

Annual Report 2017



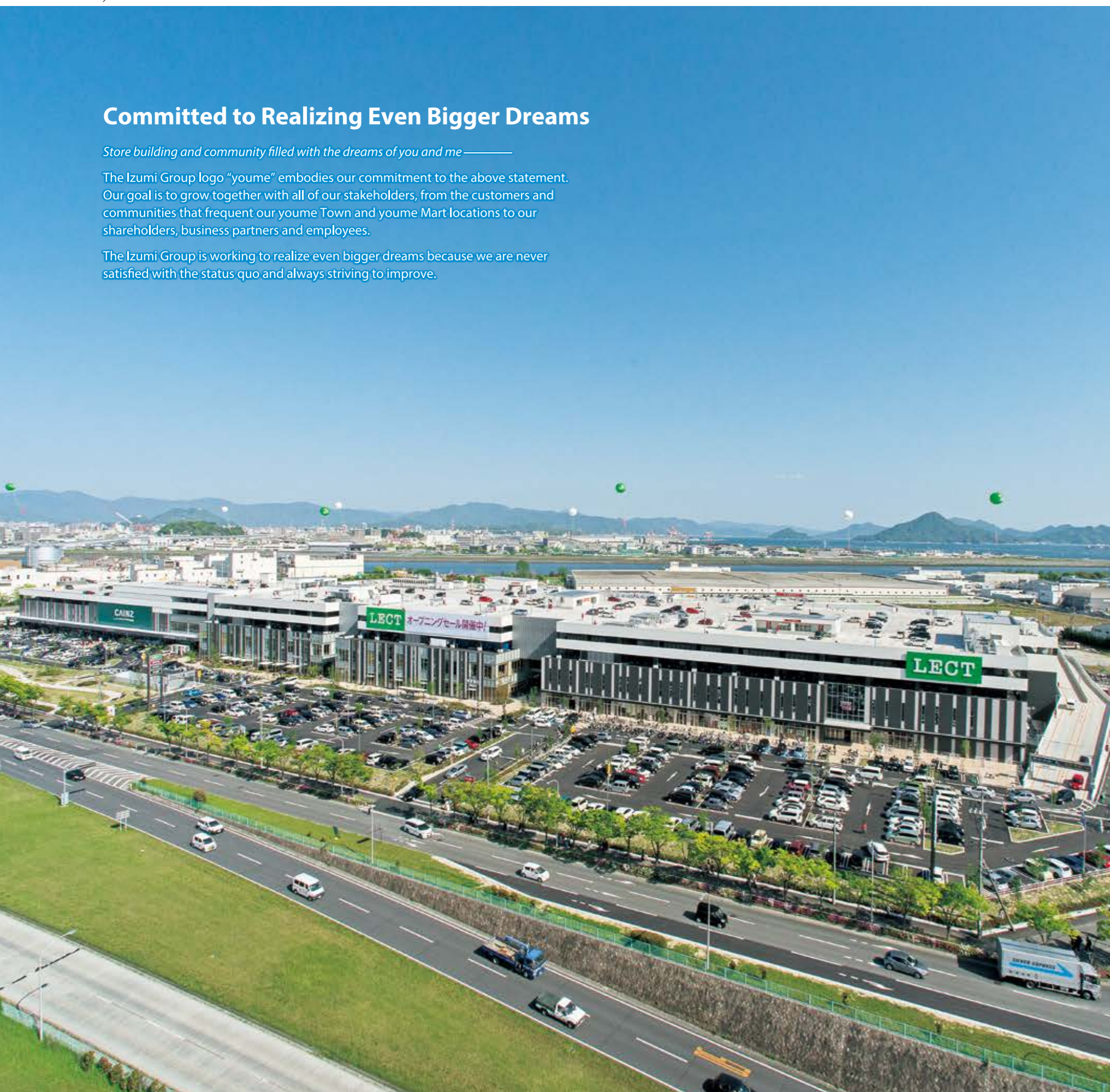
Izumi Co., Ltd.

Committed to Realizing Even Bigger Dreams

Store building and community filled with the dreams of you and me——

The Izumi Group logo “youme” embodies our commitment to the above statement. Our goal is to grow together with all of our stakeholders, from the customers and communities that frequent our youme Town and youme Mart locations to our shareholders, business partners and employees.

The Izumi Group is working to realize even bigger dreams because we are never satisfied with the status quo and always striving to improve.



Corporate philosophy



Operating revenue
¥702.1 billion

Seven consecutive years of record-breaking operating revenue

Number of “youmeka” electronic money cards issued
6.17 million

Increase of 660 thousand year on year (As of February 28, 2017)

Operating income
¥ 35.6 billion

Five consecutive years of record-breaking operating income

Number of stores
198

Decrease of 19 stores year on year (As of February 28, 2017)

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One step ahead of the times, maximizing customer satisfaction

We implement a unique strategy and work to create effective stores and develop human resources to ensure greater customer satisfaction while at the same time overcoming changes in the external environment.

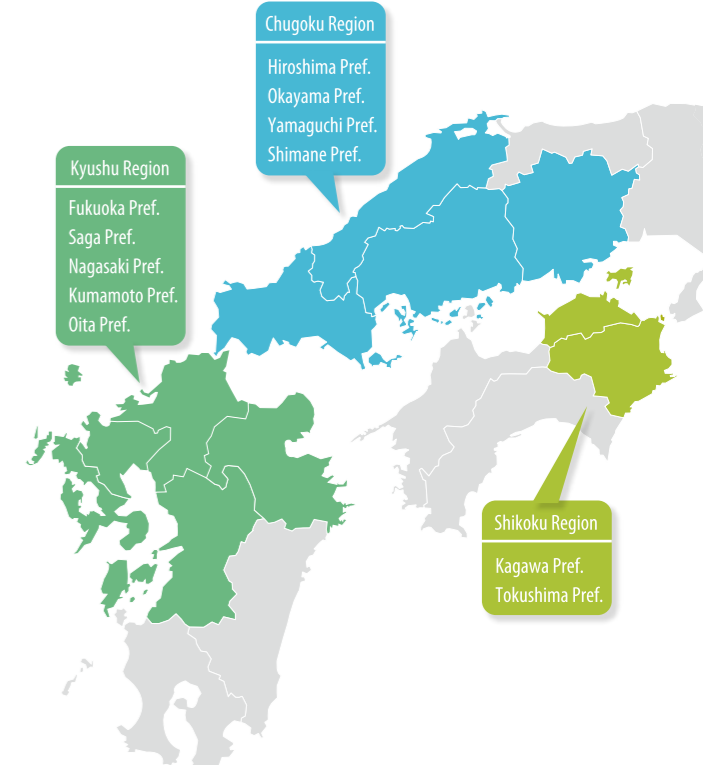


youme Town Hatsukaichi that has an active partnership with the local government

Group store network (As of February 28, 2017)

	Kyushu Region	Chugoku Region	Shikoku Region	Others	Total
youme Town	22	37	4	1	64
youme Mall	2	1	—	—	3
youme Mart	52	21	—	—	73
Yours	8	32	—	—	40
Dailymart	—	—	7	—	7
Others (stand-alone X SELL stores, etc.)	2	4	1	4	11
Total	86	95	12	5	198

Notes: 1. The above figures include stores of Izumi Co., Ltd., Youme Mart Co., Ltd., Yours Co., Ltd., Super Dai-ichi Corporation, and Dailymart Co., Ltd.
2. The number of youme Mart stores is the total number of stores operated by Izumi Co., Ltd., youme Mart Co., Ltd., Super Dai-ichi Corporation, and Yours Co., Ltd.



Expanding dominance limited to local areas with many number one regional stores

The Izumi Group pursues a dominant strategy that limits the area for store openings to Chugoku, Shikoku, and Kyushu, based on which it has opened approximately 200 stores in a concentrated area.

The close familiarity with regional characteristics developed in this manner makes a community-oriented product lineup and store management possible. We are characterized by efficient store deployment that not only improves the efficiency of purchasing, logistics, advertising, and sales, but also takes full advantage of name recognition in each area.

The large-format shopping center youme Town has earned a strong reputation among customers as the number one regional store with dominant scale and quality. Through the creation of spaces where three generations of a family can comfortably spend a day, and a sales floor composition that combines Izumi's directly owned and operated stores with the latest popular tenants, we create stores that make shopping easy with the strong ability to attract customers from both the local area and the wider region.

Active investments in growth and highly motivated employees

We are actively conducting growth investments as we deploy stores in order to create a more intimate dominant base so as to

Four strengths of Izumi

- 1 Expanding dominance limited to local areas
- 2 Having many number one regional stores with the strong ability to attract customers
- 3 Active investments in growth
- 4 High motivation of our employees

further increase market share in each region. Our growth drivers are (1) new store openings, (2) the revitalization of existing stores, and (3) alliances including M&As, and we will continue revitalization efforts aimed at the creation of new number one regional stores and improvements in our position in the region. We will constantly continue to improve the appeal of our shopping centers through not only our full product lineup, freshness, and easy shopping, but also the realization of sales areas that are comfortable and fun.

While striving to instill the founding philosophy of Izumi DNA, we will work ambitiously to build a structure in which employees act on their own initiative and results are evaluated based on clear goals through store-oriented management that is grounded in the field and an incentive system strongly linked with performance.



Fair introducing the local products of Hiroshima



Introduction of popular tenants through revitalization (youme Town Saga)



Training for top winners of the essay contest

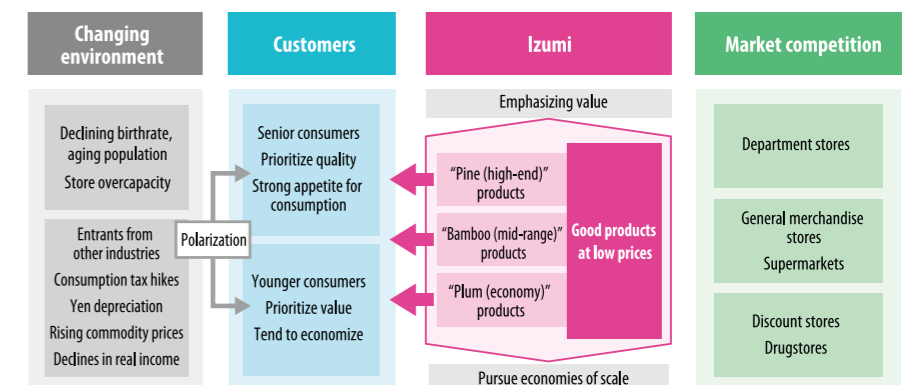
Year-on-year change in same-store sales for fiscal year ended February 2009 onward (%)

	FY2/2009	FY2/2010	FY2/2011	FY2/2012	FY2/2013	FY2/2014	FY2/2015	FY2/2016	FY2/2017
Izumi	98.5	95.3	100.1	101.2	100.1	102.7	101.8	101.4	101.5
Nationwide	98.7	95.8	98.1	99.1	97.2	100.2	99.1	101.3	98.8
Difference	-0.2	-0.5	+2.0	+2.1	+2.9	+2.5	+2.7	+0.1	+2.7

	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Total
Izumi	98.9	102.3	103.0	101.5	107.1	99.4	100.8	103.8	102.4	100.9	100.1	98.1	101.5
Nationwide	99.7	99.3	98.7	99.5	100.2	97.1	96.8	100.6	100.8	98.0	98.4	96.7	98.8
Difference	-0.8	+3.0	+4.3	+2.0	+6.9	+2.3	+4.0	+3.2	+1.6	+2.9	+1.7	+1.4	+2.7

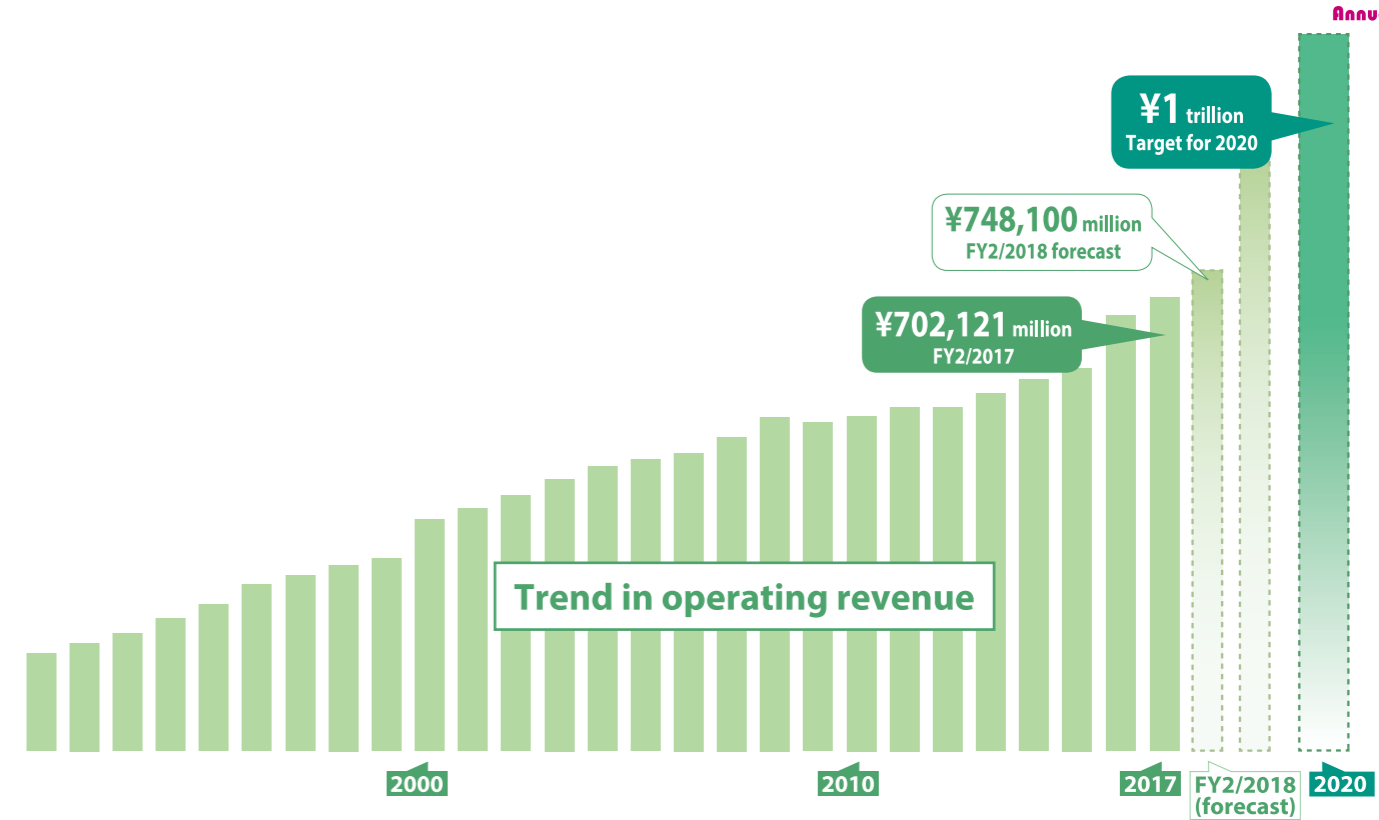
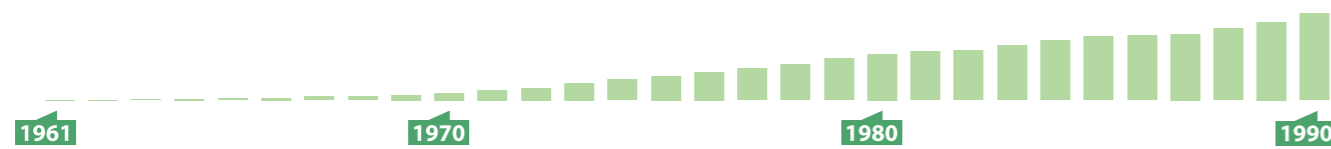
Source: Japan Chain Store Association for nationwide figures.

Izumi's Pricing Strategy "Good products at low prices"



A history of working hand in hand with customers to achieve our dreams

Since opening our first full-fledged supermarket in Hiroshima back in 1961, we at Izumi have pursued store building that makes our customers happy and ensures we grow together with the community. We have also tackled new forms of community building through our youme Town concept. We will continue to move forward closely in tune with the dreams of our stakeholders.



Prehistory prior to establishment

- 1946 Yoshimasa Yamanishi (the current chairperson) opens a stall outside Hiroshima Station.
- 1950 Apparel wholesaler Yamanishi K.K. is established.


1960s

- 1961 Izumi Co., Ltd., is established, and the first Izumi supermarket is opened in Hatchobori.
- 1967 Izumi opens another supermarket across from Hiroshima Station.

1970s

- 1973 The Izumi Gion store opens as the first suburban store with a large parking lot prior to Japan's motorization.
- 1974 Nihon Ryutsu Sangyo Co., Ltd. (Nichiryu), a cooperative purchasing organization, is established by Izumi and seven other companies.
- 1975 The Izumi Association is established to deepen exchanges with business partners.
- 1977 Izumi joins the Japan Chain Stores Association.
- 1978 The Company's stock is listed on the Second Section of the Osaka Securities Exchange, and on the Hiroshima Securities Exchange.


1980s

- 1980 Izumi changes the Japanese spelling of its company name ("Izumi" changes from *hiragana* to *katakana*). It also creates its first corporate logo.
- 
- New company name and logo
- 1985 The point-of-sale (POS) system is introduced.
 - 1986 The Company's stock is listed on the First Section of the Osaka Securities Exchange and on the Second Section of the Tokyo Stock Exchange.
 - 1987 The Company's stock is listed on the First Section of the Tokyo Stock Exchange.

1990s

- 1990 youme Town Takahashi and Higashihiroshima open, marking the birth of a youme Town type shopping center that revitalizes the local community through collaborative relationships with local government and people.
- 1993 Yasuaki Yamanishi is appointed president and representative director. Yoshimasa Yamanishi is appointed chairperson and representative director.
- 1995 youme Town Onga opens in Fukuoka Prefecture, marking the first store opening in Kyushu.
- 1997 The Izumi Museum of Art opens.
- 1998 youme Town Takamatsu opens as our flagship youme Town store and one of the largest retail facilities in western Japan.

2000s

- 2000 youme Town Yumesaito and youme Town Hakata open, marking Izumi's full-fledged expansion in Kyushu.
- 
- youme Town Hakata
- 2003 youme Town Kurume opens as a showcase for community building closely in tune with the local community.
 - 2006 youme Town Saga opens as Japan's first mall with a cross-mall format.
 - 2008 Izumi returns to its roots in Hiroshima to open youme Town Hiroshima.

2010s

- 2011 The Company's 50th anniversary. youme Town Tokushima opens as Izumi's first next generation store for the next 100 years.
- 2012 youme Mart Kokura Higashi opens as the first youme Mart format.
- 2013 Izumi's new head office building is completed. youme Mall Shimonoseki opens as the first youme Mall format.
- 2015 youme Town Hatsukaichi opens as a shopping center that aims to blend the town, environment and people together in harmony.
- 2016 A large earthquake strikes Kumamoto and Izumi immediately thereafter provides assistance and helps with the reconstruction effort.
- 2017 Opened the new business platform LECT as a facility for spending time leisurely centered around the main themes of culture, food, and living.



Hatchobori store



Izumi Ekimae store



Izumi Gion store



The Company's stock is listed on the First Section of the Tokyo Stock Exchange.



youme Town Higashihiroshima



youme Town Hiroshima



Izumi head office building



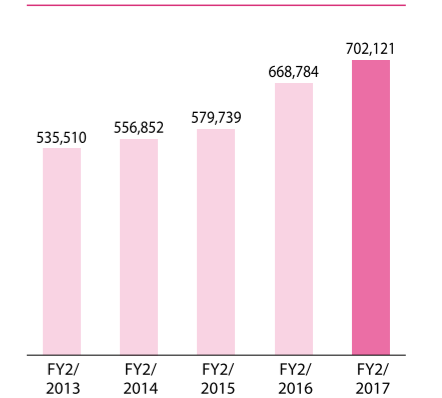
youme Town Hatsukaichi

Good products at low prices

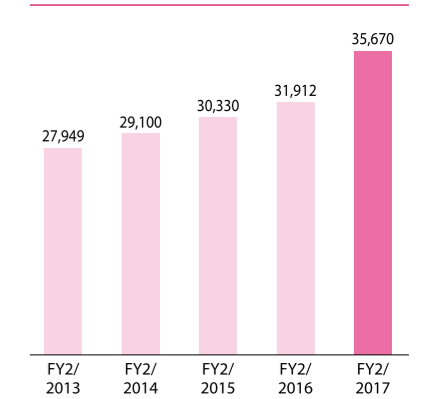
Eleven-Year Summary: Main consolidated financial indicators

	FY2/2007	FY2/2008	FY2/2009	FY2/2010	FY2/2011	FY2/2012	FY2/2013	FY2/2014	FY2/2015	FY2/2016	FY2/2017	FY2/2017
Thousands of U.S. dollars												
Operating results (millions of yen)												
Operating revenue	¥ 446,820	¥ 470,698	¥ 500,293	¥ 492,140	¥ 502,379	¥ 515,875	¥ 535,510	¥ 556,852	¥ 579,739	¥ 668,784	¥ 702,121	\$ 6,227,237
Operating income	24,143	24,798	20,412	20,410	21,783	24,254	27,949	29,100	30,330	31,912	35,670	316,364
Ordinary income	24,134	24,763	19,638	19,730	20,949	23,539	27,102	28,446	29,767	31,102	35,688	316,523
Profit attributable to owners of parent	13,157	13,664	12,734	8,752	9,941	11,062	16,187	17,384	17,360	18,766	17,015	150,909
Financial condition (millions of yen)												
Total assets	335,545	355,588	385,159	388,277	368,584	370,377	379,824	397,071	432,416	468,026	476,885	4,229,579
Total net assets	105,005	105,646	116,667	123,745	132,513	125,389	126,139	130,178	145,709	157,851	171,963	1,525,171
Total liabilities	230,539	249,941	268,491	264,531	236,071	244,987	253,684	266,892	286,706	310,175	304,922	2,704,408
Cash flows (millions of yen)												
Cash flow from operating activities	20,695	25,247	36,100	34,427	12,181	25,561	27,196	25,683	52,246	13,553	33,104	293,605
Cash flow from investing activities	(15,211)	(27,416)	(39,451)	(20,253)	(8,230)	(9,682)	(20,356)	(19,948)	(20,897)	(26,071)	(19,938)	(176,834)
Cash flow from financing activities	(7,260)	42	3,683	(8,393)	(7,117)	(21,934)	(6,272)	(5,501)	(25,159)	12,956	(16,252)	(144,142)
Cash and cash equivalents at end of period	11,614	9,429	9,751	15,490	12,316	6,260	6,862	6,800	12,990	13,429	10,342	91,725
Per-share indicators (yen and U.S.\$)												
Book value per share (BPS)	1,918.99	1,037.63	1,154.70	1,228.70	1,286.20	1,388.45	1,541.32	1,672.92	1,876.22	2,060.44	2,240.66	19.87
Earnings per share (EPS)	251.80	135.10	134.09	91.86	104.35	123.74	207.01	236.55	241.6	261.96	237.45	2.11
Dividends per share	32.00	16.00	16.00	16.00	16.00	20.00	38.00	43.00	51.00	64.00	66.00	0.59
Financial indicators												
Equity ratio	29.7%	27.6%	28.6%	30.1%	33.2%	30.3%	30.4%	30.3%	31.2%	31.5%	33.7%	
Return on assets (ROA)	7.4%	7.2%	5.3%	5.1%	5.5%	6.4%	7.2%	7.3%	7.2%	6.9%	7.6%	
Return on equity (ROE)	14.0%	13.8%	12.2%	7.7%	8.3%	9.4%	14.2%	14.8%	13.6%	13.3%	11.0%	
Other benchmarks												
Number of stores (Group total) (unit: stores)*	92	94	98	99	100	102	111	121	156	217	198	
Net sales for existing stores year on year (Non-consolidated)	100.8%	98.7%	98.5%	95.3%	100.1%	101.2%	100.1%	102.7%	101.8%	101.4%	101.5%	
Cumulative number of "youmeka" issued (unit: 10,000 cards)	—	—	—	—	1	43	116	350	475	551	617	

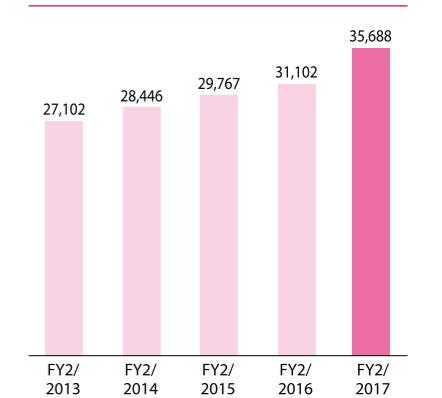
Operating revenue (millions of yen)



Operating income (millions of yen)

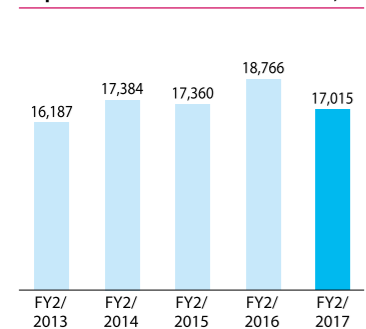


Ordinary income (millions of yen)

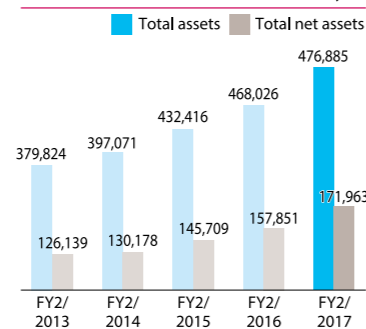


Notes: 1. The number of X-SELL standalone stores grew by seven as a result of absorption of X-SELL Co., Ltd. in the fiscal year ended February 2009.
2. U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

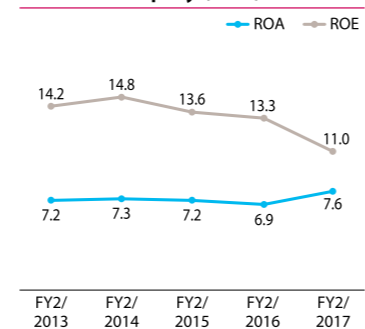
Profit attributable to owners of parent (millions of yen)



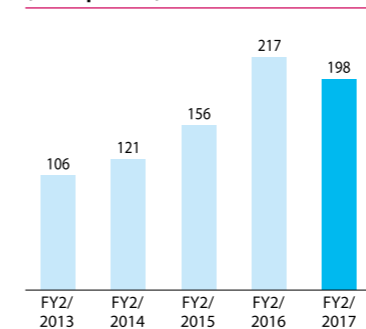
Total assets / Total net assets (millions of yen)



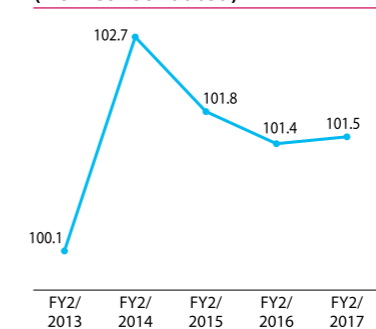
Return on assets (ROA) / Return on equity (ROE) (%)



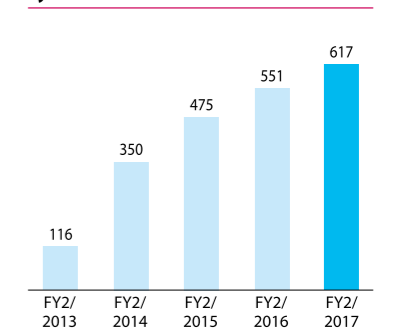
Number of stores (Group total) (unit: stores)



Net sales for existing stores year on year (Non-consolidated) (%)



Cumulative number of "youmeka" issued (unit: 10,000 cards)





Yasuaki Yamanishi
President and Representative Director
Izumi Co., Ltd.
山西泰明

Response to the Kumamoto earthquake



A huge selection of "onigiri" made available the day after the earthquake in Kumamoto



Reopening day of youme Town Hamasen, with a long line before opening

New store opening Fiscal year ended February 2017



youme Town Tokuyama that opened in September 2016



youme Town Minami-Yukuhashi that opened in December 2016

Committed to actively tackling challenges toward realizing our dream of becoming a trusted trillion-yen company

We are exerting our best efforts aimed at becoming a trillion-yen company while also contributing to the constantly changing lives of our customers and dedicating ourselves to enriching community development efforts.

Learning from the Kumamoto Earthquake to make tomorrow better

The large earthquake that struck Kumamoto in April 2016 caused unprecedented damage. We operate 33 stores in Kumamoto Prefecture and they are used frequently by people in the local community for their shopping needs. With the desire to quickly help those in need following this emergency, we began delivering relief supplies from the day after the earthquake at the request of local governments with which we have concluded agreements to provide such supplies during a disaster.

Fortunately, none of our employees in the disaster-affected area were seriously injured, but some stores suffered damage. Despite being affected by this disaster personally, our employees worked diligently to restore operations with the hopes of reopening stores for the benefit of customers. We began by opening stores for which safety checks were completed and then providing water, food and daily essentials to the local community. After seeing our customers' relieved faces, I once again felt keenly aware of the mission retailers play as a part of social infrastructure. All of our stores also collected donations for those in need, which we then matched and donated to Kumamoto Prefecture. Our business partners also played an important role by providing a huge amount of

support to prompt arrangement and delivery of relief supplies. I would like to express my sincerest appreciation to all of those who assisted us.

The youme Town Sunpian and youme Town Hamasen (both located in Kumamoto Prefecture) that were forced to close for an extended duration were partially reopened in September 2016 and fully reopened in April 2017. It is very emotional to see our customers happy and our employees excited about their work. Our employees in Kumamoto now more than ever appreciate their routine and are placing even greater heart into their daily work. We will utilize these experiences and share them with employees who have not directly experienced an earthquake in order to reaffirm our mission as a retailer. Also, as a company that is closely ingrained in the local community, we will continue to dedicate efforts to the future reconstruction of the Kumamoto area.

We have created a business continuity plan (BCP) in preparation for future disasters based on our initiatives following the earthquake in Kumamoto. In addition to



The pocket-sized manual containing our disaster preparedness measures given out to all employees

introducing our own system for checking the safety of employees, we have distributed a pocket-sized manual containing our disaster preparedness measures for them to carry at all times so that it will serve as a guide in the case of an emergency. We will continue to come up with measures with safeguarding peoples' lives the number one priority so that in future disasters we can take immediate action to help with the recovery and reconstruction effort.

Fiscal year ended February 2017 marked by aggressive business promotion efforts

The retail environment in Japan during the previous fiscal year saw an ongoing gradual recovery, but the future remained largely unclear given rising economic uncertainty both in Japan and globally due to Brexit, the policies of the new U.S. President and other factors.

In response, the Izumi Group worked to address these environmental changes. In terms of new store openings, we opened youme Town Tokuyama (Yamaguchi Prefecture) in September 2016 and youme Town Minami-Yukuhashi (Fukuoka Prefecture) in December 2016, further advancing our dominant strategy in the process.

As for existing stores, we held the grand reopening of the newly renovated youme Town Chikushino (Fukuoka Prefecture) in March 2016 and revitalized youme Town Saga (Saga Prefecture) with additional floor space in November 2016. We were also able to drive additional customer traffic in communities through our strength in foods and collaboration with prominent tenants.

In terms of our merchandise, in an effort to increase sales, we actively rolled out special products commemorating our 55th anniversary both in terms of quality and price as well as products and foods made in disaster-affected areas. We also continued to enhance our value-added proposal capabilities and further improved pricing of daily products used frequently

by customers to address the trend of consumer polarization. In the second half, the local professional baseball team, the Hiroshima Toyo Carp won the league championship, which caused a great deal of excitement locally that propelled our sales higher.

As for our food supermarket subsidiaries, although certain stores were forced to close after being damaged by the earthquake in Kumamoto, same-store sales quickly rebounded after these stores were reopened. Also, we heightened operating efficiencies by combining our loyalty point card strategies and expanding joint purchasing. Consolidated subsidiaries Super Daiei and Yours decided to close some stores given the lack of future potential for profitability, but at the same time they worked on revitalizing existing stores.

Thanks to these aggressive business promotion efforts and our quick recovery from the impacts of the earthquake in Kumamoto, Izumi was able to record its highest ever operating revenue and operating income during the fiscal year ended February 2017.

Financial results for the fiscal year ended February 2017

(Millions of yen)

	Fiscal year ended February 2017	Year on year	Fiscal year ended February 2016
Operating revenue	702,121	105.0%	668,784
Operating income	35,670	111.8%	31,912
Profit attributable to owners of parent	17,015	90.7%	18,766

New store LECT



LECT's sales floor is Izumi's largest



Hiroshima T-SITE Tsutaya bookstore with a wide range of books



Cainz equipped with woodworking tools

New store youme town Gotsu



Youme Town Gotsu facing National Route 9



Selling practical goods and apparel together



Press conference after completion

To foster trust



Held study sessions on fair trade for employees

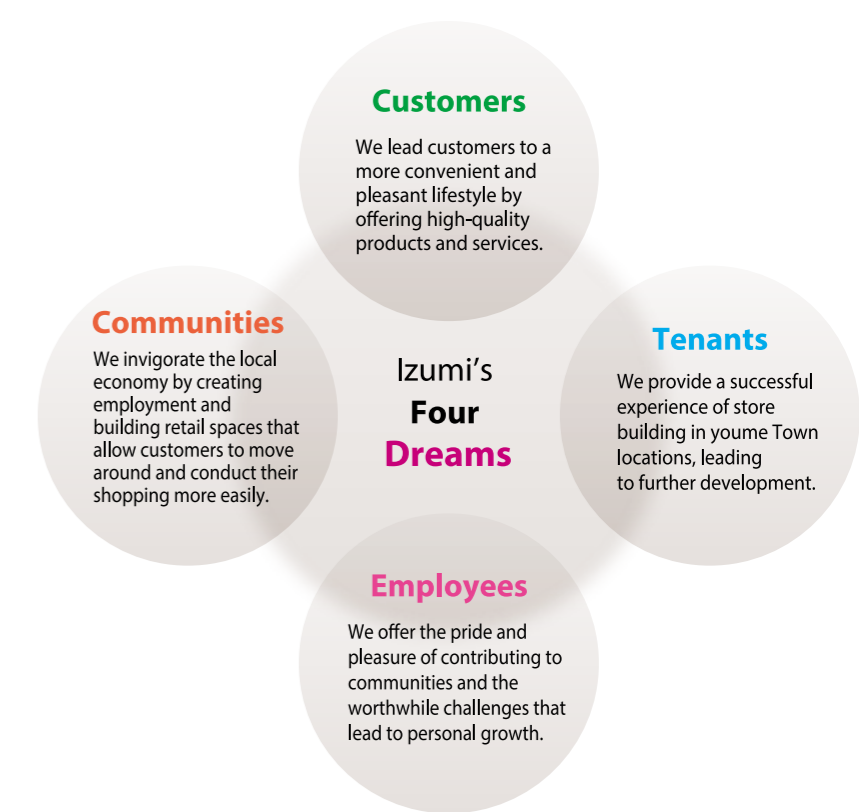


Promoting store development that meets customers' expectations



Highly motivated employees the driving force behind company growth

Izumi: Our four dreams



Fiscal year ending February 2018 requires change and preparation

Consumer mindsets remain downtrodden since Japan hiked its consumption tax rate in 2014. As for day to day consumption, while the trend to economize will remain in place, there has been a marked increase in spending on celebrative occasion and for want-based consumption. During the fiscal year ending February 2018, the Izumi Group will address this changing environment and diversifying customer needs using a careful and meticulous approach. As part of these efforts, we will further refine our strategy of "good products at low prices" in which we deliver higher quality, fresher, and safer products at affordable prices.

In terms of store network expansion, we have already opened two new stores during the first half. At LECT (Hiroshima Prefecture), which opened in April 2017, we are pursuing store development involving Izumi, Cainz, and Hiroshima T-SITE under the concepts culture, food, and living. With an eye on want-based consumption, we have created the new value of time-based consumption where consumers can enjoy not only shopping, but also eating out, reading at a café, or taking part in a DIY class. Our youme Town Gotsu (Shimane Prefecture) location that opened in May took over the site of the Green Mall, which was a commercial facility beloved by the community for many years. As a lifestyle infrastructure of the community, we are supporting the daily needs of the community with an extensive food sales floor specializing in freshness, taste and local products and a broad lineup of household goods and apparel as well.

With regards to existing stores, we will work on improving both store infrastructure and our services in order to secure profits as the

number one regional store in terms of customer traffic.

This fiscal year's keywords will be "change" and "preparation"—changing stores and changing communities. We have shared these words with all employees and we will work to deepen and broaden our local domination, raise management efficiencies, and achieve growth without fail.

As a result of these initiatives, we forecast that consolidated operating results for the fiscal year ending February 2018 will include operating revenue of ¥748,100 million (up 6.5% year on year) and operating income of ¥39,000 million (up 9.3% year on year).

Refining our strengths further

Izumi's "four strengths" are the basis for its further growth.

First, we are expanding our dominance limited to West Japan.

In addition to becoming even more familiar with the area, offering local products, and providing management tailored to each store, we will reduce costs through logistics and advertisement. **Secondly, we have the most stores in the region.**

We will create locations where three generations, that tend to become distant in nuclear families, can spend time comfortably together, supporting commercial areas over a wider range as well as our current commercial areas. **Thirdly, we are actively investing in growth.** We will increase our share within our areas of dominance by opening new stores and conducting M&As, and will always enhance our appeal through revitalizing our existing stores. **Fourth is the high motivation of our employees.** By delegating authority to the stores, we have created an environment in which employees can act autonomously, and in which hard work leads to results.

Our management philosophy represents an unwavering set of guidelines

The economy and living environment always undergo changes, which is why the Izumi Group uses its management philosophy as an unwavering set of guidelines. Our most fundamental goal is to "Be No. 1 in customer satisfaction" and we are constantly refining our products, stores and services with customer satisfaction as the main barometer.

The phrases "Be a company with an exciting future" and "Be a company worth working for" from our corporate philosophy clearly indicate our stance to providing workplaces where employees are excited to work and where they can make a difference. Making customers' joy our joy is what motivates us. These continued efforts are a driving force behind the growth of each and every employee. This philosophy has been passed down as Izumi's DNA since our founding and it is deeply instilled in our employees through their daily work.

Izumi also has a creed known as the four dreams, which are "Make customer's lives more convenient and comfortable," "Provide a positive economic impact on local communities and make them more lively," "Help tenants to grow further" and "Provide employees with a sense of worth that leads to their personal growth." In addition to these four dreams, we emphasize returning profits to shareholders and increasing dividends while balancing cash reserves with investments geared toward growth. The act of moving forward together with all stakeholders and helping them fulfill their dreams represents our dream. We are also deeply committed to being ecologically friendly by conserving both energy and resources and contributing to environmental conservation efforts as a company.

Toward a trillion-yen company worth trusting

The Izumi Group is now working to achieve the goal to "Be a trillion-yen company with dreams" by the year 2020. Three initiatives aimed at corporate growth and expansion of our regional share are the driving forces of our sustainable growth. First of all, we will continue to ambitiously open new large-format shopping centers and food supermarkets. Next, we will continue to revitalize existing stores, and gain support from customers. Thirdly, we will actively develop our M&A strategy, and create a real competitive advantage in our region.

Our goal at the Izumi Group is to "Be a trillion-yen company with dreams," but we are also working hard to foster a strong level of trust appropriate to a trillion-yen company. As the foundation of this trust, we will pursue the development of appealing commercial facilities that can satisfy our customers and the safety and security of our products. Another major theme is to contribute to the development of local economies and expand employment, centered around the stores. In employee training, we will strengthen risk management and governance education as an important mission to ensure compliance management. We will become a better company that meets and exceeds the expectations of stakeholders, including maintaining food safety, creating employment opportunities, working with business partners as equals, and helping protect the natural environment.

To continually be a company trusted by customers and communities, the Izumi Group will continue to tackle challenges and make steady progress toward its future vision. I ask for your continuing support and patronage moving forward.

Corporate Governance

Pursuing appropriate and sound management under an effective corporate governance system

Basic approach

By achieving customer satisfaction, we aim to maximize corporate value and meet the expectations of shareholders, suppliers, employees, and other stakeholders. At the same time, we will hold ourselves to high moral standards as we fulfill our social responsibilities and contribute to local communities.

Based on this philosophy, we view the improvement of our management structure and other systems to raise their transparency and fairness as a priority issue. We are working on initiatives to strengthen the supervisory function of the Board of Directors, ensure the reliability of our finances and improve the effectiveness and efficiency of our operations.

Matters related to performance of duties, audit and supervision, nomination and determination of remuneration

The Company has eight directors, of whom two are outside directors. To maintain management responsibility and transparency in the performance of their duties, the term of directors is limited to two years. As a rule, the Board of Directors meeting is held once a month to supervise and conduct a full

discussion of the performance of duties by directors. From the eight directors, one president and representative director is chosen and five executive officers are elected to perform a range of duties. Each week, the directors and executive officers hold a management meeting to report progress on management policies and exchange opinions. The business conditions of the Group companies are considered at the once-monthly Consolidated Evaluation Committee and Results Review Meeting to which the presidents of each Group company are summoned, forming a system to check the management of each company.

The Company has adopted an Audit & Supervisory Board system, with three members (of whom two are outside members). The members supervise the decisions of the Board of Directors and the performance of duties, while the directors seek members' objective opinions on proposals at the Board of Directors meeting.

In addition, five legal advisors offer advice and guidance to provide an appropriate and efficient oversight function.

The Company's internal audit function is bolstered by an Internal Audit Section, which is staffed by nine people and operates from within the Corporate Administration Division, which is independent of other divisions. Based on the yearly audit plan, the Internal Audit Section monitors whether business is being conducted appropriately and effectively, offers advice and guidance to departments within the Company, the store network and the Group companies, and reports the results of its activities to the president and representative director and the

Audit & Supervisory Board members.

The Audit & Supervisory Board consists of one full-time member and two outside members, for a total of three members. As a rule, the Audit & Supervisory Board meeting is held once a month. The full-time member is a tax accountant with extensive knowledge and experience as a specialist in tax and accounting matters, while the two outside members are a certified public accountant and a tax accountant, respectively. Each member receives reports from the Internal Audit Section and shares internal audit information. The Audit & Supervisory Board members, the independent auditor and the Internal Audit Section work together to share information gathered from regular on-site audits of stores. In this way, the internal controls and the state of accounting audits can be tracked and the report of the independent auditor on the results of the audit of the accounts is submitted at the Audit & Supervisory Board meeting. To fully support the audit operations of the Audit & Supervisory Board members, two members of staff are appointed (in non-exclusive capacities) to assist the members, further strengthening the audit function.

■ The Compliance and Risk Management Committee is administered by the Corporate Administration Division, which is independent from other divisions, and it meets once a month. The Compliance and Risk Management Committee members are elected from each division of the Company and each of the companies of the Group attend these meetings to report on and discuss the Group's overall compliance education and risk monitoring activities. The results of these discussions are reported to the directors and the Audit & Supervisory Board members.

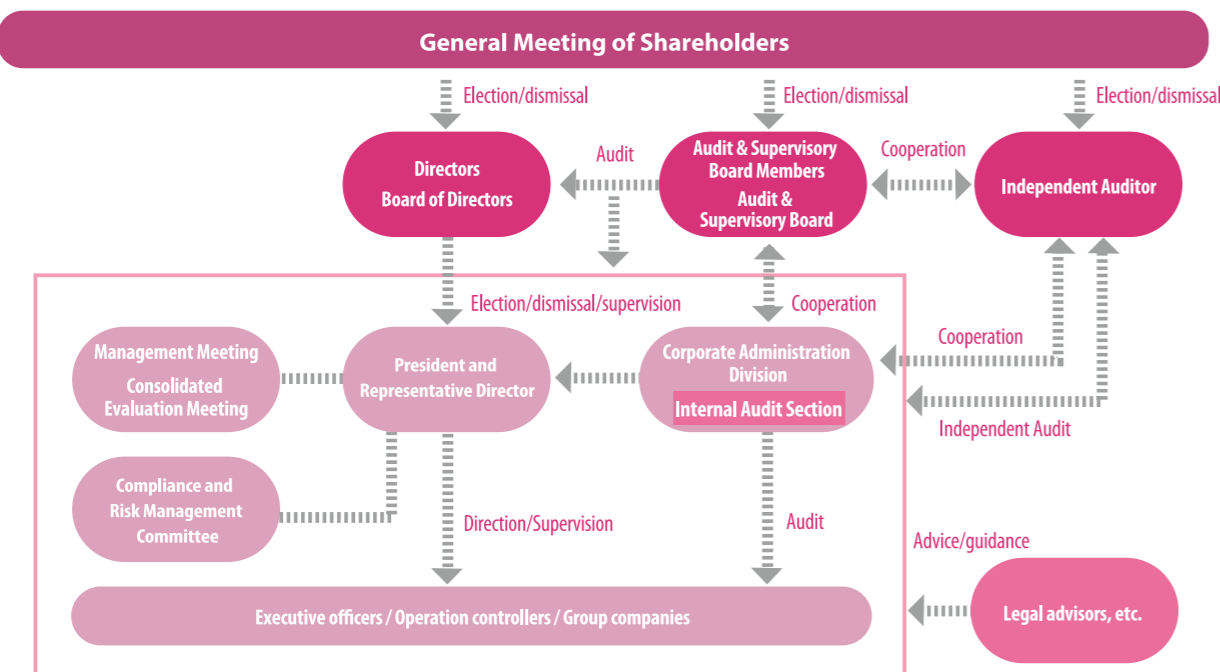
■ The Izumi Group has set out a Charter of Conduct, which it uses as a code of conduct to ensure compliance with laws and regulations in its business activities by the directors and employees of the Company and of the Group companies. To improve compliance with the law and raise awareness, the Company has set up the "Izumi Hotline" internal reporting system. It also takes preventative measures against the risks arising in the Company and in the Group companies.

■ With the primary aim of dealing with the risks that arise from business activities, securing the safety of customers and minimizing damages and other losses, the Company has set up a company-wide communication structure. In this way, in times of emergency such as an earthquake, the Emergency Response Headquarters, headed by the president and representative director, can be established immediately.

Status of internal control/ risk management systems

The status of internal control/risk management systems is as follows:

Organizational chart of performance of duties, audit and internal control



Compliance

Providing learning opportunities to further raise compliance awareness across all the Group companies

Izumi has been promoting internal control initiatives for a long time. Keeping in mind the goal announced in 2011 of "Be a trillion-yen company with dreams" and the need to obtain the level of trust appropriate to a trillion-yen company, we will continue our push to strengthen internal controls. Specifically, the following initiatives are underway.

■ First, the potential risks that could arise within the Company are carefully isolated by the responsible departments, and countermeasures are considered and then implemented at the site of the risk. Furthermore, at the Compliance and Risk Management Committee meetings held for the entire company once a month, information is shared on compliance education and information and a range of risk countermeasures are considered and discussed by attendees from each department.

In addition, a similar Izumi Group Compliance and Risk Management Committee has been set up to strengthen the internal controls of the Group as a whole.

■ Second, to establish a firm base for compliance, which is the central pillar of internal control, managers have repeatedly emphasized its importance at company-wide meetings. Compliance education for employees is included in the important internal training curriculum.

Furthermore, with the aim of raising the compliance awareness of all employees, each month the departments responsible for compliance education choose a timely theme and dispatch materials to stores and each department within the Company, explaining the legal issues required for business using easy-to-understand explanations.

In order for Izumi to continue to be a company that is trusted by customers and communities, we will continue to involve all our employees and to promote compliance management.

Directors and Audit & Supervisory Board Members (As of May 24, 2017)

Directors

Chairperson and Director

Yoshimasa Yamanishi

- March 1946 Finds wholesaler of secondary textile products
- June 1950 Finds Yamanishi K.K. (currently Izumi Real Estate K.K.)
Becomes Representative Director
- October 1961 Finds the Company
Becomes President and Representative Director
- March 1993 Becomes Chairperson and Representative Director of the Company
- April 2002 Becomes Chairperson and Director of the Company (current position)

Senior Managing Director

Yuichiro Kajihara

- March 1987 Joins the Company
- September 1998 Becomes Store Manager of the Company's Hikoshima store
- July 2002 Becomes Manager of the Company's Takamatsu store
- April 2003 Becomes Manager of the Company's Kurume store
- February 2006 Becomes Executive Officer and Sales Department Manager of the Company's Kyushu zone
- May 2007 Becomes Director and Sales Department Manager of the Company's Kyushu zone
- March 2010 Becomes Managing Director and Sales Department Manager of the Company's Kyushu zone
- October 2010 Becomes Managing Director and Sales Division Deputy Manager/Sales Department Manager of the Company's Kyushu zone
- May 2013 Becomes Senior Managing Director and Marketing Division Manager of the Company
- March 2016 Becomes Senior Managing Director and Sales Division Manager of the Company (current position)

Director

Toyomi Nakamura

- March 1972 Joins the Company
- March 1988 Becomes Section Chief of the Fruit and Vegetable Section of the Food Department of the Company
- February 1996 Becomes Manager of the Food No. 1 Department
- May 2002 Becomes Executive Officer and Sales Department Manager of the Company's Western zone
- November 2002 Becomes Executive Officer and Sales Department Manager of the Company's Kyushu zone
- May 2011 Becomes Executive Officer and Sales Planning Department Manager of the Company
- May 2013 Becomes Director and Sales Planning Department Manager of the Company
- February 2014 Becomes Director and Marketing Department Manager of the Company's Kyushu zone
- March 2015 Becomes Director and Marketing Department Manager of the Company's Kyushu South zone
- March 2016 Becomes Director and Operations Department Manager of the Company's Kyushu South zone (current position)

President and Representative Director

Yasuaki Yamanishi

- December 1977 Joins the Company
- May 1981 Becomes Director of the Company
- May 1982 Becomes Managing Director of the Company
- November 1982 Becomes Sales Division Manager
- April 1984 Becomes Senior Managing Director of the Company
- May 1988 Becomes Representative Senior Managing Director of the Company
- May 1991 Becomes Deputy President and Representative Director of the Company
- March 1993 Becomes President and Representative Director of the Company (current position)

Senior Managing Director

Tatsuya Mikamoto

- April 1981 Joins The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
- April 2001 Head of Corporate Finance Department at the bank's Mizonokuchi Ekimae branch
- June 2003 Head of Corporate Finance Department at the bank's Hamamatsucho branch
- November 2005 Head of Corporate Finance Department at the bank's Shinbashi branch
- April 2008 Head of the No. 1 Corporate Finance Department at the bank's Shinjuku branch
- April 2010 Director and head of the Fukuoka Corporate Finance Department at the bank
- April 2012 Director and head of the Kyushu Corporate Finance Department at the bank
- May 2013 Becomes Senior Managing Director and Administration Division Manager of the Company
- July 2014 Becomes Senior Managing Director and Administration Division Manager of the Company/Group Administrative Controller (current position)

Director

Masahiko Honda

- April 1986 Joins the Company
- July 1997 Becomes Section Chief of the Contoller Section of the Sales Department of the Company
- September 2003 Becomes Section Chief of the Kaizen Section of the Personnel and General Affairs Department of the Company
- February 2006 Becomes Store Manager of the Company's Shinmachi store
- March 2007 Becomes Section Chief of the Corporate Planning Department of the Company
- September 2008 Becomes Corporate Planning Department Manager of the Company
- September 2011 Becomes Executive Officer and Corporate Planning Department Manager of the Company
- May 2016 Becomes Director and Corporate Planning Department Manager of the Company (current position)

Outside Directors

Akio Nitori

- March 1972 Finds NITORI Furniture Wholesale Center Co., Ltd. (currently NITORI Holdings Co., Ltd.), becomes Senior Managing Director
- May 1978 Becomes President and Representative Director of NITORI Holdings Co., Ltd.
- May 2014 Becomes Chairperson and Representative Director of NITORI Co., Ltd. (current position)
- May 2015 Becomes Director and Supreme Advisor of Home Logistics Co., Ltd. (current position)
- February 2016 Becomes Chairperson and Representative Director of NITORI Holdings Co., Ltd. (current position)
- May 2016 Becomes Outside Director of KOHNAN SHOJI CO., LTD. (current position)
- May 2017 Becomes Outside Director of the Company (current position)

Kunihiko Yoneda

- April 1989 Associate Professor, Faculty of Commercial Sciences, Hiroshima Shudo University
- April 2008 Professor, Faculty of Commercial Sciences, Hiroshima Shudo University (current position)
- April 2010 Dean, Faculty of Commercial Sciences, Hiroshima Shudo University
- May 2015 Becomes Outside Director of the Company (current position)

Audit & Supervisory Board Members

Full-time member

Kuniaki Kawamoto

- May 1970 Joins the Hiroshima Higashi Tax Office
- March 2005 Retires as Chief National Tax Inspector of the Fukuyama Tax Office
- April 2005 Becomes Advisor to the Company
- May 2005 Appointed full-time Audit & Supervisory Board member of the Company (current position)

Outside member

Jiro Matsubara

- April 1982 Joins Kawasaki Heavy Industries, Ltd.
- April 1984 Is recruited by the Kagawa Prefectural Office
- October 1998 Opens the Matsubara Certified Public Accountant Office (current position)
- May 1999 Becomes Audit & Supervisory Board member of the Company (current position)

Outside member

Yasuyuki Tsudo

- July 2002 Resigns from the Hiroshima Higashi Tax Office
- August 2002 Opens the Tax Accountant Office (current position)
- July 2004 Becomes Audit & Supervisory Board member of the Company (current position)

Utilizing various business platforms to open stores that are number one in terms of customer satisfaction

We flexibly open stores through various business platforms based on a desire to contribute to abundant living in local communities and to contribute to the lives of customers.

New business platform opened in April 2017



This new business platform aims to be a third place following your home and workplace. The store combines the three tenants Izumi (food), Hiroshima T-SITE (culture), and Cainz (living) with approximately 150 varied specialty stores. In order to support the needs of people from a wide range of generations including singles and married couples, we have adopted innovations so that people can enjoy their time dining, reading, in DIY classes, etc. in addition to shopping.

Store overview

- Date opened:** April 28, 2017
- Manager:** Kenji Miura
- Address:** 2-1-45 Ogi, Nishi Ward, Hiroshima City
- Store area:** Approx. 39,000 m²
- Site area:** Approx. 54,800 m²
- Parking spaces:** Approx. 3,100



Food court with a total of 1,000 seats



Hiroshima T-SITE that introduces approximately 250,000 books



Stylishly designed green spaces at Cainz



LECT (Hiroshima Prefecture)

Large-format shopping centers (SC)

youme Town

These large-format shopping centers target customers across a wide suburban area, consisting of stores directly owned and operated by Izumi with the latest popular tenants that support the needs of the times, resulting in a selection of products, services, and times. The goal is to create a space where three generations of family members will visit and enjoy their day. Furthermore, we also create stores so that each individual store is in line with the needs and characteristics of the area.



youme Town Hatsukaichi (Hatsukaichi City, Hiroshima Prefecture)



youme Town Saga (Saga City, Saga Prefecture)

Food supermarkets (SM)

youme Mart

Our youme Mart brand of supermarkets carry everyday essentials, with a focus on foods. The product lineup of these stores is closely in tune with regional tastes, with the goal of creating a familiar and convenient shopping experience for those living around the store. With Japan facing an aging population, this retail brand emphasizes close connections with people's daily lives.



youme Mart Suwano (Kurume City, Fukuoka Prefecture)

Neighborhood shopping centers (NSC)

youme Mall

Our youme Mall brand of shopping malls are located on a large site with parking lot and contain a large collection of specialty stores, including home improvement stores, electronics retailers, drug stores and restaurants, with a youme Mart as the anchor store. Our goal is to create a retail facility where customers feel like they can get anything on their shopping list.



youme Mall Shimonoseki (Shimonoseki City, Yamaguchi Prefecture)

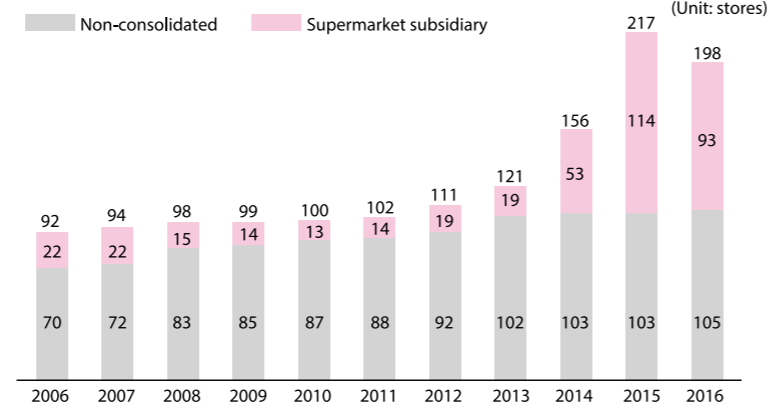
Achieving steady and sustainable growth through further evolution and a passion to take on new challenges

We are conducting self-reform for further growth while working to improve customer satisfaction based on an approach of close ties to the local community.

Improving the effectiveness of store management Organizational reform

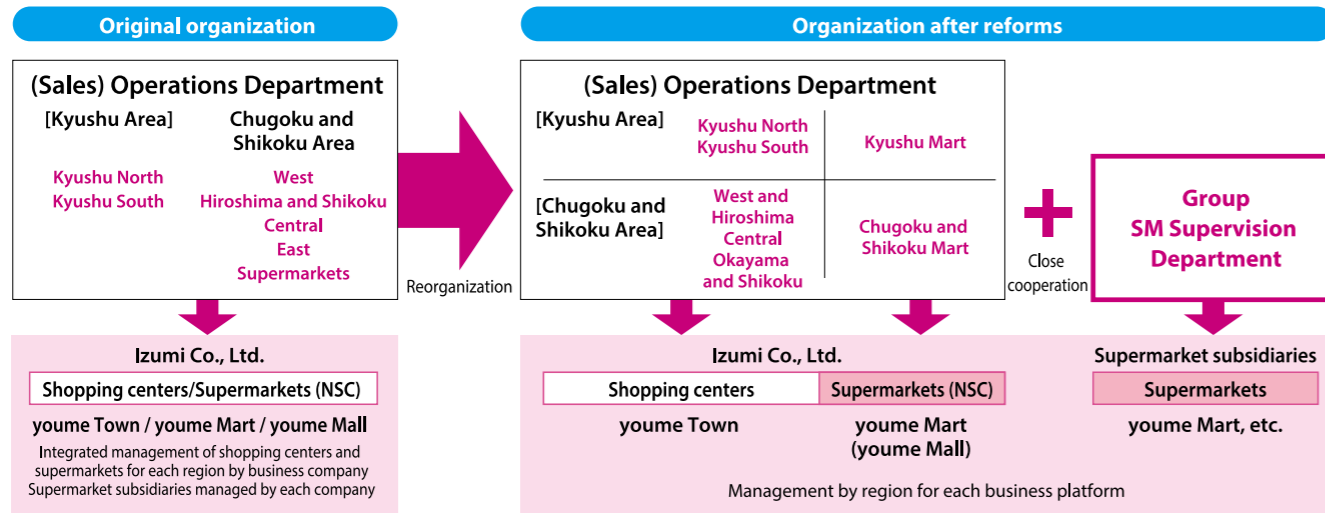
Our mainstay stores that we operate are large-format shopping centers called youme Town, and we have conducted management in each area regardless of the scale of the store aimed at store management with close ties to the local community. On the other hand, supermarkets such as youme Mart have increased their presence among the Group stores as a result of recent new store openings and M&As. If we continue the store management used up until now under these conditions, it may not necessarily be the most efficient means of optimal store operations respectively for large-format shopping centers and supermarkets. For this reason, we have implemented organizational reforms that separate shopping centers and supermarkets, reorganized the Kyushu Mart Operations Department and Chugoku and Shikoku Mart Operations Department for each trade area, and we have also established the Group SM Supervision Department that oversees supermarket subsidiaries. Through these efforts we have created a system that will enable optimal store management for supermarkets with closer ties to the local community and the integrated deployment of supermarket business strategies in the Group. We will promote the revitalization of existing stores as we have up until now, pursue economies of scale and the benefits of dominant expansion, and further enhance the effectiveness of operations improvements.

Number of the Group stores (Izumi Co., Ltd. + supermarket subsidiaries)



Notes:
 1. In FY 2008, the number of store grew by 11 when Izumi Co., Ltd. acquired youme Town Kumamoto Co., Ltd. and X-SELL Co., Ltd. through an absorption-type merger.
 2. In FY 2012, Seiko Co., Ltd. was made into a subsidiary.
 3. In FY 2014, youme Mart Co., Ltd. acquired Seiko Co., Ltd. through an absorption-type merger. KOEI Co., Ltd. and Super Daiei Corporation were made into subsidiaries.
 4. In FY 2015, youme Mart Co., Ltd. acquired KOEI Co., Ltd. through an absorption-type merger. Five Super Daiei Corporation stores were closed. Yours Co., Ltd. and Dailymart Co., Ltd. were made into subsidiaries.
 5. In FY 2016, unprofitable stores were closed by Super Daiei Corporation and Yours Co., Ltd.

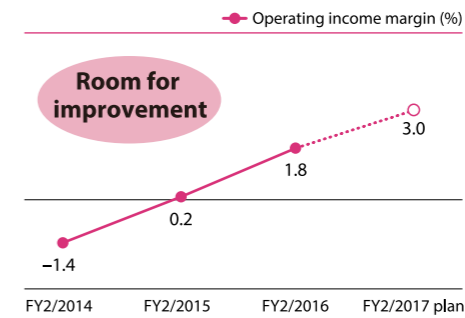
New structure for evolving retail stores



Aggressive investments in revitalization are a source of strength

Izumi Co., Ltd. supermarkets

In comparison with stores operated by supermarket subsidiaries such as youme Mart that have improved profitability through operations improvements, the profit levels of youme Mart supermarkets operated by the Company are relatively low, and there is room for improvement. We will improve profitability by improving the effectiveness of operations management as supermarkets while actively revitalizing stores.



*The operating income margin is the ratio of operating income to revenue, excluding temporary expenses at the time of new store openings.



youme Mart Shimonoeki (Shimonoeki City, Yamaguchi Prefecture)

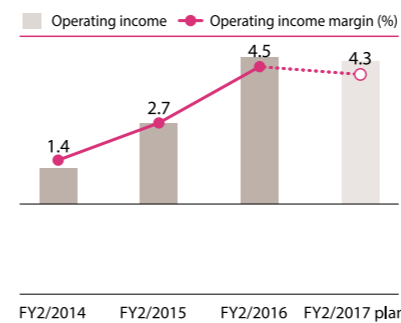
Contribute to improvements in consolidated operating income through operations improvements at supermarket subsidiaries

At supermarket subsidiaries, while some youme Mart Co., Ltd. stores were forced to temporarily close as a result of the Kumamoto Earthquake, efforts were made to make available the goods required for the reconstruction of the affected areas after operations were resumed, and sales at existing stores quickly recovered after operations were resumed. In addition, overall, we deepened our partnerships by sharing

a credit card strategy, expanding joint purchasing, reinforcing cost price negotiating power, and integrating logistics and systems, and worked to improve operational efficiency in order to take full advantage of economies of scale and the benefits of dominant expansion. Mainly, Super Daiei Corporation and Yours Co., Ltd. decisively closed stores in consideration of future profitability for stores while revitalizing existing stores.

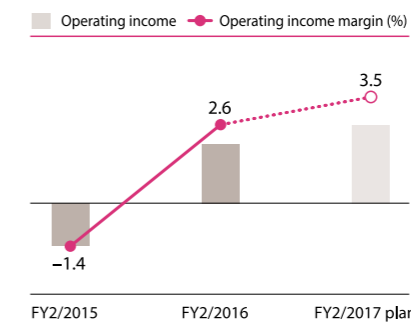
youme Mart Co., Ltd.

youme Mart Co., Ltd. was born after we supported NikoNikoDo Co., Ltd. that applied the Civil Rehabilitation Act in 2002. It is based in Kumamoto Prefecture. It acquired Seiko Co., Ltd. in FY 2014 and KOEI Co., Ltd. in FY 2015 through an absorption-type merger, and it has improved operations. Although it was affected by the Kumamoto Earthquake in FY 2016, it promptly resumed operations and improved profitability.



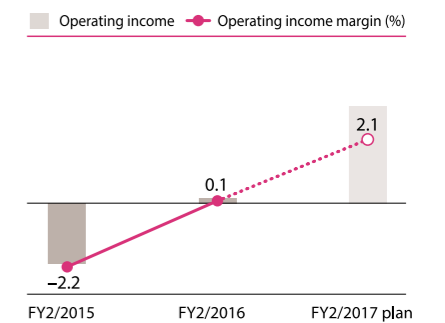
Super Daiei Corporation

Super Daiei Corporation is a supermarket subsidiary based in Fukuoka Prefecture. Since being made into a subsidiary in FY 2014, efforts have been made to revitalize existing stores and improve operations. By moving all store brands that had been operated under multiple business platforms to youme Mart in FY 2016, improvements were made and profitability was achieved.



Yours Co., Ltd.

Yours Co., Ltd. is a supermarket subsidiary based in Hiroshima Prefecture. Thanks to improvements in operations, the closing of unprofitable stores, and efforts to revitalize existing stores since being made into a subsidiary in FY 2015, profitability was achieved in FY 2016. We will make steady efforts to improve operations and boost profitability from FY 2017 onward.



*The operating income margin is the ratio of operating income to total revenue

Strategy for IR Activities

Promoting communication

We have established a dedicated department for IR that regularly holds dialogue with investors on management strategies and financial results. A results briefing is held for analysts and institutional investors twice a year after the full year and first half results are announced, company briefings are held for individual investors, and we participate in seminars for individual investors that are held by securities firms.

In addition, we participate in conferences held by securities firms for

overseas investors, and actively disclose information in English.

Information released

Monthly sales, financial statements, business performance, stock information, general meeting of shareholders, IR calendar, publication of financial statements, IR information (in English), new releases, stock price information

URL for IR information

http://www.izumi.co.jp/corp/e_ir/

Capital efficiency strategy

Efforts to increase shareholder value

We work to create cash flows through the implementation of medium to long-term management strategy that includes store and human resource development and M&As, and we use these cash flows effectively through growth investments and returns to shareholders. We will work to maintain a high level of capital efficiency and to further improve capital efficiency as we endeavor to increase shareholder value.

The Four Dreams of Izumi are the pillars of CSR activities

Four Dreams of Izumi 1

Make customer's lives more convenient and comfortable

Holding of rice harvest and production area interchange meetings

The Hiroshima Prefecture Toyosaka Koshihikari Production Area Interchange Meeting is a forum for parents and children to enjoy learning about agriculture and food. In cooperation with JA ZEN-NOH Hiroshima, participants can experience rice harvesting every fall in rice fields located in Toyosaka, Higashihiroshima City.



Promotion of barrier-free design

The Company supports the Act on Promotion of Smooth Transportation, etc. of Elderly Persons, Disabled Persons, etc. at all stores that have been opened since 2000. Support is also provided through intangible aspects that include the assignment of escorting assistants to each store to assist the shopping of customers with disabilities.



Breakfast Making Award

The "Try Making Your Own Breakfast" award ceremony sponsored by the Hiroshima Support Team for Building the Future of Children was held in Hiroshima Prefecture on October 30, 2016, with Izumi also participating as a supporting company. Award certificates were presented to the children.



Four Dreams of Izumi 2

Provide a positive economic impact on local communities and make them more lively

Strong support for Hiroshima Maple Reds

Hiroshima Maple Reds is the women's handball team representing Hiroshima Prefecture. Izumi supports the team as the main sponsor, and many of these athletes also work for the Izumi Group. Their efforts to achieve a balance between sports and work serves as a model for our employees.



Passionately supporting the Carp

As an official sponsor of the Hiroshima Toyo Carp, Izumi sponsors games every year at the MAZDA Zoom-Zoom Stadium Hiroshima. We shared the joys of the league championship with everyone in the region in 2016.



Agreements with local governments in each area

Izumi has established cooperative systems with local governments in each area in order to manage stores in a way that is closely tied to the local community. Izumi entered a regional revitalization comprehensive collaboration agreement with Yamaguchi Prefecture on September 1, 2016 and with Shunan City on September 30, 2016. Izumi will work to revitalize local communities and improve services to residents.



Four Dreams of Izumi 3

Help tenants to grow further

Holding of the Izumi Specialty Store Owners Meeting

Tenant owners from 29 companies participated at the Izumi Specialty Store Owners Meeting that was held at the Izumi Head Office on October 26, 2016. Owners mutually exchanged views and shared opinions through panel discussions, a social gathering, etc.



Holding of customer service contest

The "3rd Youme one Grand Prix" company-wide role playing championships for the employees of all tenants was held at the Izumi Head Office on October 28, 2016. A competition was held among 13 of 1,590 participants who won regional tournaments.



Fund raising at events

We conduct a RADIO CHARITY MUSICTHON in support of the visually impaired at our youme Town locations in Hiroshima, Fukuoka, and Kagawa. Funds are raised through this enjoyable event in partnership with Kyushu Asahi Broadcasting, RCC Broadcasting, and Nishinippon Broadcasting.



Four Dreams of Izumi 4

Provide employees with a sense of worth that leads to their personal growth

Female leader development project

Izumi launched the Youme Can Project (Female Leader Development Project) in 2014 in order to increase the percentage of women in management positions to at least 20% by 2020. We are conducting activities to support career building that allows for a balance between child raising and work.



Internal business school

The internal Izumi Business School is offered as an opportunity for self-development that will help with career building. A total of 1,094 people participated in these courses directly related to work that cover themes such as leadership, marketing, and coaching in FY 2016.



Sharing "Youme Delight Stories"

Youme Delight Stories provide opportunities for partner employees to share their own insights and case studies of reforms in the field with the entire company. Through these efforts, various innovations put into practice in cooperation with coworkers are accumulated as know-how and incorporated in store management.



A beautiful environment where people and green live in harmony for tomorrow

Environmental preservation activities are the most fundamental activities for companies in fulfilling their social responsibility.

We aim to build a recycling-oriented society through activities by employees on their own initiative and in cooperation with customers and local communities.



Reduce power consumption while maintaining comfort and safety through innovations with equipment

Izumi installs equipment that reduces power consumption mainly when opening new stores and remodeling stores. We are saving energy while maintaining comfort and safety through the adoption of LED lighting and the adoption of a refrigeration and freezer storage showcase for the inverter ecosystem. At youme Town Hatsukaichi, we have installed solar power generation panels on the roof, and also introduced on a trial basis organic EL lighting that is expected to be the lighting of the next generation. We are installing Eco-Station panels that provide notifications on matters such as the status of solar power generation in order to also get customers interested in environmental preservation.



Energy-saving frozen food showcase



In-store Eco-Station



Organic EL lighting introduced on a trial basis



Installation of power generation panels on the roof

Charging spots for electric vehicles

Izumi is promoting the installation of charging spots for electric vehicles in consideration of its position of operating stores of a highly public nature. These charging spots are available at stores including youme Town Hikanomori, youme Town Hakata, youme Town Takamatsu, youme Town Hatsukaichi, and youme Town Tokuyama.



Collection at Ecoste

Ecoste used paper collection stations allow customers to bring in paper including newspapers and magazines and receive points based on the weight when they make shopping visits. Ecoste were introduced from 2010, and they have currently been installed at 59 stores.



Cleanup activities by employees

Izumi conducts cleanup activities based on the voluntary participation of employees near stores in each area and the Izumi Head Office. Employees of youme Town Tokuyama that opened in 2016 are also engaged in persistent activities including cleanup activities at nearby parks.



Implementing CSR activities while observing compliance regulations

We will aim to instill guidelines in order to fulfill our social responsibility as a company.

Basic policy for fulfilling social responsibility

(1) Striving continually to grow and move ahead, we will promote management notable for the speed with which it handles the challenges of change. To achieve this, we will base corporate activities around the life and culture of the community under the themes of "building dreams" and "building communities." We take our mission to be the fulfillment of our social responsibility through the development of stores. Fostering the

finest qualities of local communities, we aim to be the number one regional store.

(2) With regard to corporate activities, based on a solid foundation of compliance management, we will work to build deeper relationships of trust with customers, local communities, shareholders, and business partners.

(3) The purpose of our directors and employees is to take pride in our contributions to the community, create something worthwhile that opens the way to personal growth, please our customers, and make our stores reflect their desires.

1 Business activities compliant with laws and regulations

The Izumi Group has enacted a Charter of Conduct to ensure that daily business is carried out strictly in accordance with laws and regulations. Based on the work of the Compliance and Risk Management Committee, we will promote the education of all our employees.

The Izumi Group Charter of Conduct

- 1 We shall offer services and products that are safe and beneficial to society, thus securing the trust and satisfaction of customers.
- 2 We shall strive for fair transactions, based on the principle of free competition.
- 3 We shall create structures to manage customer data and internal data in an appropriate manner.
- 4 We shall disclose corporate information actively and fairly to both shareholders and society.
- 5 We shall behave in ways that take into account the natural and global environment.
- 6 We shall resolutely confront anti-social forces and organizations that threaten the social order and the safety of citizens.
- 7 We shall contribute to the development of other regions in our international business activities, while respecting international rules and local laws, culture and customs.
- 8 We shall follow the founding spirit of the Company, respecting each other and behaving with humility.
- 9 We shall aim to be conscientious corporate citizens, obeying laws both in Japan and overseas as well as meeting internal standards and corporate ethics, and who are able to judge which actions should and should not be taken.
- 10 To fulfill the spirit of this charter, the Company's top management shall listen to opinions both inside and outside the Company and set up internal structures to further promote a law-abiding culture.

2 Carefully protecting personal information

To protect important personal information entrusted to us by customers at stores and other locations, the employees of the Izumi Group and its suppliers work according to common guidelines.

Izumi Privacy Policy

- 1 The personal information received from our customers shall be used to send marketing materials such as direct mail, product and special event announcements, and after-sales service.
- 2 When handling personal information, the Company shall make every effort to implement secure management to prevent leaks.
- 3 The Company shall obtain the agreement of customers before providing personal information to third parties. However, this excludes cases where there is a justifiable reason, such as when required by laws and regulations.
- 4 In cases where the Company outsources operations related to the handling of personal information, the Company shall work to supervise the outsourcing recipient so that personal information is protected and managed safely.
- 5 The Company may as necessary and at any time improve or change the handling of personal information.
- 6 When requested to disclose or amend personal information by customers, the Company shall respond promptly to deal with such requests, within reasonable bounds.

3 Guidelines for ecologically friendly practices

To share ownership of environmental initiatives among all the Group's employees, Izumi is formulating an environmental philosophy and environmental policy, and employees will study it and move toward implementing it together.

Environmental Philosophy

Izumi believes that its initiatives aimed at environmental issues constitute the most fundamental activities for fulfilling its social responsibility. The Company encourages each employee to practice environmental conservation activities on his or her own initiative, based on an awareness as global citizens. Moreover, working together with local residents, the Company aims to build a recycling-oriented society and reduce the burden on the environment.

Environmental Policy

Based on its corporate philosophy that calls for being "number one in customer satisfaction," Izumi works to conserve the environment through its products, services and store building activities and to harmonize with the natural environment of local communities. In addition, through its environmental conservation activities Izumi aims to become a company that is ever more trusted by its customers.

- 1 We shall work to offer safe products and services that take the environment into account.
- 2 We shall work to consider the needs of the environment when building stores by reducing resources and energy usage, controlling waste products and promoting recycling activities.
- 3 We shall work to promote the use of recycled materials, buy and use products with a smaller environmental footprint and use resources effectively.
- 4 We shall work to contribute to society by cooperating with local residents and local authorities to promote environmental conservation activities.
- 5 We shall work to help individual employees promote and improve environmentally friendly practices on an ongoing basis, and comply with environmental regulations.

Review of operating results by segment

Retail operations

While the Kumamoto Earthquake caused significant damage, Izumi focused on activities aimed at the reconstruction of the affected area as quickly as possible that included the provision of assistance supplies to evacuation centers and disaster assistance fund raising activities in order to help the affected area. In addition, we resumed operations at youme Town Sunpian (operations have been resumed at the entire facility as of the end of the current fiscal year) and youme Town Hamasen (operations have been resumed on the 1st and 2nd floor as of the end of the current fiscal year, operations for the 3rd floor and movie theater were resumed in April 2017) where operations had been suspended due to the disaster.

In terms of stores, we opened youme Town Tokuyama (Shunan City, Yamaguchi Prefecture) in September, had remodeled openings of stores including youme Town Chikushino (Chikushino City, Fukuoka Prefecture) in March, and expanded and remodeled youme Town Saga (Saga City, Saga Prefecture) in November. By further developing our dominant strategy, we will strengthen the revitalization of existing stores and aim to create number one regional stores to attract customers in their respective region.

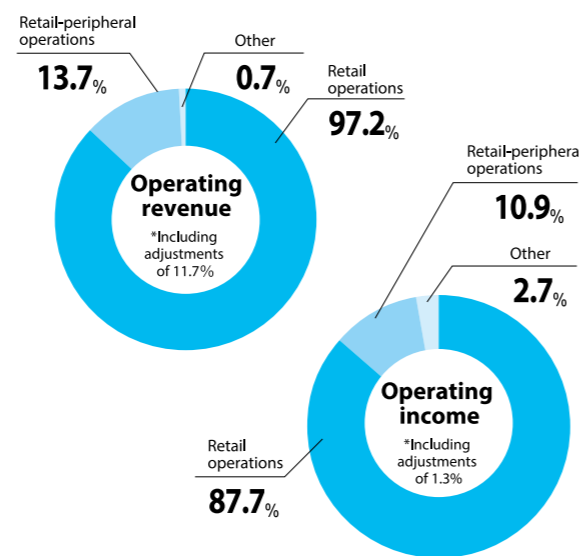
At supermarket subsidiaries, although operations at some stores were temporarily suspended as a result of the Kumamoto Earthquake, sales at existing stores quickly recovered after operations were resumed. In addition, efforts were made to improve operational efficiency through means such as sharing credit card strategy and expanding joint purchases. The consolidated subsidiaries Super Daiei and Yours decisively closed stores in consideration of future profitability for each store while revitalizing existing stores.

In terms of products, we will work to develop product lineups and revise pricing in response to the differing preferences of each region and generation based on ideas starting from stores, and also work to improve cost competitiveness by reducing costs and controlling losses. With regard to sales trends, contributions to increased sales were made by the "55th Anniversary Appreciation Festival" held throughout the fiscal year, the "Working Hard Kumamoto and Oita Support Sale" held during the first half of the fiscal year, and the excitement from the Hiroshima Toyo Carp winning the league championship during the second half of the fiscal year. As a result, same-store sales for the fiscal year ended February 28, 2017 increased 1.5% year on year.

On the subject of costs, we strove to reduce cost and control losses in the purchase of merchandise. In addition, while selling, general and administrative (SG&A) expenses increased due to factors such as increases at consolidated subsidiaries such as Yours, we focused on controlling costs in order to minimize the impact of the Kumamoto Earthquake.

As a result, operating revenue for the segment was ¥682,691 million (up 5.3% year on year), while operating income came in at ¥31,272 million (up 13.1%).

Share of operating revenue by segment (FY2/2017)



Retail-peripheral operations

In our retail-peripheral operations, we revised transaction terms with other segments, and promoted the greater use of "youmeika" electronic money and the use of credit cards for shopping. In addition, we began introducing our card system at companies such as Yours that became consolidated subsidiaries during the previous fiscal year, and expanded handling at external affiliated stores including tenants at youme Town in an effort to further advance the Group's card strategy (the cumulative number of "youmeika" issued rose to 6.17 million, up from 5.51 million at the end of the previous fiscal year). In addition, we worked to improve frequency of usage through improved customer convenience and to improve productivity at the register while contributing to our ability to attract customers to our retail operations and to send customers between stores.

As a result, operating revenue for the segment was ¥96,524 million (up 33.7% year on year), while operating income came in at ¥3,902 million (up 2.7%).

Other

In our wholesale operations, profits improved as we strengthened marketing policies and purchase prices fell as a result of yen appreciation. In our real estate operations, we generated stable income from rents.

As a result, total revenue for the segment was ¥4,936 million (up 1.0% year on year), while operating income came in at ¥976 million (up 32.0%).

Management analysis of the fiscal year under review

Total revenue and operating income reached record-high levels

Worked to support reconstruction in the areas affected by the Kumamoto Earthquake while focusing on a quick recovery from the impact of the earthquake

youme Town Tokuyama and youme Town Minami-Yukuhashi were opened, helping to further drive our dominance in the market

Large-scale remodeling projects were conducted at youme Town Chikushino and youme Town Saga

Improved operational efficiency through means such as sharing credit card strategy and expanding joint purchases in supermarket subsidiaries

Results summary

In total revenue, net sales rose by ¥31,499 million (up 4.9% year on year) to ¥670,253 million. Operating revenue increased by ¥1,837 million (up 6.1%) to reach ¥31,867 million. This was attributed mainly to the Company robustly increasing sales at existing stores and new stores as well as the launch of stores newly established or expanded during the previous fiscal year from the beginning of the current fiscal year.

Gross profit came in at ¥147,419 million, an increase of ¥10,011 million compared to the previous year. The gross profit margin was 22.0%, up 0.5 percentage points over the previous fiscal year. In addition to these factors, the conversion of companies including Yours into consolidated subsidiaries during the previous fiscal year also contributed to the increase in net sales, operating revenue, and gross profit, and the improvements in the gross profit margin.

With regard to selling, general and administrative (SG&A) expenses, while efforts were made to control costs, there was an increase in new store establishment costs and personnel costs for new stores established during the previous fiscal year, as well as a rise in costs associated with the increase in consolidated subsidiaries. As a result, SG&A expenses increased ¥8,091 million (up 6.0%) for a total of ¥143,616 million. The SG&A ratio was 21.4%, a rise of 0.2 percentage points over the previous fiscal year. Accordingly, operating income increased by ¥3,757 million (up 11.8%) to ¥35,670 million, for an operating margin of 5.3%, which was 0.3 percentage points higher than the previous fiscal year.

Non-operating income increased by ¥446 million to ¥1,877 million as a result of factors including the receipt of disaster contributions and assistance supplies. In contrast, non-operating expenses decreased by ¥382 million to ¥1,859 million as a result of factors including a decrease in interest expenses. As a result, ordinary income rose by ¥4,586 million (up 14.7%) to ¥35,688 million, for an ordinary income margin of 5.3%, which was off 0.4 percentage points from the previous fiscal year.

Extraordinary income came to ¥1,374 million, down ¥71 million from the previous fiscal year. This was mainly attributable to subsidy income of ¥574 million and a gain on sale of non-current assets of ¥383 million, despite the lack of the profit on sale of investment securities that was recorded during the previous fiscal year. Meanwhile, extraordinary losses mainly consisted of a loss on disaster resulting from the Kumamoto Earthquake of ¥9,367 million, and totaled ¥10,744 million, an increase of ¥8,579 million compared to the previous fiscal year.

Total income taxes were ¥8,924 million, down ¥3,080 million year on year. Profit attributable to non-controlling interests was ¥380 million (compared to a net loss attributable to non-controlling interests of ¥386 million in the previous fiscal year).

As a result of the above, profit attributable to owners of parent decreased ¥1,751 million (9.3%) to ¥17,015 million for a net profit margin of 2.5%, 0.4 percentage points below the previous fiscal year's level.

Management analysis of the fiscal year under review

Analysis of financial position

With regard to total assets, due mainly to upfront investments related to the construction of new stores, capital investment in property, plant and equipment and intangible assets during the fiscal year under review came to ¥27,727 million. As a result, property, plant and equipment, after accounting for depreciation, rose by ¥9,966 million. Notes and accounts receivable-trade rose by ¥2,257 million due to an increase in credit transactions.

With regard to liabilities, notes and accounts payable-trade decreased by ¥3,012 million due to factors including a revision in suppliers at consolidated subsidiaries. Accounts payable-other rose by ¥4,416 million due to factors including an increase in accounts payable for equipment related to the construction of new stores. In addition a provision for loss on disaster arising from the Kumamoto Earthquake of ¥1,877 million was recorded. Short-term loans payable and long-term loans payable fell by a combined ¥10,724 million.

Net assets rose by ¥12,285 million due to factors including an increase in internal reserves, despite a reduction due to dividend payments. As a result of the above factors, the equity ratio was 33.7%, 2.2 percentage point higher than the 31.5% recorded at the end of the previous fiscal year.

Statement of cash flows

The main items in cash inflows from operating activities were profit before income taxes of ¥26,319 million and depreciation of ¥15,691 million. The main cash outflows were income taxes paid of ¥8,972 million, payment for loss on disaster of ¥6,810 million, and a decline in notes and accounts payable-trade of ¥3,155 million.

The main item in cash outflows from investing activities was the purchase of property, plant and equipment, which came to ¥21,945 million. This was related primarily to upfront investments for the construction of new stores. Also, as for main income items, there was ¥1,734 million in proceeds from sales of property, plant and equipment.

The main item in cash inflows from financing activities was proceeds from long-term loans payable of ¥38,412 million. The main outflows were a net decrease in short-term loans payable of ¥23,413 million, repayments of long-term loans payable of ¥26,339 million, and payments of dividends of ¥4,729 million.

In consequence, cash and cash equivalents at the end of the period fell by ¥3,086 million over the end of the previous fiscal year to ¥10,342 million.

Dividend policy

In terms of dividends paid from surplus this fiscal year, the interim dividend was increased to ¥33 per share (compared to ¥31 per share in the previous fiscal year), reflecting the strong business performance. We would like to keep the year-end dividend at ¥33 per share because of the significant decrease in net profit as a result of the Kumamoto Earthquake, despite the strong business performance. As a result, the annual dividend comes to ¥66 per share (compared to ¥64 per share in the previous fiscal year).

Outlook for the fiscal year ending February 28, 2018

In the fiscal year ending February 2018, the effects of the weak consumption since the consumption tax hike in April 2014 will persist, and the consumption environment is expected to remain sluggish. While consumers tend to control day-to-day consumption, there has been a remarkable trend on spending on celebrative occasions and want-based consumption. Furthermore, while there are expectations of improvements in purchasing power due to improvements in the employment and wage environment, securing personnel is becoming a serious problem due to difficulties in hiring as a result of a lack of human resources.

The Izumi Group will accurately read changing customer needs caused by fluctuations in the wider environment and deliver careful, detailed responses. At the same time, we will take our strategy of "good products at low prices" a step further by offering high-quality, fresh, safe and reassuring products at affordable prices.

As for store expansion, we have opened two new stores, the large-format shopping center LECT (Nishi Ward, Hiroshima City) with the three core tenants of Izumi, Cainz, and Hiroshima T-SITE in April 2017 and the shopping center youme Town Gotsu (Gotsu City, Shimane Prefecture) in May. We will also continue remodeling and improving our existing stores in terms of store infrastructure and our services to further increase the convenience as the number one regional store.

These efforts will help us to realize customer satisfaction and to expand and deepen our regional dominance even further, which in turn will boost management efficiency and enable the Company to grow even more. For the coming fiscal year, the Company expects same-store sales to grow by 101.1% year on year.

Risks to the business

Risks that could have a material impact on the Group's business results or financial standing include the following. Moreover, forward-looking statements in the text reflect the judgment of the Group's management as of the end of the fiscal year under review.

Risk of market fluctuations

1

The core of the Group's business is the sale of goods and services to general consumers, and as such it is materially affected by the weather, the economic climate, trends in personal consumption and competition with other companies in the retail industry. Fluctuations in these factors could lead to lower profitability at existing stores or at stores opened in the future, or could lead to losses posted as a result of stores being closed, causing changes in the Group's business results and in its financial condition.

2

The Group funds its capital investment through interest-bearing debt and also handles products that have been imported from overseas, in addition to which it holds marketable securities of firms outside the Group. Accordingly, the Group's business results and financial position are materially affected by interest rates, foreign exchange rates and share prices. The Group's business results and financial condition could be materially affected by fluctuations in retail prices as well as the procurement cost of products and materials, or by real estate rental rates, labor costs, miscellaneous expenses and real estate prices.

3

In the event of natural disasters, accidents, crime or computer system problems occurring at our retail stores, headquarters, distribution facilities or at the main facilities of our suppliers, the continued operation of the Group's stores and the sourcing of products could be materially affected. In addition, disorder in the secondary market, such as that caused by consumers halting purchases after the occurrence of bovine spongiform encephalopathy (BSE) and avian flu, could result in material changes in the Group's financial results and financial position.

Regulatory/systemic risk

1

The Group takes every possible measure to ensure the safety of the products and services it offers, but should faulty goods or food poisoning occur for some unexpected reason, the Group could be subject to regulation by authorities, post losses related to liability for damages, or lose the trust of consumers.

2

The Group strives to comply with statutory regulations, such as those related to antitrust matters, consumer protection, the environment and recycling and the protection of personal information. However, if due to unexpected changes and unforeseen reasons the Group were to infringe such laws, the Group's activities could suffer from regulation, increased expenses and loss of consumer trust.

3

Construction of new large-scale commercial facilities is regulated by the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment, the City Planning Act and the Building Standards Act, among others. If the construction of new stores or the renovation of existing stores were to become difficult due to the amendment of these laws or changes in the regulations applied by local authorities and municipalities, or if there were a decline in candidate locations for new stores in the future, the Group's financial results, financial position and business strategy could be materially affected.

Consolidated Balance Sheets

Izumi Co., Ltd. and its Consolidated Subsidiaries
As of Feb. 29, 2016 and Feb. 28, 2017

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2016	2017	2017
(Assets)			
Current assets:			
Cash and deposits	¥ 13,844	¥ 10,738	\$ 95,237
Notes and accounts receivable—trade	31,387	33,645	298,404
Merchandise and finished goods	26,597	27,658	245,304
Work in process	114	40	355
Raw materials and supplies	437	480	4,257
Deferred tax assets	2,561	2,505	22,217
Other	14,356	14,010	124,257
Allowance for doubtful accounts	(590)	(1,016)	(9,011)
Total current assets	88,708	88,064	781,055
Non-current assets:			
Property, plant and equipment:			
Buildings and structures	358,775	371,618	3,295,947
Accumulated depreciation	(203,231)	(214,684)	(1,904,071)
Buildings and structures, net	155,544	156,934	1,391,876
Machinery, equipment and vehicles	7,332	8,008	71,024
Accumulated depreciation	(5,228)	(5,419)	(48,062)
Machinery, equipment and vehicles, net	2,104	2,589	22,962
Land	156,890	157,628	1,398,031
Leased assets	902	548	4,860
Accumulated depreciation	(636)	(351)	(3,113)
Leased assets, net	265	197	1,747
Construction in progress	2,256	9,730	86,297
Other	41,188	41,991	372,426
Accumulated depreciation	(32,940)	(33,796)	(299,743)
Other, net	8,247	8,194	72,674
Total property, plant and equipment	325,308	335,274	(2,973,605)
Intangible assets:			
Goodwill	7,236	6,235	55,299
Other	8,839	8,474	75,157
Total intangible assets	16,075	14,709	130,457
Investments and other assets:			
Investment securities	6,800	7,924	70,279
Long-term loans receivable	1,483	1,651	14,643
Deferred tax assets	5,444	5,269	46,732
Lease and guarantee deposits	19,672	18,572	164,718
Other	4,944	5,992	53,144
Allowance for doubtful accounts	(411)	(573)	(5,082)
Total investments and other assets	37,934	38,836	344,443
Total non-current assets	379,318	388,821	3,448,523
Total assets	¥ 468,026	¥ 476,885	\$ 4,229,579

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2016	2017	2017
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade	¥ 33,479	¥ 30,466	\$ 270,208
Short-term loans payable	50,704	27,291	242,049
Current portion of long-term loans payable	23,320	26,415	234,279
Accounts payable—other	15,789	20,206	179,211
Income taxes payable	7,144	7,115	63,104
Provision for bonuses	1,753	1,921	17,038
Provision for directors' bonuses	38	41	364
Provision for point card certificates	2,302	2,418	21,446
Provision for loss on recollection of gift certificates	111	113	1,002
Provision for loss on disasters	—	1,877	16,647
Provision for loss on business liquidation	433	—	—
Asset retirement obligations	21	6	53
Other	12,863	15,014	133,162
Total current liabilities	147,963	132,889	1,178,616
Non-current liabilities:			
Long-term loans payable	118,616	128,210	1,137,118
Lease obligations	255	128	1,135
Long-term lease and guarantee deposited	24,044	23,827	211,326
Provision for directors' retirement benefits	1,435	1,644	14,581
Provision for loss on interest repayment	230	168	1,490
Net defined benefit liabilities	7,308	7,429	65,889
Deferred tax liabilities	2,272	2,509	22,253
Asset retirement obligations	7,445	7,565	67,095
Other	603	549	4,869
Total non-current liabilities	162,211	172,032	1,525,783
Total liabilities	310,175	304,922	2,704,408
(Net assets)			
Shareholders' equity:			
Capital stock	19,613	19,613	173,951
Capital surplus	22,577	22,493	199,494
Retained earnings	123,785	136,070	1,206,829
Treasury shares	(18,483)	(18,484)	(163,938)
Total shareholders' equity	147,493	159,693	1,416,346
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	793	1,415	12,550
Remeasurements of defined benefit plans	(638)	(541)	(4,798)
Total accumulated other comprehensive income	155	873	7,743
Non-controlling interests	10,203	11,396	101,073
Total net assets	157,851	171,963	1,525,171
Total liabilities and net assets	¥ 468,026	¥ 476,885	\$ 4,229,579

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

Consolidated Statements of Income

Izumi Co., Ltd. and its Consolidated Subsidiaries
For the years ended Feb. 29, 2016 and Feb. 28, 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net sales	¥ 638,754	¥ 670,253	\$ 5,944,594
Cost of sales	501,346	522,833	4,637,100
Gross profit	137,408	147,419	1,307,486
Operating revenue	30,029	31,867	282,634
Operating gross profit	167,438	179,287	1,590,129
Selling, general and administrative expenses:			
Advertising and promotion expenses	12,207	12,641	112,115
Distribution expenses	6,995	7,387	65,517
Provision of allowance for doubtful accounts	106	154	1,366
Employees' salaries and bonuses	46,675	50,204	445,268
Provision for bonuses	1,509	1,596	14,155
Welfare expenses	7,877	8,998	79,805
Retirement benefit expenses	1,019	897	7,956
Rent expenses	10,980	11,562	102,545
Utilities expenses	7,560	7,262	64,408
Depreciation	14,631	15,206	134,865
Other	25,962	27,704	245,712
Total selling, general and administrative expenses	135,525	143,616	1,273,756
Operating income	31,912	35,670	316,364
Non-operating income:			
Interest income	157	148	1,313
Dividend income	78	77	683
Purchase discounts	325	329	2,918
Gain on adjustment of account payable	100	133	1,180
Share of profit of entities accounted for using equity method	28	12	106
Penalty income	85	141	1,251
Other	656	1,034	9,171
Total non-operating income	1,431	1,877	16,647
Non-operating expenses:			
Interest expenses	1,587	1,316	11,672
Compensation expenses	365	240	2,129
Other	288	302	2,678
Total non-operating expenses	2,242	1,859	16,488
Ordinary income	31,102	35,688	316,523
Extraordinary income:			
Gain on sales of non-current assets	17	383	3,397
Gain on sales of investment securities	1,009	60	532
Gain on bargain purchase	18	279	2,475
Subsidy income	369	574	5,091
Other	31	77	683
Total extraordinary income	1,446	1,374	12,186
Extraordinary losses:			
Loss on sales of non-current assets	45	72	639
Loss on retirement of non-current assets	336	482	4,275
Impairment loss	865	500	4,435
Loss on disaster	—	9,367	83,078
Loss on liquidation of business	—	62	550
Provision for loss on business liquidation	433	—	—
Other	483	258	2,288
Total extraordinary losses	2,164	10,744	95,290
Profit before income taxes	30,384	26,319	233,428
Income taxes—current	11,935	9,059	80,346
Income taxes—deferred	68	(135)	(1,197)
Total income taxes:	12,004	8,924	79,149
Profit	18,379	17,395	154,279
Profit (loss) attributable to non-controlling interests	(386)	380	3,370
Profit attributable to owners of parent	¥ 18,766	¥ 17,015	\$ 150,909

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

Consolidated Statements of Comprehensive Income

Izumi Co., Ltd. and its Consolidated Subsidiaries
For the years ended Feb. 29, 2016 and Feb. 28, 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Profit	¥ 18,379	¥ 17,395	\$ 154,279
Other comprehensive income:			
Valuation difference on available-for-sale securities	(1,026)	940	8,337
Remeasurements of defined benefit plans, net of tax	(242)	96	851
Total other comprehensive income	(1,269)	1,036	9,188
Comprehensive income	17,110	18,431	163,468
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	17,519	17,733	157,277
Comprehensive income attributable to non-controlling interests	(409)	698	6,191

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

Consolidated Statement of Changes in Net Assets

Izumi Co., Ltd. and its Consolidated Subsidiary

	2016 Fiscal year ended February 29, 2016								Millions of yen	
	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net asset
Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	¥ 19,613	¥ 22,282	¥ 108,283	¥ (16,763)	¥ 133,416	¥ 1,785	¥ (383)	¥ 1,402	¥ 10,890	¥ 145,709
Cumulative effects of changes in accounting policies			963		963					963
Restated balance	19,613	22,282	109,246	(16,763)	134,379	1,785	(383)	1,402	10,890	146,672
Changes of items during period										
Dividends of surplus			(4,228)		(4,228)					(4,228)
Profit attributable to owners of parent			18,766		18,766					18,766
Purchase of treasury shares				(2,169)	(2,169)					(2,169)
Disposal of treasury shares		295		449	745					745
Net changes of items other than shareholders' equity						(992)	(254)	(1,246)	(687)	(1,934)
Total changes of items during period	—	295	14,538	(1,720)	13,113	(992)	(254)	(1,246)	(687)	11,179
Balance at end of current period	¥ 19,613	¥ 22,577	¥ 123,785	¥ (18,483)	¥ 147,493	¥ 793	¥ (638)	¥ 155	¥ 10,203	¥ 157,851

	2017 Fiscal year ended February 28, 2017								Millions of yen	
	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net asset
Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	¥ 19,613	¥ 22,577	¥ 123,785	¥ (18,483)	¥ 147,493	¥ 793	¥ (638)	¥ 155	¥ 10,203	¥ 157,851
Changes of items during period										
Dividends of surplus			(4,729)		(4,729)					(4,729)
Changes of scope of consolidation				(23)	(23)					(23)
Profit attributable to owners of parent			17,015		17,015					17,015
Purchase of treasury shares				(4)	(4)					(4)
Disposal of treasury shares		(1)		26	25					25
Purchase of shares of consolidated subsidiaries		(82)			(82)					(82)
Net changes of items other than shareholders' equity						621	96	718	1,193	1,911
Total changes of items during period	—	(83)	12,285	(1)	12,200	621	96	718	1,193	14,112
Balance at end of current period	¥ 19,613	¥ 22,493	¥ 136,070	¥ (18,484)	¥ 159,693	¥ 1,415	¥ (541)	¥ 873	¥ 11,396	¥ 171,963

	2017 Fiscal year ended February 28, 2017								Thousands of U.S. dollars	
	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net asset
Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	\$ 173,951	\$ 200,239	\$ 1,097,871	\$ (163,929)	\$ 1,308,142	\$ 7,033	\$ (5,659)	\$ 1,375	\$ 90,492	\$ 1,400,009
Changes of items during period										
Dividends of surplus			(41,942)		(41,942)					(41,942)
Changes of scope of consolidation				(204)	(204)					(204)
Profit attributable to owners of parent			150,909		150,909					150,909
Purchase of treasury shares				(35)	(35)					(35)
Disposal of treasury shares		(9)		231	222					222
Purchase of shares of consolidated subsidiaries		(727)			(727)					(727)
Net changes of items other than shareholders' equity						5,508	851	6,368	10,581	16,949
Total changes of items during period	—	(736)	108,958	(9)	108,204	5,508	851	6,368	10,581	125,162
Balance at end of current period	\$ 173,951	\$ 199,494	\$ 1,206,829	\$ (163,938)	\$ 1,416,346	\$ 12,550	\$ (4,798)	\$ 7,743	\$ 101,073	\$ 1,525,171

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

Consolidated Statements of Cash Flows

Izumi Co., Ltd. and its Consolidated Subsidiaries
For the years ended Feb. 29, 2016 and Feb. 28, 2017

	Millions of yen	2016	2017	Thousands of U.S. dollars
		2016	2017	2017
Cash flows from operating activities:				
Profit before income taxes	¥ 30,384	¥ 26,319	\$ 233,428	
Depreciation	15,044	15,691	139,166	
Impairment loss	865	500	4,435	
Loss on disasters	—	9,367	83,078	
Amortization of goodwill	454	1,078	9,561	
Gain on bargain purchase	(18)	(279)	(2,475)	
Increase (decrease) in allowance for doubtful accounts	0	103	914	
Interest and dividend income	(235)	(226)	(2,004)	
Interest expenses	1,587	1,316	11,672	
Share of (profit) loss of entities accounted for using equity method	(28)	(12)	(106)	
Subsidy income	(369)	(574)	(5,091)	
Loss (gain) on sales of investment securities	(992)	(37)	(328)	
Loss (gain) on sales of non-current assets	28	(311)	(2,758)	
Loss on retirement of non-current assets	336	482	4,275	
Decrease (increase) in notes and accounts receivable—trade	(2,663)	(2,240)	(19,867)	
Decrease (increase) in inventories	(745)	(1,322)	(11,725)	
Increase (decrease) in notes and accounts payable—trade	(12,995)	(3,155)	(27,982)	
Increase (decrease) in net defined benefit liability	147	95	843	
Other, net	(4,296)	2,651	23,512	
Subtotal	26,506	49,447	438,554	
Interest and dividend income received	237	234	2,075	
Interest expenses paid	(1,817)	(1,368)	(12,133)	
Proceeds from subsidy income	369	574	5,091	
Payments for loss on disaster	—	(6,810)	(60,399)	
Income taxes (paid) refund	(11,741)	(8,972)	(79,574)	
Net cash provided by (used in) operating activities	13,553	33,104	293,605	
Cash flows from investing activities:				
Purchase of property, plant and equipment	(25,914)	(21,945)	(194,634)	
Proceeds from sales of property, plant and equipment	182	1,734	15,379	
Purchase of intangible assets	(2,143)	(954)	(8,461)	
Purchase of investment securities	(952)	(551)	(4,887)	
Proceeds from sales of investment securities	2,427	397	3,521	
Purchase of shares of subsidiaries	(27)	—	—	
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	1,173	454	4,027	
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,103)	—	—	
Decrease (increase) in short-term loans receivable	(180)	(85)	(754)	
Other, net	467	1,012	8,976	
Net cash provided by (used in) investing activities	(26,071)	(19,938)	(176,834)	
Cash flows from financing activities:				
Net increase (decrease) in short-term loans payable	28,236	(23,413)	(207,654)	
Proceeds from long-term loans payable	31,252	38,412	340,683	
Repayments of long-term loans payable	(39,797)	(26,339)	(233,605)	
Purchase of treasury shares	(2,169)	(4)	(35)	
Proceeds from sales of shares of parent held by subsidiaries	—	45	399	
Cash dividends paid	(4,228)	(4,729)	(41,942)	
Dividends paid to non-controlling interests	(28)	(29)	(257)	
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(46)	(408)	
Other, net	(307)	(147)	(1,304)	
Net cash provided by (used in) financing activities	12,956	(16,252)	(144,142)	
Net increase (decrease) in cash and cash equivalents	439	(3,086)	(27,370)	
Cash and cash equivalents at beginning of period	12,990	13,429	119,104	
Cash and cash equivalents at end of period	¥ 13,429	¥ 10,342	\$ 91,725	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥112.75 = U.S. \$1 as of February 28, 2017.

Company Overview

(As of February 28, 2017)

Date of establishment	October 27, 1961
Head office	3-3-1 Futabanosato, Higashi-ku, Hiroshima, Japan
Paid-in capital	¥19,613,856,196
Employees	Full-time: 2,446 Part-time: 5,542 (8-hour shift equivalent)
Number of malls/stores	105 (including 9 standalone X-SELL stores)

Chugoku Region: 62

Hiroshima Pref.: 34; Okayama Pref.: 10;
Yamaguchi Pref.: 12; Shimane Pref.: 6

Kyushu Region: 33

Fukuoka Pref.: 17; Oita Pref.: 2;
Kumamoto Pref.: 9; Saga Pref.: 3;
Nagasaki Pref.: 2

Other Regions: 10

Kagawa Pref.: 3; Tokushima Pref.: 1;
Hyogo Pref.: 2; Other: 4

Major Shareholders

(As of February 28, 2017)

Shareholder name	Shares held (thousands)	Percentage of total shares
Yamanishi World, Ltd.	19,935	27.8%
DAIICHI FUDOUSAN CO., LTD.	4,208	5.9%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,954	4.1%
The Hiroshima Bank, Ltd.	2,362	3.3%
Izumi Hiroshima Kyoeikai	2,157	3.0%
Nippon Life Insurance Co.	2,093	2.9%
Yasuaki Yamanishi	2,036	2.8%
Daiichi Life Insurance Co.	2,030	2.8%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,785	2.5%
National Mutual Insurance Federation of Agricultural Cooperatives	1,335	1.9%

Note: The percentage of total shares is calculated after excluding treasury shares (7,201,306 shares).

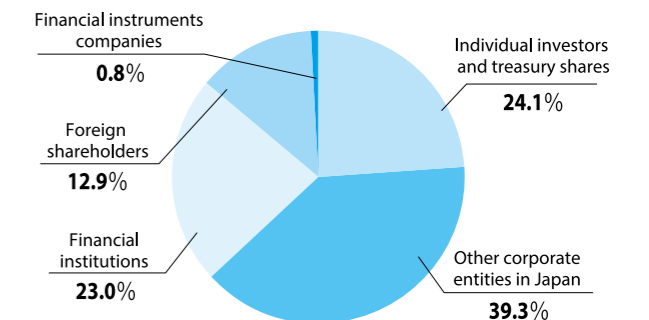
Stock Information

(As of February 28, 2017)

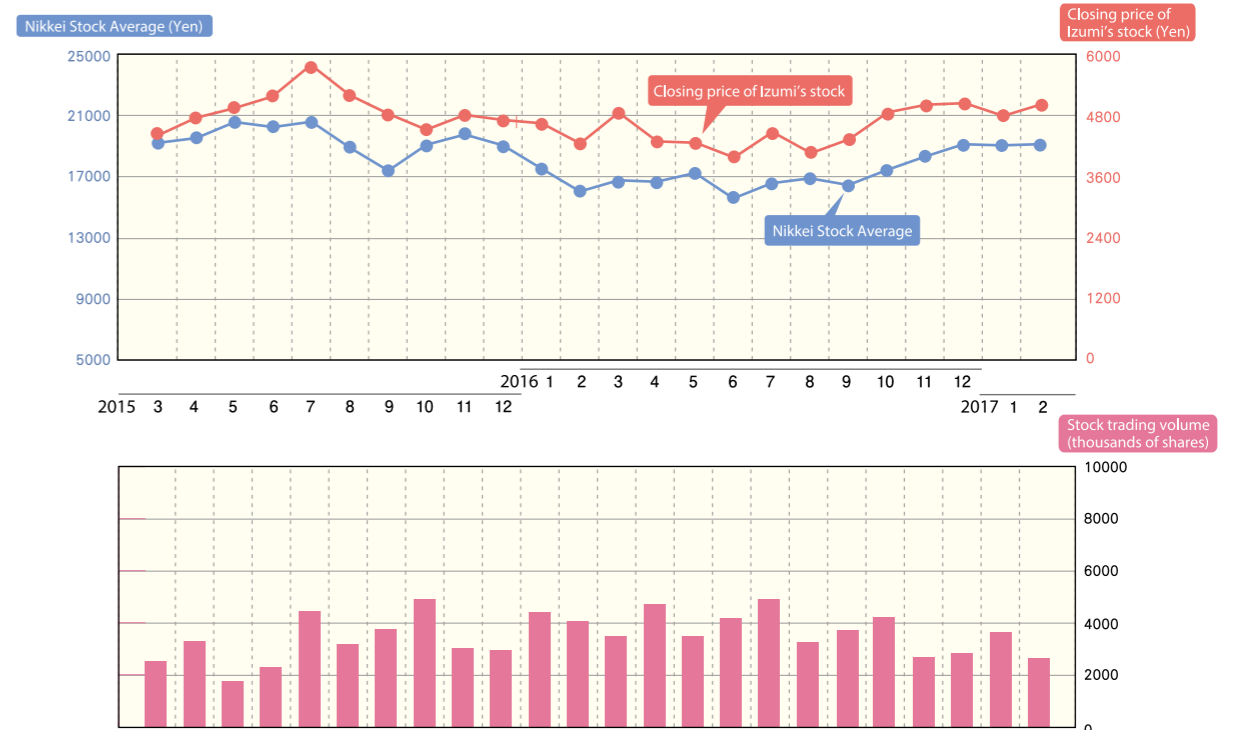
Total number of shares issued by the Company	195,243,000
Total number of outstanding shares	78,861,920
Number of shareholders	4,734

Distribution of Shares by Type of Shareholder

(As of February 28, 2017)



Historical trend of stock price





Izumi Co., Ltd.

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