



**ANNUAL
REPORT
2018**

Izumi Co., Ltd.

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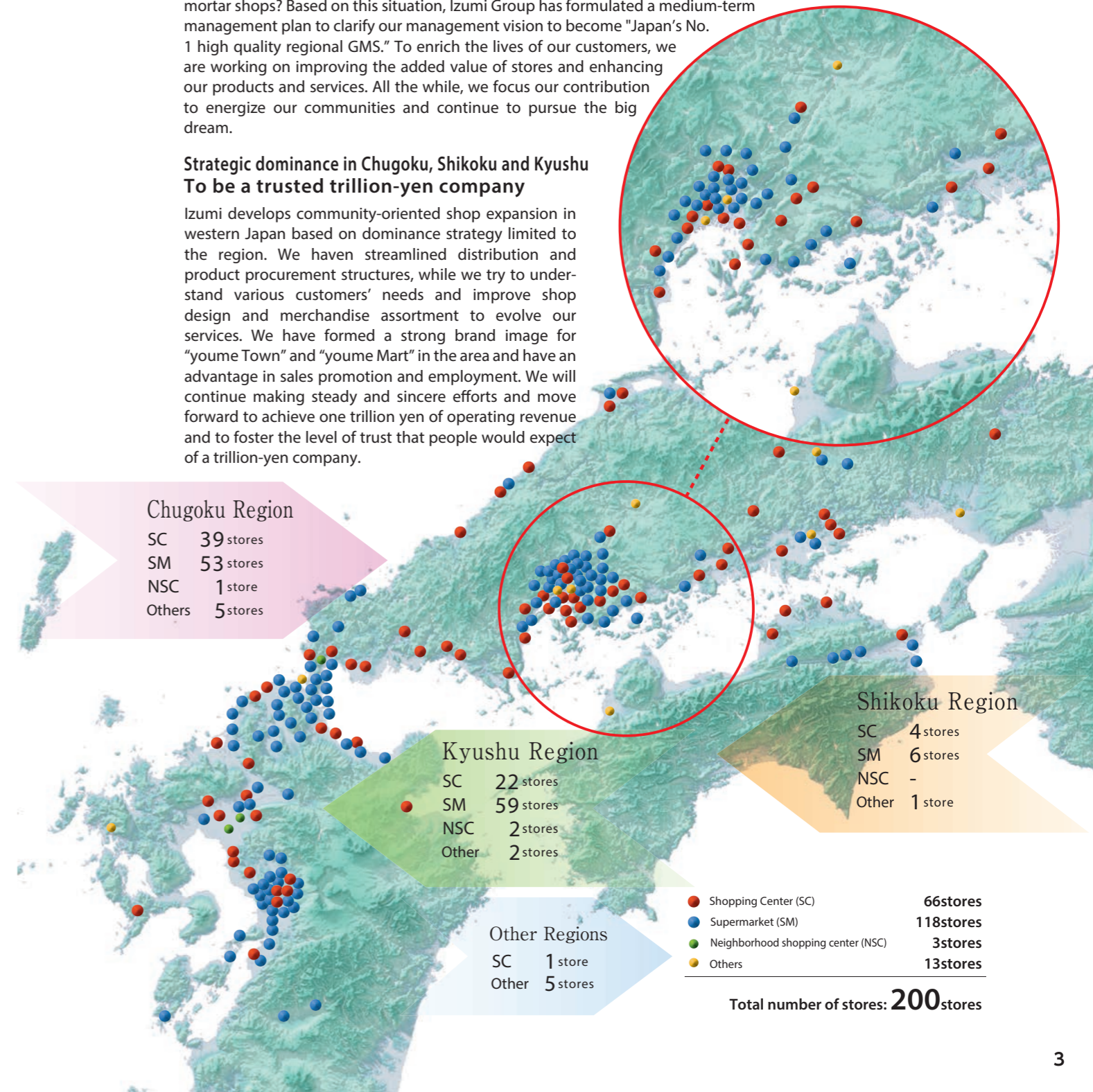
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Izumi's Management Vision - strive for Japan's No. 1 high quality regional GMS

In a society experiencing drastic shifts due to aging and declining population, the idea of "community", the foundation of everyday life, has begun to experience significant changes. Additionally, the development of AI and IoT and the penetration of online shopping in the world of retail asks the question: what are the roles of actual brick-and-mortar shops? Based on this situation, Izumi Group has formulated a medium-term management plan to clarify our management vision to become "Japan's No. 1 high quality regional GMS." To enrich the lives of our customers, we are working on improving the added value of stores and enhancing our products and services. All the while, we focus our contribution to energize our communities and continue to pursue the big dream.

Strategic dominance in Chugoku, Shikoku and Kyushu To be a trusted trillion-yen company

Izumi develops community-oriented shop expansion in western Japan based on dominance strategy limited to the region. We have streamlined distribution and product procurement structures, while we try to understand various customers' needs and improve shop design and merchandise assortment to evolve our services. We have formed a strong brand image for "youme Town" and "youme Mart" in the area and have an advantage in sales promotion and employment. We will continue making steady and sincere efforts and move forward to achieve one trillion yen of operating revenue and to foster the level of trust that people would expect of a trillion-yen company.



“Izumi’s philosophy, code of conduct, and dreams” to achieve our management vision.

In order to achieve our high management vision in the medium-term management plan, namely “striving for Japan’s No. 1 high quality regional GMS,” it is essential that we further enhance day-to-day operations of each and every one of our employees. At the Izumi Group, our management philosophy, four dreams, and our action guidelines clearly state our stance of a focus on customer satisfaction, and of developing together with regions and our tenants. For that reason, we are working to become a company worth working for, at which employees can bring out their best.



Izumi aims for
“strive for Japan’s No. 1 high quality regional GMS”

OUR DREAMS

Izumi’s four dreams

Quantitative growth such as sales and earnings is not the final goal for the Izumi Group. Instead, our vision is to support the dreams of customers and regions, tenants and employees, thus providing everyone involved in the Izumi Group with a richness of experience.

worth

- Making customers’ lives more comfortable
- Providing a positive economic impact on local communities and make them more lively
- Working together with tenants for further development
- Providing employees with a sense of that leads to their personal growth

Our greatest joy is the satisfaction of our customers.



Advising customers’ dinner menu, helping customers select gifts for their grandchildren, providing instructions on how to care for a futon... Ensuring full communication with customers, responding to their requests, making them happy are our employees’ source of energy. Appreciating “Thank you! “That was a great help!”, we are committed to making stores better, enhancing a variety of products, and improving our service.

ACTIVE AGENDA

Code of Conduct for Izumi Employees

We have three items in our code of conduct, which is directly connected to employee growth. We value the efforts of employees highly who have worked hard with their colleagues to put a smile on the faces of our customers. We are providing many rich opportunities for education, promoting the creation of a future-oriented workplace with ideas of “prioritizing today more than yesterday” and “prioritizing tomorrow more than today”.

- To be committed to customer service
- To create a company that is worth the challenge for all employees
- Always aim for better results and strive towards such goals

“From goods consumption to experience consumption”
Amidst this ever-changing world,
we are pursuing our four dreams.

As well as catering to “goods consumption” for enjoyable shopping, we also emphasize “experience consumption” to add great value to the time spent within the store. In recent years, we have held classes to increase interests, musical recitals, as well as educational activities conducted by volunteer organizations and government bodies. We have tenants demonstrate their content capabilities, and even as the times continue to change, we are striving to meet the needs of customers and regions in line with the “Izumi’s four dreams.”



Continuing to catering to needs of our customers has been and will be the base of our activities.

“Escorting service” was originated in our intention of making physically disability customers also enjoy shopping by accompanying them in wheelchairs in the store. When customers ask whether Izumi does not sell their favorite local soy sauces, we contact the manufacturers and start trading with them. All of our employees are striving to build a close relationship with our customers, so that we do not neglect customers’ expectations whatever trivial they are.

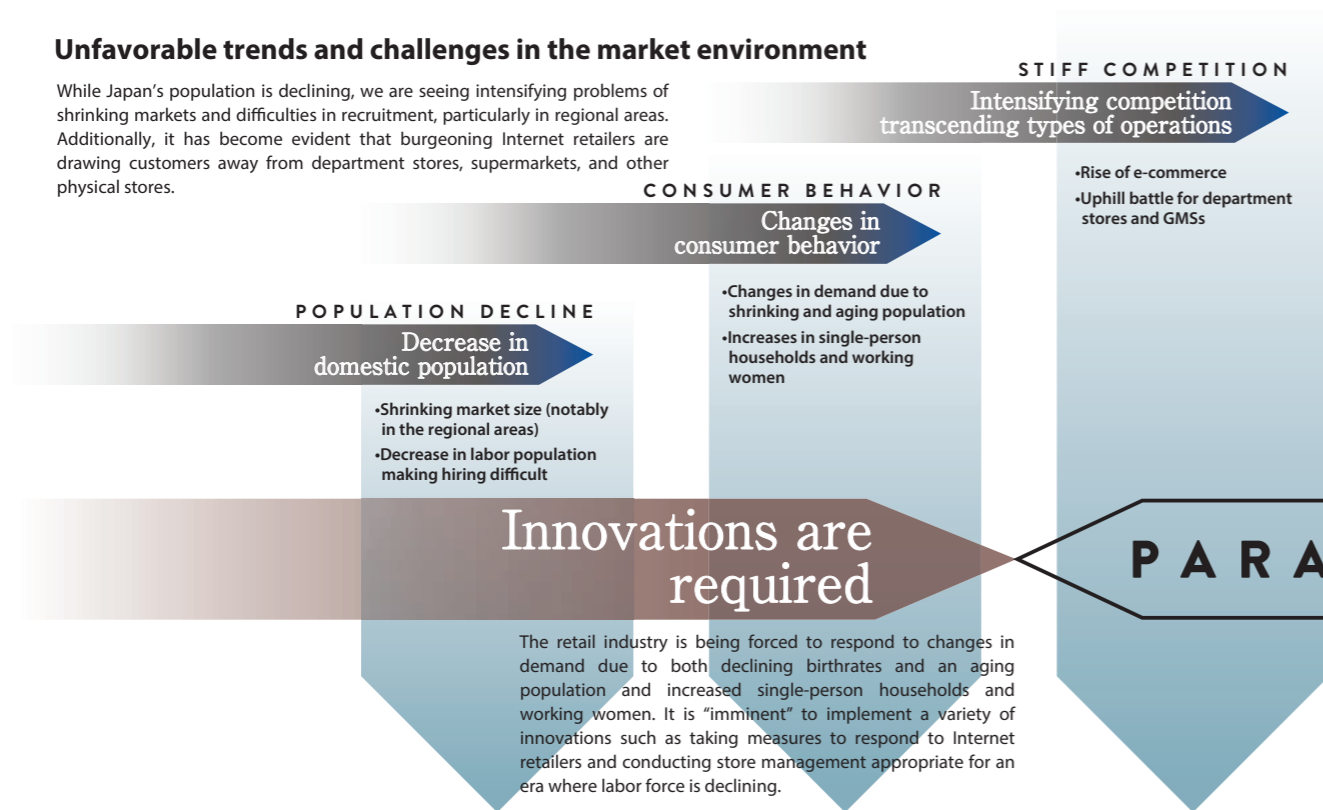


The retail industry environment and “Izumi’s potentiality” to turn negatives into positives.

From the Showa period to the Heisei period, and we are soon entering a new age. Japanese society is now seeing a hitherto-unseen decline in its population and is confronted with a variety of changes. In the retail industry, brick-and-mortar stores, such as department stores, supermarkets, drug stores, and convenience stores in addition to ever-expanding Internet retailers are involved in intensifying competition across business sectors. Amidst the confusion in which we are “uncertain about the future”, the “potentiality” of the Izumi Group to develop is a robust spirit for challenges. Fully leveraging the Izumi’s corporate DNA handed down since our foundation, without being caught by the precedent, and by taking appropriate and bold measures for each and every challenge, we are turning negatives into positives.

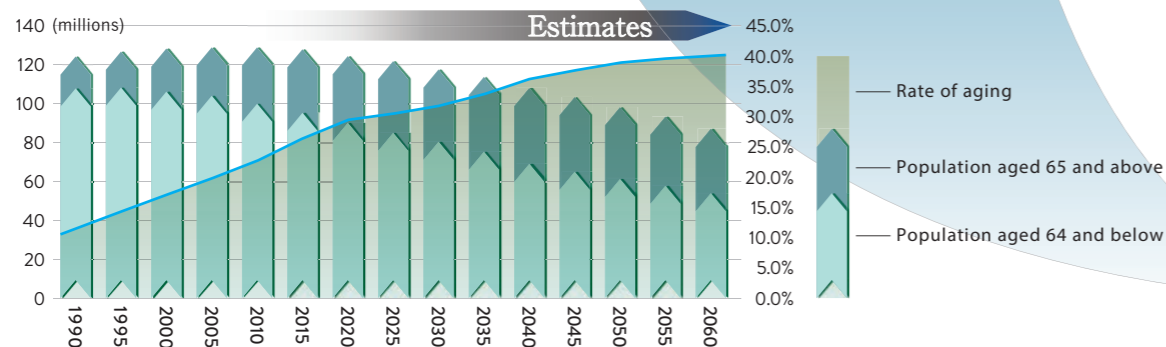
Unfavorable trends and challenges in the market environment

While Japan’s population is declining, we are seeing intensifying problems of shrinking markets and difficulties in recruitment, particularly in regional areas. Additionally, it has become evident that burgeoning Internet retailers are drawing customers away from department stores, supermarkets, and other physical stores.



Decrease in domestic population

Data from Statistics Bureau, Ministry of Internal Affairs and Communications and National Institute of Population and Social Security Research



FY2022 operating revenue

¥1 trillion

Growth KPI

Sales Growth rate +7% or higher

Operating profit Growth rate +10% or higher

FY2022 target operating revenue

¥900 billion

Efficiency KPI

ROA *1 9% or higher

Break-even point *2 Sales ratio Less than 75%

FY2020 operating profit ratio 6%

Return to shareholders KPI

ROE *3 13% or higher

Dividend payout ratio 30% target

40 stores planned in the 3 years until 2020

Annual average facilities investment

Over ¥20 billion

Return to shareholders Target payout ratio

30%

Izumi Group medium-term management plan

GROWTH STRATEGY

Growth strategy

COMPETITIVENESS

Strengthen competitiveness

HUMAN RESOURCE

Develop human resources

We increase store numbers through both new store openings and M&A, and increase added value at existing stores. At the same time, we implement further streamlining and reduce costs. Spending time and cost to educate human resources to support business development, we ensure the achievement of our medium-term management plan.

“Period of change is the time for opportunities”

Paradigm shift = turning negatives into positives

A paradigm shift is a dramatic change in values hitherto considered normal. The retail industry is now in a tumultuous age, like the one where a geocentric theory changed to heliocentric theory. Turning negatives into positives is a completely new mindset. The Izumi Group is carrying out reforms to make a new era stand on the side of it.

At the Izumi Group, we consider that during times of change, there are chances if we implement reforms ahead of the times. Our tradition is to adapt ourselves flexibly to changing environments while maintaining our strength to continue to attain our own style.

Izumi’s corporate DNA

INNOVATION

Innovation

CHALLENGE

Challenge

SPEED

Speed

Established amid the chaos of the post-War period, the Izumi Group has fearlessly and speedily moved ahead through innovative thinking, looking at what we needed to do for our regions and customers. Even now, in the 21st century, the spirit of our company’s founding lives on.

“Challenges of Izumi” that have been supporting the development of communities

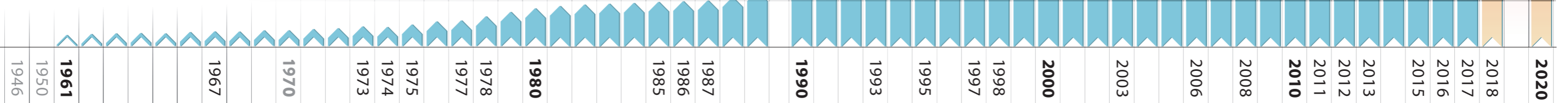
The roots of the Izumi group were a small stall with a wooden door that opened one year after the end of the Second World War. “Make our customers happy” and “Grow up with our community” are our motivations to continue operation, and in 1961, we opened our first full-fledged supermarket in Hiroshima. Through our “youme Town” concept of new forms of community building, we have been committed to revitalizing the region for more than 50 years. We will continue to move forward closely in tune with the dreams of our stakeholders.



First Izumi supermarket Hatchobori store



New business platform LECT, main themes: culture, food, and living



Izumi group operating revenue trends and business forecast

Since being founded, Izumi's operating revenue has been generally growing even though there have been some impacts from economic trends. Our goal is to achieve one trillion yen of operating revenue in FY2022 (February 2023). As an intermediary goal, we strive to reach 900 billion yen in FY2020 (February 2021), which is a milestone of our three year medium-term management and a target we pursue with great sincerity and dedication.



Prior to founding | **Early times after founding** | **Growing years** | **Developing years** | **Innovative years**

1946	Yoshimasa Yamanishi (the current chairperson) opens a stall outside Hiroshima Station.	1946	Constitution of Japan takes effect.	1975	Hiroshima Toyo Carp wins their first league championship.	1990	youme Town Takahashi and Higashihiroshima open. The youme Town format shop is established with the collaboration of local government and citizens as a shopping center energizing the community.	1990	East and West Germany unifies.	2008	Izumi returns to its roots in Hiroshima to open youme Town Hiroshima.	2008	iPhone is released in Japan.
1950	Apparel wholesaler Yamanishi K.K. is established.	1955	High economic growth starts.	1976	Hokaben lunch box shop opens.	1991	youme Town Onga opens in Fukuoka Prefecture, making the first store opening in Kyushu.	1991	Bubble economy collapses, Heisei era recession.	2008	Lehman shock occurs.	2010	Asteroid probe Hayabusa returns.
1961	Izumi Co., Ltd. is established. The first Izumi supermarket is opened in Hatchobori.	1956	Japan's U.N. membership is approved by the U.N. General Assembly.	1977	Izumi joins the Japan Chain Stores Association.	1993	The Izumi Museum of Art opens.	1993	Heisei Rice Riots.	2011	The company's 50th anniversary. youme Town Tokushima opens. Izumi's first next generation store for the next 100 years.	2011	Great East Japan Earthquake, television switches over to digital broadcasting.
1967	Izumi opens another supermarket Ekimae store across from Hiroshima Station.	1958	Construction of Tokyo Tower is completed.	1978	The Company's stock is listed on the Second Section of the Osaka Securities Exchange and on the Hiroshima Securities Exchange.	1995	youme Town Kurume opens. A showcase for community building closely in tune with the local community.	1995	Launch of Windows95.	2012	youme Mart Kokura Higashi opens as the first youme Mart format.	2012	Abenomics (economic policies)
1970	The Izumi Gion store opens as the first suburban store. It had a large parking lot prior to Japan's motorization.	1960	Color TV broadcasting begins.	1978	New Tokyo International Airport opens.	1997	youme Town Hiroshima opens. It is our flagship youme Town store and one of the largest retail facilities in western Japan.	1996	Cellular phones spread.	2012	youme Mart Kokura Higashi opens as the first youme Mart format.	2012	Abenomics (economic policies)
1973	Nihon Ryutsu Sangyo Co., Ltd. (Nichiryu), a cooperative purchasing organization, is established by Izumi and seven other companies.	1964	Tokyo Olympic Games are held.	1979	The second oil crisis.	1998	youme Town Takamatsu opens. It is our flagship youme Town store and one of the largest retail facilities in western Japan.	1997	The consumption tax is raised to 5%.	2013	Izumi's new head office building is completed. youme Mall Shimonoseki opens as the first youme Mall format.	2013	Mt. Fuji is registered as a world heritage site.
1974	The Izumi Association is established to deepen exchanges with business partners.	1966	New Three Sacred Treasures (washing machine, refrigerator, and black and white TV) become popular.	1980	Izumi changes the Japanese spelling of its company name ("Izumi" changes from hiragana to katakana). It also creates its first corporate logo.	1999	youme Town Saga opens. Japan's first mall with a cross-mall format.	1998	Nagano Olympic Games are held.	2015	youme Town Hatsukaichi opens. A shopping center that aims to blend the town, environment, and people together in harmony.	2015	youme Town Hatsukaichi opens. A shopping center that aims to blend the town, environment, and people together in harmony.
		1968	The first retort pouches of curry are available.	1985	The point-of-sale (POS) systems are introduced.	2000	Yumesaito (youme Town Yumesaito) and youme Town Hakata open. The start of Izumi's full-fledged expansion in Kyushu.	1999	The Euro debuts.	2016	A large earthquake strikes Kumamoto and Izumi immediately provides assistance and helps with the reconstruction effort.	2016	Hiroshima Toyo Carp wins the Central League championship in 25 years.
		1969	Apollo 11 lunar landing.	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.	2001	September 11 attacks.	2000	BS digital broadcasting begins.	2017	The new business platform LECT opens. A facility for spending time leisurely centered around the main themes of culture, food, and living. The medium-term management plan is created.	2017	The new business platform LECT opens. A facility for spending time leisurely centered around the main themes of culture, food, and living. The medium-term management plan is created.
		1970	Osaka Expo is held.	1987	The Company's stock is listed on the First Section of the Tokyo Stock Exchange.	2002	FIFA World Cup Korea/Japan.	2001	September 11 attacks.	2018	Conclusion of business alliance with Seven & i Holdings Co., Ltd.	2018	Conclusion of business alliance with Seven & i Holdings Co., Ltd.
		1971	Nixon shock.	1989	The Japanese calendar enters the Heisei era. A consumption tax is introduced.	2003	Korean culture boom.	2002	FIFA World Cup Korea/Japan.				
		1972	Sapporo Olympic Games, Return of Okinawa to Japanese sovereignty.			2005	Aichi Expo is held.	2003	Korean culture boom.				
		1973	Oil crisis.			2006	The first WBC.	2005	Aichi Expo is held.				
		1974	Skyrocketing prices.			2007	Postal services are privatized.	2006	The first WBC.				



Izumi Ekimae store



Izumi Gion store



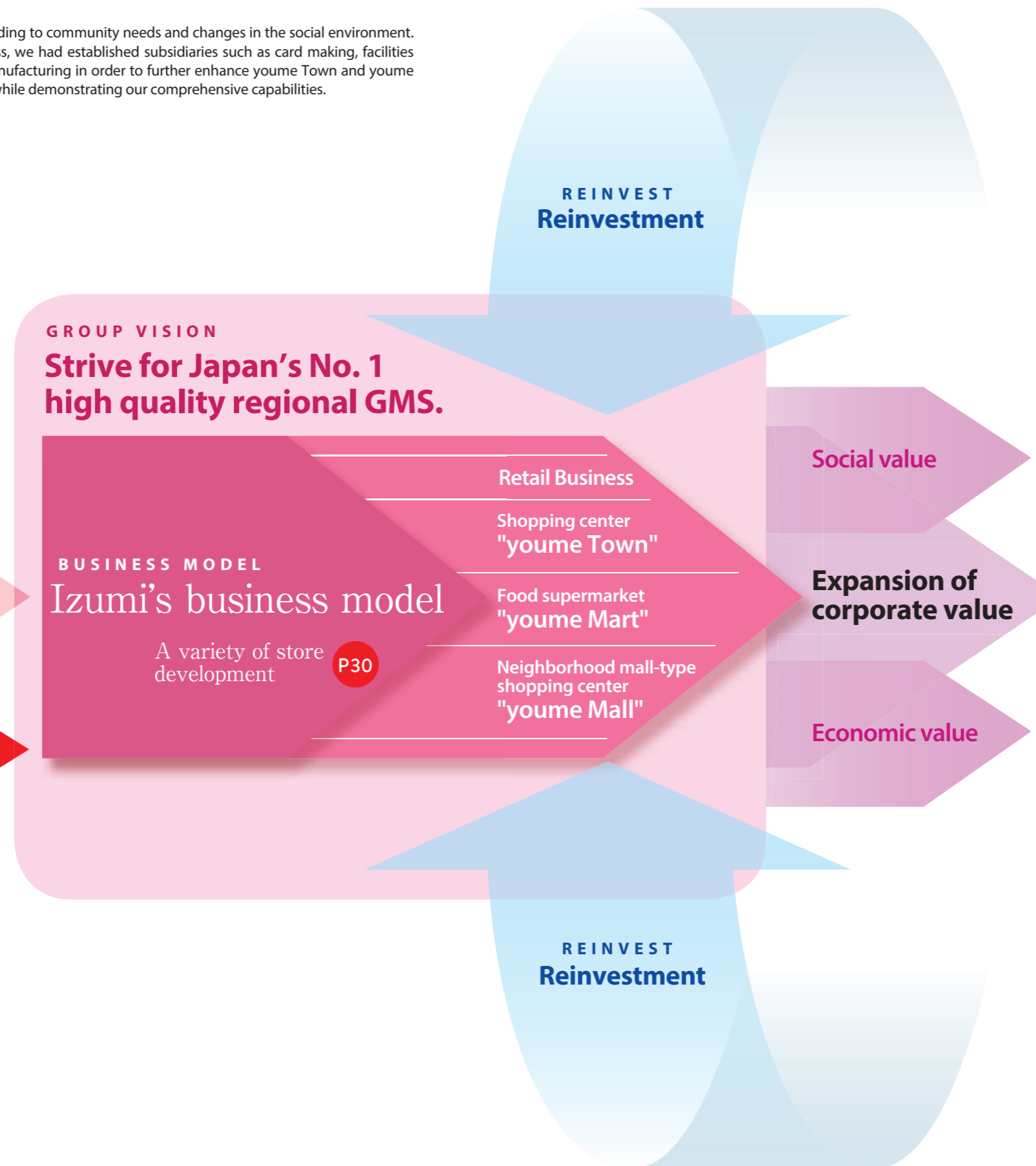
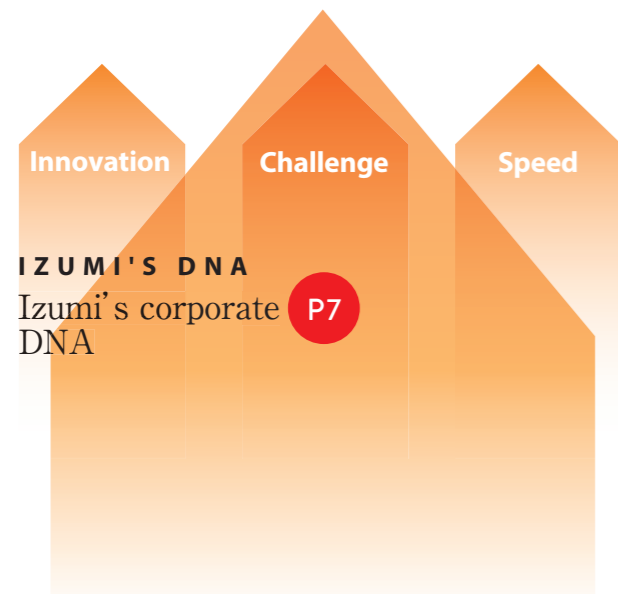
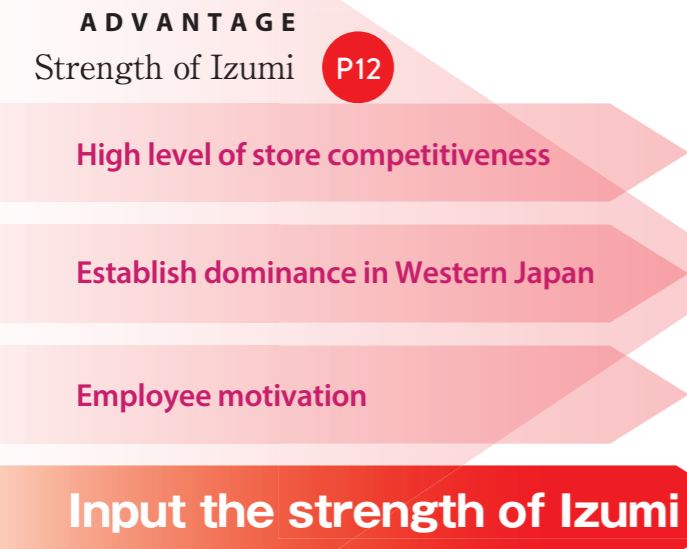
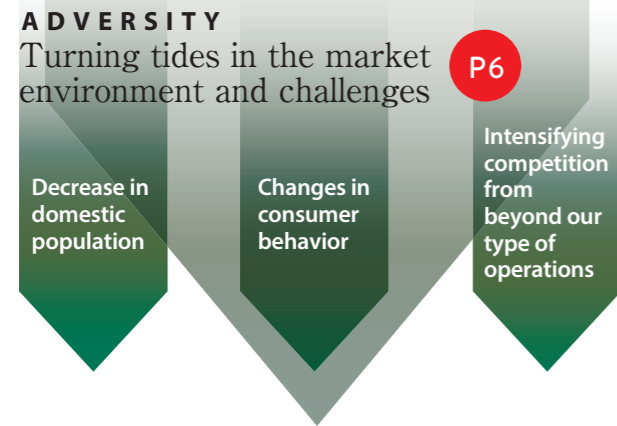
youme Town Hiroshima



youme Town Hatsukaichi

Our innovation is to enjoy prosperity with our customers and communities

The Izumi Group has been practicing management flexibly by responding to community needs and changes in the social environment. While striving to develop the company by focusing on retail business, we had established subsidiaries such as card making, facilities management, food and beverage service, and ready-made meals manufacturing in order to further enhance youme Town and youme Mart. We strive to provide rich lifestyle and create a vital community, while demonstrating our comprehensive capabilities.



Izumi's "strengths" to lead the next era

While purifying our wish of "making our customers happy" in Izumi's history of more than 50 years, we have identified three strengths specific to Izumi. The first strength is our "dominance limited to West Japan", by which we have opened stores primarily in the Chugoku, Shikoku, and Kyushu regions, working closely with the regions. The second one is that we have been developing stores including both large stores and small stores to meet regional needs while renewing existing stores frequently in order to evolve. The third one is that our employees are with high motivation, and the growth of each employee is directly tied to the growth of the Company. We will continue to place great importance on these three strengths as "pillars of Izumi" so that our company can continue to be highly competitive, not susceptible to changes over time.

Aiming for the leading company in the region

"Provide products new to the region" and "provide the best products in the region" are our priorities every time we opened new stores. In order to respond to the needs of the region carefully, we changed headquarters-centralized management and adopted a store-oriented method by which stores can implement a variety of original measures. Within the hearts of our employees is their determination to become a store loved and trusted most by local customers. Improving products assortment and services, we are aiming for the "No. 1 store in the region."



GROWTH STRATEGY

Establish dominance in West Japan

Active store network expansion

Step up opening of new SM/NSC stores
Challenge the property development business

Increase share within area of dominance through M&A

Win-win tie-ups with leading retailers
Support and restructure businesses confronted with issues

COMPETITIVENESS

High level of store competitiveness

Competitive store format

Large-scale stores—responding to the needs of three generations
Medium-scale stores—store development that responds to the changes in market areas
Small-scale stores—building profitable SM models

Always vitalize existing stores

Increase tenant value
Expanding sales data by customer

Community-based and store-initiated responses to customer needs

Realize "Good Products at Low Prices"
Information dissemination via social media

HUMAN RESOURCE

Employee motivation

Providing high efficiency and high wages, and assigning the right people to the right positions

Reviewing the human resource development system in accordance with store networks
Implementing a policy of equal pay for equal jobs

Work environment that is employee-friendly and where women can fully demonstrate their abilities

Push forward with child rearing support Certified as a "Child-Rearing Support Enterprise"
Encourage motivation and skills of female employees



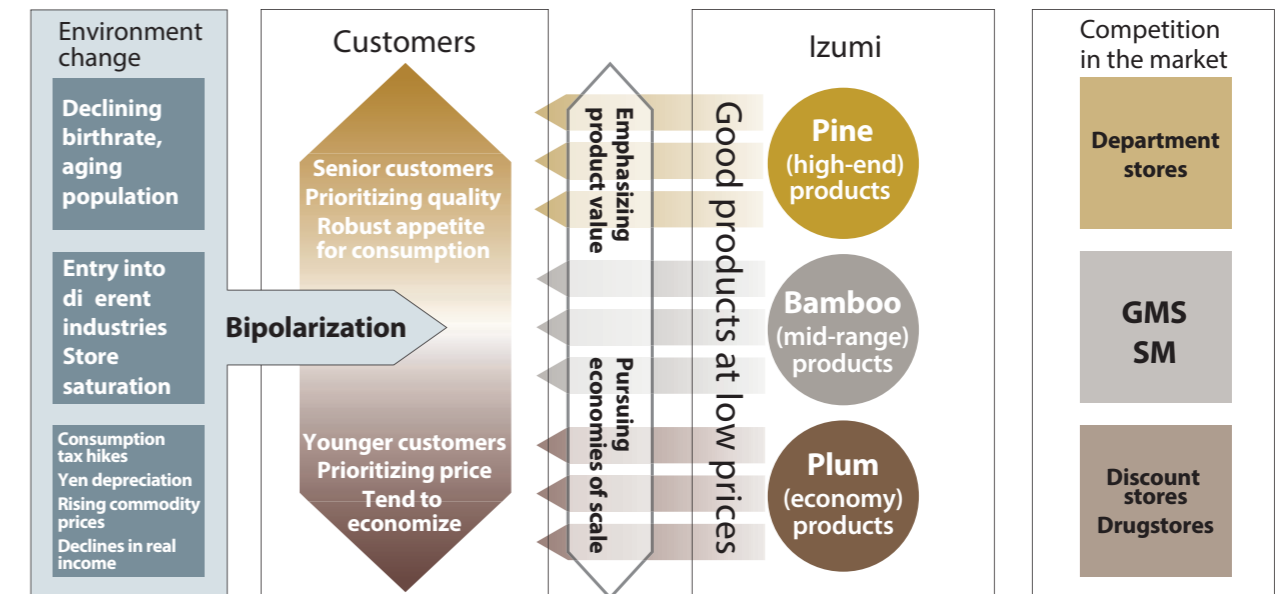
40 stores planned over the 3 year period

In order to increase market share in West Japan and promote our dominance strategy, we will implement a significant expansion of our store networks. A recent target is to open 40 stores in three years from FY2018. We are primarily planning to build new "youme Mart" food supermarkets and "youme Mall" neighborhood shopping centers. In addition, by supporting companies having problems (M&A) and purchasing stores with all their furnishings, we intend to support the daily lives of our regional customers and commit to adopt a continued employment system.

Net sales for existing stores year on year(%) From FY2009 onward

Fiscal year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Izumi (Non-consolidated)	95.3	100.1	101.2	100.1	102.7	101.8	101.4	101.5	99.2
Nationwide	95.8	98.1	99.1	97.2	100.2	99.1	101.3	98.8	99.6
Difference	-0.5	+2.0	+2.1	+2.9	+2.5	+2.7	+0.1	+2.7	-0.4

Izumi's product strategy "good products at low prices"



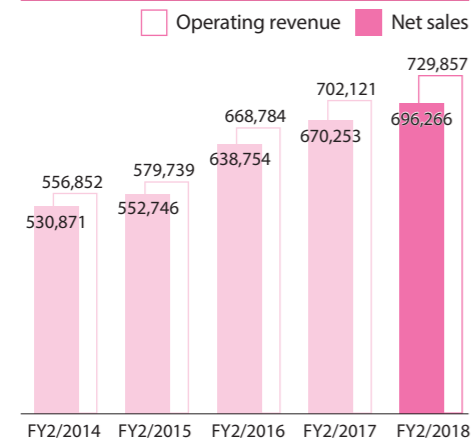
Aim to have over 20% female managers in 2020

It is indispensable for female employees to take an active part in operations of companies that manage shopping centers and supermarkets. Aiming for "raising the percentage of female managers so that it should be 20% or higher by 2020", the Izumi Group launched the "Youme Can Project (Female Leader Development Project)" in 2014. We are developing support systems and revising our personnel systems, so that female employees can return to work with confidence after taking maternity leave or childcare leave and develop their career while maintaining a good balance between child care and their jobs.

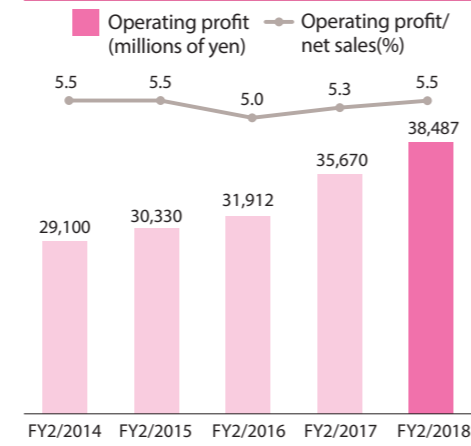


Five-Year Summary: Main Consolidated Financial Indicators

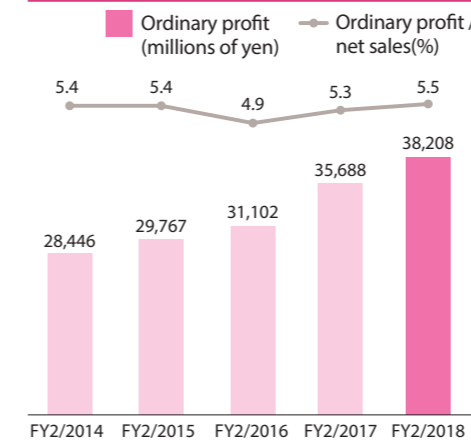
Operating revenue
Of which, net sales (millions of yen)



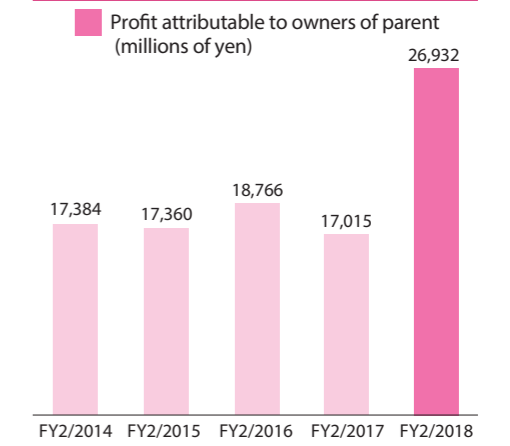
Operating profit
Operating profit / net sales



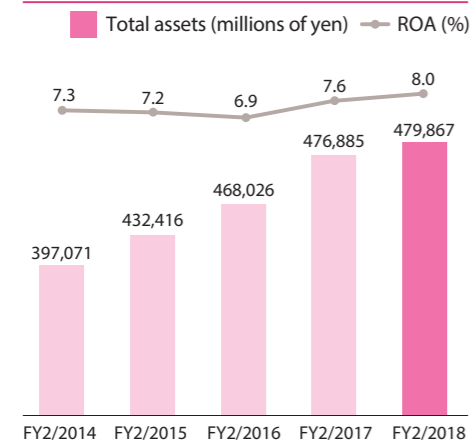
Ordinary profit
Ordinary profit / net sales



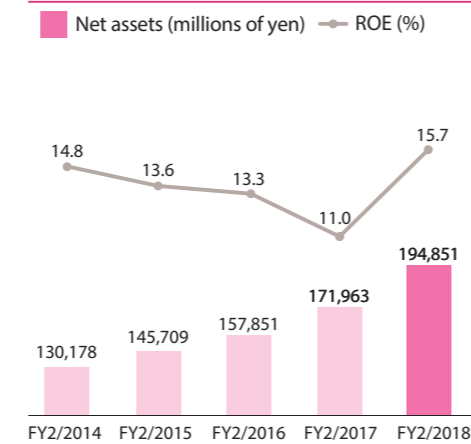
Profit attributable to owners of parent



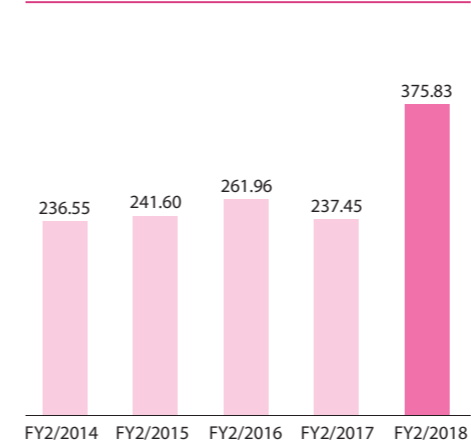
Total assets
Return on assets (ROA)



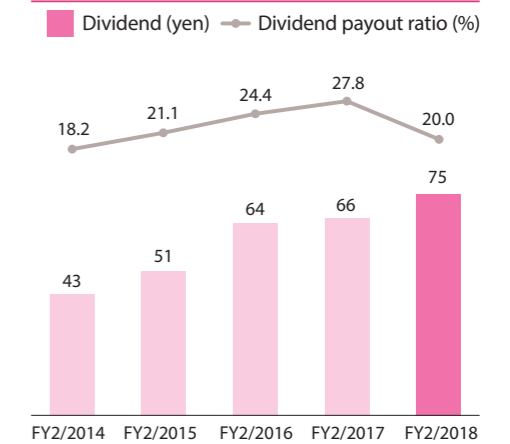
Net assets
Return on equity (ROE)



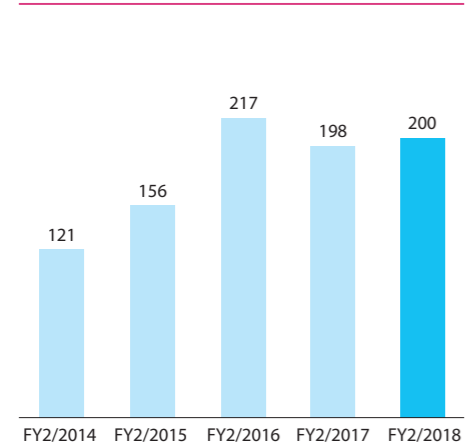
Earnings per share (Unit: yen)



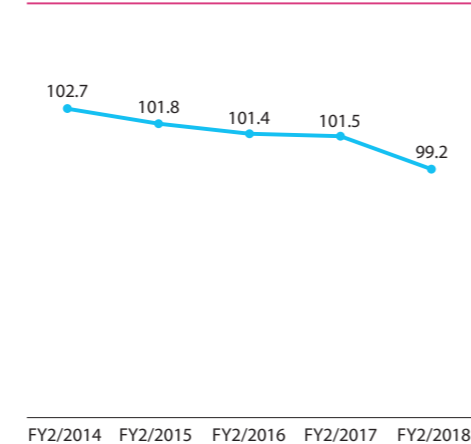
Dividends
Dividend payout ratio



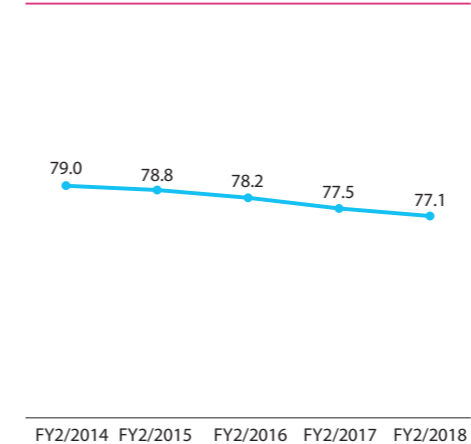
Number of stores
(Group total) (unit: stores)



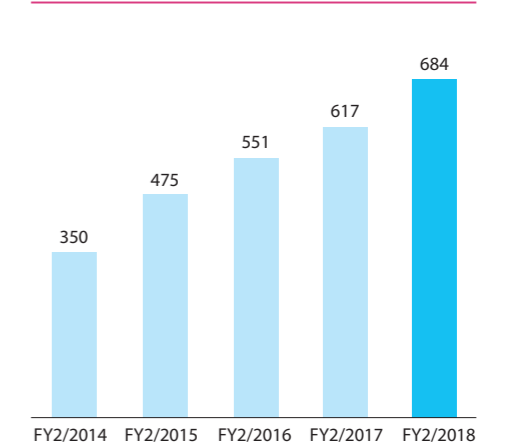
Net sales for existing stores year-on-year
(Non-consolidated) (%)



Net sales break-even point (%)



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



Aiming to become Japan's No.1 highest quality regional GMS committed to and loved by the community

We will continue aiming to realize new dreams of you and me while working hand in hand with every single one of our customers in changing communities and collaborating with business partners and government administrative bodies.



山西泰明

Yasuaki Yamanishi

President and
Representative Director
Izumi Co., Ltd.

loved by the community

LECT brings our store building know-how together

"Changing stores, changing communities" is a key theme at Izumi. We have pursued store building that anticipates the future of communities based on the perception that "a store is a town." LECT (Nishi-ku, Hiroshima City), which we opened in 2017, is a new business model created as we continue to ask ourselves what we need to do to make customers happy. Amid the growth of online shopping, we intended LECT to be a place that allows the experience of diverse activities around the concepts of culture, food and living rather than simply the purchase of products. Not only did we seek to expand the range of products, but also to create a space where people can come together for experiences and a place that stimulates the senses. This is the

true essence of a physical store, making it a third place where people can be themselves that is not work and school or home. It is also a space that middle-aged and older men, few of whom have used shopping centers in the past, can come to easily by themselves in addition to visiting with family and friends. As a result, LECT has performed well with approximately 7 million visitors during its initial fiscal year, and initiatives aimed at further progress are continuing in its second year onward.

The extensive know-how that we have refined through our development of youme Town to date is what has guided the success of LECT. When we began the first phase of the youme Town business model in 1990, we attracted local tenants with a focus on community revitalization. In the second phase from 1996, we increased store size, opened stores in Kyushu, and promoted the entry of nationwide tenants. In the third phase from 1998, we expanded our store opening area to Shikoku and work on full-scale "town planning" with a high-level of public interest by bringing in banks, post offices, and other tenants that provide public services. LECT, which could also be described as the fourth phase, came to fruition as the culmination of this history. Going forward, the Izumi Group will continue to conceive of next-generation stores, conscious of creating communities with vitality and a vibrant life for customers.



Café with popular menus and a green produce department (LECT)



Bookshelves of "culture" reaching up to the ceiling (LECT)



Open-style food court with 1,000 seats (LECT)

Achieved sales and profit growth in fiscal year ended February 28, 2018

The Japanese economy in the previous fiscal year witnessed continued growth led by the corporate sector and an improvement in the hiring environment. Nevertheless, the environment for the retail industry remained challenging as consumer purchasing power was weak and the orientation toward lifestyle maintenance further strengthened alongside with sluggish wages and rising prices.

In response to these changes, the Izumi Group implemented measures to increase customer satisfaction. In terms of stores, we opened LECT, described above, in April 2017, youme Town Gotsu (Gotsu, Shimane Prefecture) in May 2017, and youme Mart Fukutsu (Fukutsu, Fukuoka Prefecture) in February 2018. youme Town Gotsu took over a commercial facility that has been well-known in the local community for many years, maintaining its function as lifestyle infrastructure at the same time as defending employment and contributing to the local economy. Moreover, in April 2017, we completed the full renewal of youme Town Hamasen (Minami-ku, Kumamoto City), which had remained closed since the Kumamoto earthquake in April 2016, and we opened the demolished and rebuilt youme Mart Tatuda (renamed from youme Mart Kusunoki, Kita-ku, Kumamoto City, operated by Youme Mart Co., Ltd.) This achieved the resumption of operations at all damaged stores.

In terms of our merchandise, we promoted our strategy of “good products at low prices,” which seeks a competitive product range both in terms of quality and price. Reviewing sales trends, sales in the food segment, which had been sluggish in the first half due to such factors as a downturn in market conditions in the fruit and vegetable division, recovered in the winter. Demand for celebratory occasions such as White Day and Mother’s Day, demand for gifts such as summer gifts, and early inclusion of demand for school backpacks and other three generation consumption in conjunction with the summer homecoming season remained steady. In the second half, apparel and household goods recorded positive figures.

As the food supermarket youme Mart business model has increased its profile owing to new store openings and M&As, it was separated from large-scale supermarket operations through organizational restructuring. We reorganized the business into the Chugoku Mart Division and the Kyushu Mart Division for each trading area and also established a new Group Supermarket Division to control the food supermarket subsidiaries. We have in place the structure for optimal store operation and the comprehensive business expansion of food supermarkets.

Financial Results for Fiscal Year Ended February 28, 2018 (Unit: Millions of yen)

	Fiscal year ended February 28, 2018	Year on year	Fiscal year ended February 28, 2017
Operating revenue	729,857	104.0%	702,121
Operating profit	38,487	107.9%	35,670
Net profit attributable to owners of parent	26,932	158.3%	17,015

In the fiscal year ended February 28, 2018, the Izumi Group recorded sales and profit growth, achieving an all-time high business performance as a result of promoting cost reductions and curbing losses addition to diverse initiatives focused on increasing customer satisfaction.

Takeover of Stores from Seiyu and Business Alliance with Seven & i

In February 2018, we acquired the operation rights for The Mall Shunan in Kudamatsu City, Yamaguchi Prefecture and The Mall Himeji in Himeji City, Hyogo Prefecture from Seiyu GK. We plan to completely refurbish them both and to open them as youme Town Kudamatsu (tentative name) in fall 2018 and youme Town Himeji (tentative name) in winter 2018. We will continue to leverage Izumi’s unique revitalization know-how to promote the building of stores loved by local people and strive to maintain employment and revitalize local economies with a regional focus. In April 2018, the Izumi Group concluded a business alliance with Seven & i Holdings CO., Ltd. (“Seven & i”). Seven & i operates over 60,000 stores in Japan and overseas, including convenience stores, general supermarkets, department stores, food supermarkets, and specialty stores, as well as operating diverse businesses including financial services and IT services. Seven & i and Izumi complement each other



youme Mart Fukutsu opened in February 2018



youme Town Gotsu opened in May 2017



youme Town Kudamatsu (tentative name) scheduled for opening in fall 2018

geographically in the same business, and the takeover of stores from Seiyu and the business alliance with Seven & i can be effective measures to benefit from having a larger scale and enhancing dominance. Going forward, we will seek to improve business efficiency and increase profits through the effective utilization of each other’s management resources and management know-how. In spring 2019, we will take over the operation of Ito Yokado Fukuyama (Fukuyama City, Hiroshima Prefecture) with plans to refurbish and open it as youme Town Fukuyama (tentative name). We will also promote mutual access for e-money, consolidation of purchasing and joint opening of stores in the west Japan region.

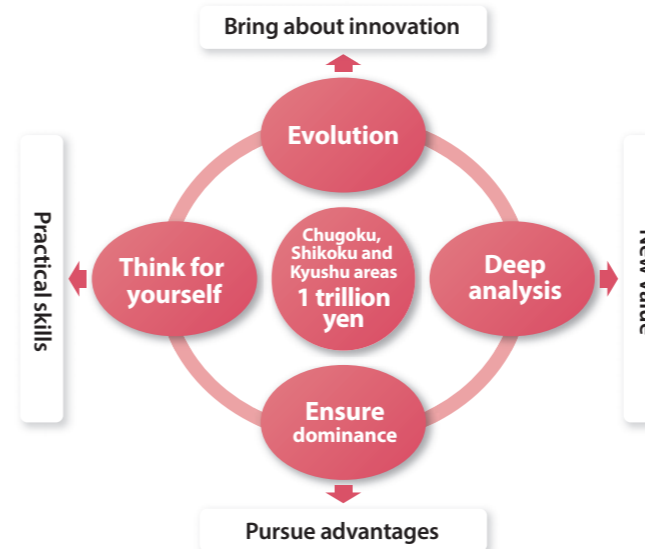
Changing conduct to achieve the Medium-Term Management Plan

In order to realize our dream of one trillion yen in operating revenue



Press conference on conclusion of business alliance with Seven & i

Medium-Term Management Plan Conduct Conceptualization



by fiscal 2022, which has been our goal to date, we initiated a three-year Medium-Term Management Plan running until fiscal 2020 with the current fiscal year as the first stage. The three core strategies are our growth strategy, under which we will open 40 stores over three years through establishment of new stores and M&As, strengthening competitiveness to enhance the added value of our stores and products, and human resource development through the development of skills and the active participation of women (the details are on pages 22 – 25.)

In order to achieve these goals dramatically, we have set out a conceptualization of conduct for all employees. The first concept is “deep analysis.” Through the “deep analysis” of change in the world and change in our customers, we will change the forms of our stores and services and create new value. The second concept is “evolution.” This concept calls for innovation and growth based on entirely new perspectives rather than comparisons with the previous year or an accumulation of conventional practices. The third concept is “thinking for yourself.” While implementing plans in the workplace, employees will constantly ask why and analyze why the results turned out how they did. If employees can be bold in taking on challenges and learn even when they fail, they should acquire practical skills. The fourth and final concept is “ensure dominance.” By developing our dominance in the Chugoku, Shikoku, and Kyushu areas, we will continue to demonstrate overwhelming advantages. We will open new stores and promote M&As in limited areas and work to enhance our brand image and increase efficiency.

Today’s society is undergoing a succession of changes that have never been experienced before, such as the declining birthrate, aging of the population, declining population, and advances in AI and IoT. Old ways of thinking may halt our advance to the “New Izumi” of being a trillion-yen company. As part of our human resource development, we will promote radical changes in the conduct of every single employee to ensure the realization of our medium-term management plan.





5 store openings are scheduled by February 28, 2019

This fiscal year marks the first year of the medium-term management plan. With regards to the stores, we acquired management rights from the joint company Seiyu GK. and will renovate large stores to open youme Town Kudamatsu (tentative name, Kudamatsu city, Yamaguchi) and youme Town Himeji (tentative name, Himeji city, Hyogo) in fall and winter 2018. We will also newly open three food supermarkets, youme Mart Jono (tentative name, Kitakyushu city, Fukuoka), youme Mart Kita (tentative name, Takamatsu city, Kagawa), and youme Mart Kume (tentative name, Okayama city, Okayama). As a result of expanding and deepening our dominance



youme Mart Jono (tentative name) to be opened in fall 2018

in the western Japan regions as well as steadily executing the 3 strategies of the medium-term management plan, we forecast that the consolidated operating result for the fiscal year ending February 2019 will include operating revenue of ¥749,400 million (up 2.7% year on year) and operating profit of ¥37,100 million (down 3.6% year on year).

Leveraging our strengths based on our management philosophy

Our management philosophy represents an unwavering set of guidelines. Our most fundamental goal is to "Be No.1 in customer satisfaction". In addition, in accordance with the phrases from our corporate philosophy "Be a company with an exciting future" and "Be a company worth working for", we strive to maintain an environment where employees feel invigorated by their work. Izumi's strengths are linked to our management philosophy and serve as the base for our growth. First is our decision to limit strategic development to our dominant market of Western Japan. We have a deep geographical familiarity with Western Japan and our store operations are locally oriented. Second is our review and improvement of stores to ensure a high level of competitiveness. By opening new stores and rejuvenating existing ones, we continue

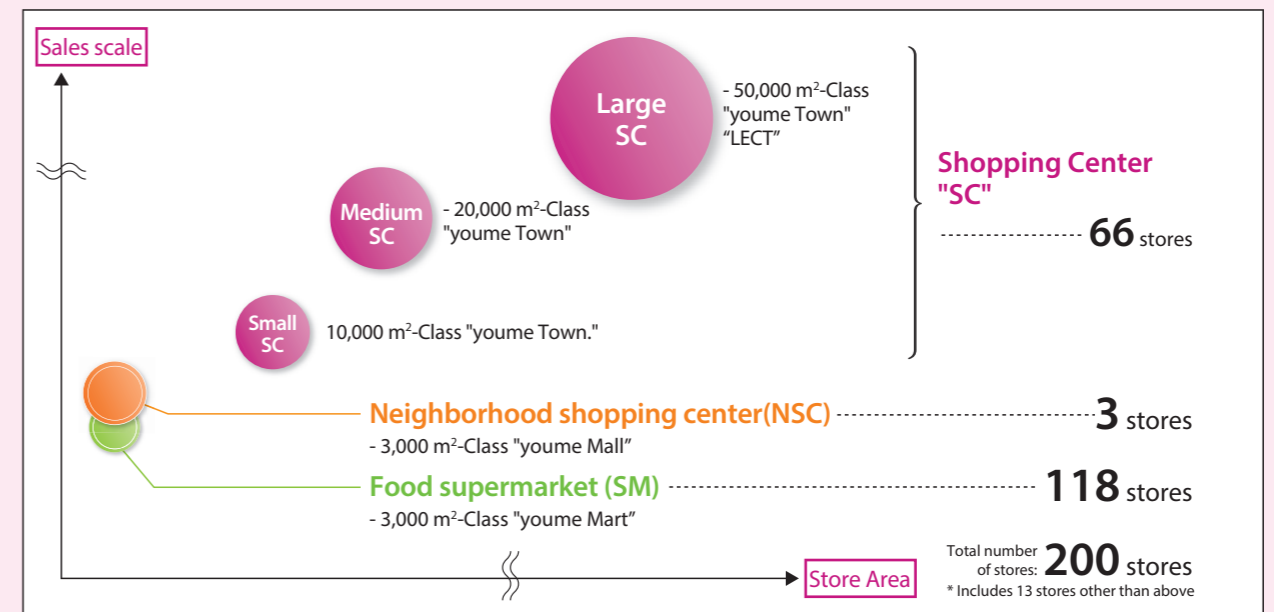
40 stores planned in a variety of store formats

Izumi group plans to open 40 stores over the 3 year period including newly locations, M&A, and acquiring premises with furnishings left behind by previous tenants. In recent years, a distinct issue has arisen where after a commercial facility closes due to deterioration in profitability, people living in its surrounding area have troubled shopping. In such a situation, Izumi Group will continue to focus on acquiring and renovating premises with furnishings left behind by previous tenants. When we think in accordance with our creed, "Four Dreams", protecting living infrastructure is our "mission". We have the experiences needed to renovate shops tailored to the facility and community needs at several places in western Japan. Since we operate in a variety of formats from large to small stores, we can be agile and open shops in a flexible way. In addition, comparing to brand new openings, capital investment can be kept to lower levels, which enables operating stores with a higher break-even point. We will open stores with high efficiency speedy and support customers' lifestyle to contribute to the revitalization of communities.



youme Town Himeji (tentative name) to be opened in winter 2018 by utilizing an already furnished venue

Izumi Group's various shop formats



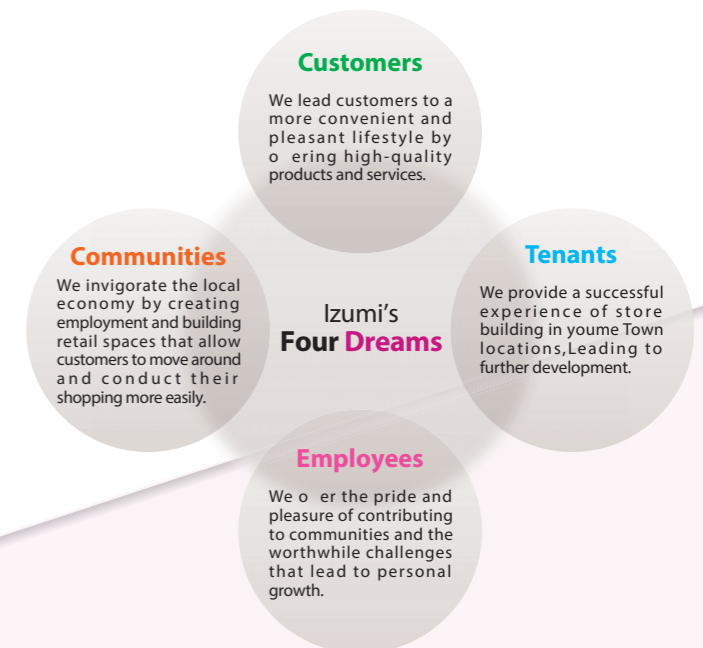
(As of February 28, 2018)

to increase our appeal as a comfortable place to spend time for both customers from the local community and the wider community. Third is our employees' high level of motivation. Delegating authority to onsite employees leads to greater motivation.

Company moving forward together with your dream

Our management vision behind our medium-term management plan, "strive to be Japan's No. 1 high quality regional GMS", does not mean pursuing growth only in profit and number of stores. Izumi has a creed known as the "Four Dreams". Supporting the dreams of customers, communities, tenants, and employees is our own dream. In addition to these four dreams, we emphasize returning profits to shareholders and increasing dividends while balancing cash reserves with investments. We take pride in the fact that becoming Japan's No.1 honest company by moving forward with all stakeholders is our mission, and here we swear a commitment to doing our best by this goal. We ask for your deeper understanding and continuing support moving forward innovating every day to make our dreams come true.

Izumi's Four Dreams



Aiming to achieve revenue of 1 trillion yen in FY2022

Izumi Group Medium-Term Management Plan

On October 10, 2017, Izumi formulated its first Medium-Term Management Plan since its establishment. We have started actual efforts to first achieve an operating revenue of 900 billion yen in the next three years by FY2020 in order to fulfill our long-time big dream – reach an operating revenue of 1 trillion yen – by 2022. We will steadily resolve each and every challenge as we further improve the strengths of the Izumi Group.



Enhance the value of Izumi and youme brands and “strive for Japan’s No. 1 high quality regional GMS” by improving the value of the IZUMI youme brand



- 1 Growth strategy**
(Acceleration of new store openings / Active use of M&As / Promotion of new business)
- 2 Strengthen Competitiveness**
(Enhancement of the stores' added value / Product development and Cost reduction / Greater focus on marketing activities / Strengthen tenant operations / Cost reduction)
- 3 Develop Human Resources**
(Skills development/ Work style reform/ Cultivation of female managers)



FY2020 [Operating revenue] **900** billion yen [Operating margin] **6%**

FY2022 [Operating revenue] Aim for **1** trillion yen



- Capital investment**
Annual average investment of over 20.0 billion yen to be allocated to growth strategy
- Financing**
Bank loans to be used if needed for capital investment
- Return to shareholders**
Actively return profits to shareholders in accordance with growth in income
Consolidated dividend payout ratio target: 30%

The management environment is undergoing unprecedented changes that include smaller markets caused by a shrinking population, a declining birthrate and an aging population, and an increase in single-person households and working women. In addition, the competition in the retail industry is becoming more intense beyond the conventional forms of operation due to the emergence of convenience stores, drug stores and mass apparel retailers, and the rapid growth of e-commerce.

The Izumi Group views period of change is the time for opportunities, and it has constantly grown and improved the corporate value based on Izumi's corporate DNA of innovation, challenge, and speed. The

Izumi Group Medium-Term Management Plan has been formulated for the first time since its establishment in order to utilize the current social conditions as an opportunity to leap ahead. We have identified the strengths and issues of the Group, and defined growth strategy, competitiveness enhancement and human resource development as the three key strategies. We have also released the Medium-Term Management Plan on our website with a firm resolve to make every effort to fulfill this promise. All the employees will accelerate the evolution to achieve the same targets looking ahead to the next three to five years.

Key strategy (1) Growth strategy

Continuing to actively open new stores with a focus on food supermarkets will be the driving force for growth. We will also promote M&A and work to expand the store network by taking over stores from leading retailers and using furnished and fitted properties. The whole Izumi Group will make efforts to improve our dominance in Shikoku and Kyushu while taking on challenges such as the e-commerce operation and the retail-peripheral operation.

40 stores planned over the 3 year period

1 Acceleration of new store openings

1. Enhance our dominance
 - Select priority areas for opening new stores
 - Group-wide coordination
2. Step up opening of new SM/NSC stores
 - Cut down construction and operational costs through store standardization
3. Challenge the property development business
4. Create a new “youme Town”
5. Store Development Division
- Strengthen Tenant Leasing Division

2 Active use of M&As

- Win-win tie-ups with leading retailers
- Support and restructure businesses confronted with issues
- Aggressively open new stores, for instance, in premises with furnishings left behind by previous tenants

3 Promotion of new business

- Franchise operations
- E-commerce operations
- Specialty store operations
- Retail-peripheral operations



Key strategy (2) Strengthen Competitiveness

We will enhance competitiveness in an aim to improve customer satisfaction. We will conduct store development and renovation in response to new needs in order to further enhance the strength of the existing stores that is a strong point of Izumi. With regards to our products, we will take our strategy of “Good Products at Low Prices” on which we have been working a step further in order to further increase the youme brand loyalty.

1 Enhancement of the stores’ added value

Large-scale stores

- Responding to the needs of three generations
- Creation of comfort spaces
- Introduction of hot tenants and department store brands
- Development of stores with tenant mixes that matches to customers’ various life scenes

Medium-scale stores

- Store development that responds to the changes in market areas
- Expansion of eat-in facilities and service functions
- Focus on demands in foods and daily necessities

Small-scale stores (supermarkets)

- Standardization of store scale and operations
- Responding to the demands specific to small-scale stores

2 Realize “Good Products at Low Prices”

(1) Product development

- Leverage the advantages of physical stores
- Improve quality and freshness of perishables and delicatessen
- Commit to community-based operation and customer needs
- Develop production areas (activities to get familiar with producers)
- Tackle competition in the food segment with firms in other business lines

(2) Cost reduction

- Pursue economies of scale
- Stronger coordination with group companies
- Promote joint purchasing and joint procurement with other companies
- Curtail logistics costs

3 Greater focus on marketing activities - enhance the youme brand -

- (1) Expansion of Izumi’s own credit card “youme Card”
- (2) Information dissemination via social media
- (3) Use of customer sales data (big data)
- (4) Expansion of IT application in stores

4 Strengthen tenant operations

(1) Strengthen leasing operations

- Store development in line with community needs
- Proposal on a new shopping center
- Use of the Tokyo Office

(2) Increase tenant values

- Strengthen communication
- Improve follow-up systems
- Collaborate with tenants

5 Cost reduction

- Pursue group-wide economies of scale
- Improve productivity through a bottom-up approach engaging all Group employees
- Promote energy-saving activities



Key strategy (3) Develop Human Resources

Improving our employees’ capacity and ability to get things done is most important in order to achieve the Medium-Term Management Plan. We will focus on the development of human resources at all levels by generously investing in employee education and preparing various types of training systems. We will also rebuild the human resources development system in response to the increasing number of stores. We will work to ensure a comfortable workplace environment and improve employee satisfaction so that we can deliver even better customer service.

1 Skills development

- Enhance skills development at all levels (from management to partner staff)
- Increase investment in education per person
- Review personnel development system in line with the increase in the number of stores

2 Work style reform

- Improve work-life balance and employee satisfaction
- Rebuild operational processes and promote IT application
- Prepare for the introduction of equal pay for equal work concept

3 Cultivation of female managers

- Push forward with child rearing support
 - Certified by the Ministry of Health, Labour and Welfare (MHLW) in 2017 as a “Child-Rearing Support Enterprise”
- Encourage motivation and skills of female employees
- Aim to have over 20% of female managers in 2020
 - Received the Level 3, the highest ranking, of the “L-star” mark under the certification system based on MHLW’s 2017 Act on Promotion of Women’s Participation and Advancement in the Workplace



Combining physical stores and ICT strategy and actively approaching new customers

Now that more and more consumers are shopping online, we are always thinking how we can utilize our strength as a physical store.
We will offer a place for new discoveries to customers as well as working to collect and provide information utilizing the next-generation technology.



Physical stores

Create Time-creation type stores based on the LECT model

The approximately 10,000m² restaurant & food area accommodating any needs and preferences

LECT has a restaurant & food area of approximately 10,000m², which is about 25% of the entire complex. It can accommodate any needs and preferences with a 1,000 seat food court, a cafe where customers can read books, restaurants that opened in the Chugoku region for the first time and others. The food floor sells items from specialty stores in a lively environment like a market.



Cafe where customers can read books before purchasing

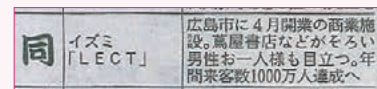
Offering a place for encounters where people can come in contact with culture and broaden their interests.

TSUTAYA BOOKS that has a lineup of 250,000 books stimulates intellectual curiosity. Cainz has a workshop with woodworking tools and 3D printers, helping people create a living space to their liking. Events that are easy to participate and allow participants to broaden interests are held throughout the complex, such as story times and hand-made craft workshops.



Story times are held every weekday

Selected for the 2017 Hit Products Ranking and awarded 2018 Store of the Year!



Annual noted feature "Hit Shouhin Banzuke," Nikkei MJ (Nikkei Marketing Journal) ranks hit consumer products from the calendar year in an East-West sumo-ranking style. LECT received high marks for 2017, and was chosen as *maegashira* (rank-and-file wrestler in the top division) for the West. The counterpart for the East was the birth of a baby panda at Ueno Zoo in Tokyo.



From the December 6, 2017 issue of Nikkei MJ

The retail industry specialist magazine *Diamond Chain Store* ranked LECT first in its commercial complex category. It was chosen for being "a place to discover the ways of new lifestyles."



Diamond Chain Store April 1, 2018 issue Diamond Retail Media Inc.

ICT strategy

Offer new value for customers with advanced technology

Improve the convenience with Shopimo carts with tablets mounted

Shopimo carts were introduced at retailers in Chugoku and Shikoku in 2017. Coupons that can be used only with Shopimo, store maps and other information are displayed on the tablet mounted on the shopping cart. The tablets communicate with beacons (transmitters) set in various parts of the store enabling information to be displayed at the right time.



Digital "stamp rallying" can be enjoyed on Shopimo

Offer information through apps and SNS to appeal to young people

We are focusing on the "youme Town smartphone app" for people who don't have many opportunities to read newspapers or watch TV. We are taking on the challenge of combining the physical stores and the online through functions such as checking the balance on the "youme" e-money card and displaying the latest flyers. In addition, LECT is offering information through its own LINE and Instagram accounts mainly to young people.



"Youme Town smartphone app"



LECT's Instagram page

Online youme Shop opened

As of one of the parent- and age-friendly services, we sell baby products, rice and other products at the online youme Shop. We also sell gifts, which is well received by busy people.



youme Shop home page

Promote the card business to collect the big data

Since we commenced the card business in 1987, the Izumi Group has been making every effort to improve the convenience for our customers for over 30 years. Furthermore, we have been working to improve the product lineup and develop products using the big data for many years.



youme card that offers many benefits

Review of operating results by segment

Retail operations

In our core, retail business, we have been working to improve customer satisfaction by developing our ability to make added value proposals as a physical store under the code of conduct, "To be committed to customer service."

On April 20, the large shopping center youme Town Hamasen (Minami-ku, Kumamoto City) that had been damaged by the Kumamoto Earthquake during the previous period and had some floors temporarily closed reopened. In addition, on August 11, youme Mart Tatsuta (Kita-ku, Kumamoto City, formerly called youme Mart Kusunoki) operated by one of the consolidated subsidiaries, youme Mart Co., Ltd. reopened which means that we managed to reopen all the stores that had been damaged by the Kumamoto Earthquake.

In terms of products, we included more products in the target of our MD strategy, "Good Products at Low Prices" to develop competitive product in terms of both quality and price, and created customer value through the further development of the existing areas.

In terms of stores, we opened a new type of store – a large commercial complex, LECT (Nishi-ku, Hiroshima City) in April, youme Town Gotsu (Gotsu City, Shimane Prefecture) in May, and youme Mart Fukutsu (Fukutsu City, Fukuoka Prefecture) in February. LECT aims to be a third place beyond home, the workplace and school for consumers, and is composed of three zones under the main themes of intelligence, living and dining. It is a commercial complex beyond a conventional commercial facility that proposes different lifestyles. We are mainly in charge of the "food" sections such as the youme Shokuhinkan supermarket and the Thousand Dish food court. We have taken on the new challenge of added value proposals that use the shift from goods to experiences and time as an opening point in order to capture new groups of customers and deploy the knowledge gained to other stores so that we can improve added value for exiting stores overall and start expanded strategic initiatives.

In addition, in order to more effectively manage the Group's food supermarket youme Mart and other stores that have a stronger presence because of the new store openings and M&A, we conducted organizational reforms, in which we separated the operations of food supermarkets and large shopping centers, and then established the Chugoku Mart Operations Department and the Kyushu Mart Operations Department. We also established the Group SM Supervision Department that oversees the supermarket subsidiaries. Through these efforts, we created a system that enables optimal store operations for more community-based food supermarkets and the integrated deployment of food supermarket business strategies in the Group. At food supermarket subsidiaries, we worked to improve work efficiency in order to continue to benefit from economies of scale and increasing the dominance.

As a result of the above efforts, the sales volume in the first half of the fiscal year remained strong in the areas of clothing, food and household goods in early spring, but sales were sluggish in the food sector due to a deterioration in market conditions in the fruits and vegetable division and people refraining from purchasing fish as a result of nationwide news coverage of the food poisoning caused by anisakis in the fresh fish division. Nonetheless, our strengths were demonstrated for

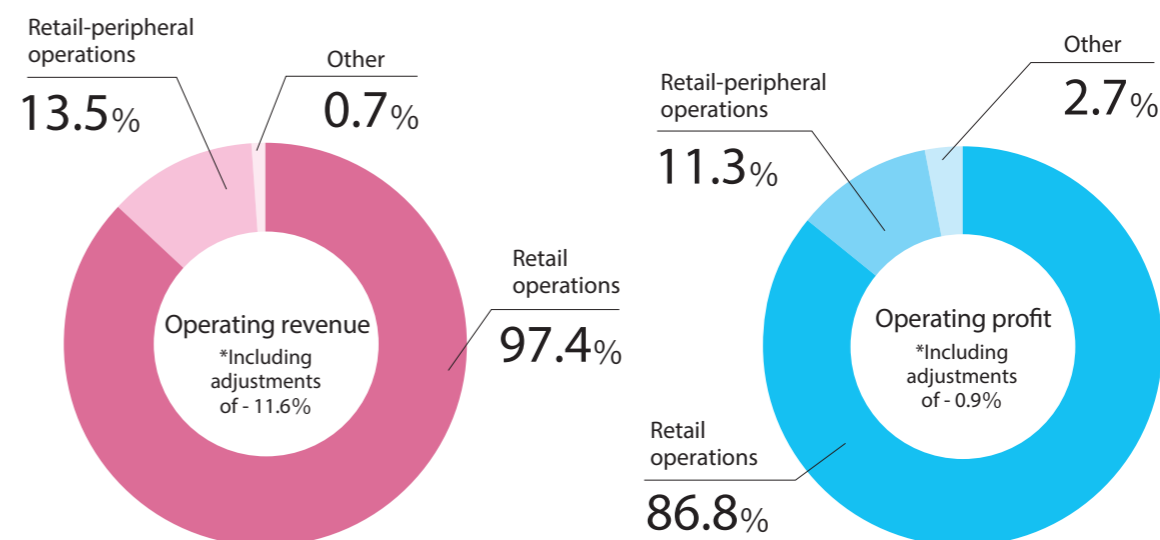
demands on celebrative occasion such as White Day and Mother's Day. In addition, in the summer, it was possible to capture three-generation demands for items such as school backpacks during the homecoming season at an early stage, gift demand for summer gifts, etc. remained strong, and sales were strong for goods related to the local Hiroshima Toyo Carp baseball team. During the second half of the fiscal year, sales were strong for seasonal goods such as clothing and household goods, thanks to the good weather and falling temperatures in early fall, and our seasonal events including our first Black Friday were well received with much excitement. During winter, there was a recovery in the food sector that had performed poorly along with a growth in sales of high value-added products such as year-end gifts.

However, the situation remained difficult in face of the high hurdle of the previous fiscal year as a result of factors including a concentration in demand after the Kumamoto Earthquake during the previous fiscal year, despite efforts to attract customers through plans in response to changes in living styles. As a result, net sales for existing stores year on year ended February 28, 2018 dropped by 0.8%.

In terms of costs, we strove to reduce costs and control losses in the purchase of merchandise while working to improve the gross profit margin. In addition, while the selling, general and administrative expenses (SG&A) saw an increase because of the reopening of stores that had been closed due to the Kumamoto Earthquake and the full-year operation of stores newly constructed or expanded during the previous fiscal year, there was a decrease in the expenses for the launches of new stores during the current fiscal year. We also made every effort to control costs.

As a result, the operating revenue for the segment was ¥710,545 million (up 4.1% year on year), while the operating profit came in at ¥33,397 million (up 6.8% year on year).

Share by segment (FY2/2018)



Retail operations breakdown(fiscal period ended February 2018)

Consolidated operating revenue (Unit: million yen)

	Results	Breakdown	YOY change
Izumi Co., Ltd.	683,850	93.7%	105.5%
Yume Mart Co., Ltd.	27,970	3.8%	102.4%
Super Daiei Co., Ltd.	16,950	2.3%	94.7%
YOURS Co., Ltd.	41,081	5.6%	91.4%

Consolidated operating profit (Unit: million yen)

	Results	Breakdown	YOY change
Izumi Co., Ltd.	32,017	83.2%	105.9%
Yume Mart Co., Ltd.	985	2.6%	79.8%
Super Daiei Co., Ltd.	557	1.4%	119.9%
YOURS Co., Ltd.	658	1.7%	2,072.1%

*The operating profit for each company are figures before the amortization of goodwill

Retail-peripheral operations breakdown (fiscal period ended February 2018)

Consolidated operating revenue (Unit: million yen)

	Results	Breakdown	YOY change
YOU-ME CARD.CO., LTD.	8,680	1.2%	108.0%
IZUMI TECHNO CO., LTD.	13,108	1.8%	96.9%
IZUMI FOOD SERVICE CO., LTD.	5,763	0.8%	100.2%

Consolidated operating profit (Unit: million yen)

	Results	Breakdown	YOY change
YOU-ME CARD.CO., LTD.	1,903	4.9%	112.5%
IZUMI TECHNO CO., LTD.	1,429	3.7%	105.5%
IZUMI FOOD SERVICE CO., LTD.	332	0.9%	109.7%

*The operating profit for each company are figures before the amortization of goodwill

Operating results by segment

Three main business platforms driving the growth of the retail operations

Shopping Centers (SC)

youme Town

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



youme Town Izumo (Izumo city, Shimane Prefecture) food court



youme Town Hatsukaichi (Hatsukaichi city, Hiroshima Prefecture)

Food supermarket (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 near the store. With Japan facing an aging population, this retail brand emphasizes "close connections with people's daily lives".



youme Mart Futabanosato (Higashi-ku, Hiroshima City)

Neighborhood shopping center (NSC)

youme Mall

Our youme Mall brand of shopping malls are located on large sites with parking lots 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)

Retail-peripheral operations

In our retail-peripheral operations, by both attracting new members at our new "LECT" stores and by expanding our handling at external affiliated stores including tenants at youme Town, we are expanding the use of "youme" electronic money cards and credit cards for shopping. These measures allowed us to further advance the Group's card strategy (the cumulative number of "youme" issued was 6.17 million at the end of the previous fiscal year and 6.84 million at the end of the current fiscal year). In addition, we worked to improve the frequency of usage through improved customer convenience, improving productivity at the register while contributing to attracting customers to our retail operations and transferring reciprocal

customers between stores.

As a result, operating revenue for the segment was ¥98,839 million (up 2.4% year on year) while operating profit came in at ¥4,366 million (up 11.9%).

Other

In our wholesale operations, stronger sales as well as reduced costs have improved profitability. In our real estate operations, we generated stable income from rents.

As a result, operating revenue for the segment was ¥5,273 million (up 6.8% year on year), while operating profit came in at ¥1,052 million (up 7.8%).

Improved earnings from subsidiaries contributing to the Group's growth

Retail operations

Yume Mart Co., Ltd.

Food supermarkets (SM)

Supporting the needs of residents of Kumamoto Prefecture

We have opened and been managing 24 "youme Mart" supermarkets with close ties to the local community in Kumamoto. These specialize in providing products and services that support the needs of customers.



Super Daiei Co., Ltd.

Food supermarkets (SM)

They are in Fukuoka, Oita, and Yamaguchi Prefectures and strong in fresh food.

We have deployed 20 "youme Mart" stores in Fukuoka, Oita, and Yamaguchi Prefectures. We are moving forward to improve the freshness and assortment of fresh foods and create fresh sales floors.



YOURS Co., Ltd.

Food supermarkets (SM)

Focusing on stores with a small trading area, we have been deploying these super-markets mainly throughout western Japan

Headquartered in Hiroshima, Yours stores are being deployed in Fukuoka, Yamaguchi, and Okayama Prefectures. We mainly operate small retail stores, providing close support to local residents.



Retail-peripheral operations

YOU-ME CARD.CO., LTD.

Credit card operations

An enriched life through the use of our card operation

In addition to credit card and e-money operations, we also have travel agent and life insurance agent operations, working to further increase convenience.

IZUMI TECHNO CO., LTD.

Facility management, construction, designated management operation

Supporting comfortability and safety of facilities

The Company is responsible for facility management and construction focusing on Izumi Group stores. We also handle designated management operations and provide full support for management of a variety of facilities.

IZUMI FOOD SERVICE CO., LTD.

Restaurant operations

Enjoy delicious food every day through our restaurant operation

We have been developing a range of restaurant operations, including okonomiyaki pancakes, octopus dumplings, ice cream, Chinese food, and Italian food. We are creating a new value for food.

Compliance with CSR guidelines Working to raise awareness among employees

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

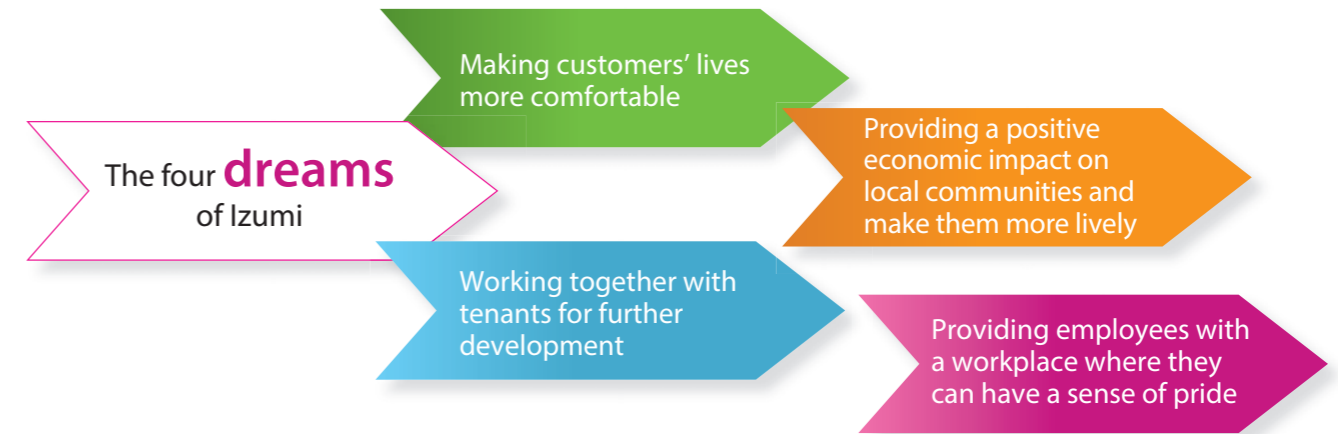
Izumi believes that its initiatives aimed at environmental issues constitute the most fundamental activities for fulfilling its social responsibility. The Company encourages each employee to practice environmental conservation activities on his or her own initiative, based on an awareness as global citizens. 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.

Promoting CSR activities to achieve the four dreams of Izumi



The four dreams of Izumi Making customers' lives more comfortable

youme Town Gotsu protecting living infrastructure

The first thing that the Izumi Group focuses on is the maintenance of living infrastructure for people in local communities as part of its mission as a retailer. youme Town Gotsu in Gotsu City, Shimane Prefecture opened on May 2, 2017, taking over the management of Green Mall that has been a local favorite for many years. We have gathered products essential to daily life with a focus on fresh food products to prevent shopping refugees who are cut off from the retail sector. We have also accumulated clothing, shoes, books, and other goods to create sales floors that improve the convenience of life. We are also working to offer continued employment to employees and to contribute to the local economy.



youme Town Gotsu that focused on local contributions

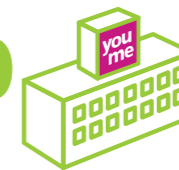
Service that is also barrier free

All of the Izumi facilities that have been opened since 2000 support the Act on Promotion of Smooth Transportation, etc. of Elderly Persons, Disabled Persons. We have also worked to provide fuller service through the assignment of escorting assistants that assist customers with disabilities.

Facilities that support the Act on Promotion of Smooth Transportation, etc. of Elderly Persons, Disabled Persons

All stores that have opened since

2000



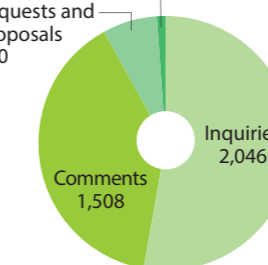
Guidance being provided by escorting service in the store

Improvements based on customer feedback

Opinions written on customer feedback forms collected at stores and comments submitted to the Customer Service Division at our head office are treated very seriously and responded to promptly in order to improve service.

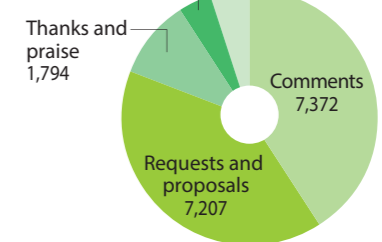
Annual free dial results for FY2017

Thanks and praise 37
Requests and proposals 250
Inquiries 2,046
Comments 1,508
Total 3,841



Annual customer feedback results for stores for FY2017

Inquiries 731
Comments 7,372
Requests and proposals 7,207
Thanks and praise 1,794
Other 832
Total 17,936



The four dreams of Izumi

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

Support for Hiroshima Maple Reds

Hiroshima Maple Reds is the women's handball team representing Hiroshima Prefecture. Hiroshima Maple Reds are a powerful team with stable results, including winning the Japan Handball League eight times and coming in second place in the play-offs in March 2018.

The team also diligently contributes to local communities. The captain (at the time) Chie Takayama was appointed as mayor of Higashi Ward, Hiroshima City for one day in February 2017. Takayama was involved in greeting campaigns at local elementary schools and awareness-raising activities to improve bicycle transportation manners.

Izumi supports the team as the main sponsor. All 17 players worked for the Izumi Group in 2018. Their efforts to achieve a balance between sports and work serves as a model for our employees. The entire Izumi Group sends warm cheers of support to the team members doing their best.



Team members who do their best at both work and play



Supporting the Carp with customers

Izumi supports the Hiroshima Toyo Carp that is based in Hiroshima City as an official sponsor. Sponsored games are held every year at the MAZDA Zoom-Zoom Stadium Hiroshima. We have passionately enjoyed the games together with local customers.

We shared the joys of the eight Central League championship in 2017 with a decorative banner dropped from the ceiling at youme Town Hiroshima. There was also a tremendous response to a sale commemorating the victory.



Sponsored game was a big success

Agreement with governments on disaster prevention and the revitalization of local communities

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 comprehensive regional revitalization partnership agreement with Yamaguchi Prefecture on September 1, 2016 and pledged to support various aspects including promoting the sales of products made in the prefecture and the local tourism industry. Agreements have also been entered with various prefectures and municipalities regarding response to disasters such as earthquakes and heavy rains.



Yamaguchi Prefecture Governor Tsugumasa Muraoka (right) and Izumi President Yamanishi

Local production for local consumption and PR activities for local products

In order to promote local production for local consumption, we have continued efforts such as using the photos of producers to decorate sales floors, and our producer-direct vegetable sales corners have gained popularity. Campaigns such as the Pride of Hiroshima Taste and Pride of Kumamoto Taste that promote local products in other regions have also been popular. The store network of the Izumi Group is used to broadly introduce products that have been long loved in local communities.



Pride of Hiroshima Taste campaign that introduces the taste of Hiroshima Prefecture to other prefectures

The four dreams of Izumi

Working together with tenants for further development

10th anniversary of youme Town Hiroshima

youme Town Hiroshima that opened in February 2008 is a store that has been supported from both local customers and customers from the broader community. We have worked to improve the appeal of the store while cooperating with a wide variety of tenants that includes hot fashion brands, large bookstores, accessory stores, and popular dining establishments.

A 10th anniversary event was held with much fanfare in March 2018. Various projects were held in cooperation with tenants. Many customers visited the store to participate in events that focused on the number "10", including 100-yen, 1,000-yen, and 10,000-yen specials, and offers of 10 times the points. In advance of this anniversary event, Izumi and tenant employees gathered together on March 8 to hold a rally party. Awards were given to employees with ten years of consecutive service, and common awareness towards this milestone year was fostered. We will work enthusiastically towards the 15-year and 20-year anniversary based on this new start.



Working to improve the appeal of youme Town Hiroshima in cooperation with tenants



Deepening ties with business partners at the Izumi Conference

The Izumi Conference was established in 1975 in order to deepen ties with business partners in an aim for co-prosperity. The number of members has increased every year, and as of May 2017, over 345 companies are members. A regular conference that is attended by many members is held every May. It is an opportunity for Izumi to provide information on management policy and store openings, for members to deepen mutual exchanges, and for participants to vow once more to further improve customer satisfaction and form a consensus.



The Izumi Conference

Holding of customer service skills improvement contest

The Izumi Concessionary shop Role Playing championship is held at the Izumi Head Office. Participants demonstrate the skills they have developed with their best smiles. This contest was an opportunity to even further improve customer service skills.



Top winners of the contest

Opening of Tokyo Office for quick response

Izumi opened the Tokyo Office in 2017. It is mainly used by employees of the Tenant Management Department in an effort to respond promptly to and deepen communications with business partners that have a headquarters in Tokyo metropolitan area. It also functions as a base to gather information on the latest trends.



Compact and functional office

The four **dreams** of Izumi

Providing employees with a workplace where they can have a sense of pride

Project to promote women's participation and advancement project

Izumi launched the "youme Can Project" (Female Leader Development Project) in 2014 in order to increase the percentage of female in management positions to at least 20% by 2020. In response to feedback from female, we are putting in place a working environment that allows for a balance between child raising and work while establishing opportunities for training in order to support career building by female. We have created a Father and Mother Support Book in order to ensure awareness of the work-life balance support system. A work-life balance support system that features interviews with superiors before and after maternity/childcare leave has also been introduced to facilitate reinstatement with a peace of mind. A work-life balance book is also distributed to people in management positions in order to transform the mindset of male employees at the same time.



Female employees who realize their full potential as leaders

Improvements have been made every year in systems that support a balance between work and childcare or nursing care. Various awards have been received from the government for systems including the parental leave system that can be used until a child reaches 3 years old and the reduced working hour system that can be used until the third year of elementary school.

Target female managers rate at Izumi
Over 20% by 2020



Improving motivation through a license system

Izumi has clarified the criteria for managerial appointments (license system) in order to promote human resources that are highly capable and motivated to managerial positions, regardless of gender. Under this system, employees can become qualified to promotion to positions such as chief, deputy manager, or store manager by participating in training and passing an exam. There is also a framework for promoting partner employees to chief, and there have been several partner chiefs as a result. The percentage of female in chief positions that had been 26% in 1999 has now increased to over 50%. System participants are also working enthusiastically as people in charge of sales floors. The percentage of female in managerial positions and percentage of female buyers have increased year by year, and female are now actively involved in these positions.

Title of position	1999	2017
Female managers	9people	51people (9%)
Female buyers	14people	39people (33%)
Percentage of female in chief positions	26%	51%(529people)

*female in chief positions includes partner employees

Learning about cutting-edge trends in training in the US

30 store deputy managers and chiefs participated in training held in Los Angeles, US from July 9 to 14, 2017. With a focus on supporting young customers, participants conducted research on the product lineup and interviews with store managers at major supermarkets such as Trader Joe's. After returning to Japan, participants used the new ideas they learned to create stores that will delight customers.



Participants learning about cutting-edge trends in Los Angeles

"youme Delight Stories" to improve motivation

"youme Delight Stories" provide opportunities for partner employees to share their own insights and case studies of reforms in the field with people they work with. The results are incorporated in store operations for the entire company. A Checker Contest for the food cashier and Fresh Skills Contest for the food division are also held to improve the motivation and skills of employees.



Announcement of "youme Delight Stories"



Efforts to save resources in both tangible and intangible aspects

The Izumi Group works together with customers and local governments and contributes to the achievement of a sustainable recycling-oriented society through the accumulated results of all of its activities.



Installation of solar power generation panels on the roof

Power generation at youme Town Hatsukaichi

Solar generation is conducted on the roof of youme Town Hatsukaichi as the first effort of its kind at youme Town in order to get annual energy usage as close to zero as possible. Approximately 2,900m² of 350kW solar power generation panels have been installed for power generation sufficient for supplying electricity to one small supermarket, and this also helps to reduce the amount of carbon dioxide emissions. A geothermal heat pump system that reduces the energy used for air conditioning by using geothermal heat has been installed inside the store. In addition, innovations have been introduced in various areas of the stores such as electric car charging spots.



Charging spots for electric vehicles

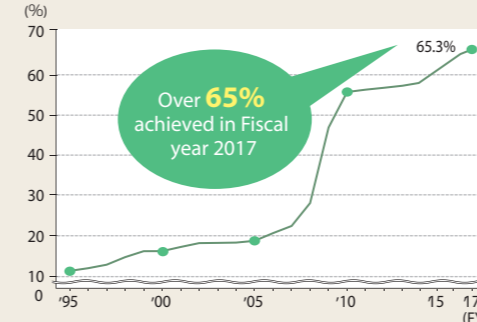
Reduction of plastic bags used at the register and gift wrapping

Izumi has worked together with local government and civic organizations for over 20 years to call for a reduction in plastic bags used at the register. We have gained the understanding of customers, and now 65% of customer bring their own shopping bags. At gift sales floors, we also ask for cooperation with eco (simplified) packaging that reduces the use of gift wrapping paper and packaging. In FY 2017, eco packing is not used for 72.6% of summer gifts and 73.3% of winter gifts.



Encouraging the use of simplified packaging for gifts

Percentage of people who bring their own shopping bags



Popularity of the beneficial "Ecoste"

Ecoste used paper collection stations allow customers to bring in paper including newspapers and magazines and receive points based on the weight. It is popular because customers can enjoy the benefit of using these points for shopping. Ecoste was first introduced in 2010, and there are Ecoste at 66 stores (as of May 2018). **"Ecoste" is an abbreviation of "eco station".



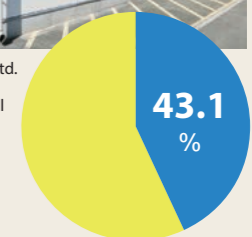
"Ecoste" where people bring in used paper when they shop

Recycling food waste

Large volumes of food waste are generated in the back room of the food sales floor, including fish waste, waste oil, and vegetable scraps. We recycled 43.1% (3,452 tons) of these food wastes into useful resources through thorough separation and management of wastes and contracting the recycling to specialists during FY 2017. Kumamoto Seissha Co., Ltd. has been contracted to recycle the food wastes from stores in Kumamoto Prefecture into fertilizer, and this fertilizer is used to grow agricultural products. FUCHIGAMI Co., Ltd. in Fukuoka Prefecture has been contracted to recycle waste oil into bio-diesel fuel. It is being usefully taken advantage of as a fuel.



FUCHIGAMI Co., Ltd. contracted for recycling waste oil



Corporate Governance

Basic approach

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

Based on this philosophy, we view the improvement of our management structure and other systems and the enhancement of management transparency and fairness one of the priority issues. 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 the functions such as the execution of business, audit and supervision, nomination and decision of remuneration

The Company has eight directors, of whom two are outside directors, with the term limits of two years in order to maintain business execution transparency and clarify where management responsibilities lie. As a rule, the Board of Directors meeting is held once a month to have a full discussion and supervise the performance of duties by the director. From the eight directors, one President and Representative Director is selected and seven executive officers are elected for the execution of business. Each week, the directors and executive officers hold a management meeting to report and exchange opinions on the measures for the management policies. The Presidents of the Group companies are summoned for the monthly Review Meeting for Consolidated Subsidiaries and Results Brainstorming Meeting for the review of their business conditions.

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 execution of business, while the directors seek members' objective opinions on proposals made at meet-

ing of the Board of Directors. In addition, five legal advisors offer advice and guidance to provide an appropriate and efficient oversight function.

The Company believes the above corporate governance is functioning effectively, and that an efficient business execution and effective management oversight function are in place along with the internal control system and compliance risk management system described below. In addition, we appoint human resource with abundant experience and a wide range of knowledge as outside directors to improve the management objectiveness and transparency from an independent viewpoint.

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, 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 the departments within the Head Office, the store network and the Group companies, and reports the results of these 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, 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 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, and the Audit & Supervisory Board members, the independent auditor and the Internal Audit Section work together to regularly visit the stores for (on-site) audits to share information. In this way, the situation of the internal controls and of accounting audits can be tracked and the reports of the independent auditor on the results of accounting audits are submitted at the meetings of Audit & Supervisory Board. In addition, two people are appointed to support the Audit & Supervisory Board members, in order to further strengthen the audit function (the supporting members hold another positions as well).

Our Response to the Corporate Governance Code

Reasons for not complying each of the principles of the Corporate Governance Code

Supplementary Principle 1.2.4 Digital exercise of voting rights and English translation of the convocation notices for General Meeting of Shareholders

Although the Company does not currently offer digital exercise of voting rights and English translations of the notices of General Meeting of Shareholders, we will consider introduction.

Supplementary Principle 4.2.1 Setting appropriate percentages of performance-based remuneration and share-based remuneration

Executive remuneration basically consists of fixed remuneration that takes into consideration the degree of contribution to the business execution and the Company made by that person and single-year performance-based remuneration within the limit resolved by the General Meeting of Shareholders, and there is not any share-based remuneration. Remuneration based on the medium to long-term performance will be considered.

Disclosures based on the principles of the Corporate Governance Code

Principle 1.4 Cross-Shareholdings

The Company may hold cross-shareholdings in some cases to facilitate its business activities and to strengthen trading relationships. The shares held will be reviewed as necessary while taking into consideration the impact on the Company's corporate value. The voting rights for shares held are exercised based on a comprehensive judgment on whether the proposal will contribute to that company's sustainable growth or medium to long-term improvements in corporate value and whether the proposal could damage shareholder value.

Principle 1.7 Related party transaction

When related party transactions are conducted, the Board of Directors conducts a close inspection of the details of the transaction based on the Board of Directors Regulations. Buying or selling of the Company's shares, buying, selling or leasing of the Company's real estate and loan guarantees for bank loans, etc. between the Company and directors require approval from the Board of Directors. In addition, resolutions are made on such proposals after exclusion of executives involved in such transactions from the quorum.

These transactions are disclosed in accordance with regulations such as the Companies Act and accounting standards regarding disclosures of related parties.

Principle 3.1 Full Disclosure

(i) The aims (management philosophy, etc.), management strategies, and management plans of the company

The Company aims to "create new communities that offer excitement and inspiration" together with stakeholders based on the corporate philosophy of being number one in customer satisfaction, being a company with an exciting future, and being a company worth working for.

Our strategy is to actively open new community-focused stores and work in harmony with local companies in the West Japan area. Through these measures, we aim to establish a regional dominance, contribute to the revitalization and economic development of regions, and grow and evolve together with local communities.

In addition, a Medium-Term Management Plan ending in FY2020 has been formulated. Please refer to the Medium-Term Management Plan (October 10, 2017) on our website for details.

Medium-Term Management Plan

<https://www.izumi.co.jp/corp/ir/pdf/2018/chuki.pdf>

(ii) Basic stance and basic policy towards corporate governance

By maximizing corporate value and achieving customer satisfaction, we will meet the expectations of stakeholders. At the same time, we will fulfill our social responsibility as we hold ourselves to high moral standards and contribute to local community.

Based on this philosophy, we view the improvement of our management structure and other systems and the enhancement of management transparency and fairness one of the priority issues. 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.

(iii) Policy and procedure for the Board of Directors to refer to decide on remuneration for upper management and directors

The limit for executive remuneration is set at 500 million yen by a resolution made a General Meeting of the Board of Directors. The specific remuneration amount for individual executives consists of fixed remuneration that takes into consideration the degree of contribution to business performance and the Company made by that executive and performance-based remuneration that reflects single-year performance that is decided on by the Board of Directors after an advance review by a committee that includes independent outside directors, within the limit resolved by the General Meeting of Shareholders.

(iv) Policy and procedure for appointing senior management and designating candidates for directors and the Audit & Supervisory Board members by the Board of Directors

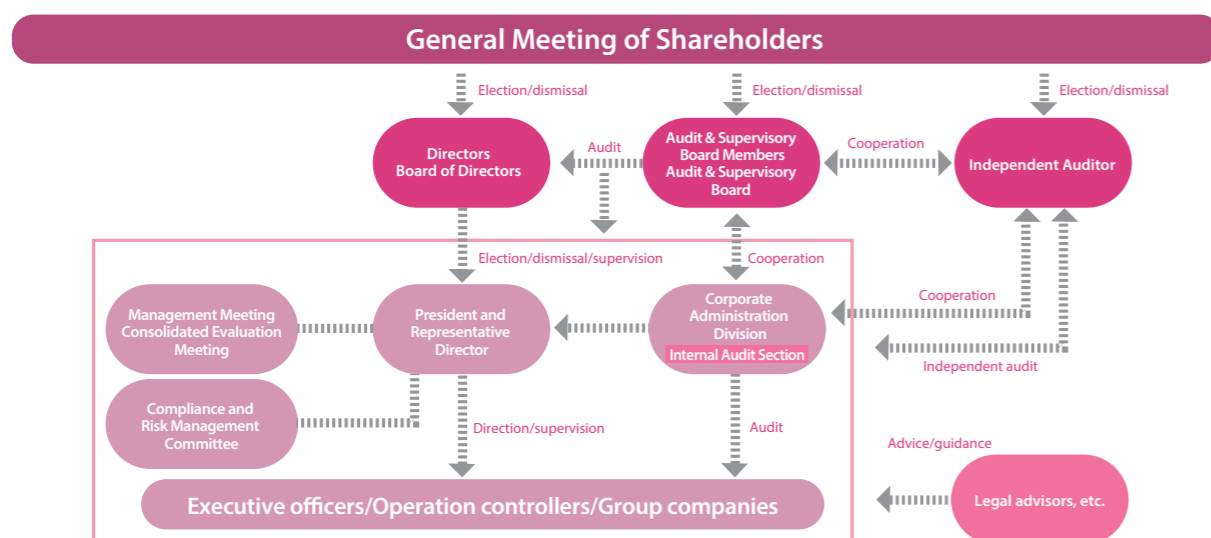
For senior management and candidates for internal directors, people who have abundant work experience and knowledge and excellent leadership, and are capable of performing their duties in order to maximize the Company's corporate value with high levels of ethical standards and awareness of compliance are appointed or nominated based on the keywords of innovation, challenge and speed, subject to decisions after sufficient consideration by the Board of Directors after an advance review by a committee that includes independent outside directors.

For candidates for outside directors, people with a high level of knowledge and abundant experience in different areas of expertise who are capable of actively making proposals and participating in free and open discussions from a neutral and objective perspective, including comments on risks related to new store investments that are essential for the Company's growth strategy are nominated, subject to decisions after sufficient consideration by the Board of Directors after an advance review by a committee that includes independent outside directors.

For candidates for Audit & Supervisory Board members, people with specialized experience and knowledge who are capable of fair audits from a neutral and objective perspective are nominated, subject to a final decision by the Board of Directors after an advance review by a committee that includes independent outside directors and approval from the Audit & Supervisory Board.

Note that the nomination of candidates for independent outside directors and independent outside Audit & Supervisory Board members is decided on in consideration of judgment criteria prescribed by the Tokyo Stock Exchange that ensure the independent executives.

Organizational chart of performance of duties, audit and internal control



Corporate Governance

(v) Explanations of individual appointments and designations when the Board of Directors appoints upper management and designates candidates for directors and Audit & Supervisory Board members

The reasons for appointing and nominating candidates for directors and Audit & Supervisory Board members are disclosed in the convocation notice for the General Meeting of Shareholders.

Supplemental Principle 4.1.1 Clarification of the scope of delegation to management

The Board of Directors makes decisions on important matters related to corporate operations, including matters prescribed in laws and regulations and the articles of incorporation, as well as personnel, structural reform, systems related to labor management, fixed assets, shares, long-term financing, investing, shareholders' equity, and affiliates based on the Board of Directors Regulations.

The scope of delegation to management by the Board of Directors is the performance of business besides matters that are at the sole discretion of the Board of Directors, and the details are prescribed in the Job Authority Regulations and Regulations on the Exercise of Duties.

Principle 4.8 Effective utilization of independent outside directors

Two independent outside directors have been appointed in order to ensure the transparency of management and strengthen the oversight function. Although currently the ratio of independent outside directors to directors overall is less than one-third, we believe that independent outside directors are functioning sufficiently. We will consider increasing the number of outside directors in the future for further enhancement of this function.

Principle 4.9 Independence judgment standards for independent outside directors and the qualities of independent outside directors

In consideration of the independence standards prescribed by the independent outside directors, because it has been confirmed that these parties are not major business partners or business-executing employees of such a major business partner of the Company or its subsidiaries, they have an objective positions independent from the management team, and there are no risks of conflicts of interest with general shareholders, they are judged to be independent.

Supplemental Principle 4.11.1 Stance towards the overall balance, diversity, and scale of the Board of Directors

The Company's Board of Directors is composed of eight directors, including two independent outside directors. For the appointment of internal directors, people with a high sense of ethics and awareness of compliance who are capable of performing their duties in order to maximize the Company's corporate value are appointed based on the keywords of innovation, taking on challenges, and speed and the standards of abundant work experience and knowledge and excellent leadership, subject to decisions after sufficient consideration by the Board of Directors.

In addition, for the appointment of outside directors, people with a high level of knowledge and abundant experience in differing areas of expertise who are capable of actively making proposals and participating in free and open discussions from a neutral and objective perspective, including comments on risks related to new store investments that are essential for the Company's growth strategy are appointed, subject to decisions after sufficient consideration by the Board of Directors.

We believe that this enables the Board of Directors to a conducting prompt and appropriate decision-making and equips

it with a supervisory and advisory function over business execution from an independent viewpoint and a structure in which knowledge, experience, capabilities, etc. based on a variety of backgrounds can be used in management.

Supplementary Principle 4.11.2 Concurrent positions by directors and Audit & Supervisory Board members

The status of significant concurrent positions by directors and Audit & Supervisory Board members is disclosed in the business report and the convocation notice for the General Meeting of Shareholders. When appointing candidates for directors and Audit & Supervisory Board members, consideration is given to whether the candidate has concurrent positions as an executive at no more than three companies other than the Company.

Supplementary Principle 4.11.3 Analysis and evaluation of effectiveness of the Board of Directors

A questionnaire on all directors and Audit & Supervisory Board members is conducted by the Board of Directors to conduct an analysis and evaluation of the overall effectiveness of the Board of Directors, and discussions are held at the Board of Directors on the evaluation of effectiveness as follows based on the results concerning matters such as the structure of the Board of Directors, matters for discussion by the Board of Directors, and the management of the Board of Directors.

(1) Implementation timing of the evaluation of effectiveness of the Board of Directors

July 2017: Implementation of a questionnaire to evaluate the effectiveness of the board of directors

August 2017: Report on the results of the questionnaire and sharing of issues with the Board of Directors

September 2017: Discussions on issues at the Board of Directors

(2) Overview of the results of analysis and assessment
It was confirmed that the Company's Board of Directors engages in lively debate on important matters and the effectiveness has been appropriately secured for the decision-making process overall.

On the other hands, there were also points that should be recognized as important issues that should be discussed in the future, particularly increasing the number of outside directors, promotion of female directors, reviewing the duties of executive directors, the development policy for successors, and the formulation of medium to long-term management plans.

(3) Future issues and response to these issues

This was the first questionnaire we conducted, and we will work to improve the issues related to the effectiveness of the Board of Directors through further discussions.

Supplementary Principle 4.14.2 Training policy for directors and Audit & Supervisory Board members

Training with experts concerning legal affairs, etc. training with external instructors concerning leadership and management strategy, etc. and study sessions, etc. concerning growth strategy are regularly held for directors.

In addition, internal directors work to improve themselves day to day through exchanges with industry organization such as the Japan Chain Stores Association and the Japan Supermarkets Association. For outside directors, we provide explanations on the Group's businesses and issues, and offer opportunities for training by external institutions on the roles and responsibilities generally required in society for external directors.

Full-time members of the Audit & Supervisory Board participate in training held by Japan Corporate Auditors Association and external auditors, and share the information gained with other Audit & Supervisory Board members.

Principle 5.1

Policy on constructive engagement with shareholders

The Company aims for sustainable growth and medium to long-term improvements in corporate value through constructive engagement with shareholders. Engagement is supervised by the President and Representative Directors and actual meetings are basically handled by upper management within a reasonable scope in consideration of the desires of shareholders and the main points of interests in the talks.

[Policy on encouraging constructive engagement with shareholders]

- The Senior Managing Director serves as the executive responsible for IR who responds to IR while working closely together with the related departments.

- An IR representative has been assigned to the Finance Department who works together with the General Affairs Department and other related departments to respond to individual shareholders and institutional investors, etc.

- Feedback is provided to the upper management as appropriate through reports at the management meeting, etc. on the opinions and concerns of shareholders discovered through engagement.

- Laws and regulations and related rules, etc. are complied with and insider information is appropriately managed during engagement with shareholders.

- The Company works to get an understanding of the composition of shareholders as necessary.

Status of internal control and risk management systems

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

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.

Compliance

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

Izumi has been promoting internal control initiatives for a long time. The Medium-Term Management Plan was started in March 2018, setting a target of aiming to strive for Japan's No. 1 high quality regional GMS with operating revenue of 1 trillion yen in FY2022. We will work to instill internal control through the following measures in order to obtain the level of trust appropriate to a trillion-yen company.

- 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 have 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 25, 2018)

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 Controller 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.
- 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 Director and Founder of Home
Logistics Co., Ltd. (current position)
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)

Reasons for Appointment as an Outside Director

Akio Nitori

As president and chairman of Nitori Group's Nitori Holdings Inc., Japan's top manufacturer, distributor and retailer of furniture and interior goods, Akio Nitori brings extensive experience, proven results and wide-ranging insight on corporate management. The board also judged that he would be able to bring an objective viewpoint independent of the management team and make a large contribution to the running of Izumi, and therefore appointed him as an outside director. Mr. Nitori was appointed as an independent officer as it was determined that there would be no conflict of interest with general shareholders in carrying out his duties as an outside director.

Kunihiko Yoneda

A university professor specializing in business administration with extensive knowledge of and high-level insights in corporate management, Professor Yoneda was appointed as an outside director because it was judged that he will be able to properly carry out his duties. The board has determined that there is no personal, capital, or business relationship with Izumi, or other conflicts of interest. The Tokyo Stock Exchange has been notified of his position as an independent officer, as we have judged that there is no possibility of conflict of interest with general shareholders.

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

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)

Reason for Appointment as an Outside Corporate Auditor

Jiro Matsubara

Jiro Matsubara was appointed as an outside corporate auditor for impartial audits for his knowledge and experience as a certified public accountant and tax and accounting expert. We have judged that there is no personal, capital, or business relationship with Izumi, or other conflicts of interest. The Tokyo Stock Exchange has been notified of his position as an independent officer, as we have judged that there is no possibility of conflict of interest with general shareholders.

Yasuyuki Tsudo

Yasuyuki Tsudo was appointed as an outside corporate auditor for impartial audits for his knowledge and experience as a licensed tax accountant and accounting expert. We have judge that there is no personal, capital, or business relationship with Izumi. judged that there is no possibility of conflict of interest with general shareholders.

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.

Management analysis of the fiscal year under review

Financial strategy for achieving our medium-term management plan



Senior Management Director,
Administrator Division Manager
Tatsuya Mikamoto

¥20 billion allocation for growth strategies

Our business environment is in the middle of rapid change such as a shrinking market size due to the decrease in domestic population, aging, and increases in single-person households and working women. Even in the retail industry, the rise of convenience stores, drug stores, clothing and general merchandise stores and the rapid rise of e-commerce intensifies the competition beyond traditional retail formats. Under such circumstances, Izumi Group has formulated a medium-term management plan for 3 years from fiscal year 2018. The core of the plan is growth strategy. We plan to expand by 40 new stores in the next three years through new store opening, M&A, store transfers, and other acquisition strategies. We will enhance our dominance in Chugoku, Shikoku and Kyushu areas to obtain overwhelming market share within the region. We will allocate an annual average of 20 billion yen to this as necessary expenses. We will actively invest in existing stores and also improve hardware and software to improve customer satisfaction with the aim of enhance competitiveness.

Stable funding to maintain financial capacity

In order to execute the ambitious medium-term management plan, solid funding is essential. Bank loans will be used if needed for capital investment. Free cash flow is expected to expand, so that in parallel with repayment, the financial

capacity of the company will be secured. Taking full advantage of the favorable financial environment, we will support our breakthroughs from the financial side.

Investment in future growth and returning profits to shareholders

The expansion of business will generate free cash flow, which will be effectively utilized for critical investments in further growth. We also anticipate aggressive returns to shareholders in line with profit growth, with a goal of a 30% consolidated dividend payout.

The main points of these financial strategies are to make efforts to maintain and increase high standard capital efficiency, as well as to increase shareholder value. Izumi has a unique view that "a time of change is the time for opportunities," and conduct better investments to leap forward, growing our pillar of income. To repay our shareholders who have been supporting our initiatives, we are aiming for sustainable growth.

Our three year medium-term management target in FY2020 is an operating revenues of 900 billion yen, and our target in FY2022 is 1 trillion yen. We will achieve ever higher goals through these financial strategies.

Management analysis of the fiscal year under review

Results of operations

During the fiscal year under review, there was continued growth in the Japanese economy led by the corporate sector thanks to the strength of exports underpinned by the recovery in the overseas economy. While there was improvement in the employment environment, consumption continued to be restrained by a decline in purchasing power in the household sector accompanying price increases against a backdrop of low growth in wages. Within this environment, the situation continued to be difficult for the retail industry as consumers became increasingly conscious of safeguarding their lifestyles.

The Group released its Medium-Term Management Plan (from fiscal year ending February 2019 to fiscal year ending February 2021) in October. Under the management vision of aiming to be “strive for Japan’s No. 1 high quality regional GMS,” we have set forth measures for growth strategy, strengthening competitiveness, and human resource development that are even more aggressive than those up until now to use the difficult management environment in the retail industry as an opportunity and further improve growth and corporate value in response to changes in the external environment. Based on this approach, we have worked to improve added value proposal capabilities for real stores based on the action guidelines of “doing our utmost for customers” in pursuit of customer satisfaction. We have worked to expand products that fall under the MD strategy of good products at low prices by pursuing a product lineup that is competitive in terms of both quality and price, and create customer value through the further development of existing areas.

As a result, revenues and profits have increased to record high levels for the operating results for the fiscal year under review.

Results summary

In total revenue, net sales rose by ¥26,012 million (up 3.9% year on year) to ¥696,266 million. Operating revenue increased by ¥1,724 million (up 5.4%) to reach ¥33,591 million. This was attributed mainly to an increase in sales from the reopening of stores that had closed due to the Kumamoto Earthquake, the full-year operation of stores newly established or expanded during the previous fiscal year, and new stores during the current fiscal year.

Gross profit came in at ¥153,059 million due to factors including an increase in net sales, an increase of ¥5,639 million compared to the previous year. The gross profit margin was 22.0%, flat compared to the previous fiscal year.

With regard to selling, general and administrative expenses (SG&A) expenses, although expenses increased due to the reopening of stores that had closed due to the Kumamoto Earthquake and the full-year operation of stores newly established or expanded during the previous fiscal year, there was a decrease in new store establishment costs during the current fiscal year and efforts were made to control costs. As a result, SG&A expenses increased ¥4,547 million (up 3.2%) for a total of ¥148,163 million. The SG&A ratio was 21.3%, a rise of 0.1 percentage points over the previous fiscal year. Accordingly, operating income increased by ¥2,816 million (up 7.9%) to ¥38,487 million, for an operating margin of 5.5%, which was 0.2 percentage points higher than the previous fiscal year.

Non-operating income decreased by ¥314 million (down 16.8%)

Total revenue and operating income reached record high levels

Release Medium-Term Management Plan by fiscal year ending February 2021

Resume operations at all stores damaged by the Kumamoto Earthquake

Opening of the large commercial complex LECT and youme Town Gotsu, etc.

Integrated deployment of business strategy through reorganization and new establishment of departments

to ¥1,562 million. Non-operating expenses decreased by ¥18 million (down 1.0%) to ¥1,841 million. As a result ordinary income rose by ¥2,519 million (up 7.1%) to ¥38,208 million, for an ordinary income margin of 5.5%, which was up 0.2 percentage points from the previous fiscal year.

Extraordinary income came to ¥2,443 million, up ¥1,068 million from the previous fiscal year. This was mainly attributable to revenue from subsidy income of ¥1,656 million and a gain on sale of non-current assets of ¥501 million. Meanwhile, extraordinary losses mainly consisted of a loss on disaster during the previous fiscal year of ¥9,367 million, and totaled ¥1,448 million, a decrease of ¥9,295 million compared to the previous fiscal year.

Total income taxes were ¥11,902 million, up ¥2,978 million year on year. Profit attributable to non-controlling interests was ¥369 million (down ¥10 million compared to the previous fiscal year).

As a result of the above, profit attributable to owners of parent increased ¥9,916 million (58.3%) to ¥26,932 million for a net profit margin of 3.9%, which was up 1.4 percentage points from the previous fiscal year.

Analysis of financial position

With regard to total assets, due mainly to the construction of new stores, capital investment in property, plant and equipment and intangible assets during the fiscal year under review came to ¥15,869 million. As a result, property, plant and equipment, after accounting for depreciation, decreased by ¥1,726 million. Notes and accounts receivable-trade rose by ¥3,599 million due to an increase in credit transactions.

With regard to liabilities, notes and accounts payable-trade increased by ¥4,182 million due to factors including an increase in purchases accompanying sales growth. Accounts payable-other rose by ¥12,404 million due to factors including cash settlement for equipment related to the construction of new stores. Short-term loans payable and long-term loans payable fell by a combined ¥10,049 million.

Net assets rose by ¥3,881 million due to factors including an increase in internal reserves, despite a reduction due to the allocation of retained earnings to funds for the retirement of treasury stock held during the first quarter. Treasury stock decreased by ¥18,466 million from the end of the previous fiscal year due to factors including the retirement of 7,196 thousand shares. As a result of the above factors, the equity ratio was 38.1%, 4.4 percentage point higher than the 33.7% 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 ¥39,204 million and depreciation of ¥16,171 million, and an increase in notes and accounts payable-trade of ¥4,149 million. The main cash outflows were income taxes paid of ¥11,547 million, an increase in notes and accounts receivable-trade of ¥3,598 million, and payments for loss on disaster of ¥2,074 million.

The main item in cash outflows from investing activities was the purchase of property, plant and equipment which came to ¥27,053 million. This was related primarily to the construction of new stores. As for main income items, there was ¥1,412 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 ¥19,050 million. The main outflows were repayments of long-term loans payable of ¥26,782 million, and cash dividends paid of ¥4,872 million.

In consequence, cash and cash equivalents at the end of the period fell by ¥1,952 million over the end of the previous fiscal year to ¥8,389 million.

Dividend policy

In terms of dividends paid from surplus this fiscal year, the interim dividend was increased to ¥35 per share (compared to ¥33 per share in the previous fiscal year), reflecting the strong business performance. The year-end dividend has been increased to ¥40 per share. As a result, the annual dividend comes to ¥75 per share (compared to ¥66 per share in the previous fiscal year).

Outlook for the fiscal year ending February 28, 2019

While there has been growth in the Japanese economy led by the corporate sector thanks to active capital investments and strong results by companies, the household sector remains difficult because there has been low growth in wages despite price increases, and personal consumption has remained sluggish as a result. In addition, securing personnel is becoming a serious problem due to difficulties in hiring as a result of a lack of human resources.

Under these circumstances, the Group released its Medium-Term Management Plan (from fiscal year ending February 2019 to fiscal year ending February 2021) in October 2017. Under the management vision of aiming to be “strive for Japan’s No.1 high quality regional GMS,” we have set forth measures for growth strategy, strengthening competitiveness, and human resource development that are even more aggressive than those up until now to use the difficult management environment in the retail industry as an opportunity and further improve growth and corporate value in response to changes in the external environment. The next fiscal year will be the start of the Medium-Term Management Plan ending in February 2021, and we will steadily implement these strategies going forward accordingly.

As for store expansion, we have acquired management rights for two shopping centers from Seiyu GK., and they will be opened as youme Town Kudamatsu (provisional name) (Kudamatsu City, Yamaguchi Prefecture) and youme Town Himeji (provisional name) (Himeji City, Hyogo Prefecture). After the transfer of the two stores in August 2018 we will start renovation work in an aim to open the supermarket area in fall and the entire facility within the year. In addition, the new youme Mart Jono (provisional name) (Kitakyushu City, Fukuoka Prefecture) will be opened in early fall.

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 existing stores sales to grow by 101.2% year on year.

**CONSOLIDATED
FINANCIAL HIGHLIGHTS**

Eleven-Year Summary:
Main Consolidated Financial Indicators

	FY2/2008	FY2/2009	FY2/2010	FY2/2011	FY2/2012	FY2/2013	FY2/2014	FY2/2015	FY2/2016	FY2/2017	FY2/2018
Operating results (millions of yen)											
Operating revenue	470,698	500,293	492,140	502,379	515,875	535,510	556,852	579,739	668,784	702,121	729,857
Operating profit	24,798	20,412	20,410	21,783	24,254	27,949	29,100	30,330	31,912	35,670	38,487
Ordinary profit	24,763	19,638	19,730	20,949	23,539	27,102	28,446	29,767	31,102	35,688	38,208
Profit attributable to owners of the parent	13,664	12,734	8,752	9,941	11,062	16,187	17,384	17,360	18,766	17,015	26,932
Cash flows from operating activities	25,247	36,100	34,427	12,181	25,561	27,196	25,683	52,246	13,553	33,104	42,592
Cash flows from investing activities	(27,416)	(39,451)	(20,253)	(8,230)	(9,682)	(20,356)	(19,948)	(20,897)	(26,071)	(19,938)	(29,067)
Cash flows from financing activities	42	3,683	(8,393)	(7,117)	(21,934)	(6,272)	(5,501)	(25,159)	12,956	(16,252)	(15,477)
Cash and cash equivalents at end of period	9,429	9,751	15,490	12,316	6,260	6,862	6,800	12,990	13,429	10,342	8,389
Depreciation	11,845	14,094	15,115	14,551	13,854	13,464	12,827	12,902	15,044	15,691	16,171
Capital investment	32,365	45,501	16,169	5,478	15,139	18,705	30,813	24,451	21,435	27,727	15,869
Financial condition (millions of yen)											
Total assets	355,588	385,159	388,277	368,584	370,377	379,824	397,071	432,416	468,026	476,885	479,867
Net assets	105,646	116,667	123,745	132,513	125,389	126,139	130,178	145,709	157,851	171,963	194,851
Shareholders' equity	98,235	110,008	117,059	122,537	112,302	115,380	120,211	134,818	147,648	160,566	182,956
Interest-bearing liabilities	164,472	172,655	166,058	160,743	158,106	167,471	173,999	157,922	193,018	182,146	171,995
Financial indicators											
Operating profit ratio on sales	5.5%	4.3%	4.4%	4.5%	4.9%	5.5%	5.5%	5.5%	5.0%	5.3%	5.5%
Return on equity (ROE)	13.8%	12.2%	7.7%	8.3%	9.4%	14.2%	14.8%	13.6%	13.3%	11.0%	15.7%
Return on assets (ROA)	7.2%	5.3%	5.1%	5.5%	6.4%	7.2%	7.3%	7.2%	6.9%	7.6%	8.0%
Equity ratio	27.6%	28.6%	30.1%	33.2%	30.3%	30.4%	30.3%	31.2%	31.5%	33.7%	38.1%
Dividend payout ratio (consolidated)	11.8%	11.9%	17.4%	15.3%	16.2%	18.4%	18.2%	21.1%	24.4%	27.8%	20.0%
Per-share indicators (yen)											
Book value per share (BPS)	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	2,553.14
Earnings per share (EPS)	135.10	134.09	91.86	104.35	123.74	207.01	236.55	241.6	261.96	237.45	375.83
Dividends per share	16.00	16.00	16.00	16.00	20.00	38.00	43.00	51.00	64.00	66.00	75.00
Other											
Total number of issued shares at the end of period (unit: shares)	123,117,420	123,117,420	123,117,420	109,117,420	95,273,420	78,861,920	78,861,920	78,861,920	78,861,920	78,861,920	71,665,200
Number of treasury shares at the end of the period (unit: shares)	28,443,812	27,847,341	27,845,657	13,846,891	14,390,035	4,003,716	7,004,785	7,005,563	7,203,273	7,201,306	5,676
Number of stores at the end of period (Group) (unit: stores)	94	98	99	100	102	111	121	156	217	198	200
Number of stores at the end of period (Non-consolidated) (unit: stores)	72	83	85	87	88	92	102	103	103	105	110
Net sales for existing stores year-on-year (Non-consolidated)	98.7%	98.5%	95.3%	100.1%	101.2%	100.1%	102.7%	101.8%	101.4%	101.5%	99.2%
Cumulative number of "youmeka" issued (unit: 10,000 cards)	—	—	—	1	43	116	350	475	551	617	684
Number of employees (unit: people)	3,385	3,548	3,542	3,500	3,334	3,344	3,151	3,467	4,164	4,072	4,189
Part-time employees (unit: people)*	7,201	6,999	7,165	7,009	6,950	7,088	7,297	8,503	10,225	10,761	11,263

*Annual average employees based on an 8-hour conversion

**CONSOLIDATED
FINANCIAL STATEMENTS**

Consolidated Balance Sheets:
Izumi Co., Ltd. and Its Consolidated Subsidiaries

As of Feb. 28, 2017 and Feb. 28, 2018

	(Millions of yen)	(Thousands of U.S. dollars)
	As of Feb. 28, 2017	As of Feb. 28, 2018
(Assets)		
Current assets:		
Cash and deposits	10,738	8,410
Notes and accounts receivable—trade	33,645	37,245
Merchandise and finished goods	27,658	28,047
Work in process	40	81
Raw materials and supplies	480	452
Deferred tax assets	2,505	2,569
Other	14,010	15,081
Allowance for doubtful accounts	(1,016)	(827)
Total current assets	88,064	91,062
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	371,618	383,874
Accumulated depreciation	(214,684)	(220,584)
Buildings and structures, net	156,934	163,290
Machinery, equipment and vehicles	8,008	8,681
Accumulated depreciation	(5,419)	(5,878)
Machinery, equipment and vehicles, net	2,589	2,803
Land	157,628	159,178
Leased assets	548	445
Accumulated depreciation	(351)	(333)
Leased assets, net	197	1,041
Construction in progress	9,730	439
Other	41,991	42,160
Accumulated depreciation	(33,796)	(34,434)
Other, net	8,194	7,725
Total property, plant and equipment	335,274	333,548
Intangible assets:		
Goodwill	6,235	5,263
Other	8,474	8,281
Total intangible assets	14,709	13,545
Investments and other assets:		
Investment securities	7,924	11,390
Long-term loans receivable	1,651	1,625
Deferred tax assets	5,269	5,414
Lease and guarantee deposits	18,572	18,024
Other	5,992	5,799
Allowance for doubtful accounts	(573)	(543)
Total investments and other assets	38,836	41,711
Total non-current assets	388,821	388,805
Total assets	476,885	479,867

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥106.67=U.S. \$1 as of February 28, 2018.

	(Millions of yen)	(Thousands of U.S. dollars)
	As of Feb. 28, 2017	As of Feb. 28, 2018
(Liabilities)		
Current liabilities:		
Notes and accounts payable—trade	30,466	34,649
Short-term loans payable	27,291	24,670
Current portion of long-term loans payable	26,415	28,616
Accounts payable—other	20,206	7,801
Income taxes payable	7,115	8,577
Provision for bonuses	1,921	2,028
Provision for directors' bonuses	41	16
Provision for point card certificates	2,418	2,436
Provision for loss on recollection of gift certificates	113	145
Provision for loss on disaster	1,877	—
Asset retirement obligations	6	—
Other	15,014	13,278
Total current liabilities	132,889	122,220
Non-current liabilities:		
Long-term loans payable	128,210	118,581
Lease obligations	128	52
Long-term lease and guarantee deposited	23,827	23,813
Provision for directors' retirement benefits	1,644	1,719
Provision for loss on interest repayment	168	85
Net defined benefit liability	7,429	7,777
Deferred tax liabilities	2,509	2,592
Asset retirement obligations	7,565	7,784
Other	549	386
Total non-current liabilities	172,032	162,794
Total liabilities	304,922	285,015
(Net assets)		
Shareholders' equity:		
Capital stock	19,613	19,613
Capital surplus	22,493	22,247
Retained earnings	136,070	139,951
Treasury shares	(18,484)	(18)
Total shareholders' equity	159,693	181,795
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,415	1,580
Remeasurements of defined benefit plans	(541)	(418)
Total accumulated other comprehensive income	873	1,161
Non-controlling interests	11,396	11,894
Total net assets	171,963	194,851
Total liabilities and net assets	476,885	479,867

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥106.67=U.S. \$1 as of February 28, 2018.

**CONSOLIDATED
FINANCIAL STATEMENTS**

Consolidated Statements of Income: Izumi Co., Ltd. and Its Consolidated Subsidiaries

For the years ended Feb. 28, 2017 and Feb. 28, 2018

(Millions of yen)

(Thousands of U.S. dollars)

	Year ended Feb. 28, 2017	Year ended Feb. 28, 2018	Year ended Feb. 28, 2018
Net sales	670,253	696,266	6,527,290
Cost of sales	522,833	543,206	5,092,397
Gross profit	147,419	153,059	1,434,883
Operating revenue	31,867	33,591	314,906
Operating gross profit	179,287	186,651	1,749,798
Selling, general and administrative expenses:			
Advertising and promotion expenses	12,641	14,494	135,877
Distribution expenses	7,387	7,494	70,254
Provision of allowance for doubtful accounts	154	142	1,331
Employees' salaries and bonuses	50,204	50,917	477,332
Provision for bonuses	1,596	1,728	16,199
Welfare expenses	8,998	9,141	85,694
Retirement benefit expenses	897	1,159	10,865
Rent expenses	11,562	11,585	108,606
Utilities expenses	7,262	8,072	75,673
Depreciation	15,206	15,693	147,117
Other	27,704	27,733	259,989
Total selling, general and administrative expenses	143,616	148,163	1,388,985
Operating profit	35,670	38,487	360,804
Non-operating income:			
Interest income	148	149	1,397
Dividend income	77	92	862
Purchase discounts	329	299	2,803
Gain on adjustment of account payable	133	130	1,219
Share of profit of entities accounted for using equity method	12	48	450
Penalty income	141	163	1,528
Other	1,034	677	6,347
Total non-operating income	1,877	1,562	14,643
Non-operating expenses:			
Interest expenses	1,316	1,094	10,256
Compensation expenses	240	159	1,491
Other	302	586	5,494
Total non-operating expenses	1,859	1,841	17,259
Ordinary profit	35,688	38,208	358,189
Extraordinary income:			
Gain on sales of non-current assets	383	501	4,697
Gain on sales of investment securities	60	252	2,362
Gain on bargain purchase	279	—	—
Subsidy income	574	1,656	15,525
Other	77	32	300
Total extraordinary income	1,374	2,443	22,902
Extraordinary losses:			
Loss on sales of non-current assets	72	49	459
Loss on retirement of non-current assets	482	464	4,350
Impairment loss	500	597	5,597
Loss on disaster	9,367	197	1,847
Loss on liquidation of business	62	—	—
Other	258	139	1,303
Total extraordinary losses	10,744	1,448	13,575
Profit before income taxes:	26,319	39,204	367,526
Income taxes—current	9,059	12,248	114,821
Income taxes—deferred	(135)	(345)	(3,234)
Total income taxes:	8,924	11,902	111,578
Profit	17,395	27,301	255,939
Profit attributable to non-controlling interests	380	369	3,459
Profit attributable to owners of parent	17,015	26,932	252,480

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥106.67=U.S. \$1 as of February 28, 2018.

Consolidated Statements of Comprehensive Income: Izumi Co., Ltd. and Its Consolidated Subsidiaries

For the years ended Feb. 28, 2017 and Feb. 28, 2018

(Millions of yen)

(Thousands of U.S. dollars)

	Year ended Feb. 28, 2017	Year ended Feb. 28, 2018	Year ended Feb. 28, 2018
Profit	17,395	27,301	255,939
Other comprehensive income:			
Valuation difference on available-for-sale securities	940	376	3,525
Remeasurements of defined benefit plans, net of tax	96	123	1,153
Total other comprehensive income	1,036	499	4,678
Comprehensive income	18,431	27,801	260,626
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	17,733	27,220	255,180
Comprehensive income attributable to non-controlling interests	698	581	5,447

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥106.67=U.S. \$1 as of February 28, 2018.

**Consolidated Statement of Changes in Net Assets
Izumi Co., Ltd. and its subsidiaries**

(Millions of yen)

2017 Fiscal year ended February 28, 2017

	Shareholders' equity					Accumulated other comprehensive income			non-controlling interests	Total net assets
	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)
Change 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

2018 Fiscal year ended February 28, 2018

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income			non-controlling interests	Total net assets
	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	22,493	136,070	(18,484)	159,693	1,415	(541)	873	11,396	171,963
Changes of items during period										
Dividends of surplus			(4,872)		(4,872)					(4,872)
Profit attributable to owners of the parent			26,932		26,932					26,932
Purchase of treasury shares				(6)	(6)					(6)
Disposal of treasury shares		(295)	(18,178)	18,473	—					—
Purchase of shares of consolidated subsidiaries		49			49					49
Net changes of items other than shareholders' equity						165	123	288	498	786
Total changes of items during period	—	(245)	3,881	18,466	22,101	165	123	288	498	22,888
Balance at end of current period	19,613	22,247	139,951	(18)	181,795	1,580	(418)	1,161	11,894	194,851

2018 Fiscal year ended February 28, 2018

(Thousands of U.S. dollars)

	Shareholders' equity					Accumulated other comprehensive income			non-controlling interests	Total net assets
	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	183,866	210,865	1,275,616	(173,282)	1,497,075	13,265	(5,072)	8,184	106,834	1,612,103
Changes of items during period										
Dividends of surplus			(45,674)		(45,674)					(45,674)
Profit attributable to owners of the parent			252,480		252,480					252,480
Purchase of treasury shares				(56)	(56)					(56)
Disposal of treasury shares		(2,766)	(170,413)	173,179	—					—
Purchase of shares of consolidated subsidiaries		459			459					459
Net changes of items other than shareholders' equity						1,547	1,153	2,700	4,669	7,369
Total changes of items during period	—	(2,297)	36,383	173,113	207,190	1,547	1,153	2,700	4,669	214,568
Balance at end of current period	183,866	208,559	1,312,000	(169)	1,704,275	14,812	(3,919)	10,884	111,503	1,826,671

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥106.67=U.S. \$1 as of February 28, 2018.

**Consolidated Statements of Cash Flows Izumi Co., Ltd.
and Its Consolidated Subsidiaries**

For the years ended Feb. 28, 2017 and Feb. 28, 2018

	(Millions of yen)	(Thousands of U.S. dollars)
	Year ended Feb. 28, 2017	Year ended Feb. 28, 2018
Cash flows from operating activities:		
Profit before income taxes	26,319	39,204
Depreciation	15,691	16,171
Impairment loss	500	597
Loss on disaster	9,367	197
Amortization of goodwill	1,078	997
Gain on bargain purchase	(279)	-
Increase (decrease) in allowance for doubtful accounts	103	(50)
Interest and dividend income	(226)	(242)
Interest expenses	1,316	1,094
Share of (profit) loss of entities accounted for using equity method	(12)	(48)
Subsidy income	(574)	(1,656)
Loss (gain) on sales of investment securities	(37)	(226)
Loss (gain) on sales of non-current assets	(311)	(452)
Loss on retirement of non-current assets	482	464
Decrease (increase) in notes and accounts receivable—trade	(2,240)	(3,598)
Decrease (increase) in inventories	(1,322)	(363)
Increase (decrease) in notes and accounts payable—trade	(3,155)	4,149
Increase (decrease) in net defined benefit liability	95	339
Other, net	2,651	(1,118)
Subtotal	49,447	55,458
Interest and dividend income received	234	220
Interest expenses paid	(1,368)	(1,121)
Proceeds from subsidy income	574	1,656
Payments for loss on disaster	(6,810)	(2,074)
Income taxes (paid) refund	(8,972)	(11,547)
Net cash provided by (used in) operating activities	33,104	42,592
Cash flows from investing activities:		
Purchase of property, plant and equipment	(21,945)	(27,053)
Proceeds from sales of property, plant and equipment	1,734	1,412
Purchase of intangible assets	(954)	(950)
Purchase of investment securities	(551)	(3,618)
Proceeds from sales of investment securities	397	939
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	454	26
Decrease (increase) in short-term loans receivable	(85)	(260)
Other, net	1,012	437
Net cash provided by (used in) investing activities	(19,938)	(29,067)
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	(23,413)	(2,621)
Proceeds from long-term loans payable	38,412	19,050
Repayments of long-term loans payable	(26,339)	(26,782)
Purchase of treasury shares	(4)	(6)
Proceeds from sales of shares of parent held by subsidiaries	45	-
Cash dividends paid	(4,729)	(4,872)
Dividends paid to non-controlling interests	(29)	(28)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(46)	(95)
Other, net	(147)	(120)
Net cash provided by (used in) financing activities	(16,252)	(15,477)
Net increase (decrease) in cash and cash equivalents	(3,086)	(1,952)
Cash and cash equivalents at beginning of period	13,429	10,342
Cash and cash equivalents at end of period	10,342	8,389

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate ¥106.67=U.S. \$1 as of February 28, 2018.

Company Overview

(As of February 28, 2018)

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: 2,537 Part-time: 6,082 (8-hour shift equivalent)
Number of malls/stores	110 (including 11 standalone X-SELL stores)

Chugoku Region: 65

Hiroshima Pref. : 35 ; Okayama Pref. : 11 ; Yamaguchi Pref. : 12 ; Shimane Pref. : 7

Kyushu Region: 34

Fukuoka Pref. : 18 ; Oita Pref. : 2 ; Kumamoto Pref. : 9 ; Saga Pref. : 3 ; Nagasaki Pref. : 2

Other Regions: 11

Kagawa Pref. : 3 ; Tokushima Pref. : 1 ; Hyogo Pref. : 2 ; Other : 5

Major Shareholders

(As of February 28, 2018)

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)	2,661	3.7%
The Hiroshima Bank, Ltd.	2,362	3.3%
Izumi Hiroshima Kyoekai	2,158	3.0%
Nippon Life Insurance Co.	2,093	2.9%
Yasuaki Yamanishi	2,036	2.8%
Dai-ichi Life Insurance Co.	2,030	2.8%
Japan Trustee Services Bank, Ltd. (Trust Account)	2,024	2.8%
National Mutual Insurance Federation of Agricultural Cooperatives	1,335	1.9%

Note: The percentage of total shares is calculated after excluding treasury stock (5,676 shares).

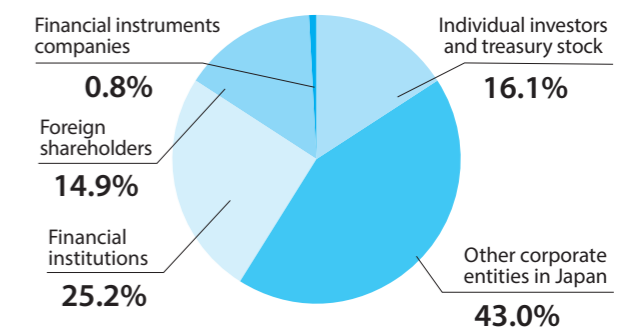
Stock Information

(As of February 28, 2018)

Total number of shares issued by the Company	195,243,000
Total number of outstanding shares	71,665,200
Number of shareholders	4,377

Distribution of Shares by Type of Shareholder

(As of February 28, 2018)



Historical trend of stock price

