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(Securities code 3064)
March 3, 2017

To Shareholders with Voting Rights:

Masaya Suzuki
President & CEO
MonotaRO Co., Ltd.
2-183, Takeyacho, Amagasaki, Hyogo

**NOTICE OF
THE 17TH GENERAL SHAREHOLDERS' MEETING**

You are cordially invited to attend the 17th General Shareholders' Meeting of MonotaRO Co., Ltd. (the "Company," and collectively with its subsidiaries, the "Group"). The meeting will be held for the purposes described below.

If you are unable to attend the meeting, you can exercise your voting rights in writing or via the Internet. Please review the attached Reference Documents for the General Shareholders' Meeting, indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form and return it so that it is received by 6:00 p.m. on Thursday, March 23, 2017, Japan time, or exercise your voting right on the website designated by the Company (<http://www.evot.jp/>).

1. Date and Time: Friday, March 24, 2017 at 10:00 a.m., Japan time

2. Venue: Amagasaki Research Incubation Center (ARIC) 1st Floor, 7-1-3, Doicho,
Amagasaki, Hyogo

3. Meeting Agenda:

- Matters to be reported:**
1. Business Report, Consolidated Financial Statements for the Company's 17th Term (January 1, 2016 - December 31, 2016) and results of audits of the Consolidated Financial Statements by the accounting auditor and the Audit Committee
 2. Non-consolidated Financial Statements for the Company's 17th Term (January 1, 2016 - December 31, 2016)

Proposals to be resolved:

- Proposal 1:** Appropriation of Surplus
Proposal 2: Election of Seven (7) Directors

4. Decisions on Convocation:

Please refer to the Information on Exercise of Voting Rights which appears on the next page.

When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk. Should the Business Report, Consolidated Financial Statements, Non-consolidated Financial Statements and the Reference Documents for the General Shareholders' Meeting require revisions, they will be posted on the Company's website (<https://www.monotaro.com/>).

Information on Exercise of Voting Rights

When exercising voting rights via the Internet, shareholders are requested to confirm the following items beforehand.

If you are attending the meeting, there will be no need to exercise your voting rights by postal mail (Voting Rights Exercise Form) or via the Internet.

Notes

1. Website for exercising voting rights

- (1) You may exercise your voting rights via the Internet only by accessing the website designated by the Company for this purpose (<http://www.evvote.jp/>) from a personal computer, smartphone or mobile phone (i-mode, EZweb, Yahoo! Keitai)*. (However, please note that the website cannot be accessed between 2:00 a.m. and 5:00 a.m. each day.)

* “i-mode,” “EZweb” and “Yahoo!” are the trademarks or registered trademarks of NTT DOCOMO, INC., KDDI CORPORATION and Yahoo! Inc., U.S., respectively.

- (2) Depending on Internet usage environments, shareholders may not be able to exercise their voting rights using a personal computer or smartphone in the event of the use of a firewall, etc. for the Internet connection, the use of anti-virus software, the use of a proxy server, or in the event that TLS encrypted communication is not specified.
- (3) When exercising voting rights using a mobile phone, please use the services of either i-mode, EZweb or Yahoo! Keitai. For security purposes, only mobile phones capable of TLS encrypted communication and transmission of mobile phone information can be used to access the website.
- (4) Voting rights exercised via the Internet will be accepted until 6:00 p.m. on Thursday, March 23, 2017, Japan time. However, you are respectfully requested to exercise your voting rights earlier and to contact the Help Desk if you have any inquiries.

2. Method of exercising voting rights via the Internet

- (1) To exercise voting rights via the Internet, access the website for exercising voting rights (<http://www.evvote.jp/>), enter the Login ID and Temporary Password shown on the Voting Rights Exercise Form, and indicate your vote for or against the proposal according to the directions on the screen.
- (2) In order to prevent unauthorized access by third parties other than shareholders (“spoofing”) and the falsification of shareholder votes, please note that shareholders exercising voting rights via the Internet will be asked to change the “Temporary Password” on the website for exercising voting rights.
- (3) Shareholders will be notified of their new “Login ID” and “Temporary Password” each time a General Shareholders’ Meeting is convened.

3. Multiple exercise of voting rights

- (1) Please note that in the event that voting rights have been exercised in duplicate through both postal mail (Voting Rights Exercise Form) and the Internet, the voting rights exercised via the Internet shall prevail.
- (2) In the event that voting rights are exercised multiple times via the Internet, the last exercised vote shall prevail. Furthermore, in the event that voting rights are exercised in duplicate through a personal computer, smartphone or mobile phone, the last exercised vote shall prevail.

4. Fees for accessing the website for exercising voting rights

Fees incurred for accessing the website for exercising voting rights (such as Internet connection fees) shall be borne by the shareholder. Please note that the package communication charges and other fees incurred when using a mobile phone shall also be borne by the shareholder.

© System-related inquiries
Securities Agency Division (Help Desk), Mitsubishi UFJ Trust and Banking Corporation
Telephone: 0120-173-027 (9:00 a.m. – 9:00 p.m., toll free in Japan)

Business Report

(January 1, 2016 - December 31, 2016)

1. Overview of the Group

(1) Business Progress and Results

The Japanese economy during the fiscal year ended December 31, 2016 generally continued to be flat with government economic and fiscal policies providing some support, while concerns about the decelerating economy in China, problems in Europe and the exchange rate instability made the outlook for the future economy unpredictable.

Among mid-to-small manufacturers, the major customers of our industrial MRO products, economic conditions also remained at the same level corresponding to similar circumstances.

In this economic environment, we have continually concentrated on acquiring new customers aggressively mainly through internet advertisements (paid listings) and internet search engine optimization (SEO), which can improve our website's position on the search engines. We also conducted promotion activities including facsimile and direct mail using e-mail and mail flyers, daily special prices, the publication and distribution of catalogs and TV and radio commercials. In terms of catalogs, we newly published RED BOOK vol. 12 Spring Edition in late February, divided into 9 volumes with 146 thousand items and approximately 1.3 million issues available in total, featuring products that are mainly used through early spring season, Cost-Cutting Catalog vol. 4 in late June with 13 thousand private label items and RED BOOK vol. 12 Autumn Edition in late September, divided into 10 volumes with 273 thousand items and approximately 2.2 million issues available in total. In addition, we broadcasted TV commercials throughout Japan, other than in certain geographic areas such as San-in and Kyusyu regions, during the period to enhance our visibility much further.

Furthermore, the total number of our product lineup reached approximately 10 million items in total and 298 thousand items in stock, which are available for the same day shipment to meet the increase in demand corresponding to the expansion of our customer base as of December 31, 2016.

In addition, we newly launched "Customizable Order Service" in mid-February, which makes it possible for customers to choose and combine certain specifications of our products by themselves and easily order the customized products on our website, focusing on interior doors, entrance storage spaces, shafts, LM guides and ball screws (direct acting parts), and in middle September, expanded this service to another 7 categories, including products such as sheds, paints, ducts, suction hoses, tapes, one-touch belts, experimental tubes and hoses and cardboard boxes, to further enhance usability.

Meanwhile, in relation to the sales of MRO products to large customers through the integrated purchase systems, both the number of customers and the amount of sales steadily increased.

Consequently, we have successfully obtained 430,857 newly registered accounts for the fiscal year ended December 31, 2016 and the number of registered accounts totaled 2,207,427, exceeding 2 million accounts, as of December 31, 2016.

In addition, NAVIMRO, which is our Korean subsidiary, also aggressively engaged in acquiring new customers mainly through paid listings and focused on increasing both its product lineup and the number of products in stock in order to expand its customer base.

All of our efforts mentioned above resulted in net sales of 69,647 million yen (21.0% increase from the previous fiscal year), operating income of 9,493 million yen (33.9% increase from the previous fiscal year), ordinary income of 9,514 million yen (33.6% increase from the previous fiscal year), and net income attributable to owners of the parent of 6,368 million yen, a corresponding 43.4% increase.

(Note) The number of accounts represents the number on a non-consolidated basis.

(2) Capital Investments

Capital investments were made in the amount of 9,764 million yen mainly for the construction and expansion of a distribution center, the core system to respond to the increase of the number of customers and orders as well as technological innovation, and software for purposes such as improving the usability of the website.

Borrowings from financial institutions and the Company's own funds were appropriated for the investments.

(3) Fund Procurement

Not applicable.

(4) Trends in Assets and Income**(i) Trends in assets and income of the Group**

Item		14th term ended December 31, 2013	15th term ended December 31, 2014	16th term ended December 31, 2015	17th term ended December 31, 2016 (Consolidated fiscal year under review)
Net sales	(Thousands of yen)	34,556,799	44,937,786	57,563,763	69,647,435
Net income attributable to owners of the parent	(Thousands of yen)	2,289,407	2,544,130	4,439,648	6,368,557
Net income per share	(Yen)	37.71	41.59	36.04	51.46
Total assets	(Thousands of yen)	14,505,541	17,868,714	28,744,705	36,353,410
Net assets	(Thousands of yen)	7,355,805	9,216,023	12,632,614	17,263,413
Net assets per share	(Yen)	119.53	148.98	101.87	137.32

- (Notes)
1. Net sales amount is net of consumption taxes, etc.
 2. In the 14th and 16th terms, the Group implemented 2-for-1 share splits effective on April 23, 2013 and October 1, 2015, respectively. Net income per share were calculated based on the assumption that the share splits were implemented at the beginning of those fiscal years, respectively.
 3. Net income per share and net assets per share were calculated excluding treasury stock.
 4. The presentation of "net income" has been changed to "net income attributable to owners of the parent" due to the application of the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), etc. from the fiscal year under review.

(ii) Trends in assets and income of the Company

Item		14th term ended December 31, 2013	15th term ended December 31, 2014	16th term ended December 31, 2015	17th term ended December 31, 2016 (Consolidated fiscal year under review)
Net sales	(Thousands of yen)	34,484,559	44,057,501	55,607,925	67,105,665
Net income	(Thousands of yen)	2,492,297	2,843,669	4,718,489	6,631,226
Net income per share	(Yen)	41.05	46.49	38.30	53.59
Total assets	(Thousands of yen)	14,643,223	18,128,659	29,218,413	36,814,187
Net assets	(Thousands of yen)	7,530,141	9,645,446	13,374,512	18,081,858
Net assets per share	(Yen)	122.39	155.97	107.88	145.46

- (Notes)
1. Net sales amount is net of consumption taxes, etc.

2. In the 14th and 16th terms, the Group implemented 2-for-1 share splits effective on April 23, 2013 and October 1, 2015, respectively. Net income per share were calculated based on the assumption that the share splits were implemented at the beginning of those fiscal years, respectively.
3. Net income per share and net assets per share were calculated excluding treasury stock.

(5) Significant Parent Company and Subsidiaries

(i) Relationship with parent company

The Company's parent company is W.W. Grainger, Inc. which indirectly owns 62,528,000 shares of the Company (ratio against the total number of voting rights held by all shareholders: 50.46%) through its wholly-owned subsidiaries, Grainger International, Inc. and Grainger Japan, Inc. The Company purchases part of the products from W.W. Grainger, Inc.

(ii) Significant subsidiaries

Company name	Capital	The Company's percentage of equity participation	Principal business
NAVIMRO Co., Ltd.	15,000 million won	100.0%	Sale of industrial MRO products
PT MONOTARO INDONESIA	132,063 million rupiah	51.0%	Sale of industrial MRO products

- (Notes)
1. NAVIMRO Co., Ltd. made a capital increase of 3,000 million won by way of third party allotment to the Company in April 2016, which made its capital 15,000 million won.
 2. The Company newly acquired the shares in PT MONOTARO INDONESIA (formerly, PT Sumisho E-Commerce Indonesia) effective on August 4, 2016 and made it a consolidated subsidiary.

(6) Issues to Be Addressed

While economic conditions show a recovery trend to some extent, mid-to-small manufacturers, the Group's major customers still remain under a severe business environment. In order to continue strong growth in this economic environment, we have adopted the following strategies.

(i) Acquisition of new customers

For the Group, acquisition of new customers remain the largest source of growth. We will continuously acquire new customers aggressively based on our knowledge accumulated in association with the growth of the Group's business mainly through internet advertisements (paid listings) and internet search engine optimization (SEO). In addition, we aim to further acquire new customers by inducing customers via mass media such as TV and radio and multi-channels such as direct mail.

(ii) Management of products in consideration of both the satisfaction of customers' demand and profitability

Corresponding to the expansion of our customer base, products with demand also diversify. We will promote the expansion of our product lineup including the so-called long tail products that are purchased less frequently by accurately understanding diversifying customers' demand and consequently expand our product lineup into new categories to further expand our customer base.

We will also aggressively promote the adoption of private label items by capitalizing on our expanding product volume in line with the growth of the Group's business to offer products with stable qualities at low prices to customers and endeavor to improve the profitability of the Group.

(iii) More precise database marketing and provision of product searchability

We will accumulate knowledge of data mining in line with the growth of the Group's business and perform highly effective promotion activities that meet our customers' purchase needs by utilizing such knowledge. In addition, we will continuously improve the product searchability and convenience of the Group's website by absorbing advanced technologies in the rapidly-advancing internet field so that each of our customers can find and order required products as easily as possible.

(iv) Reinforcement of distribution infrastructure that is the basis of growth

Same-day dispatch of ordered products to promptly deliver such products to customers is one of our important advantages. Accordingly, in order to balance the stable and prompt provision of products to customers with the growth of the Group, the improvement of shipping capacity of distribution centers and the expansion of products in stock are essential. The Group started full operation of "Amagasaki Distribution Center" in July 2014 and a new distribution center will be completed in Ibaraki in March

2017. We will also establish distribution bases such as transfer centers in other regions to develop a distribution network that can realize a higher level of convenience.

(v) Promotion of overseas business

NAVIMRO Co., Ltd., which is our Korean subsidiary, has aggressively promoted customer acquisition activities since the start of its full operation in April 2013. It has successfully expanded its customer base and promoted the expansion of its product lineup and products in stock. We will aim to expand our business and promote strategies to achieve profitability at an early stage. PT MONOTARO INDONESIA, our subsidiary in Indonesia that we acquired shares in August 2016 will further promote its efforts to establish and expand its business base.

(7) Principal Business (As of December 31, 2016)

Sale of industrial MRO products mainly through the internet.

(8) Principal Business Locations (As of December 31, 2016)

(i) The Company

Headquarters: 2-183, Takeyacho, Amagasaki, Hyogo

Amagasaki Distribution Center: 75-1, Nishimukoujimacho, Amagasaki, Hyogo

Tagajyo Distribution Center: 2-1-1, Sakae, Tagajyo, Miyagi

(ii) Subsidiaries

NAVIMRO Co., Ltd., the Seoul Special City, the Republic of Korea

PT MONOTARO INDONESIA, Jakarta, the Republic of Indonesia

(9) Employees (As of December 31, 2016)

(i) Employees of the Group

Number of employees	Increase/decrease from previous consolidated fiscal year-end	Average age	Average years of service
1,104	+139	35.7 years old	4.7 years

- (Notes)
1. The number of employees shown above includes 766 temporary employees such as part-time employees.
 2. The average age and the average years of service exclude those of temporary employees such as part-time employees.
 3. The increase of 139 employees from the previous consolidated fiscal year-end was due to new hiring in association with the expansion of our business and the acquisition of PT MONOTARO INDONESIA as a consolidated subsidiary.
 4. In addition to the above, 207 dispatched employees work for the Group.

(ii) Employees of the Company

Number of employees	Increase/decrease from previous fiscal year-end	Average age	Average years of service
998	+81	36.1 years old	5.7 years

- (Notes)
1. The number of employees shown above includes 748 temporary employees such as part-time employees.
 2. The average age and the average years of service exclude those of temporary employees such as part-time employees.
 3. The increase of 81 employees from the previous fiscal year-end was due to new hiring in association with the expansion of our business.
 4. In addition to the above, 150 dispatched employees work for the Group.

(10) Principal Lenders (As of December 31, 2016)

Lender	Amount borrowed
The Jyo Bank, Ltd.	4,000,000 thousand yen
Resona Bank, Limited	2,000,000 thousand yen
The Nanto Bank, Ltd.	500,000 thousand yen
Mitsubishi UFJ Trust and Banking Corporation	250,000 thousand yen
The Minato Bank, Ltd.	100,000 thousand yen
Total	6,850,000 thousand yen

2. Status of Shares (As of December 31, 2016)

- (1) **Total Number of Shares Authorized to be Issued** 168,960,000 shares
- (2) **Total Number of Shares Outstanding** 125,015,400 shares
(Note) Total number of shares outstanding increased by 516,600 shares due to the exercise of stock options.
- (3) **Number of Shareholders** 23,584 persons
- (4) **Major Shareholders (Top Ten Shareholders)**

Shareholder name	Number of shares held	Shareholding ratio
GRAINGER INTERNATIONAL INC.	56,448,000 shares	45.55%
GRAINGER JAPAN INC.	6,080,000 shares	4.91%
STATE STREET BANK AND TRUST COMPANY	4,946,512 shares	3.99%
CITIBANK, N.A.-NY, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS	3,684,999 shares	2.97%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	3,024,800 shares	2.44%
The Master Trust Bank of Japan, Ltd. (trust account)	2,926,200 shares	2.36%
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	2,530,057 shares	2.04%
Japan Trustee Services Bank, Ltd. (trust account)	2,394,300 shares	1.93%
MSIP CLIENT SECURITIES	1,863,900 shares	1.50%
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	1,241,100 shares	1.00%

(Note) The Company's treasury stock (1,087,633 shares) was excluded from the calculation of the shareholding ratio.

3. Subscription Rights to Shares, Etc.

(1) Subscription Rights to Shares, Etc. Held by Company Officers Issued As Compensation for Their Execution of Duties (As of December 31, 2016)

		5th Subscription Rights to Shares	6th Subscription Rights to Shares
Date of resolution of issuance		May 18, 2010	March 24, 2011
Number of subscription rights to shares		239	185
Class and number of shares to be issued upon exercise of subscription rights to shares		Common stock 382,400 shares (1,600 shares per subscription right to shares)	Common stock 148,000 shares (800 shares per subscription right to shares)
Amount paid for subscription rights to shares		No consideration	No consideration
Value of property to be contributed upon exercise of subscription rights to shares		164,800 yen per subscription right to shares (103 yen per share)	800 yen per subscription right to shares (1 yen per share)
Amount to be incorporated into the stated capital when issuing shares upon exercise of subscription rights to shares		77 yen per share	53 yen per share
Exercise period		From June 1, 2012 to April 30, 2020	From April 1, 2013 to February 28, 2021
Conditions for exercise of subscription rights to shares		(Note)	(Note)
Officer holdings	Directors and Executive Officers	Number of subscription rights to shares 29 Number of shares to be issued upon exercise of subscription rights to shares 46,400 shares Number of holders 1	Number of subscription rights to shares 22 Number of shares to be issued upon exercise of subscription rights to shares 17,600 shares Number of holders 1

		7th Subscription Rights to Shares	8th Subscription Rights to Shares
Date of resolution of issuance		January 27, 2012	April 27, 2012
Number of subscription rights to shares		229	19
Class and number of shares to be issued upon exercise of subscription rights to shares		Common stock 91,600 shares (400 shares per subscription right to shares)	Common stock 7,600 shares (400 shares per subscription right to shares)
Amount paid for subscription rights to shares		No consideration	No consideration
Value of property to be contributed upon exercise of subscription rights to shares		400 yen per subscription right to shares (1 yen per share)	400 yen per subscription right to shares (1 yen per share)
Amount to be incorporated into the stated capital when issuing shares upon exercise of subscription rights to shares		109 yen per share	153 yen per share
Exercise period		From February 1, 2014 to December 31, 2021	From May 1, 2014 to March 31, 2022
Conditions for exercise of subscription rights to shares		(Note)	(Note)
Officer holdings	Directors and Executive Officers	Number of subscription rights to shares 64	Number of subscription rights to shares 9
		Number of shares to be issued upon exercise of subscription rights to shares 25,600 shares	Number of shares to be issued upon exercise of subscription rights to shares 3,600 shares
		Number of holders 2	Number of holders 1

		9th Subscription Rights to Shares	10th Subscription Rights to Shares
Date of resolution of issuance		June 21, 2013	July 29, 2014
Number of subscription rights to shares		76	69
Class and number of shares to be issued upon exercise of subscription rights to shares		Common stock 15,200 shares (200 shares per subscription right to shares)	Common stock 13,800 shares (200 shares per subscription right to shares)
Amount paid for subscription rights to shares		No consideration	No consideration
Value of property to be contributed upon exercise of subscription rights to shares		200 yen per subscription right to shares (1 yen per share)	200 yen per subscription right to shares (1 yen per share)
Amount to be incorporated into the stated capital when issuing shares upon exercise of subscription rights to shares		674 yen per share	705 yen per share
Exercise period		From July 1, 2015 to May 31, 2023	August 15, 2017 to June 30, 2024
Conditions for exercise of subscription rights to shares		(Note)	(Note)
Officer holdings	Directors and Executive Officers	Number of subscription rights to shares 20 Number of shares to be issued upon exercise of subscription rights to shares 4,000 shares Number of holders 2	Number of subscription rights to shares 69 Number of shares to be issued upon exercise of subscription rights to shares 13,800 shares Number of holders 5

		11th Subscription Rights to Shares	12th Subscription Rights to Shares
Date of resolution of issuance		July 29, 2015	July 28, 2016
Number of subscription rights to shares		24	44
Class and number of shares to be issued upon exercise of subscription rights to shares		Common stock 4,800 shares (200 shares per subscription right to shares)	Common stock 4,400 shares (100 shares per subscription right to shares)
Amount paid for subscription rights to shares		No consideration	No consideration
Value of property to be contributed upon exercise of subscription rights to shares		200 yen per subscription right to shares (1 yen per share)	100 yen per subscription right to shares (1 yen per share)
Amount to be incorporated into the stated capital when issuing shares upon exercise of subscription rights to shares		1,493 yen per share	1,284 yen per share
Exercise period		From August 21, 2018 to June 30, 2025	From August 26, 2019 to June 30, 2026
Conditions for exercise of subscription rights to shares		(Note)	(Note)
Officer holdings	Directors and Executive Officers	Number of subscription rights to share 24	Number of subscription rights to shares 44
		Number of shares to be issued upon exercise of subscription rights to shares 4,800 shares	Number of shares to be issued upon exercise of subscription rights to shares 4,400 shares
		Number of holders 6	Number of holders 6

(Notes) Conditions for exercise of subscription rights to shares

- Subscription rights to shares must be exercised by persons who have been granted such subscription rights to shares upon issuance thereof; provided, however, that persons who have acquired such subscription rights to shares by inheritance may exercise such subscription rights to shares.
 - Persons who are Executive Officers of the Company at the time of issuance of subscription rights to shares must remain Executive Officer of the Company at the time of exercise of such subscription rights to shares unless such persons resign from the position due to the expiration of term of office, retire from the Company or have any other justifiable reason, or have acquired such subscription rights to shares by inheritance.
 - Pledging or any other disposal of subscription rights to shares is not permitted.
- Other conditions shall be as set forth in the “Agreement for Granting of Subscription Rights to Shares of MonotaRO Co., Ltd.” entered into by and between the Company and each of the relevant Executive Officers pursuant to a resolution of the Board of Directors of the Company.

(2) Subscription Rights to Shares, Etc. Issued to Employees, Etc. As Compensation for Their Execution of Duties during the Fiscal Year under Review

Not applicable.

4. Company Officers

(1) Directors and Executive Officers (As of December 31, 2016)

Name	Position and responsibilities at the Company	Significant concurrent positions
Kinya Seto	Director & Chairman Compensation Committee Member	Director, President & CEO, LIXIL Corporation Director, Representative Executive Officer, President & CEO of LIXIL Group Corporation
Masaya Suzuki	Director, President & CEO	
Masanori Miyajima	Director Nomination Committee Member Chairperson, Compensation Committee Member	
Yasuo Yamagata	Director Chairperson, Audit Committee	Partner, Legal Professional Corporation Kansai Law & Patent Office
Haruo Kitamura	Director Nomination Committee Member Audit Committee Member	Certified Public Accountant, Chief, Kitamura Certified Public Accountant Office
Masahiro Kishida	Director Compensation Committee Member Audit Committee Member	CEO and Representative Director, AT Kearney, K.K.
David L. Rawlinson II	Director Chairperson, Nomination Committee	Vice President and President, Online Business, W.W. Grainger, Inc. President, Razor Occam, Ltd. Director, Zoro, Inc.
Kohei Shibagaki	Executive Officer General Manager of Customer Support Department	
Hiroki Yoshino	Executive Officer General Manager of Logistics Department	
Tetsuya Koda	Executive Officer General Manager of Administration Department	
Taku Yasui	Executive Officer General Manager of IT Department	
Masaaki Hashihara	Executive Officer General Manager of Sales Planning Department	

- (Notes)
1. Directors Masanori Miyajima, Yasuo Yamagata, Haruo Kitamura and Masahiro Kishida are Outside Directors as prescribed in Article 2, Item 15 of the Companies Act.
 2. Mr. Kinya Seto, Director & Chairman, assumed the positions of Director, President & CEO, LIXIL Corporation and Representative Executive Officer & COO, LIXIL Group Corporation on January 1, 2016, and the position of Director, Representative Executive Officer, President & CEO of LIXIL Group Corporation on June 15, 2016. Prior to his appointments as an officer at these companies, the Company was engaged in merchandise sales, purchasing and other transactions with LIXIL Corporation; however, the amount of transactions is insignificant in view of the scale of the Company's sales.
 3. Director David L. Rawlinson II was promoted to the position of Vice President and President, Online

Business, W.W. Grainger, Inc. on January 1, 2016 from the position of Vice President, Deputy General Counsel and Corporate Secretary, W.W. Grainger, Inc.

In addition, he assumed the position of President, Razor Occam, Ltd. and Director (part-time), Zoro, Inc. on January 1, 2016.

4. Mr. Haruo Kitamura, Director and Audit Committee Member, is a certified public accountant and has considerable financial and accounting knowledge.
5. The Company has designated Directors Masanori Miyajima, Yasuo Yamagata, Haruo Kitamura and Masahiro Kishida as independent officers in accordance with the provisions of the Tokyo Stock Exchange, and registered them as such at the Exchange.
6. As the Company appoints full-time employees who support the duties of the Audit Committee at the Internal Audit Office, the Company has not selected full-time Audit Committee Members.

(2) Total Amount of Compensation, Etc. Paid to Directors and Executive Officers

Classification	No. of recipients	Amount paid
Directors	6	74,334 thousand yen
Executive Officers	5	121,904 thousand yen
Total	11	196,239 thousand yen

- (Notes)
1. The above amounts of compensation, etc. include the amount of directors' bonuses paid in the fiscal year under review, the amount transferred to the provision for directors' retirement benefits in the fiscal year under review and the amount recognized as stock option compensation.
 2. Resolutions of the Compensation Committee are adopted by a majority of votes of the members present at a meeting of the Compensation Committee, where a majority of the members of the Compensation Committee is present, through discussion of the following matters in accordance with the Rules of the Compensation Committee:
 - (i) Details of each Director's and Executive Officer's compensation, bonus, retirement benefits ("Compensation, etc.")
 - If the amount of Compensation, etc. is fixed, the amount of Compensation, etc. for each Director and Executive Officer
 - If the amount of Compensation, etc. is not fixed, specific calculation methods of Compensation, etc. for each Director and Executive Officer
 - If Compensation, etc. is paid by property other than money, specific details of the Compensation, etc. for each Director and Executive Officer
 - (ii) Preparation of a policy of determination of Compensation, etc. for Directors and Executive Officers and establishment and revision of the standards of Compensation, etc.
 - (iii) Other matters prescribed in the Rules of the Compensation Committee and matters deemed necessary to be discussed in the course of the implementation of business
 3. Policy of determination of Compensation, etc. of Directors and Executive Officers
 The Company has established the Compensation Committee for "contributing to the improvement of the Company's business results by establishing the compensation structure that enhances incentives of Directors and Executive Officers and by properly evaluating their performance." The Committee consists of three (3) Directors including two (2) Outside Directors, who do not participate in the resolutions of their own Compensation, etc. in accordance with the Rules of the Compensation Committee of the Company.
 Compensation for Directors and Executive Officers consists of fixed compensation, performance-based compensation (bonus), stock option and directors' retirement benefits. The levels of fixed compensation are set appropriately by taking into consideration such factors as the Company's business environment and the levels set by other companies as determined by a survey conducted by an outside professional organization, in accordance with each Director's and Executive Officer's position and responsibility. Performance-based compensation is determined based on business results (the level of achievement of the indicator of operating income) and the level of achievement of business strategies set at the beginning of a fiscal year. Performance-based compensation may significantly vary depending on the Company's business results. Stock option is determined by the Board of Directors through discussion at the Compensation Committee based on the Company's business results and individual evaluation.
 We have newly adopted directors' retirement benefits based on the resolution of the meeting of the Compensation Committee held on March 17, 2010 for the purpose of avoiding the increase of temporary disbursement at the time of payment in the future as well as promoting adjustment of periodic profit and loss and financial soundness in order to compensate Directors and Executive Officers for their efforts while in office.

(3) Matters Regarding Outside Directors

(i) Matters regarding Outside Directors

a. Outside Directors' significant concurrent positions and relationship with the Company

Classification	Name	Significant concurrent positions	Relationship with the Company
Outside Director	Yasuo Yamagata	Partner, Legal Professional Corporation Kansai Law & Patent Office	The Company has executed legal advisory agreement with Legal Professional Corporation Kansai Law & Patent Office.
Outside Director	Haruo Kitamura	Certified Public Accountant Chief, Kitamura Certified Public Accountant Office	The Company has no business relationship with Kitamura Certified Public Accountant Office.
Outside Director	Masahiro Kishida	CEO and Representative Director, AT Kearney, K.K.	The Company has no business relationship with AT Kearney, K.K.

b. Major activities in the fiscal year under review

Classification	Name	Major activities
Outside Director	Masanori Miyajima	Mr. Miyajima attended all eleven (11) meetings of the Board of Directors held in the fiscal year under review. He made advice and proposals to secure the validity and appropriateness of decision-makings of the Board of Directors by presenting his opinions mainly based on his extensive knowledge and experience, etc. of corporate management at the meetings of the Board of Directors.
Outside Director (Audit Committee Member)	Yasuo Yamagata	Mr. Yamagata attended all eleven (11) meetings of the Board of Directors and all ten (10) meetings of the Audit Committee held in the fiscal year under review. He made advice and proposals to secure the validity and appropriateness of decision-makings of the Board of Directors by presenting his opinions mainly from a professional viewpoint as an attorney-at-law at the meetings of the Board of Directors. He also presented his opinions mainly from a professional viewpoint as an attorney-at-law, exchanged views on the audit results and made discussions on important matters concerning audit at the meetings of the Audit Committee.
Outside Director (Audit Committee Member)	Haruo Kitamura	Mr. Kitamura attended all eleven (11) meetings of the Board of Directors and nine (9) meetings of the Audit Committee held in the fiscal year under review. He made advice and proposals to secure the validity and appropriateness of decision-makings of the Board of Directors by presenting his opinions mainly from a professional viewpoint as a certified public accountant at the meetings of the Board of Directors. He also presented his opinions mainly from a professional viewpoint as a certified public accountant, exchanged views on the audit results and made discussions on important matters concerning audit at the meetings of the Audit Committee.
Outside Director (Audit Committee Member)	Masahiro Kishida	Mr. Kishida attended ten (10) meetings of the Board of Directors and all ten (10) meetings of the Audit Committee held in the fiscal year under review. He made advice and proposals to secure the validity and appropriateness of decision-makings of the Board of Directors by presenting his opinions mainly from a professional viewpoint as a management consultant on business management at the meetings of the Board of Directors. He also exchanged views on the audit results and made discussions on important matters concerning audit at the meetings of the Audit Committee.

(Note) If any Director cannot attend in person, the relevant meeting is held by way of a telephone conference.

(ii) Summary of the Agreement on Limitation of Liability

The Company has not entered into agreements with Outside Directors that are stipulated in Article 427, Paragraph 1 of the Companies Act.

(iii) Total amount of Compensation, etc.

Classification	No. of recipients	Amount paid
Outside Director	4	14,400 thousand yen

5. Accounting Auditor

(1) **Accounting Auditor's Name** Ernst & Young ShinNihon LLC

(2) **Amount of Accounting Auditor's Compensation, Etc.**

	Amount paid
Amount of Accounting Auditor's compensation, etc. for the fiscal year under review	16,000 thousand yen
Total amount of money and other property benefits payable by the Company to Accounting Auditor	16,000 thousand yen

(Note) Under the audit agreement between the Company and its Accounting Auditor, compensation for audits pursuant to the Companies Act and that for audits pursuant to the Financial Instruments and Exchange Act are not clearly distinguished, and cannot be substantially distinguished. Consequently, the above amount reflects the total amount of compensation, etc. for the fiscal year under review.

(3) **Reasons for the Audit Committee's Consent on Accounting Auditor's Compensation, Etc.**

The Audit Committee of the Company has given the consent of its members, as set forth in Article 399, Paragraph 1 of the Companies Act, with respect to the Accounting Auditor's compensation, etc., as a result of confirmation of the number of hours of audit by auditing item and the transition of audit compensation and the previous years' audit plan and results, and review of the appropriateness of the number of hours of audit for the fiscal year under review and the compensation estimate, by taking into account the "Practical Guidelines for Cooperation with Accounting Auditors" released by the Japan Audit & Supervisory Board Members Association.

(4) **Policy on Decisions of Dismissal or Non-reappointment of Accounting Auditor**

In the event that the Accounting Auditor is deemed to fall under any of the items set forth in Article 340, Paragraph 1 of the Companies Act, the Audit Committee of the Company dismisses the Accounting Auditor with the consent of all Audit Committee members. In this case, the Audit Committee member selected by the Audit Committee reports the dismissal of the Accounting Auditor and the reason therefor at the first general shareholders' meeting to be held after the dismissal.

If the Accounting Auditor is deemed to have violated or conflicted with laws and regulations or that the Accounting Auditor is deemed not capable of maintaining the quality of audit generally required, the Audit Committee decides the content of the proposal for the non-reappointment of the Accounting Auditor to be submitted to a general shareholders' meeting.

(5) **Issuance in the Past Two Years of an Order for Accounting Auditor to Suspend Operations**

Summary of the disciplinary action announced by the Financial Services Agency as of December 22, 2015:

(i) Entity subject to the disciplinary action

Ernst & Young ShinNihon LLC

(ii) Content of the action

Partial suspension of operations for three (3) months (suspension of any operations concerning the conclusion of new contracts from January 1, 2016 to March 31, 2016)

Business improvement order (improvement of the business management system)

Administrative monetary penalty (2,111,000,000 yen)

(6) **Summary of the Agreement on Limitation of Liability**

The Company has not entered into an agreement with the Accounting Auditor that is stipulated in Article 427, Paragraph 1 of the Companies Act.

6. Basic Policy for Frameworks to Ensure Properness of Operations (Internal Control System), Etc.

The Company sets forth the basic policy for the matters “necessary for the execution of the duties of the Audit Committee,” as prescribed in Article 416, Paragraph 1, Item 1, (b) of the Companies Act and the “systems necessary to ensure the properness of operations,” as prescribed in the same Item, (e) of the same act as follows.

[Matters necessary for the execution of the duties of the Audit Committee]

1 Matters regarding Directors and employees who are required to support the Audit Committee of the Company in execution of duties (Article 112, Paragraph 1, Item 1 of the Ordinance for Enforcement of the Companies Act)

In the event that the Audit Committee needs to conduct an investigation on matters pertaining to the execution of duties of any other committee in order to perform its own duty, the Director who is Chairperson of the related committee shall be obliged to cooperate actively in such investigation. With respect to employees who are required to support duties, two (2) or more members of the Internal Audit Office shall support the duty of the Audit Committee.

2 Matters regarding independence of Directors and employees stated in 1 above from Executive Officers of the Company (Item 2)

The President & CEO decides on matters regarding appointment of employees who belong to the Internal Audit Office, their personnel changes, wages and employment conditions such as other compensation, etc. with approval of the Audit Committee.

3 Matters regarding ensuring the effectiveness of instructions by the Audit Committee of the Company to Directors and employees stated in 1 above (Item 3)

In the event that the Audit Committee requires an investigation on matters pertaining to the execution of duties of any other committee to perform its own duty, but cooperation of the Director who is Chairperson of the related committee is deemed insufficient, the Audit Committee shall actively request cooperation by informing all Directors by reporting such event at a meeting of the Board of Directors in a timely manner.

The President & CEO shall inform all Executive Officers and employees that the employees who support the Audit Committee’s duties follow instructions and orders of the Audit Committee and have the authority to collect information necessary to conduct audits.

4 The following frameworks and other matters regarding reporting to the Audit Committee of the Company (Item 4)

- (1) Framework for reporting to the Audit Committee of the Company by Directors (excluding those who are Audit Committee Members), Executive Officers and employees (Item 4, (a))
 - (i) The President & CEO shall report the issues discussed and reported at a meeting of General Managers of Divisions held by Executive Officers and General Managers of Divisions to the Audit Committee and exchange views with Audit Committee Members as necessary.
 - (ii) The President & CEO shall secure a framework to report the results of internal audits conducted by the Internal Audit Office to the Audit Committee.
 - (iii) The Company shall develop a framework for a whistle-blowing system to facilitate discovery of misconduct related to the performance of duties by Executive Officers, Directors or employees, etc., a threat of violation of laws and regulations or the Articles of Incorporation, or the facts that may give significant damage to the Company, and shall establish a framework that such circumstances are also properly reported to the Audit Committee.
- (2) Framework for reporting to the Audit Committee of the Company by Directors, Corporate Auditors, Executive Officers, executive employees and other persons equivalent thereto and employees of the Company’s subsidiaries or persons who receive reports from any of the above persons (Item 4, (b))
 - (i) Directors and employees of the Company’s subsidiaries shall promptly make appropriate reports upon request from the Audit Committee of the Company regarding the matters concerning the execution of operations.

- (ii) The President & CEO shall cause the Company's subsidiaries to develop a framework for a whistle-blowing system to facilitate discovery of misconduct related to the performance of duties by Directors or employees, etc. of the Company's subsidiaries, a threat of violation of laws and regulations or the Articles of Incorporation, or the facts that may give significant damage to the Company or a subsidiary of the Company by securing a framework under which reports through such whistle-blowing system are made to not only the Company's subsidiaries' relevant organs but also the Audit Committee of the Company and the compliance supervisory department of the Company, and shall establish a framework that such circumstances are also properly reported to the Audit Committee.
- (iii) The President & CEO must secure a framework to report the results of internal audits on the Company's subsidiaries conducted by the Internal Audit Office of the Company also to the Audit Committee of the Company.

5 Frameworks for ensuring that a person who made a report in the above 4 shall not be subject to any unfavorable treatment due to having made such report (Item 5)

The President & CEO shall prohibit any unfavorable treatment of a person who made a report to the Audit Committee of the Company due to having made such report, and inform all Executive Officers and employees of the Company and Directors and employees of the Company's subsidiaries accordingly.

6 Matters regarding the policy for handling expenses or payables in relation to execution of duties of Audit Committee Members of the Company (limited to those related to the execution of duties of the Audit Committee), such as procedures for advance payment or reimbursement in relation to execution of such duties (Item 6)

When an Audit Committee Member of the Company requests advance payment, etc. of expenses necessary for the execution of his or her duties, such expenses or payables shall be promptly processed unless they are unnecessary for the execution of such member's duties.

[Systems necessary to ensure the properness of operations]

1 Framework regarding information storage and management related to execution of duties of Executive Officers of the Company (Article 112, Paragraph 2, Item 1 of the Ordinance for Enforcement of the Companies Act)

The President & CEO shall store and manage information in accordance with the internal rules of the Company and take necessary measures to prevent leakage of information to outside the Company.

2 Rules and other frameworks regarding management of risk of loss of the Company (Item 2)

- (i) The President & CEO shall establish and operate an appropriate management framework by establishing the Risk Management Rules and determining persons responsible for addressing risks by type of risks and the procedures to manage risks pursuant to a manual.
- (ii) The Internal Audit Office shall confirm and report the status of operation of the risk management framework to the President & CEO and the Audit Committee of the Company at least annually.
- (iii) In the event that a new risk arises, the President & CEO shall promptly serve as the responsible person to address such risk and respond to such risk.

3 Frameworks to ensure that execution of duties of Executive Officers and employees of the Company is in compliance with laws, regulations and the Articles of Incorporation of the Company and is made effectively (Items 3 and 4)

- (i) The President & CEO shall establish and operate the "Compliance Manual" so that Executive Officers and employees of the Company can strictly comply with related laws and regulations and the Articles of Incorporation of the Company in all aspects of business activities and act in accordance with social norms based on high ethical values and morals. The President & CEO shall also establish and promote the Compliance Committee.
- (ii) The President & CEO shall establish a whistle-blowing system.
- (iii) The President & CEO shall discuss important matters on normal business operations at meetings of General Managers of Divisions and report the content of such discussion to the Audit Committee of the Company on a regular basis.
- (iv) The President & CEO shall develop the Rules on Division of Authority and promote efficient execution of duties.

- (v) The internal Audit Office shall conduct internal audits and report the results of such audits to the President & CEO and the Audit Committee of the Company.

4 The following frameworks and other frameworks to ensure properness of operations by the Group comprised of the Company, its parent company and its subsidiaries (the “Group”) (Item 5)

- (1) Framework for reporting the matters regarding the execution of duties of Directors, Executive Officers, executive employees and other persons equivalent thereto of the Company’s subsidiaries (“Directors, Etc.” in (3) and (4) below) to the Company (Item 5, (b))
 - (i) In order to accurately understand the content of business of the Company’s subsidiaries, The President & CEO shall request its subsidiaries to submit related materials, etc. as necessary in accordance with the Subsidiary Management Rules.
 - (ii) The President & CEO shall request President and Director, Directors or employees of the Company’s subsidiaries to attend the meeting of the Board of Directors of the Company held on a regular basis in order for the subsidiaries to report their business results, financial status and other important information to the Company.
- (2) Rules and other frameworks regarding management of risk of loss of the Company’s subsidiaries (Item 5, (b))
 - (i) The President & CEO shall develop the Risk Management Rules that provide for risk management of the entire Group and require that the Company’s subsidiaries manage risks under such rules. The President & CEO shall, at the same time, manage the entire Group’s risks in a comprehensive and supervisory manner.
 - (ii) The Internal Audit Office shall confirm and report the status of operation of the risk management framework of the Company’s subsidiaries to The President & CEO and the Audit Committee of the Company on a regular basis.
- (3) Framework for ensuring efficient execution of duties by Directors, Etc. of the Company’s subsidiaries (Item 5, (c))
 - (i) The President & CEO shall develop the Subsidiary Management Rules to contribute to the efficient operation of the Group while respecting the autonomy and independence of business management of the Company’s subsidiaries.
 - (ii) The Company’s subsidiaries shall develop the Rules on Division of Authority and promote efficient execution of duties.
- (4) Frameworks to ensure that execution of duties of Directors, Etc. and employees of the Company’s subsidiaries is in compliance with laws, regulations and their Articles of Incorporation (Items 5, (d))
 - (i) The President & CEO shall cause the Company’s subsidiaries to establish a framework to appoint the appropriate number of Corporate Auditors and persons in charge of promotion of compliance based on the content of business and the scale of the subsidiaries.
 - (ii) The President & CEO shall cause the Company’s subsidiaries to establish a framework for audit by Corporate Auditors of the Company’s subsidiaries over the execution of duties of Directors, Etc. and employees of the Company’s subsidiaries, including the status of establishment and operation of the internal control system.
 - (iii) The Company’s subsidiaries shall be the companies with Board of Directors and adopt a framework under which the Company can monitor the properness of operations of the subsidiaries by appointing the Company’s officers and employees as Directors of the subsidiaries.
 - (iv) The President & CEO shall cause the Company’s subsidiaries to establish a whistle-blowing system.

[Summary of the status of operation of a framework to ensure the properness of operations]

The Internal Audit Office conducts operational audits for each division on a regular basis to verify from an independent position whether the internal control system properly functions, any misconduct is made, or there is a matter that should be improved, etc. The Company has reported any issue that was found through audits to the Audit Committee and Representative Executive Officers and made improvement in a timely manner, in addition to advising the audited division to make improvement simultaneously upon finding such issue. The management division and the Internal Audit Office serve as the hub to seek to enhance the related divisions' and the Company's subsidiaries' awareness of the importance of the internal control system and compliance through training and audits conducted on a regular basis.

7. Policy for Decisions on Dividends from Surplus, Etc.

The Company acknowledges that profit returns to shareholders is one of the important policies of business management and adopts the basic policy of conducting stable and continuous dividends from surplus in line with growth of its consolidated business results. Pursuant to such basic policy, the Company decided that the year-end dividend for the fiscal year under review be 9 yen per share and that the annual dividend for the fiscal year under review aggregated with the interim dividend of 9 yen per share be 18 yen per share.

The Company intends to further improve its business results by allocating internal reserves to strategies to develop business aggressively to respond to the changes in the Company's business environment while securing its financial soundness.

Consolidated Balance Sheet

As of December 31, 2016

(Thousands of yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	23,881,832	Current liabilities	12,308,247
Cash and deposits	7,229,021	Accounts payable-trade	5,302,967
Notes and accounts receivable - trade	6,974,832	Long-term loans payable - current portion	225,000
Electronically recorded monetary claims	594,553	Lease obligations	14,216
Merchandise	5,695,411	Accounts payable-other	4,240,816
Goods in transit	182,447	Income taxes payable	1,854,539
Supplies	116,108	Provision for employees' bonuses	59,614
Accounts receivable-other	2,730,086	Provision for directors' bonuses	33,589
Deferred income taxes	185,776	Other	577,502
Other	212,810		
Allowance for doubtful accounts	(39,216)	Non-current liabilities	6,781,749
		Long-term loans payable	6,625,000
Non-current assets	12,471,578	Lease obligations	12,118
		Provision for directors' retirement benefits	62,470
Property and equipment	10,331,050	Net defined benefit liability	31,200
Buildings	299,322	Other	50,960
Structures	6,347		
Machinery and equipment	405,839		
Vehicles	81		
Tools, furniture and fixtures	133,420		
Land	1,814,147		
Leased assets	586,807		
Construction in progress	7,085,083		
		Total liabilities	19,089,997
Intangible assets	1,204,414	Net assets	
Goodwill	119,612	Shareholders' equity	16,983,932
Software	1,005,746	Common stock	1,943,569
		Capital surplus	748,107
Other	79,056	Retained earnings	14,486,042
		Treasury stock	(193,786)
Investments and other assets	936,112	Accumulated other comprehensive income	34,123
Guarantee deposits	730,200	Foreign currency translation adjustment	35,532
Deferred income taxes	135,298	Remeasurements of defined benefit plans	(1,408)
Other	95,119	Subscription rights to shares	55,582
Allowance for doubtful accounts	(24,505)	Non-controlling interests	189,774
Total assets	36,353,410	Total net assets	17,263,413
		Total liabilities and net assets	36,353,410

Consolidated Statement of Income

For the year ended December 31, 2016

(Thousands of yen)

Account	Amount	
Net sales		69,647,435
Cost of sales		47,751,767
Gross profit		21,895,668
Selling, general and administrative expenses		12,401,834
Operating income		9,493,833
Non-operating income:		
Interest income	7,455	
Foreign exchange gains	14,332	
Commission fee	5,936	
Compensation income	4,487	
Gain on sale of materials	10,899	
Other	14,720	57,830
Non-operating expenses:		
Interest expenses	11,457	
Loss on disposal of inventories	22,233	
Other	3,495	37,186
Ordinary income		9,514,478
Extraordinary losses:		
Loss on disposal of non-current assets	462	462
Income before income taxes		9,514,016
Income taxes :		
Current	3,159,301	
Deferred	5,133	3,164,434
Net income		6,349,581
Net income attributable to:		
Non-controlling interests		(18,975)
Owners of the parent		6,368,557

Consolidated statement of changes in net assets

For the year ended December 31, 2016

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of the beginning of the year	1,907,453	711,991	10,095,565	(180,278)	12,534,730
Changes of items during the year					
Issuance of new shares	36,116	36,116			72,232
Dividends			(1,978,079)		(1,978,079)
Net income attributable to owners of the parent			6,368,557		6,368,557
Purchase of treasury stock				(13,508)	(13,508)
Net changes of items other than shareholders' equity					
Total changes of items during the year	36,116	36,116	4,390,477	(13,508)	4,449,201
Balance as of the end of the year	1,943,569	748,107	14,486,042	(193,786)	16,983,932

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of the beginning of the year	37,775	-	37,775	60,107	-	12,632,614
Changes of items during the year						
Issuance of new shares						72,232
Dividends						(1,978,079)
Net income attributable to owners of the parent						6,368,557
Purchase of treasury stock						(13,508)
Net changes of items other than shareholders' equity	(2,243)	(1,408)	(3,651)	(4,524)	189,774	181,597
Total changes of items during the year	(2,243)	(1,408)	(3,651)	(4,524)	189,774	4,630,799
Balance as of the end of the year	35,532	(1,408)	34,123	55,582	189,774	17,263,413

Notes to consolidated financial statements

1. Summary of basis for preparation of consolidated financial statements

(1) Scope of consolidation

Number of consolidated subsidiaries 2

Names of consolidated subsidiaries: NAVIMRO Co., Ltd. (hereinafter "NAVIMRO")

PT MONOTARO INDONESIA

PT MONOTARO INDONESIA (formerly, PT Sumisho E-Commerce Indonesia) was newly included in the scope of consolidation in the fiscal year ended December 31 following the acquisition of a majority of its shares by MonotaRO Co., Ltd. (the "Company"). Since its deemed acquisition date was September 30, 2016, the Company consolidated its income statement from October 1 through December 31, 2016.

(2) Fiscal year-end of subsidiaries

The fiscal year-end for both subsidiaries is December 31.

(3) Summary of significant accounting policies

1. Valuation policies and method of accounting for assets:

Inventories

* Merchandise

Lower of cost or market, cost being determined by the first-in, first-out method for the Company

Lower of cost or market, cost being determined by the moving average method for both subsidiaries

* Goods in transit and supplies

Lower of cost or market, cost being determined by the specific identification method

2. Methods of depreciation and amortization of fixed assets:

1) Property and equipment (other than leased assets)

* Buildings (other than attachments to buildings)

Straight-line method

* Other fixed assets

Declining-balance method (straight-line method for attachments to buildings and structures acquired on or after April 1, 2016)

2) Intangible assets (other than leased assets)

Straight-line method

Software intended for internal use is amortized over its estimated useful life of five years.

3) Leased assets

Leased assets under finance lease contracts are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

3. Accounting for allowances and provisions

* Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on past experience of bad

debts and an estimate of uncollectible amounts determined after an analysis of specific individual receivables.

* Provision for employees' bonuses

The provision for employees' bonuses is provided as the estimated amount of the bonuses to be paid to the employees in the following year, which are attributable to the current fiscal year.

* Provision for directors' bonuses

The provision for directors' bonuses is provided as the estimated amount of the bonuses to be paid to the directors in the following year, which are attributable to the current fiscal year.

* Provision for directors' retirement benefits

The provision for directors' retirement benefits is provided as the estimated amount of the retirement benefits to be paid to the directors based on the resolution of the compensation committee meeting.

4. Accounting for net defined benefit liability

Net defined benefit liability is provided only for the subsidiaries based on the estimated amount of the projected retirement benefit obligation less the plan assets as of the end of the fiscal year. In the calculation of the projected retirement benefit obligation, one subsidiary uses a simplified method in which the projected benefit obligation equals the amount to be paid if all eligible employees voluntarily terminated their employment as of the end of the fiscal year.

The other subsidiary uses a projected benefit method for the calculation of projected retirement benefit expenses to be attributable to the period before the current fiscal year.

The actuarial gain and loss are amortized by the straight-line method over a certain period within the average remaining service years for employees at the time of recognition, and allocated proportionately from the fiscal year following the respective fiscal year of recognition.

5. Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and the resulting exchange gains and losses are included in the consolidated statement of income.

Assets and liabilities of foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences resulting from translating the foreign currency financial statements are presented as foreign currency translation adjustment in net assets in the consolidated balance sheet.

6. Amortization method of goodwill

Goodwill is amortized by the straight-line method over 10 years.

7. Other information on the preparation of the consolidated financial statements

* Consumption taxes

All amounts in the accompanying consolidated financial statements are stated exclusive of consumption taxes.

2. Changes in accounting policy

(Business combination)

Effective from the fiscal year ended December 31, 2016, the Company applied the following revised accounting standards: “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), and along with recording the changes in the ownership interests of the Company in its subsidiaries as capital surplus then the Company retains control, the Company also records expenses related to an acquisition when they are incurred. In addition, the Company has changed the treatment of the finalization of purchase price allocation in fiscal year following the acquisition to restate any adjustments retrospectively. Furthermore, changes in presentation for net income as well as a change in presentation from “minority interests” to “non-controlling interests” have been made.

Accounting Standard for Business Combinations, etc. have been observed under the transitional measures provided in Article 58-2(4) of the Accounting Standard for Business Combinations, Article 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4(4) of the Accounting Standard for Business Divestitures, and have been applied prospectively from the beginning of the fiscal year ended December 31, 2016.

The impact of these changes on the consolidated financial statements for the fiscal year ended December 31, 2016 was immaterial.

(Change in depreciation method)

In line with the Corporate Income Tax Reform, the Company has applied “Practical solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force No. 32, June 17, 2016) from the fiscal year ended December 31, 2016 and changed the depreciation method from the declining-balance method to the straight-line method for attachments to buildings and structures acquired on or after April 1, 2016.

The impact of this change on the consolidated financial statements for the fiscal year ended December 31, 2016 was immaterial.

3. Consolidated balance sheet

(1) Accumulated depreciation of property and equipment 913,474 thousand yen

(2) Direct reduction in the amount of property and equipment 318,660 thousand yen

4. Consolidated statement of changes in net assets

(1) Total number of shares issued

Type of shares	Number of shares as of Jan. 1, 2016	Increase	Decrease	Number of shares as of Dec. 31, 2016
Common Stock	124,498,800	516,600	-	125,015,400

Note. The increase in the number of shares of 516,600 was due to the exercise of stock options.

(2) Total number of treasury stock

Type of shares	Number of shares as of Jan. 1, 2016	Increase	Decrease	Number of shares as of Dec. 31, 2016
Common Stock	1,083,233	4,400	-	1,087,633

Note. The increase in the number of treasury stock of 4,400 shares was due to the purchase based on a resolution of the board of directors.

(3) Dividends

1. Dividends paid

Resolution	Type of shares	Total dividends (thousands of yen)	Dividends per share (yen)	Record date	Effective date
General shareholders' meeting on March 25, 2016	Common stock	863,908	7.0	December 31, 2015	March 28, 2016
Board meeting on July 29, 2016	Common stock	1,114,170	9.0	June 30, 2016	September 12, 2016

2. Dividends with a record date in the year ended December 31, 2016 and the effective date in the year ending December 31, 2017

Resolution	Type of shares	Total dividends (thousands of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
General shareholders' meeting on March 24, 2017	Common stock	1,115,349	Retained earnings	9.0	December 31, 2016	March 27, 2017

(4) Stock options outstanding as of December 31, 2016

	Resolution at board meeting on January 16, 2009	Resolution at board meeting on May 18, 2010	Resolution at board meeting on March 24, 2011
Type of shares	Common stock	Common stock	Common stock
Number of shares	80,000	131,200	24,000
Stock options outstanding	25	82	30

	Resolution at board meeting on January 27, 2012	Resolution at board meeting on April 27, 2012	Resolution at board meeting on June 21, 2013
Type of shares	Common stock	Common stock	Common stock
Number of shares	34,400	3,600	9,000
Stock options outstanding	86	9	45

Note: The table above does not include stock options whose initial exercise dates are subsequent to December 31, 2016.

5. Financial instruments

(1) Policy for financial instruments

The policy of the Company is to manage excess cash by investing in short-term deposits and obtain debt financing from financial institutions. In addition, the Company does not utilize any derivative financial instruments.

Trade receivables, such as trade and other accounts receivable, are exposed to customers' credit risk. The Company manages this risk by applying internal credit limits to each customer in accordance with the Company rules, and by requiring customers to pay excess amounts over the credit limit in advance in order to prevent losses from bad debts. In addition, the Company carefully monitors customers if payment is overdue.

Payment terms of payables, such as trade and other accounts payable, are due mostly within one year. Payables denominated in foreign currencies are exposed to foreign currency risk.

Loans mainly consist of borrowings for capital investments.

Trade accounts payable and loans are exposed to liquidity risk. The Company monitors and manages it by controlling the cash positions as a part of daily operations.

(2) Fair value of financial instruments

The carrying value, fair value and the difference between them of financial instruments as of December 31, 2016 were as follows:

(Thousands of yen)

	Carrying value	Fair value	Difference
Assets			
(1) Cash and deposits	7,229,021	7,229,021	-
(2) Accounts receivable-trade	6,974,832	6,974,832	-
(3) Electronically recorded monetary claims	594,553	594,553	-
(4) Accounts receivable-other	2,730,086	2,730,086	-
(5) Doubtful receivables *1	24,505		
Allowance for doubtful accounts *2	(24,505)		
	-	-	-
Total assets	17,528,494	17,528,494	-
Liabilities			
(1) Accounts payable-trade	5,302,967	5,302,967	-
(2) Accounts payable-other	4,240,816	4,240,816	-
(3) Income taxes payable	1,854,539	1,854,539	-
(4) Long-term loans payable (included due within one year)	6,850,000	6,805,876	(44,123)
Total liabilities	18,248,324	18,204,201	(44,123)

*1 Doubtful receivables are included in "Other" in investments and other assets on the consolidated balance sheet.

*2 Doubtful receivables are offset by a specific allowance.

Notes: Methods to determine the estimated fair value of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable-trade, (3) Electronically recorded monetary claims and (4) Accounts receivable-other

Carrying value approximates fair value since these are settled in the short term.

(5) Doubtful receivables

Fair value of doubtful receivables is calculated based on the net amount of the nominal receivable and an allowance for doubtful accounts based on uncollectible amounts determined after an analysis of specific individual receivables.

Liabilities

(1) Accounts payable-trade, (2) Accounts payable-other and (3) Income taxes payable

Carrying value approximates fair value since these are settled in the short term.

(4) Long-term loans payable

Fair value of long-term loans payable is stated as the present value of the total amount of principal and interest discounted by the applicable rate based on the assumption that a similar loan is newly

executed.

(3) Repayment schedules for monetary receivables and payables after December 31, 2016

(Thousands of yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and deposits	7,229,021	-	-	-	-	-
Accounts receivable-trade	6,974,832	-	-	-	-	-
Notes and accounts receivable-trade	594,553	-	-	-	-	-
Accounts receivable-other	2,730,086	-	-	-	-	-
Total assets	17,528,494	-	-	-	-	-
Accounts payable-trade	5,302,967	-	-	-	-	-
Accounts payable-other	4,240,816	-	-	-	-	-
Income taxes payable	1,854,539	-	-	-	-	-
Long-term loans payable (included due within one year)	225,000	2,125,666	2,000,666	2,498,668	-	-
Total liabilities	11,623,324	2,125,666	2,000,666	2,498,668	-	-

6. Per share information (as of and for the year ended December 31, 2016)

(1) Net assets per share 137.32 yen

(2) Net income per share 51.46 yen

7. Subsequent events

Not applicable.

Non-Consolidated Balance Sheet

As of December 31, 2016

(Thousands of yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	22,780,144	Current liabilities	11,981,780
Cash and deposits	6,536,563	Accounts payable-trade	5,063,978
Notes receivable-trade	6,124	Long-term loans payable - current portion	225,000
Accounts receivable-trade	6,901,528	Lease obligations	14,216
Electronically recorded monetary claims	594,553	Accounts payable-other	4,169,623
Merchandise	5,399,210	Accrued expenses	141,123
Goods in transit	189,174	Income taxes payable	1,854,539
Supplies	115,746	Accrued consumption taxes	373,595
Advance payments	6,932	Advances received	6,267
Prepaid expenses	158,209	Deposits received	36,507
Accounts receivable-other	2,698,401	Provision for employees' bonuses	59,614
Deferred income taxes	185,608	Provision for directors' bonuses	33,589
Other	27,330	Other	3,722
Allowance for doubtful accounts	(39,241)	Non-current liabilities	6,750,548
Non-current assets	14,034,042	Long-term loans payable	6,625,000
Property and equipment	10,298,055	Lease obligations	12,118
Buildings	298,272	Provision for directors' retirement benefits	62,470
Structures	6,347	Other	50,960
Machinery and equipment	405,839		
Vehicles	81		
Tools, furniture and fixtures	101,475		
Land	1,814,147		
Leased assets	586,807		
Construction in progress	7,085,083		
		Total liabilities	18,732,328
Intangible assets	1,054,078	Net assets	
Trademarks	15,625	Shareholders' equity	18,026,275
Software	975,022	Common stock	1,943,569
Telephone rights	35	Capital surplus	748,107
Software in progress	63,396	Legal capital surplus	748,107
Investments and other assets	2,681,908	Retained earnings	15,528,385
Investments in a subsidiaries	1,787,426	Other retained earnings	15,528,385
Doubtful receivables	24,505	Retained earnings brought forward	15,528,385
Long-term prepaid expenses	68,274	Treasury stock	(193,786)
Guarantee deposits	699,945	Subscription rights to shares	55,582
Deferred income taxes	126,260		
Allowance for doubtful accounts	(24,505)		
		Total net assets	18,081,858
Total assets	36,814,187	Total liabilities and net assets	36,814,187

Non-Consolidated Statement of Income

For the year ended December 31, 2016

(Thousands of yen)

Account	Amount	
Net sales		67,105,665
Cost of sales		45,698,670
Gross profit		21,406,994
Selling, general and administrative expenses		11,624,549
Operating income		9,782,444
Non-operating income:		
Interest income	364	
Foreign exchange gains	19,901	
Commission fee	5,936	
Compensation income	2,566	
Gain on sale of materials	10,899	
Other	10,415	50,083
Non-operating expenses:		
Interest expenses	11,457	
Loss on disposal of inventories	17,246	
Other	3,229	31,932
Ordinary income		9,800,595
Extraordinary losses:		
Loss on disposal of non-current assets	462	462
Income before income taxes		9,800,133
Income taxes		
Current	3,159,301	
Deferred	9,605	3,168,906
Net income		6,631,226

Non-consolidated statement of changes in net assets

For the year ended December 31, 2016

(Thousands of yen)

	Shareholders' equity						Subscription rights to shares	Total net assets
	Common stock	Capital surplus	Retained earnings		Treasury stock	Total shareholders' equity		
		Legal capital surplus	Other retained earnings	Total retained earnings				
			Retained earnings brought forward					
Balance as of the beginning of the year	1,907,453	711,991	10,875,239	10,875,239	(180,278)	13,314,404	60,107	13,374,512
Changes of items during the year								
Issuance of new shares	36,116	36,116				72,232		72,232
Dividends			(1,978,079)	(1,978,079)		(1,978,079)		(1,978,079)
Net income			6,631,226	6,631,226		6,631,226		6,631,226
Purchase of treasury stock					(13,508)	(13,508)		(13,508)
Net changes of items other than shareholders' equity							(4,524)	(4,524)
Total changes of items during the year	36,116	36,116	4,653,146	4,653,146	(13,508)	4,711,871	(4,524)	4,707,346
Balance as of the end of the year	1,943,569	748,107	15,528,385	15,528,385	(193,786)	18,026,275	55,582	18,081,858

Notes to non-consolidated financial statements

1. Summary of significant accounting policies

(1) Valuation policies and method of accounting for assets:

Investment securities

- * Investments in subsidiaries At cost being determined by the moving average method

Inventories

- * Merchandise Lower of cost or market, cost being determined by the first-in, first-out method
- * Goods in transit and supplies Lower of cost or market, cost being determined by the specific identification method

(2) Methods of depreciation and amortization of fixed assets:

1) Property and equipment (other than leased assets)

- * Buildings (other than attachments to buildings) Straight-line method
- * Other fixed assets Declining-balance method (straight-line method for attachments to buildings and structures acquired on and after April 1, 2016)

2) Intangible assets (other than leased assets) Straight-line method

Software intended for internal use is amortized over its estimated useful life of five years.

3) Leased assets

Leased assets under finance lease contracts are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

(3) Accounting for allowances and provisions

- * Allowance for doubtful accounts The allowance for doubtful accounts is provided based on past experience of bad debts and an estimate of uncollectible amounts determined after an analysis of specific individual receivables.
- * Provision for employees' bonuses The provision for employees' bonuses is provided as the estimated amount of the bonuses to be paid to the employees in the following year, which are attributable to the current fiscal year.
- * Provision for directors' bonuses The provision for directors' bonuses is provided as the estimated amount of the bonuses to be paid to the directors in the following year, which are attributable to the current fiscal year.
- * Provision for directors' retirement benefits The provision for directors' retirement benefits is provided as the estimated amount of the

retirement benefits to be paid to the directors based on the resolution of the compensation committee meeting.

(4) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the non-consolidated statement of income.

(5) Other information on the preparation of non-consolidated financial statements

* Consumption taxes All amounts in the accompanying non-consolidated financial statements are stated exclusive of consumption taxes.

2. Changes in accounting policy

(Change in depreciation method)

In line with the Corporate Income Tax Reform, the Company has applied “Practical solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force No. 32, June 17, 2016) from the fiscal year ended December 31, 2016 and changed the depreciation method from the declining-balance method to the straight-line method for attachments to buildings and structures acquired on or after April 1, 2016.

The impact of this change on the non-consolidated financial statements for the fiscal year ended December 31, 2016 was immaterial.

3. Non-consolidated balance sheet

(1) Accumulated depreciation of property and equipment	836,535 thousand yen
(2) Direct reduction in the amount of property and equipment	318,660 thousand yen
(3) Monetary receivables and payables to related parties	
Monetary receivables	14,511 thousand yen
Monetary payables	14,949 thousand yen

4. Non-consolidated statement of income

Transactions with related parties

Business transactions:

Sales	9,240 thousand yen
Purchases	256,683 thousand yen
Selling, general and administrative expenses	3,169 thousand yen
Transactions other than ordinary course of business	1,236 thousand yen

5. Non-consolidated statement of changes in net assets

Number of shares of treasury stock as of December 31, 2016

Common stock	1,087,633 shares
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6. Income taxes

(1) Deferred income tax assets:

(Thousands of yen)

(Deferred tax assets)

Accrued enterprise taxes	122,406
Provision for employees' bonuses	18,367
Provision for directors' retirement benefits	19,103
Allowance for doubtful accounts	19,640
Provision for retirement benefits	53,815
Asset retirement obligations	35,446
Subscription rights to shares	16,997
Accrued facility taxes	15,801
Others	21,444
Total deferred tax assets	323,022

(Deferred tax liabilities)

Asset retirement obligations	11,152
Total deferred tax liabilities	11,152
Total deferred tax assets - net	311,869

(2) Reconciliation of statutory income tax rate to effective tax rate for the fiscal year ended December 31, 2016 was as follows:

Statutory rate	33.0 %
(Reconciliation)	
Non-deductible expenses	0.3
Effect of change in corporate income tax rates	0.2
Tax credits for salary growth	(1.0)
Others	(0.2)
Effective tax rate	32.3 %

(Additional information)

(Effect of change in corporate income tax rates)

Following the promulgation of the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) on March 29, 2016, the corporate income tax rate was reduced and the local income tax rates are gradually decreasing effective from the fiscal years beginning on or after April 1, 2016. In line with these changes, the effective statutory tax rates used to calculate deferred tax assets and deferred tax liabilities were changed from the previous rate of 32.21% to 30.81% for temporary differences expected to be eliminated in the fiscal years beginning on January 1, 2017, and to 30.58% for temporary differences expected to be eliminated from the fiscal year beginning on January 1, 2019.

The impact of this change on the Company's financial results for the fiscal year ended December 31, 2016 was immaterial.

7. Per share information (as of and for the year ended December 31, 2016)

(1) Net assets per share	145.46 yen
(2) Net income per share	53.59 yen

8. Subsequent events

Not applicable.

Accounting Auditor's Report for Consolidated Financial Statements

[English Translation of the Auditors' Report Originally Issued in the Japanese Language]

Independent Auditors' Report

February 7, 2017

The Board of Directors
MonotaRO Co., Ltd.:

Ernst & Young ShinNihon LLC

Kaname Matsumoto
Certified Public Accountant
Designated and Engagement Partner

Daiji Tokuno
Certified Public Accountant
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of MonotaRO Co., Ltd. (the "Company") applicable to the fiscal year from January 1, 2016 through December 31, 2016.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the MonotaRO Group, which consisted of the Company and the consolidated subsidiary, applicable to the fiscal year ended December 31, 2016 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Accounting Auditor's Report for Non-Consolidated Financial Statements

[English Translation of the Auditors' Report Originally Issued in the Japanese Language]

Independent Auditors' Report

February 7, 2017

The Board of Directors
MonotaRO Co., Ltd.:

Ernst & Young ShinNihon LLC

Kaname Matsumoto
Certified Public Accountant
Designated and Engagement Partner

Daiji Tokuno
Certified Public Accountant
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Item 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of MonotaRO Co., Ltd. (the "Company") applicable to the 17th fiscal year from January 1, 2016 through December 31, 2016.

Management's Responsibility for the Financial Statements and the Related Supplementary Schedules

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

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

Opinion

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of the Company applicable to the 17th fiscal year ended December 31, 2016 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Audit Report by the Audit Committee

Audit Report

Audit Committee (hereinafter called as the "Committee") audited job execution of directors for the 17th fiscal year from January 1, 2016 to December 31, 2016 and submits the following audit report.

1. Summary of auditing method and its contents.

- (1) The Committee audited the resolution of Board of Directors Meeting and the internal control system established according to the said resolution stipulated in the Article 416-1-1-RO & HO of the Companies Act.
- (2) The Committee, according to the auditing policy and allocation of responsibilities set by the Committee, conducted the audit having close coordination with Internal Auditing Office as follows:
 - (i) Attended the Board of Directors Meeting and other important management meetings.
 - (ii) Received business reports from Directors and other managements on their execution of their duties.
 - (iii) Reviewed important documents for making decisions.
 - (iv) Investigated into business and assets situations at the headquarter and other main offices.
 - (v) Communicated and exchanged information with the Director of subsidiary, and asked the progress of business performance if necessary.
- (3) The Committee received the report and explanation from independent accounting auditor on their execution of duties accompanied by the monitoring and examining whether they are keeping independent position performing appropriate audit. Also, the Committee received the notice from independent accounting auditor that they have established the "System to ensure the fair execution of duties"(Issues stipulated in the Article 131 of the Corporate Accounting Rules) according to "Quality Control Standard Code of Audit " (October 28, 2005 Business Accounting Council) and requested the explanation where appropriate
- (4) Based on the above methods, the Committee, in a cautious manner, examined the business report, the financial statements (Balance Sheet, Profit and Loss Statement and Statement of the Changes in Shareholders' Equity together with explanatory notes) including supporting schedules and consolidated financial statements (Consolidated Balance Sheet, Consolidated Profit and Loss, Consolidated Statement of the Changes in Stockholders' Equity together with explanatory notes).

2. Results of Audit

(1) Results of audit on Business Report and its supporting documents.

- (i) The Committee recognized that Business Report and its supporting documents of the Company fairly showed the Company's situation in accordance with the relevant legislations and the Articles of Incorporation.
- (ii) The Committee did not see any directors' or Shikkoyakus' dishonesty or serious fact violating to the relevant laws & legislations and the Articles of Incorporation on their execution of duties.
- (iii) The Committee recognized that the resolution of Board of Directors Meeting on the internal control system of the Company was appropriate. Also, the Committee did not see any issue to be pointed out on the directors' or Shikkoyakus' job execution pertinent to internal control system on the business report.

(2) Results of audit on the financial statements and its supporting schedules.

The Committee affirmed that the auditing method and the conclusions of the audit conducted by Independent Accounting Auditor, Ernst & Young ShinNihon Limited Liability Company were appropriate.

(3) Results of audit on the consolidated financial statements.

The Committee affirmed that the auditing method and the conclusions of the audit conducted by Independent Accounting Auditor, Ernst & Young ShinNihon Limited Liability Company were appropriate.

February 8, 2017

Audit Committee, MonotaRO Co., Ltd.

Committee Chairman: Yasuo Yamagata

Committee Member: Haruo Kitamura

Committee Member: Masahiro Kishida

(Note) All of the Audit Committee Members are Outside Directors as prescribed in Article 2, Item 15 and Article 400, Paragraph 3 of the Companies Act.

Reference Documents for the General Shareholders' Meeting

Proposals and References

Proposal 1: Appropriation of Surplus

Appropriation of surplus is proposed as described below.

Matters relating to the year-end dividend

The year-end dividend for the 17th term is proposed as described below in consideration of the business performance for the current fiscal year and future business expansion.

1. Type of dividend property:
Cash
2. Allotment of dividend property to shareholders and the total amount thereof:
9 yen per share of the Company's common stock at a total amount of 1,115,349,903 yen
3. Effective date of dividends from surplus:
March 27, 2017

Proposal 2: Election of Seven (7) Directors

The terms of office of all seven (7) Directors will expire at the conclusion of this General Shareholders' Meeting. Accordingly, the election of seven (7) Directors is proposed in accordance with the decision made by the Nomination Committee.

The candidates for Director are as follows:

No.	Name (Date of birth)	Career summary, positions and responsibilities at the Company (Significant concurrent positions)	Number of shares of the Company held
1	Kinya Seto (June 25, 1960)	<p>April 1983 Joined Sumitomo Corporation</p> <p>July 1990 Specialty Iron & Steel Products Mgr., Sumitomo Corporation of Americas</p> <p>July 1992 Vice President, Sales Dept., Precision Bar Service, INC.</p> <p>May 1997 President & Representative Director, Iron Dynamics Process International LLC</p> <p>September 1999 E-commerce Team Mgr., Business Planning Dept., Iron & Steel Div., No. 1, Sumitomo Corporation</p> <p>October 2000 Director, the Company</p> <p>June 2001 President & Representative Director, the Company</p> <p>March 2006 Director, President & CEO, the Company</p> <p>November 2010 Director (part-time), Zoro Tools, Inc. (present Zoro, Inc.)</p> <p>August 2011 President & Representative Director, K-engine Corporation</p> <p>March 2012 President & Representative Director, Grainger Asia Pacific K.K</p> <p>March 2012 Director, Chairman & CEO, the Company</p> <p>October 2013 Senior Vice President, W.W. Grainger, Inc.</p> <p>December 2013 CEO, GWW UK Online Ltd. (present Razor Occam, Ltd.)</p> <p>March 2014 Director & Chairman, the Company (to present)</p> <p>January 2016 Director, President & CEO, LIXIL Corporation (to present)</p> <p>Representative Executive Officer & COO, LIXIL Group Corporation</p> <p>February 2016 Director, Grainger Asia Pacific K.K. (to present)</p> <p>June 2016 Director, Representative Executive Officer, President & CEO, LIXIL Group Corporation (to present)</p> <p>(Positions and responsibilities at the Company)</p> <p>Director & Chairman</p> <p>Compensation Committee Member</p>	706,800
2	Masaya Suzuki (July 24, 1975)	<p>April 1998 Joined Sumitomo Corporation</p> <p>November 2000 Seconded to the Company; System Team Manager, the Company</p> <p>March 2006 Advanced Materials and Specialty Iron & Steel Trade Dept., Sumitomo Corporation</p> <p>May 2006 EC Business Dept., No. 2, Rakuten, Inc.</p> <p>November 2006 Marketing Team Manager, Bookmedia Dept., Rakuten, Inc.</p> <p>April 2007 General Manager, Marketing Dept., the Company</p> <p>March 2008 Executive Officer and General Manager, Marketing Dept., the Company</p> <p>August 2011 Director, K-engine Corporation</p> <p>March 2012 Director, President & COO, the Company</p> <p>January 2013 Director, NAVIMRO Co., Ltd. (to present)</p> <p>March 2014 Director, President & CEO, the Company (to present)</p> <p>August 2016 Director, PT Sumisho E-Commerce Indonesia (present PT MONOTARO INDONESIA) (to present)</p> <p>(Positions and responsibilities at the Company)</p> <p>Director, President & CEO</p>	446,000

No.	Name (Date of birth)	Career summary, positions and responsibilities at the Company (Significant concurrent positions)	Number of shares of the Company held
3	Masanori Miyajima (January 13, 1953)	<p>April 1977 Joined Nissan Motor CO., LTD.</p> <p>January 1989 Manager, Nissan European Technology Center Ltd.</p> <p>July 1996 General Manager, Business Development Dept., General Electric Company Japan</p> <p>May 1998 Executive Officer, GE Edison Life Insurance Co., Ltd.</p> <p>November 2000 President & Representative Director, WIT Japan Investment Inc. (present Works Capital Inc.)</p> <p>July 2001 Director, the Company (to present)</p> <p>November 2004 Representative Director, Johnson Controls Automotive Systems, K.K.</p> <p>April 2007 CEO & Representative Director, Japan Kantar Research Inc. (present Kantar Japan Inc.)</p> <p>November 2014 Point Partner Business Senior Advisor, Rakuten, Inc.</p> <p>(Positions and responsibilities at the Company)</p> <p>Director</p> <p>Nomination Committee Member</p> <p>Chairperson, Compensation Committee</p>	—
4	Yasuo Yamagata (June 27, 1971)	<p>April 2000 Admitted to the bar</p> <p> Joined Kansai Law & Patent Office</p> <p>March 2003 Corporate Auditor, the Company</p> <p>April 2005 Partner, Legal Professional Corporation Kansai Law & Patent Office (to present)</p> <p>September 2005 Director, the Company (to present)</p> <p>September 2006 Director, Osaka City Dome Co., Ltd. (to present)</p> <p>(Positions and responsibilities at the Company)</p> <p>Director</p> <p>Chairperson, Audit Committee</p>	—
5	Haruo Kitamura (August 21, 1958)	<p>September 1983 Joined Arthur Andersen Konin Kaikeishi Kyodo Jimusho (present KPMG AZSA LLC)</p> <p>March 1987 Registered as a certified public accountant</p> <p>May 1994 Partner, Asahi & Co. (present KPMG AZSA LLC)</p> <p>December 1996 Established Asahi Arthur Andersen Ltd.; Director, Asahi Arthur Andersen Ltd.</p> <p>August 2002 Established Kitamura Certified Public Accountant Office; Chief, Kitamura Certified Public Accountant Office (to present)</p> <p>February 2003 Established Charles's Wain Consulting Co., Ltd. (present CerWin Consulting K.K.); Representative Director, Charles's Wain Consulting Co., Ltd.</p> <p>June 2004 Outside Corporate Auditor, ROHM Co., Ltd. (to present)</p> <p>December 2005 Director, the Company (to present)</p> <p>May 2006 Supervisory Director (part-time), MID REIT Inc. (present MCUBS MidCity Investment Corporation) (to present)</p> <p>June 2009 Outside Corporate Auditor, Yamaha Corporation</p> <p>June 2010 Outside Director, Yamaha Corporation</p> <p>June 2015 Outside Corporate Auditor, ASMO Co., Ltd. (to present)</p> <p>June 2016 Outside Corporate Auditor, Toyo Aluminium K.K. (to present)</p> <p>(Positions and responsibilities at the Company)</p> <p>Director</p> <p>Nomination Committee Member</p> <p>Audit Committee Member</p>	—

No.	Name (Date of birth)	Career summary, positions and responsibilities at the Company (Significant concurrent positions)	Number of shares of the Company held
6	Masahiro Kishida (March 30, 1961)	<p>April 1983 Joined PARCO CO., LTD.</p> <p>May 1992 Joined The Japan Research Institute, Limited</p> <p>July 1996 Joined Booz, Allen & Hamilton Inc. (present Booz & Company Inc.)</p> <p>October 2002 Partner, Roland Berger Ltd.</p> <p>September 2006 Partner, Booz, Allen & Hamilton Inc. (present Booz & Company Inc.)</p> <p>March 2012 Director, the Company (to present)</p> <p>April 2013 Partner, AT Kearney, K.K.</p> <p>January 2014 CEO and Representative Director, AT Kearney, K.K. (to present)</p> <p>(Positions and responsibilities at the Company)</p> <p>Director</p> <p>Compensation Committee Member</p> <p>Audit Committee Member</p>	—
7	David L. Rawlinson II (January 19, 1976)	<p>July 2000 Government Relations Representative, South Carolina Association of Counties</p> <p>November 2001 Attorney-at-law, Locke Load Bissell & Liddell, LLP</p> <p>August 2004 Attorney-at-law, K&L Gates, LLP</p> <p>January 2008 White House Fellow, Office of the White House Chief of Staff</p> <p>July 2009 Vice President and General Counsel, ITT Exelis, Inc.</p> <p>August 2013 Vice President, Deputy General Counsel and Corporate Secretary, W.W. Grainger, Inc.</p> <p>March 2014 Director, the Company (to present)</p> <p>January 2016 Vice President and President, Online Business, W.W. Grainger, Inc. (to present)</p> <p>President, Razor Occam, Ltd. (to present)</p> <p>Director (part-time), Zoro, Inc. (to present)</p> <p>February 2017 Director (part-time), Nielson Holdings PLC (to present)</p> <p>(Positions and responsibilities at the Company)</p> <p>Director</p> <p>Chairperson, Nomination Committee</p>	—

(Notes)

1. Mr. Kinya Seto, a candidate for Director, assumed the positions of Director, President & CEO, LIXIL Corporation and Representative Executive Officer & COO, LIXIL Group Corporation on January 1, 2016, and the position of Director, Representative Executive Officer, President & CEO of LIXIL Group Corporation on June 15, 2016. Prior to his appointments as an officer at these companies, the Company was engaged in merchandise sales, purchasing and other transactions with LIXIL Corporation; however, the amount of transactions is insignificant in view of the scale of the Company's sales.
There are no special relationships between the other candidates and the Company.
2. Mr. David L. Rawlinson II, a candidate for Director, is a business executive at W.W. Grainger, Inc., which is the parent company of the Company, and his positions and responsibilities are as stated above under "Career summary, positions and responsibilities at the Company (Significant concurrent positions).
3. Messrs. Masanori Miyajima, Yasuo Yamagata, Haruo Kitamura and Masahiro Kishida, candidates for Director, are candidates for Outside Director. The Company has designated the above four (4) persons as independent officers in accordance with the provisions of the Tokyo Stock Exchange, and registered them as such at the Exchange.
4. Reasons for nomination as candidates for Outside Director
 - (1) The Company proposes the election of Mr. Masanori Miyajima as an Outside Director in the expectation that he will apply his deep insight and extensive experience as a manager gained through the management of multiple companies to the management of the Company.
 - (2) The Company proposes the election of Mr. Yasuo Yamagata as an Outside Director in the expectation that he will apply his expertise and extensive experience as an attorney-at-law to the management of the Company. Although Mr. Yamagata has not previously been directly involved in management, the Company deems that he will properly carry out his duties as an Outside Director for the reasons stated above.
 - (3) The Company proposes the election of Mr. Haruo Kitamura as an Outside Director in the expectation that he will apply his expertise and extensive experience as a certified public accountant to the management of the Company.
 - (4) The Company proposes the election of Mr. Masahiro Kishida as an Outside Director in the expectation that he will apply his expertise and extensive experience in corporate management and marketing policies as a management consultant to the management of the Company.
5. At the conclusion of this General Shareholders' Meeting, the terms of office held as Outside Director will be 15 years and 9 months for Mr. Masanori Miyajima, 11 years and 7 months for Mr. Yasuo Yamagata, 11 years and 4 months for Mr. Haruo Kitamura, and 5 years for Mr. Masahiro Kishida.