BELLUNA

Annual Report 2019

For the year ended March 31, 2019

Belluna Co., Ltd.

Code:9997

Profile

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

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

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

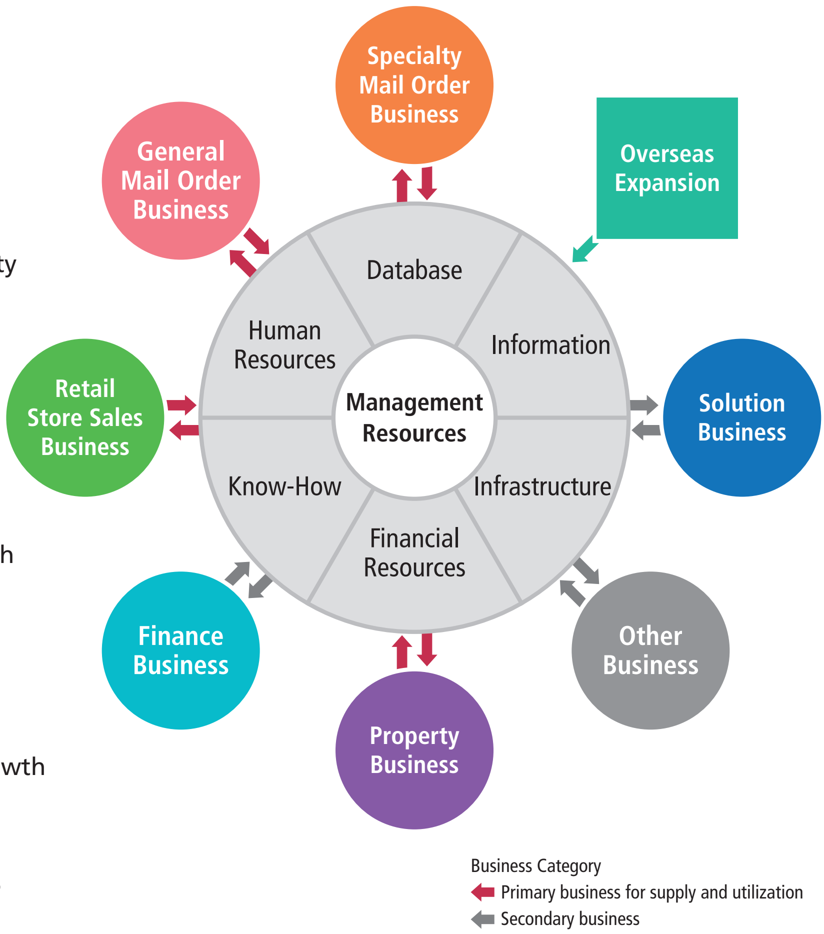
Looking ahead, based on our desire to "help improve the lifestyles and well-being of our customers," we will operate businesses that fulfill people's needs for food, clothing, lifestyle, and recreation.

Business Model

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

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

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



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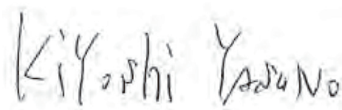
Forward-Looking Statements

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

We were able to steadily grow and strengthen our four main businesses toward achieving the targets in the 3rd Business Plan.
We will continue to focus even more on achieving results from the next fiscal year under the 4th Business Plan.



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?

Although the Japanese economy continued in a moderate recovery trend, labor supply and demand is expected to remain tight due to both the economic recovery and the population decline. The future outlook remains uncertain, due in part to a weakening of the impetus provided by overseas demand against a backdrop of the slowing economy in China caused partly by prolonged trade friction between the United States and China.

Although the mail order industry is continuing to experience market expansion due to the rapid growth of e-commerce, the prevalence of a budget-saving sentiment among consumers is strong, and the situation remains severe due also to rising logistics costs, irregular weather patterns and the frequency of natural disasters.

Consolidated net sales in the fiscal year under review increased 9.9% year on year to ¥177,648 million as a result of growth in the Retail Store Sales business, to which SAGAMI GROUP HOLDINGS CO., LTD. was added following its acquisition, the Specialty Mail Order business, which performed well mainly in the cosmetics business, and the Solution business, where the mail order business outsourcing services performed strongly. Operating income decreased 7.7% year on year to ¥12,005 million, ordinary income increased 15.6% year on year to ¥15,309 million due to a major increase in foreign currency exchange-related gains, and profit attributable to owners of parent increased 7.0% year on year to ¥10,343 million.

Regarding Belluna's financial position, liabilities rose ¥10,365 million compared to the figure at March 31, 2018, to ¥113,253 million. Total assets, however, increased ¥17,840 million to ¥213,786 million. As a result, net assets increased ¥7,475 million to ¥100,533 million, and the shareholders' equity ratio stood at 46.7%, 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?

The 3rd Business Plan that Belluna launched for the three-year period from the fiscal year ended March 31, 2017 to achieve its evolution as a "comprehensive mail order merchant company," has reached the end of its final year. Although operating income fell short of the target, net sales and ROE reached their initial targets a year ahead of schedule.

Concerning our four main businesses that we have been focusing on, in the General Mail Order business, despite changes in the external environment that were not initially anticipated, including increases in delivery charges, we were able to achieve steady growth in sales and profits through proactive efforts to strengthen our Internet business.

The Specialty Mail Order business performed extremely well as a result of our efforts in product development and in the strengthening of our Internet business with a focus on the gourmet food business, wine business, cosmetics business, and mail order business for nurses.

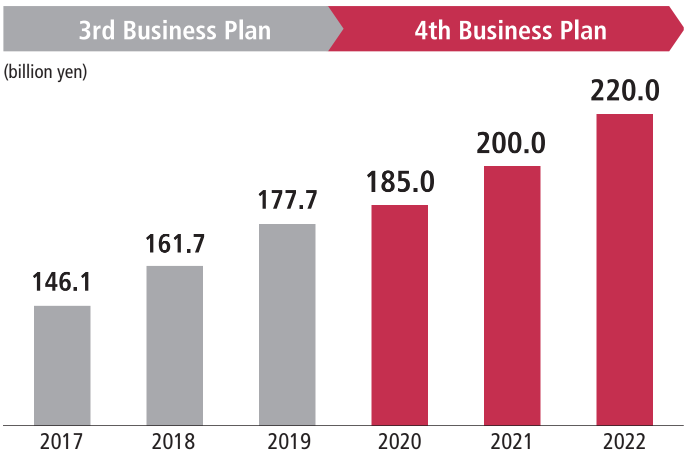
In the Retail Store Sales business, where we have been targeting expansion through new store openings,

4th Business Plan Fiscal year ending March 31, 2020 – Fiscal year ending March 31, 2022

Final year targets

Net sales	Operating income	ROE
¥220.0 billion (average annual growth rate: 7.4%)	¥20.0 billion (average annual growth rate: 18.5%)	10.0% or higher

Change in net sales



Aim for upward revision while steadily achieving targets

Achieved record-high sales and profits under the 3rd Business Plan

Incorporate changes in the external environment and lay the basis for achieving our targets in the 4th Business Plan

Under the 4th Business Plan, steadily achieve our targets for net sales and operating income

Expansion of four main businesses

1. Grow **the general mail order business** in a stable manner.
2. Expand **the specialty mail order business**.
3. Expand **the retail store sales business** and improve its profitability.
4. Strengthen **the property business** with a focus on profit-earning hotels.

BANKAN Wamonoya Co., Ltd., which operates in the Japanese traditional clothing retail store business, increased the number of stores to 86. As well, SAGAMI GROUP HOLDINGS CO., LTD. became part of the Group through M&A. The apparel retail store business achieved profitability, and the number of stores reached 75.

In the Property business, earnings in the leasing business increased steadily, and the number of hotels in the hotel business increased to seven. We continued to strengthen our business, thereby forming the basis for the 4th Business Plan.

Q.3 Can you tell us about the outline for the 4th Business Plan?

Under the 4th Business Plan commencing from the fiscal year ending March 31, 2020, we aim to expand our four main businesses: achieve stable growth in the General Mail Order business by expanding catalog sales and strengthening our Internet business; expand the Specialty Mail Order business through measures to enhance our product development capability and increase the ratio of e-commerce; expand the Retail Store Sales business and improve its profitability, including by creating synergic effects between BANKAN Wamonoya Co., Ltd. and SAGAMI GROUP HOLDINGS CO., LTD.; and strengthen the Property business with a focus on profit-earning hotels, while maintaining an awareness of our response to changes in the external environment, including changes in the consumption environment, the increase in shipping costs, and the growth of the Internet.

Our targets for the fiscal year ending March 31, 2022 are to achieve net sales of ¥220,000 million (average annual growth rate of 7.4%), operating income of ¥20,000 million (average annual growth rate of 18.5%), and ROE of 10% or above.

Q.4 What can you tell us about Belluna's initiatives and outlook for operating performance in fiscal 2020?

For the fiscal year ending March 31, 2020, we expect to achieve net sales of ¥185.0 billion, operating income of ¥14.0 billion, ordinary income of ¥15.0 billion and profit attributable to owners of parent of ¥10.5 billion. Under the 4th Business Plan, we will place a greater emphasis on results than we have so far, aiming to steadily exceed targets for each fiscal year and to not only achieve the final target but to upwardly revise it.

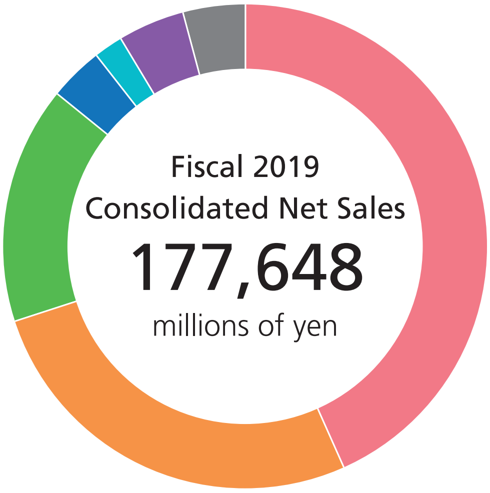
The 4th Business Plan marks a new start for the Company, but we will work to achieve both profitability and growth potential, and aim for greater growth as a "comprehensive mail order merchant company."

Q.5 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 ¥15.00 per share in fiscal 2019, consisting of an interim dividend of ¥7.50 and a year-end dividend of ¥7.50. We plan to increase the total annual dividend by ¥1.00 in fiscal 2020 to ¥16.00.

Going forward, the Company will continue to evolve as we create 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



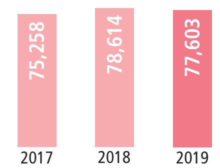
- General Mail Order Business 43.4%
- Specialty Mail Order Business 26.8%
- Retail Store Sales Business 15.8%
- Solution Business 3.5%
- Finance Business 2.1%
- Property Business 4.5%
- Other Business 3.9%

General Mail Order Business

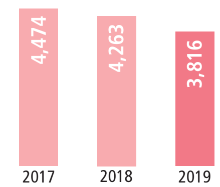
Business Outline

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

Net Sales
(millions of yen)



Segment Income
(millions of yen)



Overview

In the General Mail Order business, segment net sales decreased 1.3% compared with the previous fiscal year to ¥77,603 million and segment (operating) income decreased 10.5% to ¥3,816 million, chiefly on the impact of a hike in delivery charges.

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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 *GeeRA* offers fashion items for young women in their 20s.

Outlook

In fiscal 2020, we aim to achieve segment net sales of ¥73,528 million (down 5.3% year on year) and segment income (operating income) of ¥2,898 million (down 24.1%). We will come to a standstill in fiscal 2020 due to the impact of paper price hikes as well as increases in home parcel delivery charges and shipping fees. Nevertheless, we will lay the groundwork toward growth by strengthening new initiatives focused on the Internet.

On Belluna's website, we will launch products available only online, expand regular product lineups, reinforce featured contents especially focused on middle-aged women, and stay clear of the pressure to offer bargain sales. Through these initiatives, we will strive to expand the EC business.

Furthermore, we will start up a new EC mall for the younger generation and expand it mainly by increasing the number of store openings and strengthening our capabilities in selecting merchandise and making proposals to customers.

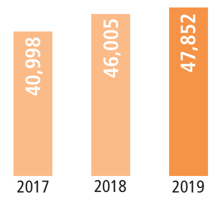
Specialty Mail Order Business

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.

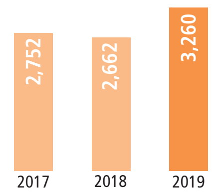
Net Sales

(millions of yen)



Segment Income

(millions of yen)



Overview

The Specialty Mail Order business recorded a 4.0% year-on-year increase in segment net sales to ¥47,852 million due to favorable sales mainly in the cosmetics business, despite the major impact from the business contraction of Best Thanks Co., Ltd. and a hike in delivery charges. Segment (operating) income increased 22.4% to ¥3,260 million.

Outlook

The Specialty Mail Order business plays an important role as an income-generating pillar of Belluna's business portfolio.

Segment net sales for fiscal 2020 are forecast to increase 5.1% year on year to ¥50,300 million, and segment income is forecast to rise 12.5% to ¥3,669 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.

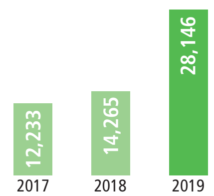
Retail Store Sales Business

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.

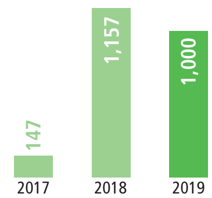
Net Sales

(millions of yen)



Segment Income

(millions of yen)



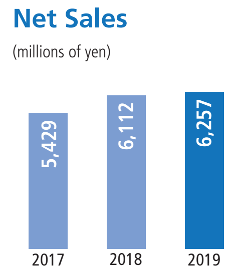
Overview

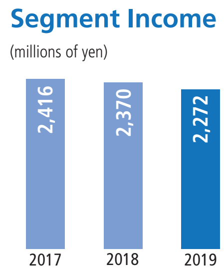
In the Retail Store Sales business, Sagami Group Holdings Co., Ltd. was newly added to the scope of consolidation. As a result, segment net sales surged 97.3% compared with the previous fiscal year to ¥28,146 million, while segment (operating) income decreased 13.6% to ¥1,000 million mainly on the impact of opening expenses for new retail stores.

Outlook

Segment net sales for fiscal 2020 are forecast to increase 20.8% year on year to ¥34,012 million, and segment income is forecast to increase 35.4% to ¥1,355 million. In the apparel retail store business we will make the shift to steady growth by slowing down the pace of store openings, and will strive to grow. We operated 75 apparel stores as of March 31, 2019 and expect to operate around 90 stores as of March 31, 2020. In the Japanese traditional clothing retail store business, we operated 86 retail stores as of March 31, 2019 and aim to expand to around 98 stores as of March 31, 2020. Additionally, we will exert synergy effects from BANKAN Wamonoya Co., Ltd. and Sagami Group Holdings Co., Ltd. and will aim to become No. 1 in Japan with overwhelming leads in both net sales and income.

Solution Business





Business Outline

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

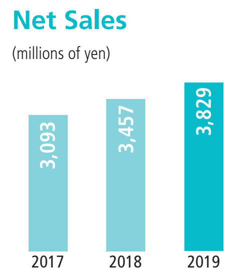
Overview

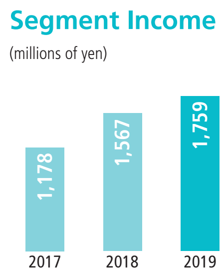
In the Solution business, direct-marketing outsourcing services progressed steadily, though enclosing and mailing services struggled due to reduced transactions with major clients. Consequently, segment net sales increased 2.4% compared with the previous fiscal year to ¥6,257 million, while segment (operating) income decreased 4.1% to ¥2,272 million, primarily due to upfront investment for the start of a job transfer support service for nurses.

Outlook

For the business segment, net sales in fiscal 2020 are forecast to increase 11.1% year on year to ¥6,955 million, and segment income is forecast to increase 4.7% to ¥2,378 million. We will continue to pursue business scale expansion while securing profitability through cost control measures.

Finance Business





Business Outline

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

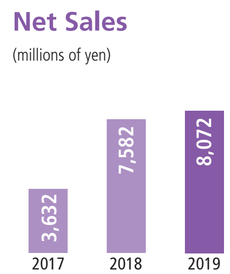
Overview

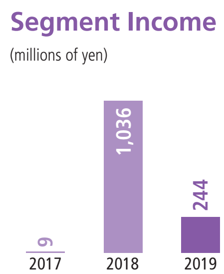
The Finance business recorded a 10.8% year-on-year increase in segment net sales to ¥3,829 million with a higher balance of trade loans in the domestic consumer finance business. Segment (operating) income also increased 12.3% to ¥1,759 million.

Outlook

We aim to continue expanding the balance of trade loans in fiscal 2020 with a focus on domestic consumer financing services, and forecast a 15.9% year on year rise in segment net sales to ¥4,438 million and a 12.2% rise in segment income to ¥1,975 million.

Property Business





Business Outline

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

Overview

The Property business recorded a 6.5% year-on-year increase in segment net sales to ¥8,072 million, while segment (operating) income dropped 76.4% to ¥244 million, partly due to the impact of opening expenses, which offset the increased sales associated with new hotel openings.

Outlook

In fiscal 2020 we plan to buoy the segment operating performance by positioning the hotel business as a driving force for growth, while earning stable rental income from the leasing business. We will henceforth launch new hotel business with a focus on profitable hotels specialized in accommodation.

In fiscal 2020 we forecast a 29.3% year on year rise in segment net sales to ¥10,441 million and a 521.7% surge in segment income to ¥1,523 million.

Corporate Governance

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

Governance System

Board of Directors

As of June 2019, the Board of Directors consisted of eight 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.

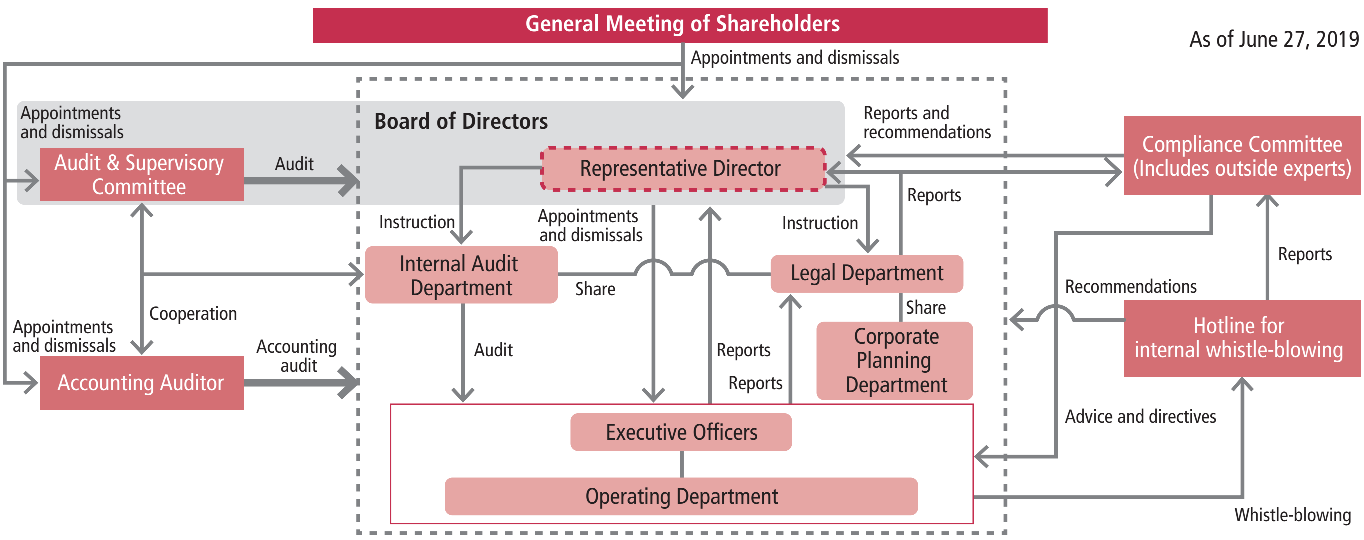
Compliance Promotion Structure

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

As of June 27, 2019



Financial Section

Six-Year Financial Summary

Belluna Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen [1] 2014	2015	2016	2017	2018	2019	Thousands of U.S. dollars [2] 2019
For the year:							
Net sales	125,412	120,689	131,742	146,083	161,673	**177,648**	**1,601,587**
Cost of sales	56,677	53,543	59,241	64,306	71,774	**76,275**	**687,658**
Gross profit—net	68,739	67,158	72,500	81,762	89,897	**101,364**	**913,848**
Selling, general and administrative expenses	60,940	60,782	64,134	70,880	76,889	**89,359**	**805,617**
Operating income	7,798	6,376	8,366	10,882	13,008	**12,005**	**108,231**
Income before income taxes and minority interests	9,982	9,612	6,026	9,773	13,734	**15,468**	**139,452**
Net income	7,013	6,394	3,544	5,802	9,665	**10,343**	**93,247**
Capital investment	9,276	20,171	7,366	8,635	15,687	**7,511**	**67,715**
Depreciation	2,367	2,506	2,481	2,655	2,495	**2,765**	**24,928**
At year-end:							
Current assets	66,667	69,855	74,189	84,792	90,851	**99,244**	**894,735**
Property, plant and equipment	42,748	55,804	59,459	64,258	75,549	**83,204**	**750,126**
Total assets	130,648	152,224	161,055	179,024	195,946	**213,786**	**1,927,389**
Current liabilities	33,701	36,516	37,428	40,352	42,331	**53,463**	**481,996**
Long-term liabilities	23,466	36,197	42,981	50,898	60,556	**59,790**	**539,037**
Total liabilities	57,167	72,713	80,409	91,251	102,888	**113,253**	**1,021,033**
Net assets	73,480	79,510	80,646	87,773	93,058	**100,533**	**906,356**
Number of shares issued (thousands)	113,184	113,184	113,184	97,236	97,236	**97,244**	
Number of employees	1,212	1,430	1,377	1,708	1,742	**3,134**	
	Yen						U.S. dollars [2]
Per share data:							
Net income per share	72.12	65.77	36.45	59.68	99.41	**106.39**	**0.96**
Shareholders' equity per share [3]	755.67	814.97	824.56	872.86	949.70	**1,028.56**	**9.27**
Cash dividends per share	12.5	12.5	12.5	12.5	12.5	**15.0**	**0.14**
	Percentage (%)						
Financial ratios:							
Operating income margin	6.2	5.3	6.4	7.4	8.0	**6.8**	
Net income margin	5.6	5.3	2.7	4.0	6.0	**5.8**	
Return on equity (ROE) [4]	10.0	8.4	4.4	7.0	10.9	**10.8**	
Return on assets (ROA) [5]	6.9	5.0	5.8	6.8	7.3	**6.1**	
Shareholders' equity ratio [4]	56.2	52.1	49.8	47.4	47.1	**46.7**	

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 ¥110.92=US$1.00, the approximate rate on the Tokyo foreign exchange market on March 31, 2019. Amounts of less than the indicated unit have been truncated.
3. 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.
4. In the calculation of ROE and the Shareholders' equity ratio, the amount of net assets less minority interests is used as shareholders' equity.
5. 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 2019, the Japanese economy remained on a moderate recovery trend against the backdrop of steady corporate earnings and favorable employment and income conditions. On the other hand, uncertainty over the future continued as the supply-and-demand balance in the labor market was forecast to remain tight due to factors related to both the economic recovery and population decline, and the strength of external demand dwindled on the back of the prolonged U.S.-China trade friction and the resulting slowdown of the Chinese economy. In the mail order sales industry the rapid growth of electric commerce (EC) continued to drive market expansion, but harsh situations persisted chiefly due to the prevalence of a deep-rooted deflationary sentiment among consumers, rising delivery costs, unseasonable weather, and frequent natural disasters.

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 2019 increased 9.9% year on year to ¥177,648 million. In the year under review, operating income decreased 7.7% year on year to ¥12,005 million largely due to a hike in delivery charges in DM and merchandise and hotel opening expenses. Meanwhile, ordinary income increased 15.6% to ¥15,309 million and profit attributable to owners of parent increased 7.0% year on year to ¥10,343 million, reflecting a significant improvement in foreign exchange gains and losses.

Net Sales and Earnings per Segment

In the General Mail Order business, segment net sales decreased 1.3% compared with the previous fiscal year to ¥77,603 million and segment (operating) income decreased 10.5% to ¥3,816 million, chiefly on the impact of a hike in delivery charges.

The Specialty Mail Order business recorded a 4.0% year-on-year increase in segment net sales to ¥47,852 million due to favorable sales mainly in the cosmetics business, despite the major impact from the business contraction of Best Thanks Co., Ltd. and a hike in delivery charges. Segment (operating) income increased 22.4% to ¥3,260 million.

In the Retail Store Sales business, Sagami Group Holdings Co., Ltd. was newly added to the scope of consolidation. As a result, segment net sales surged 97.3% compared with the previous fiscal year to ¥28,146 million, while segment (operating) income decreased 13.6% to ¥1,000 million mainly on the impact of opening expenses for new retail stores.

In the Solution business, direct-marketing outsourcing services progressed steadily, though enclosing and mailing services struggled due to reduced transactions with major clients. Consequently, segment net sales increased 2.4% compared with the previous fiscal year to ¥6,257 million, while segment (operating) income decreased 4.1% to ¥2,272 million, primarily due to upfront investment for the start of a job transfer support service for nurses.

The Finance business recorded a 10.8% year-on-year increase in segment net sales to ¥3,829 million with a higher balance of trade loans in the domestic consumer finance business. Segment (operating) income also increased 12.3% to ¥1,759 million.

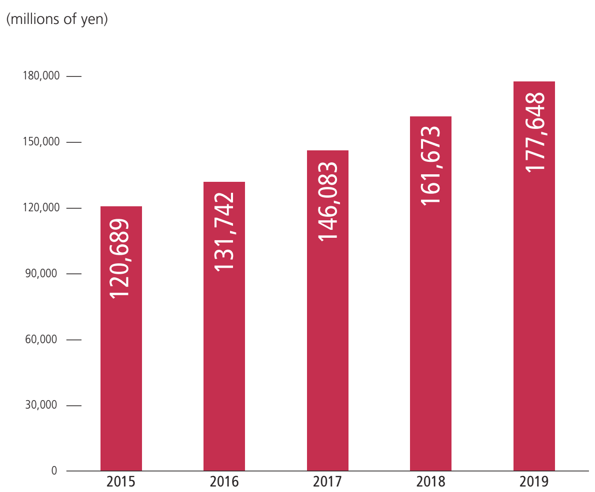
The Property business recorded a 6.5% year-on-year increase in segment net sales to ¥8,072 million, while segment (operating) income dropped 76.4% to ¥244 million, partly due to the impact of opening expenses, which offset the increased sales associated with new hotel openings.

In Other business, sales of wholesale business, etc. increased. As a result, segment net sales increased 6.2% compared with the previous fiscal year to ¥6,912 million. Segment (operating) income also increased 7.7% to ¥237 million.

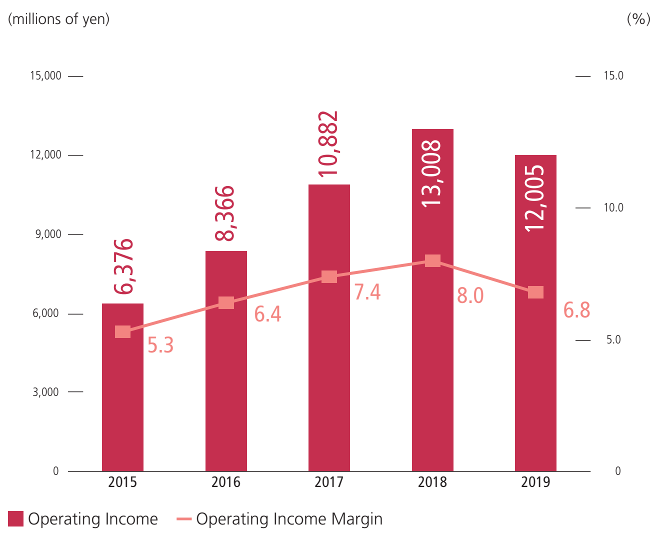
Financial Condition

Total assets as of March 31, 2019 stood at ¥213,786 million, an increase of ¥17,840 million from the previous fiscal year-end. In particular, current assets rose ¥9,255 million to ¥99,244 million, primarily reflecting increases of ¥2,967 million in trade loans, ¥2,880 million in merchandise and finished goods, ¥1,215 million in real estate for sale in process, and ¥2,620 million in other

Net Sales



Operating Income and Operating Income Margin



current assets, which outweighed a decrease of ¥675 million in cash and deposits. As of the end of the fiscal year, fixed assets stood at ¥114,542 million, an increase of ¥8,585 million. This was mainly due to increases of ¥5,834 million in buildings and structures, ¥5,149 million in land, and ¥2,421 million in other investments, which outweighed decreases of ¥4,145 million in construction in progress and ¥1,842 million in investment securities.

Total liabilities increased by ¥10,365 million compared with the previous fiscal year-end to ¥113,253 million. Specifically, current liabilities increased by ¥11,131 million year on year to ¥53,463 million, primarily because of a ¥6,715 million increase in short-term borrowings, a ¥1,641 million increase in income taxes payable, a ¥1,068 million increase in accrued expenses, and a ¥3,108 million increase in other liabilities, which outweighed a ¥1,288 million decrease in trade notes and accounts payable. Long-term liabilities decreased by ¥766 million to ¥59,790 million compared with the previous fiscal year-end.

Net assets as of March 31, 2019 totaled ¥100,533 million, a ¥7,475 million rise compared with the previous fiscal year-end. As a result, the shareholders' equity ratio was 46.7%.

Cash Flows

Net cash provided by operating activities during the fiscal year under review was ¥8,558 million (¥8,924 million provided in the previous fiscal year). The main factors leading to the increase were ¥15,468 million of profit before income taxes, ¥2,765 million of depreciation, a ¥1,123 million decrease in trade notes and accounts receivable, and a ¥2,751 million increase in other current liabilities, while the main factors leading to the decrease were a ¥1,355 million gain on valuation of derivatives, a ¥2,914 million increase in trade loans, a ¥1,441 million increase in other current assets, and ¥5,405 million of income taxes paid.

Net cash used in investing activities during the fiscal year under review was ¥12,724 million (¥12,853 million used in the previous fiscal year). The main factors leading to the increase were ¥1,073 million of proceeds from withdrawal of time deposits and ¥1,878 million of proceeds from sales of investment securities, while the main factors leading to the decrease were ¥1,091 million of payments into time deposits, ¥6,141 million of payments for the acquisition of property, plant and equipment, ¥1,554 million of payments for the acquisition of investment securities, and ¥4,924 million of payments for the purchase of shares of subsidiaries.

Net cash provided by financing activities during the fiscal year under review was ¥3,577 million (¥6,942 million provided in the previous fiscal year). The main factors leading to the increase were a ¥1,219 million increase in short-term borrowings and ¥9,312 million of proceeds from long-term borrowings, while the main factors leading to the decrease were ¥4,344 million of repayments of long-term borrowings and ¥1,337 million of dividends paid.

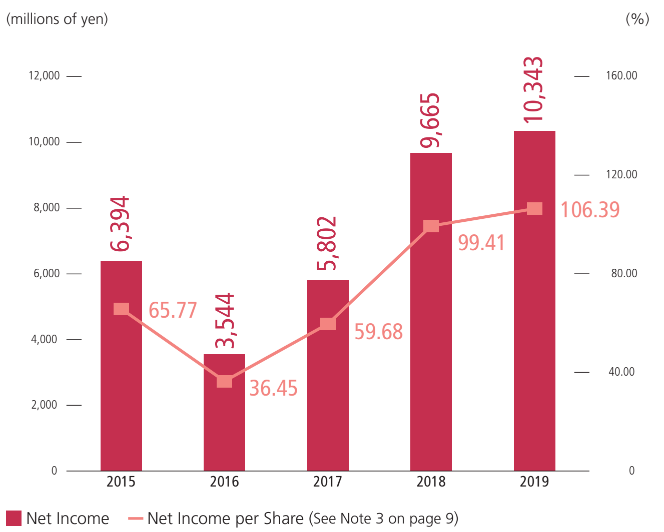
Forecasts for Fiscal 2020

Going forward, the Japanese economy is likely to remain on a gradual recovery trend buoyed by steady domestic demand in spite of the impact of the slowdown in the overseas economy. Personal consumption is also expected to increase, mainly on the back of improved employment and income conditions in Japan.

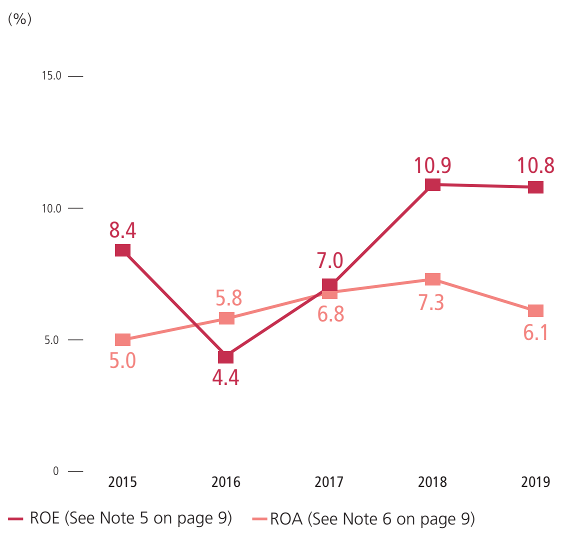
Against this backdrop, the Belluna Group will remain firmly committed to strengthening its four pillars of business in accordance with the management policy. At the same time, the Group will aim to further enhance profitability and growth potential.

Regarding the forecast for fiscal 2020, we anticipate net sales of ¥185,000 million, operating income of ¥14,000 million, ordinary income of ¥15,000 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

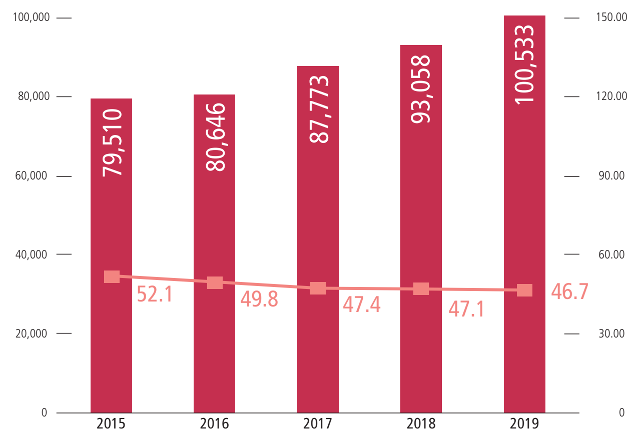
In the event of a natural disaster, order processing, product delivery and purchasing, credit control and other operations may be significantly impacted. In order to minimize such impact, the Group has increased the earthquake resistance of its information systems as well as dispersed its fulfillment 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.

Shareholders' Equity* and Shareholders' Equity Ratio

(millions of yen) (%)

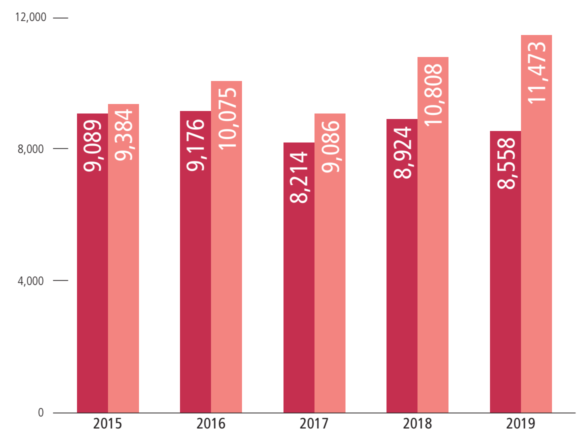


Shareholders' Equity — Shareholders' Equity Ratio (See Note 5 on page 9)

* Net assets less minority interests

Operating Cash Flow and Adjusted Operating Cash Flow Margin

(millions of yen)



Operating Cash Flow Adjusted Operating Cash Flow Margin (excluding trade loans)

6. Risk from Fluctuations in Raw Material and Other Markets

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

7. Overseas Business Development Risks

The Group has developed the property business in 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, terrorism and wars, and 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 the Belluna Group handles customers' personal information, the Group makes every effort to adhere strictly to the Act on the Protection of Personal Information 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, 2019 (with comparative figures for the previous year).

Consolidated Balance Sheets

In millions of yen

		March 31, 2018		**March 31, 2019**
Assets				
Current assets				
Cash and deposits		22,747		**22,071**
Trade notes and accounts receivable		10,009		**9,739**
Trade loans		20,814		**23,781**
Marketable securities		424		**1,197**
Merchandise and finished goods		17,975		**20,855**
Raw materials and supplies		1,252		**1,464**
Real estate for sale	*2	3,871	*2	**3,418**
Real estate for sale in process		5,447	*2	**6,662**
Other current assets		7,977		**10,597**
Allowance for doubtful accounts		(530)		**(544)**
Total current assets		89,989		**99,244**
Fixed assets				
Property, plant and equipment				
Buildings and structures	*2	38,756	*2	**47,966**
Accumulated depreciation	*1	(15,630)	*1	**(19,006)**
Buildings and structures (net)		23,126		**28,960**
Machinery and equipment		2,347		**2,497**
Accumulated depreciation	*1	(1,624)	*1	**(1,762)**
Machinery and equipment (net)		723		**735**
Furniture and fixtures		1,875		**3,444**
Accumulated depreciation	*1	(1,516)	*1	**(2,217)**
Furniture and fixtures (net)		359		**1,226**
Land	*2	38,496	*2	**43,646**
Leased assets		668		**670**
Accumulated depreciation	*1	(390)	*1	**(455)**
Leased assets (net)		278		**215**
Construction in progress		12,565		**8,420**
Total property, plant and equipment		75,549		**83,204**
Intangible fixed assets				
Goodwill		2,693		**2,293**
Leased assets		896		**596**
Other		8,146		**8,364**
Total intangible fixed assets		11,737		**11,253**
Investments and other assets				
Investment securities	*3	14,271	*3	**12,428**
Long-term lending		1,170		**1,799**
Claims provable in bankruptcy, claims provable in rehabilitation and other		255		**206**
Deferred tax assets		1,270		**1,585**
Other assets		2,268		**4,689**
Allowance for doubtful accounts		(565)		**(626)**
Total investments and other assets		18,670		**20,084**
Total fixed assets		105,956		**114,542**
Total assets		195,946		**213,786**

		In millions of yen		
		March 31, 2018		**March 31, 2019**
Liabilities				
Current liabilities				
Trade notes and accounts payable		18,381		**17,093**
Short-term borrowings	*2, *4, *5	7,652	*2, *4, *5	**14,368**
Accrued expenses		8,974		**10,043**
Lease obligations		505		**406**
Income taxes payable		2,010		**3,652**
Provision for bonuses		714		**757**
Provision for sales returns		86		**94**
Provision for point program		560		**492**
Other current liabilities		3,445		**6,554**
Total current liabilities		42,331		**53,463**
Long-term liabilities				
Bonds payable		10,000		**10,000**
Long-term borrowings	*2, *4, *5	45,472	*2, *4, *5	**45,339**
Provision for loss on interest repayment		726		**661**
Lease obligations		702		**425**
Net defined benefit liability		33		**236**
Provision for retirement benefits for directors and audit and supervisory committee members		258		**258**
Asset retirement obligations		523		**914**
Other long-term liabilities		2,840		**1,955**
Total long-term liabilities		60,556		**59,790**
Total liabilities		102,888		**113,253**
Net assets				
Shareholders' equity				
Common stock		10,607		**10,612**
Capital surplus		10,958		**10,954**
Retained earnings		71,809		**80,816**
Treasury stock		(0)		**(167)**
Total shareholders' equity		93,374		**102,215**
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		1,295		**672**
Revaluation reserve for land		—		**(7)**
Foreign currency translation adjustments		(2,292)		**(2,988)**
Remeasurements of defined benefit plans		(33)		**(61)**
Total accumulated other comprehensive income		(1,029)		**(2,385)**
Non-controlling interests		713		**703**
Total net assets		93,058		**100,533**
Total liabilities and net assets		195,946		**213,786**

Consolidated Statements of Income

In millions of yen

		Year ended March 31, 2018		Year ended March 31, 2019
Net sales		161,673		**177,648**
Cost of sales	*1	71,774	*1	**76,275**
Gross profit		89,898		**101,372**
Reversal of provision for sales returns		80		**81**
Provision for sales returns		82		**88**
Gross profit—net		89,897		**101,364**
Selling, general and administrative expenses	*2	76,889	*2	**89,359**
Operating income		13,008		**12,005**
Non-operating income				
Interest income		185		**140**
Dividend income		393		**298**
Rent income		38		**36**
Extinction of debt		40		**33**
Compensation received		108		**108**
Foreign exchange gains		1,021		**876**
Subsidy income		76		**48**
Gain on valuation of derivatives		—		**1,355**
Other		461		**821**
Total non-operating income		2,324		**3,718**
Non-operating expenses				
Interest expense		158		**163**
Commission fee		65		**82**
Loss on valuation of derivatives		1,297		**—**
Depreciation		111		**93**
Loss on closing of stores		131		**12**
Compensation expenses		253		**—**
Other		66		**63**
Total non-operating expenses		2,084		**414**
Ordinary income		13,248		**15,309**
Extraordinary gains				
Gain on sales of non-current assets	*3	988	*3	**9**
Gain on sales of investment securities		103		**404**
Total extraordinary gains		1,092		**414**
Extraordinary losses				
Loss on retirement of fixed assets	*4	33	*4	**121**
Impairment loss	*5	6	*5	**57**
Loss on valuation of securities		90		**—**
Loss on valuation of investment securities		388		**76**
Settlement package		67		**—**
Loss on reversal of foreign currency translation adjustments		20		**—**
Total extraordinary losses		606		**255**
Profit before income taxes		13,734		**15,468**
Income taxes—current		3,917		**5,476**
Income taxes—deferred		130		**(308)**
Total income taxes		4,047		**5,167**
Profit		9,686		**10,300**
Profit (loss) attributable to non-controlling interests		20		**(43)**
Profit attributable to owners of parent		9,665		**10,343**

Consolidated Statements of Comprehensive Income

In millions of yen

	Year ended March 31, 2018	Year ended March 31, 2019
Profit	9,686	**10,300**
Other comprehensive income		
Valuation difference on available-for-sale securities	235	**(624)**
Revaluation reserve for land	—	**(7)**
Foreign currency translation adjustments	(1,049)	**(668)**
Remeasurements of defined benefit plans, net of tax	(25)	**(28)**
Total other comprehensive income	*1 (840)	*1 **(1,329)**
Comprehensive income	8,846	**8,971**
Comprehensive income attributable to owners of parent	8,877	**9,010**
Comprehensive income attributable to non-controlling interests	(31)	**(39)**

Consolidated Statements of Changes in Net Assets

(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	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments 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:												
Issuance of new shares					—							—
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)
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

(In millions of yen)

Year ended March 31, 2019	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of year	10,607	10,958	71,809	(0)	93,374	1,295	—	(2,292)	(33)	(1,029)	713	93,058
Changes during year:												
Issuance of new shares	5	5			10							10
Dividends paid			(1,337)		(1,337)							(1,337)
Profit attributable to owners of parent			10,343		10,343							10,343
Purchase of treasury stock				(167)	(167)							(167)
Capital increase of consolidated subsidiaries					—							—
Change in ownership interest of parent due to transactions with non-controlling interests		(9)			(9)							(9)
Net changes of items other than shareholders' equity					—	(623)	(7)	(696)	(28)	(1,355)	(10)	(1,366)
Total changes of items during year	5	(3)	9,006	(167)	8,841	(623)	(7)	(696)	(28)	(1,355)	(10)	7,475
Balance at end of year	10,612	10,954	80,816	(167)	102,215	672	(7)	(2,988)	(61)	(2,385)	703	100,533

Consolidated Statements of Cash Flows

In millions of yen

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	13,734	**15,468**
Depreciation	2,495	**2,765**
Increase (decrease) in provision for sales returns	5	**7**
Impairment loss	6	**57**
Amortization of goodwill	528	**553**
Increase (decrease) in allowance for doubtful accounts	(135)	**(75)**
Increase (decrease) in provision for bonuses	26	**6**
Increase (decrease) in net defined benefit liability	(45)	**(40)**
Increase (decrease) in provision for retirement benefits for directors and audit and supervisory committee members	(5)	**—**
Increase (decrease) in provision for point program	8	**(68)**
Increase (decrease) in provision for loss on interest repayment	(194)	**(65)**
Interest and dividend income	(579)	**(438)**
Interest expense	158	**163**
Loss (gain) on valuation of derivatives	1,297	**(1,355)**
Loss (gain) on sales of investment securities	(103)	**(404)**
Loss (gain) on valuation of investment securities	388	**76**
Foreign exchange losses (gains)	(54)	**22**
Loss on retirement of fixed assets	33	**121**
Loss (gain) on sales of property, plant and equipment	(988)	**(9)**
Decrease (increase) in trade notes and accounts receivable	(337)	**1,123**
Decrease (increase) in trade loans	(1,884)	**(2,914)**
Decrease (increase) in inventories	(2,180)	**(991)**
Decrease (increase) in real estate for sale	676	**(992)**
Decrease (increase) in other current assets	(1,110)	**(1,441)**
Increase (decrease) in notes and accounts payable	839	**(983)**
Increase (decrease) in other current liabilities	486	**2,751**
Increase (decrease) in other long-term liabilities	(7)	**(36)**
Other	295	**350**
Sub-total	13,355	**13,650**
Interest and dividends received	563	**429**
Interest paid	(158)	**(162)**
Refund of income taxes	14	**46**
Income taxes paid	(4,850)	**(5,405)**
Net cash provided by operating activities	8,924	**8,558**
Cash flows from investing activities		
Payments into time deposits	(1,783)	**(1,091)**
Proceeds from withdrawal of time deposits	1,750	**1,073**
Proceeds from sales of marketable securities	1,061	**236**
Acquisition of property, plant and equipment	(14,910)	**(6,141)**
Proceeds from sales of property, plant and equipment	2,891	**61**
Acquisition of intangible fixed assets	(446)	**(816)**
Acquisition of investment securities	(3,019)	**(1,554)**
Proceeds from sales of investment securities	1,720	**1,878**
Purchase of shares of subsidiaries	—	**(4,924)**
Payments of loans receivable	(114)	**(579)**
Collection of loans receivable	400	**2**
Payments for guarantee deposits	(432)	**(781)**
Proceeds from collection of guarantee deposits	79	**89**
Payments of other investments	(73)	**(182)**
Collection of other investments	22	**3**
Net cash used in investing activities	(12,853)	**(12,724)**
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,363	**1,219**
Proceeds from long-term borrowings	3,985	**9,312**
Repayments of long-term borrowings	(4,237)	**(4,344)**
Proceeds from issuance of bonds	10,000	**—**
Proceeds from share issuance to non-controlling shareholders	29	**11**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,248)	**(606)**
Purchase of treasury stock	(0)	**(167)**
Repayments to non-controlling shareholders	(71)	**—**
Dividends paid	(1,215)	**(1,337)**
Dividends paid to non-controlling interests	(58)	**—**
Repayments of lease obligations	(604)	**(508)**
Other	—	**(2)**
Net cash provided by financing activities	6,942	**3,577**
Effect of exchange rate change on cash and cash equivalents	(401)	**(88)**
Net increase (decrease) in cash and cash equivalents	2,612	**(677)**
Cash and cash equivalents at beginning of year	19,416	**22,028**
Cash and cash equivalents at end of year	*1 22,028	*1 **21,351**

Notes to Consolidated Financial Statements

Basis for preparation of consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 45 companies

During the fiscal year ended March 31, 2019, Nursery Co., Ltd., a former consolidated subsidiary, was merged into Infirmiere Co., Ltd., a consolidated subsidiary as the surviving company. The trade name of Infirmiere Co., Ltd. was thereupon changed to NurseStage Co., Ltd.

In addition, the Company converted Sagami Group Holdings Co., Ltd. into a subsidiary through a share acquisition. As a result, the Company included Sagami Group Holdings Co., Ltd. and its two subsidiaries, as well as the newly established BELLUNA HONOLULU LLC, into the scope of consolidation.

MADISON GRANBELL 2 LLC and MADISON GRANBELL 3 LLC were excluded from the scope of consolidation because their liquidations were completed, though their statements of income up to the completion of liquidation were 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., Texas Co., Ltd., and NurseStage 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.

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) Other significant accounting policies
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)
(Changes due to the adoption of the "Partial Amendments to Accounting Standard for Tax Effect Accounting")
The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issue on February 16, 2018; hereinafter referred to as the "Partial Amendments to Tax Effect Accounting Standard") from the beginning of the fiscal year ended March 31, 2019, and accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under long-term liabilities.

As a result, in the consolidated balance sheet for the fiscal year ended March 31, 2018, deferred tax assets of ¥861 million under "Current assets" are included and presented in deferred tax assets of ¥1,270 million under "Investments and other assets."

In the Notes Regarding Deferred Income Taxes, meanwhile, the contents described in (Note 8) of the Notes to the "Accounting Standard for Tax Effect Accounting" (excluding the total amount of valuation allowance) and (Note 9) of the same Notes as provided in Paragraphs 3 through 5 of the Partial Amendments to Tax Effect Accounting Standard have been added. From among the said contents, however, the contents for the fiscal year ended March 31, 2018 are omitted pursuant to the transitional treatment as provided in Paragraph 7 of the Partial Amendments to Tax Effect Accounting Standard.

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, 2018	March 31, 2019
Real estate for sale	219	472
Real estate for sale in process	—	610
Buildings and structures	6,879	6,868
Land	13,955	20,331
Total	21,054	28,283

Liabilities secured by the above are as follows.

(In millions of yen)

	March 31, 2018	March 31, 2019
Short-term borrowings	1,901	6,138
Long-term borrowings	31,660	29,454
Total	33,562	35,593

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

(In millions of yen)

	March 31, 2018	March 31, 2019
Investment securities (stocks)	640	653

*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, 2018 and 2019 is summarized as follows:

(In millions of yen)

	March 31, 2018	March 31, 2019
Total of the overdraft limit and lending commitments	22,794	24,682
Executed loans	6,635	8,794
Unexecuted balance	16,158	15,887

*5. Restrictive financial covenants

Of the consolidated borrowings balance, up to ¥24,950 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, 2018	March 31, 2019
Shurei Co., Ltd. (Note)	200	172

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, 2018	Year ended March 31, 2019
	736	950

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

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Freightage and packing expenses	10,692	11,328
Advertising expenses	20,205	21,674
Sales promotion expenses	3,818	3,771
Provision of allowance for doubtful accounts	566	613
Provision for point program	552	483
Provision for loss on interest repayment	254	243
Salaries and allowances	11,491	15,165
Provision for bonuses	682	703
Provision for retirement benefits for directors and audit and supervisory committee members	2	—
Retirement benefit expenses	73	229
Communication expenses	7,174	7,573
Commission fee	11,179	12,222

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

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Buildings and structures	5	8
Machinery and equipment	0	0
Land	982	0
Total	988	9

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

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Buildings and structures	26	111
Machinery and equipment	0	—
Furniture and fixtures	6	0
Software	—	0
Leasehold interests in land	—	6
Long-term prepaid expenses	—	3
Total	33	121

*5. Impairment loss

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.

For the year ended March 31, 2019

Usage	Type	Location
Assets for business	Buildings and structures, furniture and fixtures	Yokohama-shi, Kanagawa Prefecture, etc.
Assets for business	Buildings and structures	Ina-shi, Nagano Prefecture, etc.
Assets for business	Buildings and structures, other (intangible fixed assets)	Kanazawa-shi, Ishikawa Prefecture, etc.
Assets for business	Other (intangible fixed assets)	Iruma-shi, Saitama Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Hirakata-shi, Osaka Prefecture, etc.
Assets for business	Other (intangible fixed assets)	Osaka-shi, Osaka Prefecture
Assets for business	Buildings and structures, furniture and fixtures	Minato-ku, Tokyo

(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, 2019, 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 are anticipated, an impairment loss is recognized.

(Components of amounts of impairment loss by type of fixed assets)
Amounts of components of impairment loss are as follows: ¥47 million of buildings and structures, ¥6 million of furniture and fixtures, and ¥2 million of other (intangible fixed assets).

(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, 2018	Year ended March 31, 2019
Valuation difference on available-for-sale securities:		
Gains (losses) incurred during the year	30	(565)
Reclassification adjustment to net income	347	(329)
Amount before tax effect	377	(895)
Tax effect	(142)	270
Valuation difference on available-for-sale securities	235	(624)
Revaluation reserve for land:		
Tax effect	—	(7)
Revaluation reserve for land	—	(7)
Foreign currency translation adjustments:		
Gains (losses) incurred during the year	(1,070)	(668)
Reclassification adjustment to net income	20	—
Foreign currency translation adjustments	(1,049)	(668)
Remeasurements of defined benefit plans, net of tax:		
Gains (losses) incurred during the year	(28)	(41)
Reclassification adjustment to net income	(8)	0
Amount before tax effect	(36)	(40)
Tax effect	11	12
Remeasurements of defined benefit plans, net of tax	(25)	(28)
Total other comprehensive income	(840)	(1,329)

Notes to the Consolidated Statements of Changes in Net Assets

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

Note: 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, 2018, 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

Year ended March 31, 2019

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	8	—	97,244
Total	97,236	8	—	97,244
Treasury stock:				
Common stock	0	185	—	186
Total	0	185	—	186

Notes: 1. The total number of shares issued increased by 8 thousand shares due to the issuance of new shares as restricted stock compensation.
2. The increase of 185 thousand shares of treasury stock (common stock) resulted from the acquisition of treasury stock pursuant to a resolution of the Board of Directors meeting. In addition, 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 27, 2018	Common stock	607	6.25	March 31, 2018	June 28, 2018
Board of Directors' meeting on October 30, 2018	Common stock	729	7.50	September 30, 2018	December 4, 2018

(2) Dividends with a record date during the year ended March 31, 2019, 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 26, 2019	Common stock	727	Retained earnings	7.50	March 31, 2019	June 27, 2019

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, 2018	March 31, 2019
Cash and deposits	22,747	22,071
Time deposits with original maturities of more than three months	(882)	(896)
MMFs, etc. included in marketable securities	163	175
Cash and cash equivalents	22,028	21,351

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

Year ended March 31, 2018

None applicable.

Year ended March 31, 2019

Components of assets acquired and liabilities assumed at the time of consolidation of Sagami Group Holdings Co., Ltd. newly consolidated through share acquisition, and the relationship between the share acquisition cost for Sagami Group Holdings Co., Ltd. and net payment for share acquisition of Sagami Group Holdings Co., Ltd., are as follows:

(In millions of yen)

Current assets	4,284
Fixed assets	5,847
Goodwill	153
Current liabilities	(3,280)
Long-term liabilities	(1,080)
Non-controlling interests	(593)
Share acquisition cost	5,330
Cash and cash equivalents	(406)
Net payment for share acquisition	4,924

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, 2018	March 31, 2019
Due within one year	257	257
Due over one year	364	107
Total	622	364

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, 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			
Available-for-sale securities	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.

As of March 31, 2019

(In millions of yen)

	Balance sheet carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	22,071	22,071	—
(2) Trade notes and accounts receivable	9,739		
Allowance for doubtful accounts (*1)	(299)		
	9,439	9,439	—
(3) Trade loans	23,781		
Allowance for doubtful accounts (*1)	(245)		
	23,536	23,837	300
(4) Marketable securities and investment securities			
Available-for-sale securities	9,458	9,458	—
Assets total	64,507	64,807	300
(1) Trade notes and accounts payable	17,093	17,093	—
(2) Short-term borrowings	14,368	14,368	—
(3) Long-term borrowings	45,339	45,337	(1)
(4) Bonds payable	10,000	10,030	30
Liabilities total	86,800	86,829	29
Derivative transactions (*2)	65	65	—

(*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, 2018	March 31, 2019
Unlisted equity securities	3,139	2,221
Unlisted debt securities	105	105
Investments in partnerships for investment business	1,534	1,840

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, 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

As of March 31, 2019

(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	21,951	—	—	—	—	—
Trade notes and accounts receivable	9,739	—	—	—	—	—
Trade loans	6,980	6,938	5,538	3,815	506	1
Marketable securities and investment securities:						
Available-for-sale securities with contractual maturities:						
(1) National and local government bonds	143	—	—	—	—	—
(2) Corporate bonds	887	—	—	—	—	218
(3) Other	475	352	304	972	—	1,285
Total	40,178	7,291	5,842	4,788	506	1,505

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

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

As of March 31, 2019

(In millions of yen)

Due	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term borrowings	5,105	—	—	—	—	—
Long-term borrowings	9,262	13,624	4,041	4,041	4,041	19,590
Total	14,368	13,624	4,041	4,041	4,041	19,590

Notes Regarding Securities

1. Available-for-sale securities

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

As of March 31, 2019

(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	2,174	1,307	867
	(2) Debt securities:			
	1. National and local government bonds	—	—	—
	2. Corporate bonds	684	638	45
	3. Other bonds	—	—	—
	(3) Other	2,889	2,051	837
	Subtotal	5,748	3,997	1,751
Securities with balance sheet carrying amount not exceeding the acquisition cost	(1) Equity securities	1,785	2,391	(606)
	(2) Debt securities:			
	1. National and local government bonds	143	178	(34)
	2. Corporate bonds	316	333	(17)
	3. Other bonds	—	—	—
	(3) Other	1,465	1,559	(93)
	Subtotal	3,710	4,463	(752)
Total		9,458	8,460	998

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

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

Year ended March 31, 2019

(In millions of yen)

Type of securities	Proceeds of sales	Gain on sales	Loss on sales
(1) Equity securities	1,575	405	0
(2) Debt securities	—	—	—
(3) Other	—	—	—
Total	1,575	405	0

3. Securities for which impairment loss was recorded

IIn 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").

In the fiscal year ended March 31, 2019, the Company recorded ¥76 million as impairment of value with respect to securities (¥76 million as impairment of value of equity securities with fair market value 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, 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.

As of March 31, 2019

(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	3,727	610	65	65
	Euro	—	—	—	—
Total		3,727	610	65	65

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, 2018 and 2019 (excluding the portion of the plans to which the short-cut method is applied):

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Balance of retirement benefit obligation at beginning of year	1,084	1,188
Service cost	89	117
Interest cost	7	9
Actuarial gains and losses	40	35
Benefits paid	(32)	(49)
Increase (decrease) resulting from change in scope of consolidation	—	608
Balance of retirement benefit obligation at end of year	1,188	1,909

(2) Changes in plan assets for the years ended March 31, 2018 and 2019 (excluding the plans to which the short-cut method is applied):

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Balance of plan assets at beginning of year	1,067	1,173
Expected return on plan assets	26	30
Actuarial gains and losses	4	(17)
Contribution from the employer	108	130
Benefits paid	(32)	(36)
Increase (decrease) resulting from change in scope of consolidation	—	404
Balance of plan assets at end of year	1,173	1,685

(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, 2018	Year ended March 31, 2019
Balance of liability for retirement benefits at beginning of year	25	18
Retirement benefit costs	3	5
Retirement benefits paid	(0)	(1)
Contribution to the plans	(10)	(9)
Balance of liability for retirement benefits at end of year	18	12

(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, 2018	Year ended March 31, 2019
Funded retirement benefit obligation	1,242	1,956
Plan assets	(1,234)	(1,744)
	7	212
Unfunded retirement benefit obligation	25	24
Net liability (asset) recorded in the consolidated balance sheet	33	236
Defined benefit liability	33	236
Net liability (asset) recorded in the consolidated balance sheet	33	236

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, 2018 and 2019:

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Service cost	89	117
Interest cost	7	9
Expected return on plan assets	(26)	(30)
Amortization of actuarial gains and losses	(1)	9
Retirement benefit costs calculated by short-cut method	3	5
Retirement benefit costs on defined benefit plans	73	111

(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, 2018	Year ended March 31, 2019
Actuarial gains and losses	(36)	(40)

(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, 2018	March 31, 2019
Unrecognized actuarial gains and losses	47	88

(8) Plan assets:

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

(% of total plan assets)

	March 31, 2018	March 31, 2019
Debt securities	13.5%	24.9%
Equity securities	18.6	14.7
General accounts	56.5	49.9
Cash and deposits	11.0	9.3
Other	0.4	1.2
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, 2018 and 2019 are as follows:

	Year ended March 31, 2018	Year ended March 31, 2019
Discount rate	0.56%	0.46 - 0.50%
Long-term expected rate of return on plan assets	2.45	2.00 - 2.04
Expected rate of salary increase	1.50	0.86 - 1.48

3. Defined contribution plans

The amounts of the required contribution to the defined contribution plans of consolidated subsidiaries for the years ended March 31, 2018 and 2019 were ¥101 million and ¥118 million, respectively.

Notes Regarding Deferred Income Taxes

1. Significant components of deferred tax assets and liabilities

(In millions of yen)

	March 31, 2018	March 31, 2019
Deferred tax assets:		
Excess provision for bonuses	263	278
Excess allowance for doubtful accounts	628	197
Excess provision for sales returns	26	29
Excess provision for point program	171	150
Excess provision for loss on interest repayment	248	226
Bad debt expenses	43	48
Loss on valuation of investment securities	196	232
Defined benefit liability	11	60
Loss on valuation of real estate for sale	34	44
Excess impairment loss of fixed assets	139	670
Loss on transfer of receivables	243	—
Tax loss carried forward (Note 2)	863	1,508
Asset adjustment account	120	—
Other	705	1,174
Deferred tax assets subtotal	3,696	4,622
Valuation allowance on tax loss carried forward (Note 2)	—	(1,288)
Valuation allowance on total of deductible temporary differences	—	(1,067)
Valuation allowance subtotal (Note 1)	(1,700)	(2,356)
Deferred tax assets total	1,996	2,266
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(566)	(311)
Liability adjustment account	(20)	—
Reserve for special depreciation	(124)	(88)
Asset retirement expense	(63)	(95)
Valuation difference on land of consolidated subsidiaries	(544)	(503)
Other	(54)	(230)
Deferred tax liabilities total	(1,372)	(1,228)
Net deferred tax assets (liabilities)	624	1,038

Notes: 1. Valuation allowance increased by ¥655 million. This increase was mainly because Sagami Group Holdings Co., Ltd., a company that became a consolidated subsidiary, recognized a valuation allowance on tax loss carried forward of ¥666 million.
2. Amount of tax loss carried forward and related deferred tax assets by the expiry date

As of March 31, 2019

(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	Over 5 years	Total
Tax loss carried forward (a)	25	1	1	162	173	1,143	1,508
Valuation allowance	(25)	(1)	(1)	(162)	(173)	(924)	(1,288)
Deferred tax assets	0	—	—	—	—	218	(b) 219

(a) Tax loss carried forward is shown as an amount multiplied by the statutory tax rate.
(b) The Company recorded deferred tax assets of ¥219 million for a tax loss carried forward of ¥1,508 million (an amount multiplied by the staturoty tax rate). The deferred tax assets of ¥219 million were recognized for some portion of the balance of a tax loss carried forward (an amount multiplied by the statutory tax rate) of ¥1,508 million in consolidated subsidiaries. We believe that the amount will be recoverable in consideration of the estimated future taxable income attributable to future earning power.

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

	March 31, 2018	March 31, 2019
Statutory tax rate:	—%	30.5%
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	—	(0.1)
Equal installments of inhabitant taxes	—	0.4
Tax rate difference of subsidiaries	—	2.4
Valuation allowance change	—	(0.2)
Changes in deferred tax assets and liabilities due to tax rate revision	—	(0.1)
Income taxes for prior years	—	0.4
Effective tax rate	—%	33.4%

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 Business Combination

Business combination through acquisition

(1) i) Name and main business of the acquired company:

Name	Sagami Group Holdings Co., Ltd.
Main business	Japanese traditional clothing-related sales business

ii) Main reason for the business combination:
The Company believed that the Company would be able to strengthen its financial base by acquiring shares of common stock of Sagami Group Holdings Co., Ltd. and converting Sagami Group Holdings Co., Ltd. into its wholly owned subsidiary. The Company also believed that fusing the experience and know-how would lead to overcoming Sagami Group Holdings Co., Ltd.'s management issues and the establishment of a complementary business relationship between the Company and Sagami Group Holdings Co., Ltd., encompassing activities such as the development of PB products, the formulation of store-opening strategies, and human resource development. Based on these beliefs, the Company intends to strengthen the Japanese traditional clothing-related business within the Belluna Group.

iii) Date of the business combination:
June 22, 2018 (share acquisition date)
May 31, 2018 (deemed acquisition date)

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) Period for which the results of the acquired company are included in the consolidated financial statements
June 1, 2018 through March 31, 2019

(3) 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

(4) Details and amount of major acquisition-related expenses
Advisory expenses, etc. ¥296 million

(5) Amount, reason for recognition, and amortization method and period for goodwill incurred from the acquisition
i) Amount of goodwill incurred:
¥153 million
ii) Reason for recognition of goodwill incurred:
Because the acquisition costs exceeded the net assets at the fair market value of the acquired company at the time of the business combination, the Company posted the resulting difference as goodwill, representing projected excess earning power to be achieved through future business development.
iii) Amortization method and period for goodwill incurred:
Amortized equally over five years

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

(In millions of yen)

Current assets	4,284
Fixed assets	5,847
Total assets	10,131
Current liabilities	3,280
Long-term liabilities	1,080
Total liabilities	4,360

(7) The estimated amounts of the impact of the business combination on the consolidated statements of income for the fiscal year under review when the business combination is assumed to have been completed on the first day of the fiscal year under review, and the method for calculation thereof
Presentation of this information is omitted herein since the estimated amounts have little materiality.

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 8 to 50 years, depending on the useful life of each relevant building or facility, and using a discount rate between 0.00% to 2.30%.

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

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Balance at beginning of the year	515	523
Adjustment due to passage of time	9	10
Other increase (decrease)	(1)	389
Balance at the end of the year	523	924

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, 2018 and 2019 and the fair values of the rental property and the property that includes a portion used as rental property are as follows:

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Rental property:		
Balance sheet carrying amount:		
Balance at the beginning of the year	29,005	29,505
Increase (decrease) during the year	499	1,400
Balance at the end of the year	29,505	30,905
Fair value at the end of the year	33,249	35,745
Property that includes a portion used as rental property:		
Balance sheet carrying amount:		
Balance at the beginning of the year	400	394
Increase (decrease) during the year	(5)	(4)
Balance at the end of the year	394	390
Fair value at the end of the year	207	201

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, 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). The increase in rental property during the year ended March 31, 2019 was caused primarily by an increase in the number of newly consolidated subsidiaries (¥1,477 million) and the acquisition of rental office buildings (including land) (¥455 million). The decrease in rental property during the year ended March 31, 2019 was caused mainly by transfer from rental office buildings (including land) to real estate for sale (¥339 million).
3. The above carrying amounts in the year ended March 31, 2018 include asset retirement obligations of ¥25 million, while the above carrying amounts in the year ended March 31, 2019 include asset retirement obligations of ¥24 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:

(In millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Rental property:		
Rental income	1,667	1,861
Rental expenses	1,097	714
Difference	570	1,146
Other (Gain/loss on sales)	968	—
Property that includes a portion used as rental property:		
Rental income	16	15
Rental expenses	3	3
Difference	13	11

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

Segment Information, etc.

[Segment information]

1. Outline of reportable segments

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

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

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

(1) General mail order:	mail order sales of daily life-related merchandise, including clothing, household goods and furniture, and related services.
(2) Specialty mail order:	mail order sales of specialty single items, including food, cosmetics and supplements, and sales focusing on specific customers.
(3) Retail store sales:	retail store sales of casual clothing, Japanese clothing-related merchandise, etc.
(4) Solution:	commission-type businesses that outsource to the Company, etc. 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.

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 “Basis for preparation of consolidated financial statements.”
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, 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.

Year ended March 31, 2019

(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	77,062	47,728	28,146	6,054	3,829	7,990	6,837	—	177,648
Inter-segment sales or transfers	541	124	—	203	—	82	74	(1,026)	—
Total	77,603	47,852	28,146	6,257	3,829	8,072	6,912	(1,026)	177,648
Segment income	3,816	3,260	1,000	2,272	1,759	244	237	(586)	12,005
Segment assets	61,261	22,729	15,616	5,746	25,082	74,982	5,684	2,684	213,786
Other items:									
Depreciation (Note 3)	1,273	313	321	112	59	591	117	—	2,788
Amortization of goodwill	—	—	—	—	—	—	—	553	553
Increase in property, plant and equipment and intangible fixed assets (Note 3)	705	544	495	19	18	5,645	82	153	7,665

Notes: 1. Amounts of adjustments are as follows:
(1) Adjustments in segment income represent minus ¥32 million from inter-segment elimination minus ¥553 million for amortization of goodwill.
(2) Adjustments in segment assets include ¥391 million for the Company's employee welfare facilities and ¥2,293 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, 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.

Year ended March 31, 2019

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
73,646	9,557	83,204

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, 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

Year ended March 31, 2019

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Impairment loss	—	1	46	—	—	—	8	—	57

[Amortization and unamortized balance of goodwill by reportable segment]]

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

Year ended March 31, 2019

(In millions of yen)

	General mail order	Specialty mail order	Retail store sales	Solution	Finance	Property	Other	Companywide/ Elimination	Total
Amortization for the year	—	—	—	—	—	—	—	553	553
Unamortized balance at end of the year	—	—	—	—	—	—	—	2,293	2,293

[Gain on bargain purchase by reportable segment]

Year ended March 31, 2018
None applicable.

Year ended March 31, 2019
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, 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 audit and supervisory committee members	Intermediation of premiums (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.

Year ended March 31, 2019

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)
Other affiliated companies (including a parent company of such other affiliated companies)	Friend Stage Co., Ltd. (Note 2)	Ageo, Saitama	50	Seal stamp sales, etc.	34.9% (owned, indirectly)	Interlocking directors or audit and supervisory committee members	Rendering of services (Note 3)	73	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:
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, 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 audit and supervisory committee members	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.

Year ended March 31, 2019

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)
Other affiliated companies (including a parent company of such other affiliated companies)	Friend Stage Co., Ltd. (Note 2)	Ageo, Saitama	50	Seal stamp sales, etc.	34.9% (owned, indirectly)	Interlocking directors or audit and supervisory committee members	Guarantee deposits of hotel facilities (Note 3)	—	Investments and other assets	724
							Rent of hotel facilities (Note 4)	413	—	—
							Advance payment for employees seconded from the Company (Note 5)	—	Other current assets	18

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, 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 audit and supervisory committee members	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.

Year ended March 31, 2019

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 audit and supervisory committee members	Guarantee deposits of hotel facilities (Note 3)	402	Investments and other assets	553
							Rent of hotel facilities (Note 4)	219	—	—
							Payment for construction assistance fund receivables (Note 5)	—	Long-term lending	449

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:
Construction assistance fund receivables were determined upon negotiation based on an amount calculated pursuant to acquisition costs.

(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, 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)
Subsidiary of other affiliated company	FSY101 Co., Ltd. (Note 2)	Shibuya-ku, Tokyo	8	Real estate renting, etc.	—	—	Guarantee deposits of hotel facilities (Note 3)	—	Investments and other assets	15
							Rent of hotel facilities (Note 4)	18	—	—

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.

Year ended March 31, 2019

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)
Subsidiary of other affiliated company	FSY101 Co., Ltd. (Note 2)	Shibuya-ku, Tokyo	8	Real estate renting, etc.	—	—	Guarantee deposits of hotel facilities (Note 3)	—	Investments and other assets	15
							Rent of hotel facilities (Note 4)	18	—	—

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, 2018	Year ended March 31, 2019
Net assets per share	949.70	1,028.56
Basic net income per share	99.41	106.39
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, 2018	Year ended March 31, 2019
Net income per share:		
Profit attributable to owners of parent (millions of yen)	9,665	10,343
Amount not attributable to holders of common stock (millions of yen)	—	—
Profit attributable to owners of parent relating to common stock (millions of yen)	9,665	10,343
Average number of shares of common stock during the year (thousands of shares)	97,236	97,229

Significant Subsequent Events

None applicable.

Supplementary Schedules

Bonds

Company	Description	Date of issuance	In millions of yen		Interest rate	Collateral	Redemption date
			Beginning balance on April 1, 2018	Ending balance on March 31, 2019			
Belluna Co., Ltd.	3rd Series of Unsecured Bonds (with inter-bond pari passu clause)	October 19, 2017	5,000	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	5,000	0.64%	None	October 18, 2024
Total	—	—	10,000	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, 2018	Ending balance on March 31, 2019		
Short-term borrowings	3,687	5,105	0.15%	—
Current portion of long-term borrowings (due within 1 year)	3,964	9,262	0.18	—
Current portion of lease obligations (due within 1 year)	505	406	1.08	—
Long-term borrowings (except current portion)	45,472	45,339	0.18	From 2020 to 2030
Lease obligations (except current portion)	702	425	1.08	From 2020 to 2025
Total	54,332	60,539	—	—

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	13,624	4,041	4,041	4,041
Lease obligations	250	103	44	18

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, 2019, 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, 2019:

(In millions of yen)

(Cumulative period)	First quarter ended June 30, 2018	Second quarter ended September 30, 2018	Third quarter ended December 31, 2018	Year ended March 31, 2019
Net sales	41,979	79,161	133,555	177,648
Profit before income taxes	4,517	6,541	11,276	15,468
Profit attributable to owners of parent	2,866	4,228	7,177	10,343
Net income per share (in yen)	29.48	43.49	73.81	106.39

(In yen)

(Accounting period)	First quarter ended June 30, 2018	Second quarter ended September 30, 2018	Third quarter ended December 31, 2018	Fourth quarter ended March 31, 2019
Basic earnings per share	29.48	14.01	30.32	32.58

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

None in particular to be remarked.

Corporate Data and Investor Information (as of March 31, 2019)

Company Name
Belluna Co., Ltd.

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

Capital Stock
¥10,612 million

Established
June 1977

Number of Employees
3,134

Directors and Corporate Auditors
President and CEO:
Kiyoshi Yasuno

Directors and Executive Officers:
Yuichiro Yasuno
Junko Shishido
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.
NurseStage Co., Ltd.
Texas Co., Ltd.
Granbellhotel Co., Ltd.
Marucho Co., Ltd.
California Co., Ltd.
Maimu Co., Ltd.
Sagami Group Holdings Co., Ltd.
Others

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

Number of Shares of Common Stock Issued
97,244,472

Number of Shareholders
9,108

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: https://www.adrbnymellon.com

Major Shareholders

Names	Percentage of total shares
Friend Stage Asset Management co.,ltd.	34.9%
Kiyoshi Yasuno	10.2%
BBH for Fidelity Low Price Stock Fund (Principal All Sector Subportfolio)	6.7%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.9%
The Master Trust Bank of Japan, Ltd. (Trust Account)	3.1%
Kimi Yasuno	3.0%
Sumitomo Mitsui Banking Corporation	2.3%
The Nomura Trust and Banking Co., Ltd.	2.0%
Belluna Mutual Benefit Society	1.6%
Mizuho Trust & Banking Co., Ltd Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted	1.5%

* In addition to the above, Belluna retains 186,254 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/