities. The Belluna Group has established internal control and administrative systems to promote strict compliance with such laws and regulations. However, in the event that certain laws and regulations are breached or the Group is forced to adhere to new obligations and incur cost burdens arising from regulatory revisions or the formulation of new regulations, the Group's reputation may suffer and the Group's operating performance and financial situation may be adversely affected. In addition, in the event that litigation likely to significantly affect operations or litigation with significant social impacts is brought and an unfavorable judgment is issued, 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.

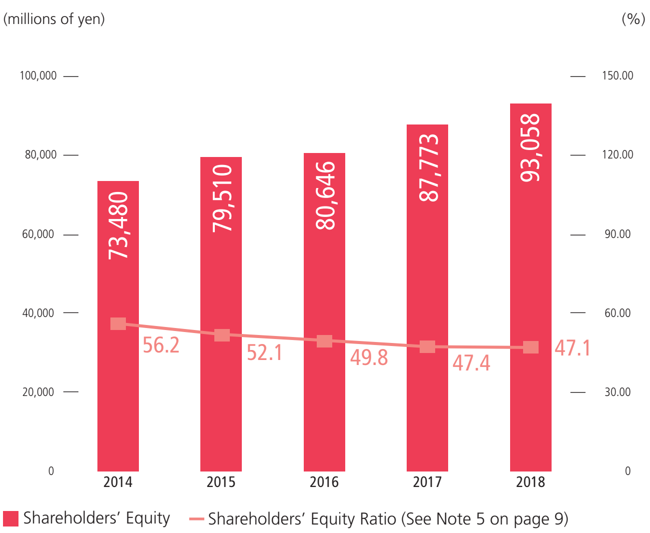
5. Risks from Changes in the Political and Economic Situation of Producing Countries

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

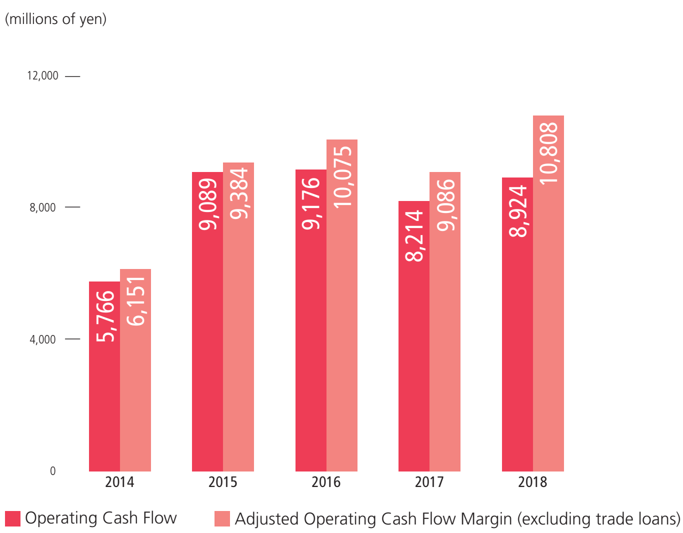
In the event that the market prices of such raw materials as pulp (which is used to produce catalogs and other items) exceeds Group expectations or there is an increase in the cost of consigned dispatch services by carriers, mainly reflecting an increase in crude oil prices, the Group's operating performance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

Shareholders' Equity* and Shareholders' Equity Ratio



* Net assets less minority interests

Operating Cash Flow and Adjusted Operating Cash Flow Margin



7. Overseas Business Development Risks

The Group has developed the property business in various countries overseas. 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

Nearly all of the Belluna Group's business operations are computerized and the Group is taking steps to augment security and strengthen IT infrastructure by implementing a variety of measures. 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. 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.

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. Risks from Impairment Loss of Property, Plant and Equipment

The Belluna Group has a large amount of property, plant and equipment mainly in the property business. In the event that future cash flow fails to generate profits sufficient to meet expectations due mainly to changes in the surrounding environment, the Group will be required to post impairment loss. As a result, the Group's operating performance and financial situation may be adversely affected.

16. Risks from Changes in Customers' Preference

The Belluna Group designs, develops and sells products and services by analyzing previous business results, market trends, and other elements in order to fulfill the preferences of its many customers. In the event that the Group fails to respond to changes in customer preferences, the Group will suffer decreased sales and excessive inventories, and thereby the Group's operating performance and financial situation 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, 2018 (with comparative figures for the previous year).

Consolidated Balance Sheets

		In millions of yen		
		March 31, 2017		**March 31, 2018**
Assets				
Current assets				
Cash and deposits	*2	20,176		**22,747**
Trade notes and accounts receivable		9,668		**10,009**
Trade loans		18,962		**20,814**
Marketable securities		1,201		**424**
Merchandise and finished goods		15,972		**17,975**
Raw materials and supplies		1,069		**1,252**
Real estate for sale	*2	3,931	*2	**3,871**
Real estate for sale in process	*2	6,364		**5,447**
Deferred tax assets		743		**861**
Other current assets		7,244		**7,977**
Allowance for doubtful accounts		(542)		**(530)**
Total current assets		84,792		**90,851**
Fixed assets				
Property, plant and equipment				
Buildings and structures	*2	37,943	*2	**38,756**
Accumulated depreciation	*1	(14,628)	*1	**(15,630)**
Buildings and structures (net)		23,314		**23,126**
Machinery and equipment		2,312		**2,347**
Accumulated depreciation	*1	(1,499)	*1	**(1,624)**
Machinery and equipment (net)		812		**723**
Furniture and fixtures		1,772		**1,875**
Accumulated depreciation	*1	(1,393)	*1	**(1,516)**
Furniture and fixtures (net)		378		**359**
Land	*2	35,563	*2	**38,496**
Leased assets		684		**668**
Accumulated depreciation	*1	(323)	*1	**(390)**
Leased assets (net)		361		**278**
Construction in progress		3,827		**12,565**
Total property, plant and equipment		64,258		**75,549**
Intangible fixed assets				
Goodwill		3,222		**2,693**
Leased assets		1,124		**896**
Other		8,530		**8,146**
Total intangible fixed assets		12,876		**11,737**
Investments and other assets				
Investment securities	*3	13,237	*3	**14,271**
Long-term lending		1,501		**1,170**
Claims provable in bankruptcy, claims provable in rehabilitation and other		220		**255**
Deferred tax assets		733		**408**
Other assets		2,120		**2,268**
Allowance for doubtful accounts		(717)		**(565)**
Total investments and other assets		17,096		**17,808**
Total fixed assets		94,231		**105,094**
Total assets		179,024		**195,946**

In millions of yen

		March 31, 2017		March 31, 2018
Liabilities				
Current liabilities				
Trade notes and accounts payable		17,738		**18,381**
Short-term borrowings	*2, *4, *5	5,924	*2, *4, *5	**7,652**
Accrued expenses		8,806		**8,974**
Lease obligations		573		**505**
Income taxes payable		3,003		**2,010**
Provision for bonuses		687		**714**
Provision for sales returns		80		**86**
Provision for point program		552		**560**
Other current liabilities		2,986		**3,445**
Total current liabilities		40,352		**42,331**
Long-term liabilities				
Bonds payable		—		**10,000**
Long-term borrowings	*2, *5	46,157	*2, *4, *5	**45,472**
Provision for loss on interest repayment		920		**726**
Lease obligations		947		**702**
Net defined benefit liability		42		**33**
Provision for retirement benefits for directors and corporate auditors		263		**258**
Asset retirement obligations		515		**523**
Other long-term liabilities		2,051		**2,840**
Total long-term liabilities		50,898		**60,556**
Total liabilities		91,251		**102,888**
Net assets				
Shareholders' equity				
Common stock		10,607		**10,607**
Capital surplus		11,002		**10,958**
Retained earnings		63,359		**71,809**
Treasury stock		(0)		**(0)**
Total shareholders' equity		84,969		**93,374**
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		1,060		**1,295**
Foreign currency translation adjustments		(1,148)		**(2,292)**
Remeasurements of defined benefit plans		(7)		**(33)**
Total accumulated other comprehensive income		(95)		**(1,029)**
Non-controlling interests		2,899		**713**
Total net assets		87,773		**93,058**
Total liabilities and net assets		179,024		**195,946**

Consolidated Statements of Income

In millions of yen

		Year ended March 31, 2017		Year ended March 31, 2018
Net sales		146,083		**161,673**
Cost of sales	*1	64,306	*1	**71,774**
Gross profit		81,776		**89,898**
Reversal of provision for sales returns		67		**80**
Provision for sales returns		80		**82**
Gross profit—net		81,762		**89,897**
Selling, general and administrative expenses	*2	70,880	*2	**76,889**
Operating income		10,882		**13,008**
Non-operating income				
Interest income		356		**185**
Dividend income		336		**393**
Rent income		37		**38**
Extinction of debt		34		**40**
Compensation received		140		**108**
Foreign exchange gains		374		**1,021**
Subsidy income		148		**76**
Gain on valuation of derivatives		41		**—**
Other		467		**461**
Total non-operating income		1,937		**2,324**
Non-operating expenses				
Interest expense		123		**158**
Commission fee		128		**65**
Loss on valuation of derivatives		—		**1,297**
Depreciation		122		**111**
Loss on closing of stores		68		**131**
Compensation expenses		24		**253**
Other		164		**66**
Total non-operating expenses		631		**2,084**
Ordinary income		12,188		**13,248**
Extraordinary gains				
Gain on sales of non-current assets		—	*3	**988**
Gain on sales of investment securities		0		**103**
Total extraordinary gains		0		**1,092**
Extraordinary losses				
Loss on retirement of fixed assets	*4	28	*4	**33**
Impairment loss	*5	285	*5	**6**
Loss on valuation of securities		—		**90**
Loss on sales of investment securities		43		**—**
Loss on valuation of investment securities		867		**388**
Provision of allowance for doubtful accounts		514		**—**
Loss on transfer of receivables		674		**—**
Settlement package		—		**67**
Loss on reversal of foreign currency translation adjustments		—		**20**
Total extraordinary losses		2,414		**606**
Profit before income taxes		9,773		**13,734**
Income taxes—current		4,037		**3,917**
Income taxes—deferred		43		**130**
Total income taxes		4,080		**4,047**
Profit		5,693		**9,686**
Profit (loss) attributable to non-controlling interests		(109)		**20**
Profit attributable to owners of parent		5,802		**9,665**

Consolidated Statements of Comprehensive Income

	In millions of yen	
	Year ended March 31, 2017	**Year ended March 31, 2018**
Profit	5,693	**9,686**
Other comprehensive income		
Valuation difference on available-for-sale securities	476	**235**
Foreign currency translation adjustments	(338)	**(1,049)**
Remeasurements of defined benefit plans, net of tax	(30)	**(25)**
Total other comprehensive income	*1 107	*1 **(840)**
Comprehensive income	5,801	**8,846**
Comprehensive income attributable to owners of parent	5,911	**8,877**
Comprehensive income attributable to non-controlling interests	(110)	**(31)**

Consolidated Statements of Changes in Net Assets

(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)
Retirement of treasury stock		(0)	(9,677)	9,677	—						—
Capital increase of consolidated subsidiaries					—						—
Change in ownership interest of parent due to transactions with non-controlling interests					—						—
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

(In millions of yen)

Year ended March 31, 2018	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	11,002	63,359	(0)	84,969	1,060	(1,148)	(7)	(95)	2,899	87,773
Changes during year:											
Dividends paid			(1,215)		(1,215)						(1,215)
Profit attributable to owners of parent			9,665		9,665						9,665
Purchase of treasury stock				(0)	(0)						(0)
Retirement of treasury stock		—	—	—	—						—
Capital increase of consolidated subsidiaries		(12)			(12)						(12)
Change in ownership interest of parent due to transactions with non-controlling interests		(31)			(31)						(31)
Net changes of items other than shareholders' equity					—	235	(1,143)	(25)	(933)	(2,186)	(3,120)
Total changes of items during year	—	(44)	8,450	(0)	8,404	235	(1,143)	(25)	(933)	(2,186)	5,284
Balance at end of year	10,607	10,958	71,809	(0)	93,374	1,295	(2,292)	(33)	(1,029)	713	93,058

Consolidated Statements of Cash Flows

		In millions of yen		
		Year ended March 31, 2017		Year ended March 31, 2018
Cash flows from operating activities				
Profit before income taxes		9,773		**13,734**
Depreciation		2,655		**2,495**
Increase (decrease) in provision for sales returns		13		**5**
Impairment loss		285		**6**
Amortization of goodwill		523		**528**
Increase (decrease) in allowance for doubtful accounts		(90)		**(135)**
Increase (decrease) in provision for bonuses		97		**26**
Increase (decrease) in net defined benefit liability		(66)		**(45)**
Increase (decrease) in provision for retirement benefits for directors and corporate auditors		7		**(5)**
Increase (decrease) in provision for point program		(47)		**8**
Increase (decrease) in provision for loss on interest repayment		(128)		**(194)**
Interest and dividend income		(692)		**(579)**
Interest expense		123		**158**
Loss (gain) on valuation of derivatives		(41)		**1,297**
Loss (gain) on sales of investment securities		43		**(103)**
Loss (gain) on valuation of investment securities		867		**388**
Foreign exchange losses (gains)		148		**(54)**
Loss on retirement of fixed assets		28		**33**
Loss (gain) on sales of property, plant and equipment		—		**(988)**
Decrease (increase) in trade notes and accounts receivable		(290)		**(337)**
Decrease (increase) in trade loans		(872)		**(1,884)**
Decrease (increase) in inventories		(83)		**(2,180)**
Decrease (increase) in real estate for sale		(4,638)		**676**
Decrease (increase) in other current assets		(1,299)		**(1,110)**
Increase (decrease) in notes and accounts payable		2,050		**839**
Increase (decrease) in other current liabilities		890		**486**
Increase (decrease) in other long-term liabilities		315		**(7)**
Other		229		**295**
Sub-total		9,803		**13,355**
Interest and dividends received		645		**563**
Interest paid		(123)		**(158)**
Refund of income taxes		26		**14**
Income taxes paid		(2,136)		**(4,850)**
Net cash provided by operating activities		8,214		**8,924**
Cash flows from investing activities				
Payments into time deposits		(993)		**(1,783)**
Proceeds from withdrawal of time deposits		1,378		**1,750**
Proceeds from sales of marketable securities		325		**1,061**
Acquisition of property, plant and equipment		(7,730)		**(14,910)**
Proceeds from sales of property, plant and equipment		9		**2,891**
Acquisition of intangible fixed assets		(460)		**(446)**
Acquisition of investment securities		(1,219)		**(3,019)**
Proceeds from sales of investment securities		1,549		**1,720**
Purchase of shares of subsidiaries	*2	(2,623)		**—**
Payments of loans receivable		(110)		**(114)**
Collection of loans receivable		19		**400**
Payments for guarantee deposits		(5,092)		**(432)**
Proceeds from collection of guarantee deposits		4,982		**79**
Payments of other investments		(218)		**(73)**
Collection of other investments		238		**22**
Net cash used in investing activities		(9,945)		**(12,853)**
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings		(2,753)		**1,363**
Proceeds from long-term borrowings		11,753		**3,985**
Repayments of long-term borrowings		(4,114)		**(4,237)**
Proceeds from issuance of bonds		—		**10,000**
Redemption of bonds		(45)		**—**
Proceeds from share issuance to non-controlling shareholders		78		**29**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		—		**(2,248)**
Purchase of treasury stock		(0)		**(0)**
Repayments to non-controlling shareholders		—		**(71)**
Dividends paid		(1,215)		**(1,215)**
Dividends paid to non-controlling interests		—		**(58)**
Repayments of lease obligations		(707)		**(604)**
Net cash provided by financing activities		2,995		**6,942**
Effect of exchange rate change on cash and cash equivalents		(88)		**(401)**
Net increase (decrease) in cash and cash equivalents		1,176		**2,612**
Cash and cash equivalents at beginning of year		18,239		**19,416**
Cash and cash equivalents at end of year	*1	19,416	*1	**22,028**

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, 2018, the Company included the newly established Infirmiere Trust LLC into the scope of consolidation. BELL-STAGE CO., LTD. was excluded from the scope of consolidation because its liquidation was completed, though its statement of income up to the completion of liquidation was consolidated.

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 BELLUNA CAPITAL, INC. and other seven consolidated subsidiaries end on December 31. The financial statements of the above consolidated subsidiaries as of the same date 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.

Because the accounting period of MADISON GRANBELL 3 LLC ends on December 31, the financial statements based on a provisional closing of accounts as of the consolidated financial closing date were used.

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 consolidated fiscal 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 Audit and Supervisory Committee Members:
Provision for retirement benefits for directors and Audit and Supervisory Committee Members 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 5 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.

(Accounting standards issued but not yet applied)

* "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 issued on March 30, 2018)
* "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Overview
These standards, etc. listed above are comprehensive accounting standards for revenue recognition. Revenue is to be recognized by applying the five steps below.
Step 1: Identify the contract with a customer
Step 2: Identify the performance obligation in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligation in the contract
Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation

(2) Planned effective date for application
The Company plans to apply the above standards, etc. from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the above standards, etc. on financial statements
The Company is in the process of measuring the expected effects at the time of preparation of the current consolidated financial statements.

(Changes in Presentation)

(Notes to the Consolidated Statements of Income)

"Compensation expenses," an item included in "Other" under "Non-operating expenses" for the previous fiscal year, has been listed separately effective from the fiscal year under review because it exceeded 10% of the aggregate non-operating expenses. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥188 million of "Other" under "Non-operating expenses" of the consolidated statements of income for the previous fiscal year has been reclassified into ¥24 million of "Compensation expenses" and ¥164 million of "Other."

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, 2017	March 31, 2018
Cash and deposits	5	—
Real estate for sale	226	219
Real estate for sale in process	1,362	—
Buildings and structures	7,203	6,879
Land	13,955	13,955
Total	22,753	21,054

Liabilities secured by the above are as follows.

(In millions of yen)

	March 31, 2017	March 31, 2018
Short-term borrowings	1,901	1,901
Long-term borrowings	34,268	31,660
Total	36,170	33,562

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

(In millions of yen)

	March 31, 2017	March 31, 2018
Investment securities (stocks)	617	640

*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, 2017 and 2018 is summarized as follows:

(In millions of yen)

	March 31, 2017	March 31, 2018
Total of the overdraft limit and lending commitments	19,630	22,794
Executed loans	2,300	6,635
Unexecuted balance	17,330	16,158

*5. Restrictive financial covenants
Of the consolidated borrowings balance, up to ¥25,040 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, 2017	March 31, 2018
Shurei Co., Ltd. (Note)	227	200

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, 2017	Year ended March 31, 2018
	824	736

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

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Freightage and packing expenses	9,561	10,692
Advertising expenses	18,915	20,205
Sales promotion expenses	3,588	3,818
Provision of allowance for doubtful accounts	510	566
Provision for point program	544	552
Provision for loss on interest repayment	371	254
Salaries and allowances	10,672	11,491
Provision for bonuses	701	682
Provision for retirement benefits for directors and Audit and Supervisory Committee Members	10	2
Retirement benefit expenses	63	73
Communication expenses	6,406	7,174
Commission fee	9,693	11,179

*3. Breakdown of loss on sales of non-current assets is as follows:

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Buildings and structures	—	5
Machinery and equipment	—	0
Land	—	982
Total	—	988

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

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Buildings and structures	23	26
Machinery and equipment	0	0
Furniture and fixtures	1	6
Software	3	—
Leased assets (intangible)	0	—
Total	28	33

*5. Impairment loss

For the year ended March 31, 2017

The Group recorded impairment losses on the following asset groups.

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.

For the year ended March 31, 2018

The Group recorded impairment losses on the following asset groups.

Usage	Type	Location
Assets for business	Buildings and structures	Ageo-shi, Saitama 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, 2018, with respect to assets for business, the recoverable amounts of the relevant assets are measured by value in use based on a review by the above grouping. Because negative future cash flows were anticipated, an impairment loss was recognized.

(Components of amounts of impairment loss by type of fixed assets)

Amounts of components of impairment loss are as follows: ¥6 million of buildings and structures.

(Method for calculating the recoverable amounts)

The recoverable amounts of the relevant assets are measured by value in use. Because negative future cash flows are anticipated, value in use is assessed at zero.

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, 2017	Year ended March 31, 2018
Valuation difference on available-for-sale securities:		
Gains (losses) incurred during the year	456	30
Reclassification adjustment to net income	190	347
Amount before tax effect	646	377
Tax effect	(170)	(142)
Valuation difference on available-for-sale securities	476	235
Foreign currency translation adjustments:		
Gains (losses) incurred during the year	(338)	(1,070)
Reclassification adjustment to net income	—	20
Foreign currency translation adjustments	(338)	(1,049)
Remeasurements of defined benefit plans, net of tax:		
Gains (losses) incurred during the year	(33)	(28)
Reclassification adjustment to net income	(9)	(8)
Amount before tax effect	(43)	(36)
Tax effect	13	11
Remeasurements of defined benefit plans, net of tax	(30)	(25)
Total other comprehensive income	107	(840)

Notes to the Consolidated Statements of Changes in Net Assets

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 in shares issued (common stock) and the decrease of 15,948 thousand shares in 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

Year ended March 31, 2018

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	97,236	—	—	97,236
Total	97,236	—	—	97,236
Treasury stock:				
Common stock	0	0	—	0
Total	0	0	—	0

Notes: 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, 2017	Common stock	607	6.25	March 31, 2017	June 29, 2017
Board of Directors' meeting on October 30, 2017	Common stock	607	6.25	September 30, 2017	December 4, 2017

(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 27, 2018	Common stock	607	Retained earnings	6.25	March 31, 2018	June 28, 2018

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, 2017	March 31, 2018
Cash and deposits	20,176	22,747
Time deposits with original maturities of more than three months	(842)	(882)
MMFs, etc. included in marketable securities	82	163
Cash and cash equivalents	19,416	22,028

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

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

Year ended March 31, 2018

None applicable.

*3. Breakdown of significant non-monetary transactions

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
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 "Basis for preparation of consolidated financial statements" 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, 2017	March 31, 2018
Due within one year	257	257
Due over one year	622	364
Total	879	622

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.

(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, 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.

As of March 31, 2018

(In millions of yen)

	Balance sheet carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	22,747	22,747	—
(2) Trade notes and accounts receivable	10,009		
Allowance for doubtful accounts (*1)	(331)		
	9,677	9,677	—
(3) Trade loans	20,814		
Allowance for doubtful accounts (*1)	(199)		
	20,615	20,867	252
(4) Marketable securities and investment securities			
Held-to-maturity debt securities	—	—	—
Available-for-sale securities	9,916	9,916	—
	9,916	9,916	—
Assets total	62,956	63,208	252
(1) Trade notes and accounts payable	18,381	18,381	—
(2) Short-term borrowings	7,652	7,652	—
(3) Long-term borrowings	45,472	45,464	(7)
(4) Bonds payable	10,000	10,007	7
Liabilities total	81,506	81,505	(0)
Derivative transactions (*2)	(1,290)	(1,290)	—

(*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.

(4) Bonds payable
The fair values of bonds payable are determined based on the prices offered by financial institutions.

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, 2017	March 31, 2018
Unlisted equity securities	2,959	3,139
Unlisted debt securities	105	105
Investments in partnerships for investment business	1,408	1,534

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, 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

As of March 31, 2018

(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	22,682	—	—	—	—	—
Trade notes and accounts receivable	10,009	—	—	—	—	—
Trade loans	6,175	6,025	4,828	3,337	445	1
Marketable securities and investment securities:						
Available-for-sale securities with contractual maturities:						
(1) National and local government bonds	—	156	—	—	—	—
(2) Corporate bonds	281	852	—	—	—	209
(3) Other	—	475	431	204	974	1,002
Total	39,148	7,509	5,259	3,541	1,420	1,213

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

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

As of March 31, 2018

(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	3,687	—	—	—	—	—
Long-term borrowings	3,964	14,181	3,949	3,514	3,514	20,311
Total	7,652	14,181	3,949	3,514	3,514	20,311

Notes Regarding Securities

1. Marketable held-to-maturity debt securities

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

As of March 31, 2018

None applicable.

2. Available-for-sale securities

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

As of March 31, 2018

(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	3,589	2,194	1,394
	(2) Debt securities:			
	1. National and local government bonds	—	—	—
	2. Corporate bonds	710	676	34
	3. Other bonds	—	—	—
	(3) Other	2,453	1,731	722
	Subtotal	6,753	4,602	2,151
Securities with balance sheet carrying amount not exceeding the acquisition cost	(1) Equity securities	993	1,216	(222)
	(2) Debt securities:			
	1. National and local government bonds	156	175	(19)
	2. Corporate bonds	527	894	(367)
	3. Other bonds	—	—	—
	(3) Other	1,484	1,598	(114)
	Subtotal	3,162	3,885	(723)
Total		9,916	8,488	1,428

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

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

Year ended March 31, 2018

(In millions of yen)

Type of securities	Proceeds of sales	Gain on sales	Loss on sales
(1) Equity securities	592	183	14
(2) Debt securities	214	34	57
(3) Other	670	20	36
Total	1,477	238	107

4. Securities for which impairment loss was recorded

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").

In the fiscal year ended March 31, 2018, the Company recorded ¥478 million as impairment of value with respect to securities (¥131 million as impairment of value of equity securities with fair market value, ¥317 million as impairment of value of debt securities with fair market value and ¥28 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

Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives:

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.

As of March 31, 2018

(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	12,481	5,993	(1,286)	(1,286)
	Euro	449	—	(3)	(3)
Total		12,931	5,993	(1,290)	(1,290)

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

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, 2017 and 2018 (excluding the portion of the plans to which the short-cut method is applied):

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Balance of retirement benefit obligation at beginning of year	1,008	1,084
Service cost	74	89
Interest cost	7	7
Actuarial gains and losses	16	40
Benefits paid	(22)	(32)
Balance of retirement benefit obligation at end of year	1,084	1,188

(2) Changes in plan assets for the years ended March 31, 2017 and 2018 (excluding the plans to which the short-cut method is applied):

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Balance of plan assets at beginning of year	979	1,067
Expected return on plan assets	28	26
Actuarial gains and losses	(25)	4
Contribution from the employer	106	108
Benefits paid	(22)	(32)
Balance of plan assets at end of year	1,067	1,173

(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, 2017	Year ended March 31, 2018
Balance of liability for retirement benefits at beginning of year	37	25
Retirement benefit costs	11	3
Retirement benefits paid	(13)	(0)
Contribution to the plans	(9)	(10)
Balance of liability for retirement benefits at end of year	25	18

(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, 2017	Year ended March 31, 2018
Funded retirement benefit obligation	1,135	1,242
Plan assets	(1,118)	(1,234)
	17	7
Unfunded retirement benefit obligation	25	25
Net liability (asset) recorded in the consolidated balance sheet	42	33
Defined benefit liability	42	33
Net liability (asset) recorded in the consolidated balance sheet	42	33

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, 2017 and 2018:

(In millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Service cost	74	89
Interest cost	7	7
Expected return on plan assets	(28)	(26)
Amortization of actuarial gains and losses	(1)	(1)
Retirement benefit costs calculated by short-cut method	11	3
Retirement benefit costs on defined benefit plans	63	73

(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, 2017	Year ended March 31, 2018
Actuarial gains and losses	(43)	(36)

(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, 2017	March 31, 2018
Unrecognized actuarial gains and losses	11	47

(8) Plan assets:

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

(% of total plan assets)

	March 31, 2017	March 31, 2018
Debt securities	22.5%	13.5%
Equity securities	9.3	18.6
General accounts	57.5	56.5
Cash and deposits	10.3	11.0
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, 2017 and 2018 are as follows (presented on a weighted-average basis):

	Year ended March 31, 2017	Year ended March 31, 2018
Discount rate	0.65%	0.56%
Long-term expected rate of return on plan assets	2.94	2.45
Expected rate of salary increase	1.49	1.50

Notes Regarding Deferred Income Taxes

1. Significant components of deferred tax assets and liabilities

(In millions of yen)

	March 31, 2017	March 31, 2018
Deferred tax assets:		
Excess provision for bonuses	255	263
Excess allowance for doubtful accounts	974	628
Excess provision for sales returns	24	26
Excess provision for point program	169	171
Excess provision for loss on interest repayment	316	248
Bad debt expenses	41	43
Loss on valuation of investment securities	122	196
Defined benefit liability	13	11
Loss on valuation of real estate for sale	24	34
Excess impairment loss of fixed assets	460	139
Loss on transfer of receivables	243	243
Loss carried forward	594	863
Asset adjustment account	484	120
Other	713	705
Deferred tax assets subtotal	4,439	3,696
Valuation allowance	(2,206)	(1,700)
Deferred tax assets total	2,233	1,996
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(422)	(566)
Liability adjustment account	(48)	(20)
Reserve for special depreciation	(160)	(124)
Asset retirement expense	(63)	(63)
Valuation difference on land of consolidated subsidiaries	(583)	(544)
Other	(93)	(54)
Deferred tax liabilities total	(1,371)	(1,372)
Net deferred tax assets (liabilities)	862	624

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

	March 31, 2017	March 31, 2018
Statutory tax rate:	30.6%	—%
Items, including entertainment expenses, not eternally deductible for tax purposes	0.1	—
Items, including dividends received, not eternally inclusive of gross revenue for tax purposes	(0.0)	—
Equal installments of inhabitant taxes	0.6	—
Tax rate difference of subsidiaries	3.9	—
Valuation allowance change	6.7	—
Changes in deferred tax assets and liabilities due to tax rate revision	(0.3)	—
Income taxes for prior years	0.1	—
Other	(0.0)	—
Effective tax rate	41.7%	—%

Note: The notes are omitted for the year ended March 31, 2018 since the difference between the statutory tax rate and effective tax rate is not more than 5% of the statutory tax rate.

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, 2017	Year ended March 31, 2018
Balance at beginning of the year	505	515
Adjustment due to passage of time	9	9
Other increase (decrease)	—	(1)
Balance at the end of the year	515	523

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, 2017 and 2018 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)

	March 31, 2017	March 31, 2018
Rental property:		
Balance sheet carrying amount:		
Balance at the beginning of the year	24,085	29,005
Increase (decrease) during the year	4,920	499
Balance at the end of the year	29,005	29,505
Fair value at the end of the year	32,595	33,249
Property that includes a portion used as rental property:		
Balance sheet carrying amount:		
Balance at the beginning of the year	405	400
Increase (decrease) during the year	(4)	(5)
Balance at the end of the year	400	394
Fair value at the end of the year	207	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, 2017 was caused mainly 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). The increase in rental property during the year ended March 31, 2018 was caused primarily by the acquisition of rental office buildings (including land) (¥3,612 million). The decrease in rental property during the year ended March 31, 2018 was caused mainly by the sale of rental office buildings (including land) (¥1,902 million) and changes from rental use to in-house use (¥918 million).

3. The above carrying amounts in the year ended March 31, 2017 include asset retirement obligations of ¥28 million, while the above carrying amounts in the year ended March 31, 2018 include asset retirement obligations of ¥25 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 ¥50 million) are excluded from the above table because their fair value is not readily determinable as the development is still in progress.

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

	Year ended March 31, 2017	Year ended March 31, 2018
Rental property:		
Rental income	1,609	1,667
Rental expenses	719	1,097
Difference	889	570
Other (Gain/loss on sales)	151	968
Property that includes a portion used as rental property:		
Rental income	16	16
Rental expenses	4	3
Difference	12	13

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.
(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.
(6) Property:	rental of real estate, remodeling and development of real estate, etc., and hotel business.
(7) Other:	clothing rental, wholesale businesses, management of golf courses, etc.

(Changes in Reportable Segments, etc.)

From the year under review, the reportable segment of the clothing rental business in which Maimu CO., LTD. engages has been transferred from the retail store sales business to other business as a partial amendment to internal segments administration.

Segment information for the previous fiscal year is prepared based on the reportable segments in which the above changes have been reflected and is stated under the heading of the Year ended March 31, 2017 in "3. Segment sales, segment income or loss, segment assets, segment liabilities and other material items."

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, 2017

(In millions of yen)

	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	12,233	5,197	3,093	3,610	6,003	—	146,083
Inter-segment sales or transfers	204	106	—	231	—	22	50	(615)	—
Total	75,258	40,998	12,233	5,429	3,093	3,632	6,053	(615)	146,083
Segment income (loss)	4,474	2,752	147	2,416	1,178	9	197	(292)	10,882
Segment assets	63,084	19,558	5,971	5,380	20,461	54,670	6,274	3,622	179,024
Other items:									
Depreciation (Note 3)	1,364	468	253	121	56	310	126	—	2,702
Amortization of goodwill	—	—	—	—	—	—	—	523	523
Increase in property, plant and equipment and intangible fixed assets (Note 3)	554	210	386	3	3	7,428	47	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.

Year ended March 31, 2018

(In millions of yen)

	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	78,172	45,873	14,265	5,895	3,457	7,560	6,448	—	161,673
Inter-segment sales or transfers	442	132	0	216	—	21	62	(875)	—
Total	78,614	46,005	14,265	6,112	3,457	7,582	6,511	(875)	161,673
Segment income	4,263	2,662	1,157	2,370	1,567	1,036	220	(270)	13,008
Segment assets	64,817	21,485	6,300	5,391	22,344	66,670	5,846	3,089	195,946
Other items:									
Depreciation (Note 3)	1,265	418	208	112	57	339	111	—	2,514
Amortization of goodwill	—	—	—	—	—	—	—	528	528
Increase in property, plant and equipment and intangible fixed assets (Note 3)	627	241	199	24	53	14,512	44	—	15,704

Notes: 1. Amounts of adjustments are as follows:
(1) Adjustments in segment income represent ¥257 million from inter-segment elimination minus ¥528 million for amortization of goodwill.
(2) Adjustments in segment assets include ¥395 million for the Company's employee welfare facilities and ¥2,693 million as the year-end balance of goodwill.
2. Segment income 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, 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.

Year ended March 31, 2018

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:

(In millions of yen)

Japan	Other	Total
67,419	8,129	75,549

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, 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

Year ended March 31, 2018

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Impairment loss	—	—	6	—	—	—	—	—	6

[Amortization and unamortized balance of goodwill by reportable segment]

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

Year ended March 31, 2018

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Amortization for the year	—	—	—	—	—	—	—	528	528
Unamortized balance at end of the year	—	—	—	—	—	—	—	2,693	2,693

[Gain on bargain purchase by reportable segment]

Year ended March 31, 2017
None applicable.

Year ended March 31, 2018
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, 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)
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)	Interlocking directors or corporate auditors	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.

Year ended March 31, 2018

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)
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.	34.9% (owned, directly)	Interlocking directors or corporate auditors	Rendering of services (Note 3)	75	Other current assets	20

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:
Premiums were paid on the same conditions as ordinary premiums.

(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, 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)
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)	Interlocking directors or corporate auditors	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.

Year ended March 31, 2018

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)
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.	34.9% (owned, directly)	Interlocking directors or corporate auditors	Guarantee deposits of hotel facilities (Note 3)	224	Investments and other assets	724
							Rent of hotel facilities (Note 4)	362	—	—
							Advance payment for employees seconded from the Company (Note 5)	—	Other current assets	16

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) Directors and major shareholders (limited to individuals) of the Company filing consolidated financial statements:

Year ended March 31, 2017
None applicable.

Year ended March 31, 2018

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)
Corporations, etc., where a majority of voting rights is held by directors and their close family members	Rivoyre Co., Ltd. (Note 2)	Minato-ku, Tokyo	38	Real estate renting, etc.	—	Interlocking directors or corporate auditors	Rent of hotel facilities (Note 3)	10	—	—

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:
Rent of hotel facilities was determined in reference to the assessed value provided by real estate assessors.

(C) 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, 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)
Subsidiary of other affiliated company	FSY101 Co., Ltd. (Note 1)	Shibuya-ku, Tokyo	8	Real estate renting, etc.	—	—	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 were determined with due consideration of the trading market prices and other factors.

Year ended March 31, 2018

<table>
<tr><th>Attribution</th><th>Name</th><th>Address</th><th>Capital stock (millions of yen)</th><th>Business line</th><th>Percentage of voting rights owing (or owned)</th><th>Relationship with related party</th><th>Nature of transaction</th><th>Transaction amount (millions of yen)</th><th>Account title</th><th>Year-end balance (millions of yen)</th></tr>
<tr><td rowspan="2">Subsidiary of other affiliated company</td><td rowspan="2">FSY101 Co., Ltd. (Note 2)</td><td rowspan="2">Shibuya-ku, Tokyo</td><td rowspan="2">8</td><td rowspan="2">Real estate renting, etc.</td><td rowspan="2">—</td><td rowspan="2">—</td><td>Guarantee deposits of hotel facilities (Note 3)</td><td>—</td><td>Investments and other assets</td><td>15</td></tr>
<tr><td>Rent of hotel facilities (Note 4)</td><td>18</td><td>—</td><td>—</td></tr>
</table>

Notes: 1. Consumption taxes are not included in the above transaction amounts, but are included in the year-end balance.
2. 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.
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.

Per Share Information

(In yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net assets per share	872.86	949.70
Basic net income per share	59.68	99.41
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, 2017	Year ended March 31, 2018
Net income per share:		
Profit attributable to owners of parent (millions of yen)	5,802	9,665
Amount not attributable to holders of common stock (millions of yen)	—	—
Profit attributable to owners of parent relating to common stock (millions of yen)	5,802	9,665
Average number of shares of common stock during the year (thousands of shares)	97,236	97,236

Significant Subsequent Events

Business combination through acquisition

The Board of Directors of the Company decided at the Board of Directors meeting held on May 7, 2018 that the Company purchases the shares of common stock (hereinafter referred to as the "Target Shares") of SAGAMI GROUP HOLDINGS Co., Ltd. (hereinafter referred to as the "Target Company") through a tender offer (hereinafter referred to as the "Tender Offer") pursuant to the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended). The Tender Offer was commenced on May 8, 2018 and was closed on June 18, 2018. As a result of the Tender Offer, the Target Company became a consolidated subsidiary of the Company effective on June 22, 2018 (the commencement date of the settlement of the Tender Offer).

(1) Summary of the business combination

i) Name and main business of the acquired company:

Name	SAGAMI GROUP HOLDINGS Co., Ltd.
Address	21-9, Tamura 8-chome, Hiratsuka-shi, Kanagawa Prefecture
Main business	Planning of the group's management strategy, administration of group companies, etc.

ii) Main reason for the business combination:
The Company believed that the Company would be able to strengthen its financial base by acquiring the Target Shares and making the Target Company its wholly owned subsidiary. The Company also believed that fusing the experience and know-how of the Company and Target Company would result in a settlement of the Target Company's management issues and the establishment of a complementary business relationship between the Company and the Target Company encompassing activities such as the development of PB products, the formulation of store-opening strategies, and human resource development. Accordingly, the Company has made the Target Company its wholly owned subsidiary and intends to strengthen the Japanese traditional clothing-related business in the Belluna Group.

iii) Date of the business combination:
June 22, 2018

iv) Legal form of the business combination:
Share acquisition with cash consideration

v) Company name after the business combination:
Unchanged

vi) Percentage of shares with voting rights acquired:

Percentage of shares with voting rights owned immediately before the date of the business combination	—%
Percentage of shares with voting rights acquired as of the date of the business combination	89.71%
Percentage of shares with voting rights after the acquisition	89.71%

vii) Main reason for deciding the acquiring company:
Because the Company acquired shares with cash consideration.

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

(In millions of yen)

Consideration for acquisition	Cash and deposits	5,330
Acquisition cost		5,330

(3) Details and amount of major acquisition-related expenses
Not yet be determined at present.

(4) Amount, reason for recognition, and amortization method and period for goodwill incurred from the acquisition
Not yet be determined at present.

(5) The amounts and major components of assets acquired and liabilities assumed on the date of the business combination
Not yet be determined at present.

Supplementary Schedules

Bonds

Company	Description	Date of issuance	In millions of yen		Interest rate	Collateral	Redemption date
			Beginning balance on April 1, 2017	Ending balance on March 31, 2018			
Belluna Co., Ltd.	3rd Series of Unsecured Bonds (with inter-bond pari passu clause)	October 19, 2017	—	5,000	0.33%	None	October 19, 2022
Belluna Co., Ltd.	4th Series of Unsecured Bonds (with inter-bond pari passu clause)	October 19, 2017	—	5,000	0.64%	None	October 18, 2024
Total	—	—	—	10,000	—	—	—

Note: The redemption schedule of bonds in the next 5 years is as follows:

(In millions of yen)

Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
—	—	—	—	5,000

Borrowings

	In millions of yen		Average interest rate	Repayment date
	Beginning balance on April 1, 2017	Ending balance on March 31, 2018		
Short-term borrowings	2,326	3,687	0.15%	—
Current portion of long-term borrowings (due within 1 year)	3,598	3,964	0.24	—
Current portion of lease obligations (due within 1 year)	573	505	1.12	—
Long-term borrowings (except current portion)	46,157	45,472	0.24	From 2019 to 2028
Lease obligations (except current portion)	947	702	1.12	From 2019 to 2022
Total	53,602	54,332	—	—

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	14,181	3,949	3,514	3,514
Lease obligations	376	226	79	19

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, 2018, 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, 2018:

(In millions of yen)

(Cumulative period)	First quarter ended June 30, 2017	Second quarter ended September 30, 2017	Third quarter ended December 31, 2017	Year ended March 31, 2018
Net sales	41,153	74,863	121,997	161,673
Profit before income taxes	4,209	6,021	12,007	13,734
Profit attributable to owners of parent	3,105	4,333	8,318	9,665
Net income per share (in yen)	31.94	44.56	85.55	99.41

(In yen)

(Accounting period)	First quarter ended June 30, 2017	Second quarter ended September 30, 2017	Third quarter ended December 31, 2017	Fourth quarter ended March 31, 2018
Basic earnings per share	31.94	12.62	40.98	13.86

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

None in particular to be remarked.

Corporate Data and Investor Information (as of March 31, 2018)

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
1,742

Directors and Corporate Auditors
President and CEO:
Kiyoshi Yasuno

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

Director and Audit and Supervisory Committee:
Yasuo Hagihara

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
7,633

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.	34.9%
Kiyoshi Yasuno	10.2%
BBH for Fidelity Low Price Stock Fund (Principal All Sector Subportfolio)	7.3%
Japan Trustee Services Bank, Ltd. (Trust Account)	6.5%
Kimi Yasuno	3.0%
Sumitomo Mitsui Banking Corporation	2.3%
The Nomura Trust and Banking Co., Ltd.	2.0%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.0%
Belluna Mutual Benefit Society	1.7%
Mizuho Trust & Banking Co., Ltd Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted	1.6%

* In addition to the above, Belluna retains 740 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/