

18th Fiscal Year Business Report

(April 1, 2015~
March 31, 2016)

I. START TODAY Group's Business at a Glance

(1) Progress and results

(million yen)

	FY 2014 (Results)	FY2015 (Results)	YoY (%)
Total Transaction Value	129,059 (100.0%)	159,500 (100.0%)	+23.6%
Net Sales	41,182 (31.9%)	54,422 (34.1%)	+32.1%
Gross Profit	38,777 (30.0%)	50,085 (31.4%)	+29.2%
Operating Profit	15,084 (11.7%)	17,756 (11.1%)	+17.7%
Recurring Profit	15,139 (11.7%)	17,883 (11.2%)	+18.1%
Net Income	8,999 (7.0%)	11,988 (7.5%)	+33.2%

() % against the total transaction value

"Make the world a better place, bring smiles to the world - this is START TODAY group's corporate philosophy. We have strived to work towards this vision by operating one of the biggest fashion EC websites in Japan "ZOZOTOWN", as well as the fashion media, "WEAR".

During FY2015, we have seen the Japanese consumers economizing their amount of consumption due to the deceleration in the Chinese economy, hike in consumption tax, and the negative interest rate. That said, the field of vision has continued to expand steadily within the fashion EC market where we operate in, due to the aggressive omni-channels strategy of department stores, micro BtoC and CtoC players and curation services, joining our market.

Under such circumstances, our group has concentrated on increasing the number of unique users, as well as the conversion rate (the ratio of purchases made by our unique users) by enhancing user and client brand's satisfaction with better usability of "ZOZOTOWN".

In particular, we have accelerated the openings of new shops on our platform, have done aggressive point promotions, replaced the CRM system to on an on-time communication method, enriched the coordinate reviews, and improved the usability of the user interface for all of our customers.

We have also focused efforts on our fashion platform "WEAR", through which we aim to help magnify the entire fashion market, though have continued solid methods to boost awareness of the service, without using mass media promotions. As a result, we have grown to reach 6.5 million downloads, 7 million monthly active users, in March, 2016.

From these efforts, our total transaction value in FY2015 was 159,500 million yen (+23.6% YoY) net sales resulted as 54,422 million yen (+32.1% YOY), and the gross profits resulted as 50,085 million yen (+29.2% YOY).

Due to the change in sales mix, the growth in ZOZOUSED, as well as increase in other sales, the gross profits (to the total transaction value) resulted as 31.4% (+1.4 points, YOY).

SG&A expenses for FY2015 was 32,328 million yen (+36.4% YoY), allowing the impact of SG&A costs towards the total transaction value to increase from 18.4% to 20.3% (YoY). The fact that we spent more on promotions during FY2015, compared to our controlled amount during FY2014 (the impact towards the total transaction value has increased from 1.3% to 2.5% on a YoY basis), along with the increased fulfillment costs for the growing business ZOZOUSED, as well as the increase in shipping costs due to the expanded same day shipping service areas, the drop in the average purchase amount per shipping which led to the rise in burden ratio, all had an effect towards the increase of total SG&A costs. Consequently, the operating profit for FY2015 was 17,756 million yen (+17.7% YoY), recurring profit was 17,883 million yen (+18.1% YoY), and the net income was 11,988 million yen (+33.2% YoY).

[2] Compared to the Original forecast

(million yen)

	FY2015 (Original forecast)		FY2015 (Results)		Compared to forecast
Total Transaction Value	168,200	(100.0%)	159,500	(100.0%)	-5.2%
Net Sales	53,800	(32.0%)	54,422	(34.1%)	+1.2%
Operating Profit	19,140	(11.4%)	17,756	(11.1%)	-7.2%
Recurring Profit	19,160	(11.4%)	17,883	(11.2%)	-6.7%
Net Income	12,520	(7.4%)	11,988	(7.5%)	-4.2%

() % against the total transaction value

Towards the guidance we announced on April 30th, 2015, the Total Transaction Value was 5.2% unachieved, Net Sales was 1.2% overachieved, Operating Profit was 7.2% unachieved, Recurring Profit was 6.7% unachieved, and Net Profit was 4.2% unachieved. For the total transaction value, the ZOZOUSED business, as well as the B to B business both overachieved the original corporate plan, though the ZOZOTOWN business (excluding ZOZOUSED) and the ZOZOFURIMA business did not reach our targets. Due to the change in sales mix, the growth in ZOZOUSED, as well as increase in other sales, we have reached the original plan at the net sales level, though by spending more on promotional costs than planned, the operating profit has turned out to be unachieved.

Since our group only operates within a single business segment, rather than introducing business results per segment, we have indicated the results for each type of business that we undertake.

[3] YoY comparison of each business segment

Business Unit	FY 2014 (April 1, 2014 ~ March 31, 2015)			FY2015 (April 1, 2015 ~ March 31, 2016)			Total Transac- tion Value	Net Sales
	Total Transaction Value (million yen)	Ratio (%)	Net Sales (million yen)	Total Transaction Value (million yen)	Ratio (%)	Net Sales (million yen)	YoY (%)	YoY (%)
ZOZOTOWN								
(Purchased Stock)	106,145	82.3	29,725	137,452	86.2	39,313	+29.5	+32.3
(Consignment)	766	0.6	766	693	0.4	693	-9.5	-9.5
(ZOZOUSED)	4,446	3.4	4,446	7,958	5.0	7,958	+79.0	+79.0
Total	111,358	86.3	34,938	146,105	91.6	47,966	+31.2	+37.3
B to B	17,701	13.7	4,477	13,280	8.3	3,256	-25.0	-27.3
ZOZOFURIMA	-	-	-	114	0.1	6	-	-
Others	-	-	1,766	-	-	3,192	-	+80.7
Total	129,059	100.0	41,182	159,500	100.0	54,422	+23.6	+32.1

1. The ZOZOTOWN Business

Our ZOZOTOWN business is divided into 3 segments, the "Consignment business", the Purchased stock business", and the "ZOZOUSED business". For the consignment business, we take care of the inventory which is sent from our brands, and contract sales. For the purchased stock business, we purchase fashion merchandise from the brands, storing it and selling it as our own inventory. For ZOZOUSED, we purchase second hand apparel from our individual users, then re-sell it as our inventory.

We understand that the important factors when managing our EC website are, "increasing the number of buyers", "having users spend more of their fashion budget on ZOZOTOWN", therefore aim to create an attractive website for both our users and clients, the brands.

During FY2015, we accelerated the openings of new shops on our platform, appealing to a wider audience and are in different price ranges. We introduced 280 new shops including "NATURAL BEAUTY BASIC", "POLO RALPH LAUREN", "Right-on", "ABC-MART", and "Samantha Thavasa". We have 867 shops as of the end of March, 2016 (686 shops as of the end of March, 2015). By trying aggressive point typed promotions with our client brands, we were able to create a stronger relationship with them, which led to more inventory on our side as well. In addition, we have also replaced the CRM system to on an on-time communication method, enriched the coordinate reviews, and improved the usability of the user interface for all of our customers. As a result, the number of total buyers as of March 2016 (April 2015 ~ March, 2016) was, 4,477,350 (+920,106 buyers, YoY), and the total number of shipments were 15,111,458 (+41.1%, YoY).

In summary, the total transaction value for the ZOZOTOWN business resulted as 146,105 million yen in total transaction value (+31.2% Y/y), and the net sales was 47,966 million yen (+37.3% YoY). The yearly spending amount (April, 2015~ March, 2016) among our active members resulted as 47,937 (+10.1% Y/y) with an average of 9.4 items purchased (+22.1% Y/y). We have seen a positive growth beginning in the second half of FY 2014, which has accelerated even more during FY 2015. The back ground here is, the fact that we held aggressive coupon campaigns with the brands, replaced the CRM system to match our user needs based on life styles and usage scenes, all actually led to improve the frequency of our users.

For FY2015, the average retail price resulted as ¥5,099, (-8.8%, YoY), and the average purchase amount resulted as ¥9,669 (-7.0%, YoY). The increased ratio of ZOZOUSED which offers second hand apparel, the non-discounted items average price declining, the increased ratio of items discounted have impacted the average retail price to drop.

Let us take a closer look at our consignment business, purchased stock business, and ZOZOUSED business :

a. Consignment business

The transaction value for the consignment business in FY2015 was 137,452 million yen (+29.5% YoY), which accounts for 86.2% (82.3% for FY 2014) of the total transaction value. Net sales was 39,313 million yen (+32.3% YoY). As of March 2016 we have 843 shops (656 shops as of March 2015).

b. Purchased stock business

The transaction value of the purchased stock business in FY2015 was 693 million yen (-9.5% YoY), which is accounts for 0.4% (0.6% for FY 2014) of the total transaction value. Net sales was 693 million yen (-9.5% YoY), which is equivalent to the transaction value. As of March 2016 we have 24 shops in this form (30 shops as of March 2014).

c. ZOZOUSED

The transaction value of the ZOZOUSED business in FY2015 was 7,958 million yen (+79.0% YoY), which is accounts for 5.0% (3.4% for FY 2014) of the total transaction value. Net sales was 7,958 million yen (+79.0% YoY), which is equivalent to the transaction value. We were able to increase the purchase amount of second hand inventory, by renewing the purchase assessment website, introducing the re-use bags, as well as doing tie-up ads with magazines.

2. The B to B Business

With respect to our EC consulting business, we operate the brands' individual EC sites on a consignment basis. The transaction value for FY2015 was 13,280 million yen (-25.0% YoY), which accounts for 8.3% (13.7% for FY 2014) of the total transaction value. Net sales (which is equal to consignment fees) was 3,256 million yen (-27.3% YoY). The brands have their demands, wanting the gather more users, while improving the ratio of transactions, as well as linking their off line stores with their websites. Therefore we are intentionally growing out of our original model. As of March 2016, we are currently building and operating 35 websites (including websites operated on STORES.jp PRO), (33 shops as of March 2014).

3. ZOZOFURIMA business

The flea-market typed business is where we operate our App "ZOZOFURIMA", which is a platform for users to purchase and sell fashion related items. The transaction value for FY2015 was 114

million yen, and net sales (which is equal to consignment fees) resulted as 6 million yen. The smart phone App for the ZOZOFURIMA business was launched in December, 2015, therefore the business only started developing during the next consolidated fiscal year. Already witnessing many players in this field, we are not aiming towards growing this service solely, but are aiming to create an ecosystem for the whole fashion EC market by applying the Fashion EC management related know-hows and the product data base we have earned from "ZOZOTOWN" and "WEAR".

4. Others

This includes sales related to the ZOZOTOWN business as well as the B to B business (membership fees, revenues from shipping fees, cash-on delivery fees) as well as revenues from our subsidiaries (Start Today Engineering, Crown Jewel, Inc. Bracket, Inc., and aratana Inc.). In FY2015, this accounted for 3,192 million yen of the transaction value (+80.7% YoY).

(2) Capital investments

In FY2015, to accommodate the increase in transaction and website access, we have added logistics equipment and added server capacity, which resulted in a total capital investment of 1,174 million yen.

(3) Capitalization

None applicable.

(4) Issues we need to address

The key issues we need to address include: 1. Getting more people interested in and excited about fashion, 2. Having a steady supply of inventory and increasing the number of brands, and 3. Strengthening our fulfillment and EC system.

1. Getting more people interested in and excited about fashion

To boost EC penetration of the apparel and accessories market, we need to take advantage of respective strengths of both the offline and online stores, increase the number of people who enjoy fashion, and thereby helping to expand the entire fashion market. We also developed WEAR, an app that specializes in fashion, as a tool for achieving this goal. We will continue to develop WEAR, so that it will be more widely recognized as the go to service for fashion styling searches.

2. Having a steady supply of inventory and increasing the number of brands

In order to sustain transaction value growth, it is essential that we obtain sufficient inventory from our brands. We have had great relationships with all our existing clients; nevertheless we are still missing out on sales opportunities due to a lack of supply. Therefore, it is key that we continue to focus on strengthening our relationships with our clients to secure enough stock to meet latent demand. Offering an even wider range of brands that caters to diversity of tastes is also important in carving out a dominant position in today's market.

3. Strengthening our fulfillment and EC system

Taking into consideration the potential increase in the products that we will handle, we established a new logistics center in October 2013. With this new facility, we have the capacity of up to 300 billion yen in transaction value. We will also continue to look for ways to improve operational efficiency.

And regarding hardware, we will regularly update the system so that we can cope with the growth in users and the significant increase in access therefrom.

(5) Shift in profit and loss

Division	FY2012 The 15 th Term	FY2013 The 16 th Term	FY2014 The 17 th Term	FY2014 The 18 th Term (Consolidated results for FY2015)
Net Sales (million yen)	35,050	38,580	41,182	54,422
Recurring Profit (million yen)	8,570	12,429	15,139	17,883
Net Income (million yen)	5,360	7,797	8,999	11,988
Earnings per Share (yen)	49.58	72.82	83.79	112.38
Total Assets (million yen)	23,873	33,188	41,351	34,916
Net Assets (million yen)	12,773	19,227	26,244	17,932

Note:

1. The earnings per share is calculated based on the average number of shares outstanding for the period.
2. The Company started applying the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) therefore Net income is equal to Net income attributable to Parent Company beginning this fiscal year.

(6) Description of our key businesses

Business Unit	Business areas
ZOZOTOWN business	<p>The ZOZOTOWN business consists from the "Consignment business", the "Purchased stock business", and the "ZOZOUSED" business.</p> <p>(Consignment) A tenant-like consignment business model where brands open stores on ZOZOTOWN, but we manage their respective inventory within our logistics center.</p> <p>(Purchased Stock) We purchase inventory from each of the brands, keep it as our own stock, and resell it.</p> <p>(ZOZOUSED) We purchase second hand fashion items from our individual users, keep it as our own inventory, and resell it as used clothing.</p>
B to B business	Using the system and fulfillment operations we have built in-house especially for fashion, we operate EC sites for individual brands. We develop systems, design websites, take care of fulfillment, undertake marketing, and everything else necessary for the EC business on the behalf of the brands.
ZOZOFURIMA	The smartphone App is called "ZOZOFURIMA", which is a market place business where users can buy and sell fashion related items.
Others	Other sales include sales related to the EC business, such as membership fees, revenues from shipping fees, and cash on delivery fees.

(7) Main business offices

1. START TODAY CO., LTD.

Headquarters	Mihama district, Chiba City, Chiba Prefecture
Logistics Center (ZOZOBASE)	Narashino City, Chiba Prefecture

2. Subsidiaries

Crown Jewel, Inc.	Shibuya Ward, Tokyo
Bracket, Inc.	Shibuya Ward, Tokyo
START TODAY Engineering	Shibuya Ward, Tokyo
aratana Inc.	Miyazaki City, Miyazaki

Note:

1. YAPPA Corporation has renewed the company name to START TODAY Engineering on December 1st, 2015

(8) Workforce

1. Total number of employees working in the group

Number of Employees	783
Change from FY2014	+141 employees

Note:

1. This includes full-time employees as well as contract employees.
2. 1,277 part-time employees are not included in this figure.

2. Total number of employees working at START TODAY Co., Ltd

Number of Employees	Change from FY2013 (March 31, 2014)	Average Age	Average Retention
448	-81 employees	29.4	5.1 Years

Note:

1. 635 part-time employees are not included in this figure.
2. We have lost 81 employees since the end of FY 2014, though most of them have transferred to our subsidiary START TODAY Engineering.

(9) Important updates regarding the parent company and subsidiaries

1. Relationship to the parent company

None applicable.

2. Important updates about subsidiaries

Name of Company	Share Capital	START TODAY's Voting Power	Main Business
Crown Jewel, Inc.	99,000 (thousand yen)	100.0%	Specializes in fashionable second-hand clothing and accessories.
Bracket, Inc.	9,000 (thousand yen)	100.0%	Planning, creation, and management of Internet-based businesses.
START TODAY Engineering	280,000 (thousand yen)	100.0%	System and App developments specialized in smartphones and tablet applications.
aratana Inc.	454,195 (thousand yen)	100.0%	Develops and provides, EC websites, Web marketing, Web security, And EC related Apps.

Note:

1. ZOZOTOWN HONGKONG CO., LIMITED was voted by the Board of Directors to begin liquidation procedures at the Board meeting held in March 2013. Therefore it is not listed above.
2. ZOZOTOWN (SHANGHAI) E-COMMERCE CO., LTD. has ended the liquidation procedure. Therefore it is not listed above.
3. YAPPA Corporation has changed the company name to START TODAY Engineering, on December 1st, 2015.
4. We have done a share exchange to acquire our subsidiary aratana Inc., as a wholly owned subsidiary, and the effective date of the Share Exchange was May 28th, 2015.
5. None of our subsidiaries are designated wholly-owned subsidiaries.

6. II. Overview of the Company's Shares

- (1) Amount of shares 429,120,000 shares
- (2) Shares outstanding 107,450,800 shares (incl. 3,569,200 own shares)
- (3) Number of shareholders 4,029

(4) Major shareholders

Shareholders	Investment to Our Company	
	Number of Shares Held	Shareholding Ratio
YUSAKU MAEZAWA	46,372,600 shares	44.6%
JAPAN TRUSTEE SERVICES BANK, Ltd . (Trust Account)	3,433,600 shares	3.3%
THE MASTER TRUST BANK OF JAPAN, Ltd. (Trust Account)	3,186,000 shares	3.1%
GOLDMAN SACHS AND COMPANY (Regular Account)	2,994,150 shares	2.9%
THE BANK OF NEW YORK-JASDECNON-TREATY ACCOUNT	2,721,300 shares	2.6%
BBH MATTHEWS JAPAN FUND	1,738,800 shares	1.7%
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,643,128 shares	1.6%
THE BANK OF NEW YORK 133524	1,266,500 shares	1.2%
STATE STREET BANK AND TSUST COMPANY 505225	1,108,550 shares	1.1%
BNYM SANV BNYM GCM CLIENTS ACCOUNTS MILMFE	1,089,292 shares	1.0%

Note:

1. We did not include our treasury shares (3,569,200 shares) when calculating shareholding ratios.

III. New Share Acquisition Rights

None applicable

IV. Directors

(1) Names of Directors and Auditors

Name	Positions and responsibilities	Other important roles
YUSAKU MAEZAWA	CEO	Director of Bracket, Inc. and START TODAY Engineering
KOJI YANAGISAWA	CFO (In charge of Strategic planning and business administration division)	Director at COLOPL, Inc.
AKIKO OISHI	Director (In charge of the Corporate image & strategy, President's office)	—
TAKANOBU MUTO	Director (In charge of EC business operation)	—
MINEKI OHKURA	Director (In charge of Logistics management department fulfillment division, WEAR department)	Director of Crown Jewel, Inc. CEO of START TODAY Engineering Director of aratana Inc.
KOTARO SAWADA	Director (In charge of EC business department)	Director of Crown Jewel, Inc. and Bracket, Inc., aratana Inc.
TOSHIAKI SHIMIZU	Director (In charge of Hospitality & Marketing department)	—
KOJI ONO	Director	Director at Diamond Heads Inc.
SEIJI HATAKEYAMA	Statutory Auditor	Auditor at START TODAY Engineering
JUNICHI MOTAI	Auditor	CEO of Accounting Assist Co., Ltd Auditor at VOYAGE GROUP, Inc., Vision Inc.
SHICHIRO HATTORI	Auditor	—
JUNKO UTSUNOMIYA (JUNKO MORITA under commercial registration and family registration)	Auditor	UTSUNOMIYA · SHIMIZU ATTORNEYS AT LAW (Lawyer) Auditor at Solasto Corporation Director at Adventure Inc.

Note:

1. Koji Ono is an External Director of our company. The Company has appointed and registered him as an independent executives stipulated by the Tokyo Stock Exchange
2. Auditors, Seiji Hatakeyama, Junichi Motai, Junko Utsunomiya are External Auditors. The Company has appointed and registered Seiji Hatakeyama, Junichi Motai, and Junko Utsunomiya as independent executives stipulated by the Tokyo Stock Exchange.
3. Auditor Junichi Motai is a qualified CPA and CTA, therefore has considerable expertise in financing and accounting.

(2) Summary of contents of liability limitation agreement

Pursuant to Article 427, Paragraph 1 of the Companies Act of Japan, the Company has concluded agreements with the External Director and each Auditor, limiting their liability to the amount prescribed under Article 423, Paragraph 1 of the Companies Act of Japan, which will be carried out in good faith and with no gross negligence.

(3) Remuneration paid to Directors and Auditors

Positions	Number of provided members	Amount of remuneration
Directors	7	226 (million yen)
(External Directors)	(-)	(- million yen)
Auditors	4	34 (million yen)
(External Auditors)	(3)	(26 million yen)
Total	11	260 (million yen)

(4) External Directors

1. External Directors who serve as executive officers of other companies, and our relationship with such companies:

Our External Director KOJI ONO is a Director at Diamond Heads Inc.

Our Company does not have capital ties or business relations with Diamond Heads Inc.

Our Auditor SEIJI HATAKEYAMA is an Auditor at START TODAY Engineering.

START TODAY Engineering is a subsidiary of the company.

Our Auditor, JUNICHI MOTAI, is the CEO of Accounting Assist Co., Ltd.

He is also the Auditor of VOYAGE GROUP, Inc and at Vision Inc.

Our Company does not have capital ties or business relations with the following firms: Accounting Assist Co., Ltd., VOYAGE GROUP, Inc., Vision Inc.

Our Auditor JUNKO USTUNOMIYA is lawyer at (JUNKO MORITA under commercial registration and family registration) UTSUNOMIYA • SHIMIZU ATORNEYS AT LAW. She is also the Auditor of Solasto Corporation, a Director at Adventure Inc.

Our Company does not have capital ties or business relations with the following firms:

UTSUNOMIYA • SHIMIZU ATORNEYS AT LAW, Solasto Corporation and Adventure Inc

(3) Audits of subsidiaries

A different auditing company than the one mentioned herewith audits our subsidiaries, ZOZOTOWN HONGKONG CO., LIMITED and ZOZOTOWN (SHANGHAI) E-COMMERCE CO., LTD..

(4) Summary of the liability limitation agreement

Pursuant to Article 427 Paragraph 1 of the Companies Act, we have executed liability limitation agreements with our accounting Auditor, which limits its obligations to compensate for damages as stipulated in Article 423 Paragraph 1 of the Companies Act to the amount stipulated by law, insofar as there is no intent or gross negligence.

(5) Policies regarding the dismissal and non-reappointment of the accounting Auditor

If it is determined at the board of Auditors meeting that any one of the following applies to the accounting Auditor, interferes with the performance of its duties, and is not remedied in a timely manner, and if every Auditor agrees, they may propose the dismissal or non-reappointment of said accounting Auditor at the shareholders meeting.

1. If the accounting Auditor has infringed upon the Companies Act, the Certified Public Accountants Act, etc. and thus disciplinary action has been taken against or is imposed upon by the supervisory authorities.
2. If it is deemed that Article 340 Paragraph 1 of the Companies Act applies.
3. If, having taken all of its capabilities including its audit quality, quality management, independence into consideration, it is deemed that the accounting Auditor cannot sufficiently perform its duties or is inadequate.

VI. Corporate Governance and Company Policies

(1) Ensuring sound business operation

We have ruled in our Board meetings on the "structure that ensures sound business operation" as stipulated in the Companies Act and in the Ordinance for Enforcement of the Companies Act (the first resolution was on July 17, 2007, and thereafter revised on April 30, 2008, June 13, 2008, May 17, 2011 and on April 30, 2015). Summary is provided below:

1. Structure ensuring that the execution of duties by our Directors and employees is in compliance with the laws and regulations and the articles of incorporation.

- a. To ensure that the execution of duties by our Directors and employees are in compliance with the laws and regulations and the articles of incorporation, the CEO appoints the CFO as the General Manager of Compliance. Moreover, we will build and maintain a compliance structure by organizing a Compliance Committee with our CEO as chair to discuss important issues regarding compliance, thereby preventing any acts that may be considered a violation and any inappropriate dealings to help ensure legislative compliance of our Directors and employees.
- b. Establish an internal reporting system (a helpline) in order to report acts that may be in non-compliance with laws and regulations as well as the company regulations, etc. in order to detect and correct misconduct, etc. as early as possible. Any matters reported to the helpline will be investigated by the Compliance Committee, and if any behavior that requires remedy is discovered, the Compliance Committee will decide on and implement without delay, by corrective and preventive measures.
- c. The internal audit body will investigate the compliance structure and the presence of any matters that may not be in compliance with laws and regulations as well as the articles of incorporation, and report such findings to the Board and to the Auditors.
- d. The Board of Directors will regularly review the compliance structure, and make efforts to identify and remedy any issues.
- e. The board of Auditors shall audit the effectiveness and functions of the internal control system in order to identify issues in their early stages and to remedy them.

2. Structure for storing and managing information related to the performance of duties by Directors.

- a. Any documents in relation to the performance of Directors' duties will be appropriately stored/managed as a hard copy or on an electromagnetic media in accordance with the "Information System Management Regulations" and "Document Management Regulations".
- b. Our Auditors may access such documentation at any time.

3. Regulations and structure for managing risk of loss

- a. Our CFO shall be in charge of risk management, and our Directors, administrative chief, and Directors of respective departments will identify and evaluate the various risks, and take measures to avoid, mitigate, and hedge risks in accordance to "Risk Management Regulations".

- b. The internal audit body will investigate each organizations risk management status, and report such findings to the Directors meeting and Board of Auditors.
- c. The Board of Directors shall regularly reexamine the risk management structure and make efforts to keep abreast of and remedy any issues.

4. A structure ensuring the efficient performance of our Directors

- a. The roles and responsibility of the Directors and the employees in each division will be clarified by our "Board of Directors Regulations", "Organization Regulations", "Division of Duties Regulations", and "Administrative Authority Regulations". Moreover, the "Board of Directors Regulations" will also define matters to be discussed by the Board, and the scope of matters the Board may make decisions on to create a structure that enables the efficient performance of duties by the Board.
- b. The CEO will create the mid-term management plan and annual management plan, and shall seek the Board's approval. The Board of Directors in each division shall draft detailed measures and a structure that enables the efficient performance of duties based on such plans approved by the Board.
- c. The CFO shall regularly report on the progress of the mid-term and annual management plan to the Board, and the Board of Directors shall identify and remedy any causes that inhibit the implementation of such measures and efficient operation of business.

5. Structure ensuring the sound business operations of our company as well as our subsidiaries (hereafter collectively referred to as the "Group").

- a. START TODAY will assign 1 Director or Auditor from START TODAY to its subsidiary to monitor and supervise or audit the performance of duties by the Director of such subsidiary. The Strategic Planning and Business Administration Division shall be in charge of the business operation, the establishment of the compliance structure and risk management structure as well as the subsidiaries' business management in accordance with the relative company management regulations. With respect to the business management of subsidiaries, their autonomy will be respected, however, the subsidiary shall regularly report to START TODAY regarding its current status, and seek START TODAY 's approval with regard to any important matters.
- b. The internal audit body shall internally audit the business management status and business activities of the Group's subsidiaries.

6. Matters concerning the framework, insurance of effectiveness of such employees, and independence from such Director in case the statutory Auditor request for employees' assistance in the execution of their duties.

- a. Should the statutory Auditor request for employees' assistance in the execution of their duties, the board of directors and Auditors shall deliberate and appoint an employee(s) for this purpose. During the term in which the statutory Auditor requires assistance, the right to command such employee(s) shall be transferred to said Auditor, and such employee(s) shall not be directed by other Directors.
- b. Personnel change, personnel evaluation, and disciplinary action concerning such employee(s)

assisting the statutory Auditor shall be agreed to by the Board.

7. Structure for our Directors and employees of the Group to report to our Auditors and other Auditors.

- a. The Group's Directors and employees shall report any matters that may pose a significant loss to the company, misconduct, or any activities that infringe on laws and regulations and/or articles of incorporation, as well as any important matters that need to be deliberated on and decided by the Board, important accounting policies, accounting standards and change thereof, enforcement of Internal Audits, important monthly reports, and other important matters to Auditors in accordance to laws and regulations and corporate regulations.
- b. Measures should be taken so that the individuals that report on any of the aforementioned matters shall not be treated unfavorably.

8. Other structures that ensure that corporate Auditors will be able to conduct their audits effectively.

- a. In order for the Auditors to keep abreast of any important decision making processes, and business operation updates, the Auditors shall take part in the Board meetings and other important meetings, peruse important documents such as internal memos necessary for the performance of their duties and may request for further explanation from the Directors and employees.
- b. The Auditors shall take advantage of their independence and authority which arises from the "Board of Directors' Regulations" and "Auditing Standards" to ensure the effectiveness of their audits and shall ensure that a system is in place that allows them to conduct their audits effectively while working closely with the internal audit body and Accounting Auditor.
- c. The CEO shall meet regularly with the Auditors to communicate with and exchange ideas on how to address the company's challenges, discuss the status/environment of Auditors' audits, important audit challenges, etc.
- d. Should the Auditors request for advance payment or reimbursement of costs related to the performance of their duties, or request for payment regarding other costs incurred or monies owed from the performance of their duties, the company shall promptly comply with such requests.

9. Structure for eliminating of anti-social forces.

We will not have any dealings with any anti-social forces that threaten public order and the company's healthy activities, and shall work closely with independent specialized institutions such as the policies and legal advisors to take a firm stand against undue claims, etc.

10. System for ensuring reliability and appropriateness of financial reporting

To preserve the credibility of our financial reporting, we will build, maintain, and put into effect an effectively functioning, internal financial reporting structure.

(2) The overview of ensuring the structure under appropriate operation

- a. Compliance system
The company will establish a counter (a help line) which includes the compliance committee as well as external lawyers, and the counter will be noticed to all employees through in-house intranet communications. Also, whistleblowers will not suffer from any disadvantageous treatment, managed in accordance with our internal rules and regulations.
- b. Regulation and other management systems which concern risks of loss.
By controlling management regulations for risks of loss and information security as well as information system regulations, the Company established and maintains the risk management system. As a part of management, we held an educational work shop once for our employees during this the fiscal year to prevent inappropriate information control and confidential information efflux from taking place.
- c. Internal controls to ensure efficient execution of Directors' duties
Based on rules concerning the Board meetings, mutual meetings are held once a month, and extraordinary meetings are held when necessary. Meetings will be held for the purposes of making decisions on legal matters and other important business issues and overseeing operating performance, as well as encouraged communication among the Directors, and help the Directors to oversee the execution of one another's duties.
- d. The system in the interest of ensuring the appropriateness of operations of our Group
By dispatching at least one Director or Auditor to our subsidiaries from the Company, we aim to manage the business properly. Based on the authority standard of approval which determines which items need pre-approval, and the subsidiaries act by discussing or reporting to the Company.
- e. Initiatives regarding the internal audits
Based on the internal audit plan which is set by the internal audit office, we conduct internal audits concerning risk control management and execution of operations, then report results to the CEO when necessary. In addition, they exchanged information once a month with our Statutory Auditor, and once every fiscal quarter with the board of Auditors.
- f. Initiatives regarding the execution of the duties of Auditors
The Auditors conduct audits by ensuring the effectiveness of Corporate Auditors' operations through the board meetings and the management meetings (includes the Board of Directors and General Managers as members), as well as panel gatherings with the CEO and meetings with the internal audit office on a periodical basis, based on the audit standards and plans.

(3) Policies regarding company's control

We do not have any specific guidelines regarding the individual in control of the decision making of our company's financial and business policies.

(4) Policies concerning decisions on the distribution of surplus funds

We recognize that when the Company's profitability has exceeded the cost of capital, the corporate value increases, and we are able to satisfy our shareholders and all stakeholders. Our basic dividend payout policy will be determined after taking into consideration a wide range of indices such as our business performance, financial situation, future business and investment plans, and our internal reserve balance. More specifically, we plan to further improve our profitability, to maintain the return on equity (ROE) at 30%, and the amount that exceeds our standard level will be given back to our shareholders as much as possible, while considering the improvement in liquidity as well.

Based on the policy above, the Company has discussed how to maintain a stable base of operations, and also improve capital efficiency which suits the environmental change in management, and decided to repurchase worth 4,891,000 shares of our common stock on November 28th, 2015 (4.5% to the total number of shares issued, excluding our own shares) in order to have internal reserves needed for investments to drive future growth on a medium to long-term point of view, as well as having a well-balanced return towards shareholders, aiming to maximize corporate value. After repurchasing own shares, we have canceled worth 2,445,500 shares on December 24th, 2015.

In principle, we plan to distribute surplus funds as dividends either once a year - at the end of the fiscal year - or twice a year, including the interim dividends. Decisions regarding interim dividends will be made in a Board meeting, while decisions regarding year-end dividends will be made at the general meeting of shareholders.

The year-end dividend for FY 2015 is planned to be 28 yen per share, which is based on a payout ratio of 40%.

The interim dividend in FY2015 was 19 yen per share, so the annual dividend comes out to be 47 yen per share.

Again, in FY2016, we will be basing our calculations on a dividend payout ratio of 40%, thus the dividend per share will be approximately 60 yen per share.

Balance Sheet

(As of March 31, 2016)

(thousand yen)

Item	amount	Item	amount
(Assets)		(Liabilities)	
Current assets	21,260,660	Current liabilities	14,788,051
Cash and deposits	8,738,072	Accounts payable - trade	20,822
Accounts receivable - trade	10,876,932	Deposits received for consignment sales	8,188,427
Merchandise	77,416	Accounts payable - other	1,387,773
Supplies	58	Accrued expenses	119,259
Advance payments - trade	754	Income taxes payable	3,659,872
Prepaid expenses	215,957	Accrued consumption taxes	559,867
Short-term loans receivable	821,075	Advance received	136,596
Deferred tax assets	538,352	Deposits received	68,097
Others	212,040	Provision for customer benefit program	593,226
Allowance for doubtful accounts	△220,000	Provision for sales returns	54,109
Non-current assets	13,780,990	Non-current liabilities	1,467,174
Property, plant and equipment	3,085,306	Provision for retirement benefits	855,376
Buildings	1,577,935	Asset retirement obligations	498,325
Vehicles	1,463	Others	113,472
Tools, furniture & fixtures	1,500,265		
Construction in progress	5,642		
Intangible assets	374,938	Total liabilities	16,255,226
Trademark rights	10,841		
Software	361,271	(Net assets)	
Others	2,824	Shareholders' equity	18,713,027
Investments and other assets	10,320,745	Capital stock	1,359,903
Investment securities	863,604	Capital surplus	1,328,084
Shares of subsidiaries and associates	6,060,826	Legal capital surplus	1,328,084
Lease deposits	1,117,064	Retained earnings	27,782,639
Long-term loans receivable	1,515,000	Other retained earnings	27,782,639
Deferred tax assets	1,074,794	Retained earnings brought forward	27,782,639
Others	14,456	Treasury shares	△ 11,757,599
Allowance for doubtful accounts	△325,000	Valuation and translation adjustments	73,395
		Valuation difference on available-for-sale securities	73,395
		Total net assets	18,786,423
Total assets	35,041,650	Total liabilities and net assets	35,041,650

Statement of Income

(April 1st, 2015 ~
March 31st, 2016)

(thousand yen)

Item	amount	
Net sales		47,110,439
Cost of sales		508,310
Gross profit		46,602,128
Reversal of provision for sales returns		45,500
Provision for sales returns		54,109
Gross profit - Net		46,593,519
Total SG&A expenses		27,633,488
Operating profit		18,960,031
Non-operating profit		
Interest earned	22,284	
Profit from recycling	17,924	
Co-sponsor fee	100,000	
Support fees of subsidiaries and associates	17,357	
rent income	136,924	
Others	31,993	326,484
Non-operating expenses		
Interest expenses	6,627	
Foreign exchange losses	35,650	
Rent payment	113,288	155,566
Ordinary income		19,130,949
Extraordinary income		
Gains from sale of non-current assets	275	275
Extraordinary loss		
Provision of allowance for doubtful accounts	120,000	
Loss on sales and retirement of non-current assets	10,923	130,923
Income (loss) before income taxes		19,000,301
Income taxes - current	6,147,055	
Income taxes - deferred	△23,774	6,123,280
Net income		12,877,020

Shareholders' Equity Statement

(April 1st, 2014 ~
March 31st, 2015)

(thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus			Retained earnings
		Legal capital surplus	Legal capital surplus	Legal capital surplus	Other retained earnings Retained earnings brought forward
Balance at beginning of current period	1,359,903	1,328,084	728,672	2,056,756	25,316,926
Changes of items during period					
Dividends of surplus					△4,213,300
Net income					12,877,020
Disposal of treasury shares			1,129,246	1,129,246	
Purchase of treasury shares					
Retirement of treasury shares			△8,055,925	△8,055,925	
Transfer to capital surplus from retained earnings			6,198,006	6,198,006	△6,198,006
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	△728,672	△728,672	2,465,713
Balance at end of current period	1,359,903	1,328,084	—	1,328,084	27,782,639

	Shareholders' equity		Valuation and translation adjustments	Total net assets
	Treasury shares	Shareholders' equity Total	Valuation difference on available-for-sale securities	
Balance at beginning of current period	△2,817,766	25,915,819	103,875	26,019,695
Changes of items during period				
Dividends of surplus		△4,213,300		△4,213,300
Net income		12,877,020		12,877,020
Disposal of treasury shares	2,006,510	3,135,757		3,135,757
Purchase of treasury shares	△19,002,268	△19,002,268		△19,002,268
Retirement of treasury shares	8,055,925	—		—
Transfer to capital surplus from retained earnings		—		—
Net changes of items other than shareholders' equity			△30,479	△30,479
Total changes of items during period	△8,939,832	△7,202,791	△30,479	△7,233,271
Balance at end of current period	△11,757,599	18,713,027	73,395	18,786,423

Consolidated Balance Sheet

(As of March 31, 2016)

(thousand yen)

Item	Amount	Item	Amount
Assets		Liabilities	
Current assets	24,822,144	Current liabilities	15,374,262
Cash and deposits	11,343,592	Accounts payable - trade	65,346
Accounts receivable - trade	11,169,782	Deposits received for consignment sales	7,901,072
Merchandise	1,191,144	Current portion of long-term loans payable	9,774
Deferred tax assets	531,153	Income taxes payable	3,673,557
Others	586,471	Provision for bonuses	8,758
		Provision for customer benefit programs	593,226
Non-current assets	10,094,561	Provision for sales returns	54,109
Property, plant and equipment	3,157,587	Deferred tax liabilities	2
Buildings	1,607,613	Others	3,068,415
Vehicles	1,463		
Tools, furniture & fixtures	1,538,249	Net defined benefit liability	1,610,202
Construction in progress	10,261	Asset retirement obligations	980,235
Intangible assets	3,272,817	Others	514,795
Good will	2,873,502	Deferred tax liabilities	1,699
Software	385,432	Others	113,472
Others	13,882	Total liabilities	16,984,465
Investments and other assets	3,664,156	(Net assets)	
Investment securities	1,699,053	Shareholders' equity	17,413,629
Deferred tax assets	779,150	Capital stock	1,359,903
Others	1,185,952	Capital surplus	1,328,084
		Retained earnings	26,483,241
		Treasury shares	△11,757,599
		Other comprehensive income	63,373
		Valuation difference on available-for-sale securities	73,395
		Foreign currency translation adjustment	△29,961
		Re-measurements of defined benefit plans	19,939
		Non-controlling interests	455,237
		Total net assets	17,932,240
Total assets	34,916,705	Total liabilities and net assets	34,916,705

Consolidated Statement of Income

(April 1st, 2015 ~
March 31st ,2016)

(thousand yen)

Subject	Amount	
Net sales		54,422,004
Cost of sales		4,328,391
Gross profit		50,093,613
Reversal of provision for sales returns		45,500
Provision for sales returns		54,109
Gross profit-Net		50,085,004
Total SG&A expenses		32,328,869
Operating profit		17,756,134
Non-operating profit		
Interest income	8,421	
Profit from recycling	17,924	
Co-sponsor fee	100,000	
Others	43,202	169,548
Non-operating expenses		
Interest expenses	6,822	
Foreign exchange losses	35,258	42,080
Ordinary income		17,883,602
Extraordinary income		
Gains from sale of non-current assets	333	
The gain on reversal of foreign currency translation adjustment	205,328	
Gain on reversal of subscription rights to shares	3,217	208,878
Extraordinary loss		
Loss on sales and retirement of non-current assets	16,646	
Loss on sales of investment securities	30,943	47,589
Income before income taxes		18,044,891
Income taxes - current	6,159,449	
Income taxes - deferred	△100,813	6,058,636
Net income		11,986,254
Loss attributable to non-controlling interests		△2,351
Profit attributable to owners of parent		11,988,606

Consolidated Statement of Shareholders' Equity

(April 1st, 2015 ~
March 31st ,2016)

(thousand yen)

	Shareholders' equity				
	Capital stock	legal capital surplus	Other capital surplus	Treasury shares	Total of shareholder's equity
Balance at beginning of current period	1,359,903	2,056,756	24,905,942	△2,817,766	25,504,835
Changes of items during period					
Dividends of surplus			△4,213,300		△4,213,300
Profit attributable to owners of parent			11,988,606		11,988,606
Disposal of treasury shares		1,129,246		2,006,510	3,135,757
Purchase of treasury shares				△19,002,268	△19,002,268
Retirement of treasury shares		△8,055,925		8,055,925	—
Transfer to capital surplus from retained earnings		6,198,006	△6,198,006		—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	△728,672	1,577,299	△8,939,832	△8,091,206
Balance at end of current period	1,359,903	1,328,084	26,483,241	△11,757,599	17,413,629

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total amount of Re-measurements of defined benefit plans	Total amount of accumulated other comprehensive income			
Balance at beginning of current period	103,875	133,365	11,918	249,158	2,197	488,532	26,244,724
Changes of items during period							
Dividends of surplus							△4,213,300
Profit attributable to owners of parent							11,988,606
Disposal of treasury shares							3,135,757
Purchase of treasury shares							△19,002,268
Retirement of treasury shares							—
Transfer to capital surplus from retained earnings							—
Net changes of items other than shareholders' equity	△30,479	△163,327	8,021	△185,785	△2,197	△33,295	△221,278
Total changes of items during period	△30,479	△163,327	8,021	△185,785	△2,197	△33,295	△8,312,484
Balance at end of current period	73,395	△29,961	19,939	63,373	—	455,237	17,932,240

※Notes on non-consolidated financial statements are not stated in this material.