

Business Report 2011

March 1, 2010–February 28, 2011



Innovation, Excitement and Surprise

youme



Izumi Co., Ltd.



"youme," evolving and expanding

Committed to being a vital part of the community, and the number one store in the region.

**A whole new community within a community,
built for freedom and fluidity of movement.**

To revolutionize people's lifestyles, making them more enjoyable and active—this is the aim of Izumi, a company that works to build both communities and dreams. We develop shopping malls, which are large-scale, multi-purpose commercial complexes that offer easy access to and work synergistically with pre-existing shopping districts, and act as a driving force behind regional revitalization. These shopping malls blend harmoniously with surrounding natural and urban environments and community facilities, and feature an array of restaurants, amusements, cultural and community offerings and other facilities. They are entire new communities built for user-friendliness, comfort and a feeling of liberation, where people can enjoy shopping and leisure and make their dreams come true. We work to build commercial facilities and human environments that fit in closely with communities, meet the local needs, and make community residents glad that they chose to live there.

Increased revenues and profits for the term; Laying the foundation for continuing growth in our 50th year

In the last fiscal year, the effects of the slump in the global economy were felt in Japan as well, holding consumer spending to a relatively low level.

The Izumi Group continued to implement measures to further improve management and operations, striving toward our goal of providing the best possible customer satisfaction. In addition to reviewing pricing and selection, we also redesigned floor layouts to maximize customer convenience, and continued programs to reduce costs. The effectiveness of this approach has been demonstrated by the increase in both revenues and profits for the term.

The major product lines currently handled are as follow.

In the apparel segment of our retail business we optimized selling floorspace and inventory levels to match shrinking consumption, especially in fashion items, while increasing the selection and exposure of low-price, rapid-turnover items. As a result of these measures, revenues showed a gradual recovery throughout the term, ending with a 4.8% reduction from the prior term.

In the home goods sector, under our slogan of “The Good Life, Inexpensively!” we developed a line of high-performance goods at low prices, backed up by a strong promotional program and improved competitiveness, with the result that revenues rose 4.0% over the prior term.

In the grocery sector we were able to release a range of products combining price competitiveness and sales lot size, by marketing locally produced foods and through joint product development with suppliers. By offering new products of this sort every week our sales floors always looked new and fresh to consumers, while cost-cutting measures further improved competitiveness. As a result of these measures the sector showed in improvement in both sales volume and unit price, with annual revenues rising 4.3% over the prior term.

In the store space rental sector additional personnel in the management section streamlined communication with our tenants, while active introduction of new tenants revitalized store images and successfully attracted new customer groups. As a result of these programs, revenues rose 3.6% for the term.

During the term we opened two new discount outlets designed to offer new, high value-added products at the lowest prices in their service areas: DS Izumi Ukiha (Ukiha, Fukuoka) and DS Izumi Tsuyama (Tsuyama, Okayama). These outlets are successfully developing new local demand that existing retail networks have been unable to capture.

The outlook for the future remains unclear, as the business environment remains harsh, and the earthquake in northeast Japan in March 2011 is continuing to impact production, distribution and consumption.

The Izumi Group is committed to continuing its efforts to serving its customer base and contributing to the growth and development of communities we are a part of. In preparation for our 50th anniversary (November 3, 2011), we have a number of special campaigns under way, and will continue to release competitive products in the future.

I sincerely thank all of our shareholders for their continued feedback and support.



Yasuaki Yamanishi
President



The History of Izumi Co., Ltd.

1946	Yoshimasa Yamanishi (the current chairperson) opens a stall outside the Hiroshima train station.
1950	Apparel wholesaler Yamanishi Shoten Co., Ltd., is established.
1961	Izumi Co., Ltd., is established and the first Izumi supermarket is opened.
1967	Second store is opened next to the Hiroshima train station.
1968	Hiring of large numbers of new college graduates begins.
1969	Okayama store is opened.
1970	Kure store is opened.
1972	Sun Mall outlet is opened.
1973	Gion store, the first suburban store is opened.
1974	Nihon Ryutsu Sangyo Co., Ltd. (Nichiryu), a cooperative buying organization, is established.
1977	Izumi joins the Japan Chain Stores Association.
1978	Stock is listed on the Osaka Securities Exchange, second section, and the Hiroshima Securities Exchange.
1980	Izumi changes the Japanese spelling of its company name ("Izumi" changes from hiragana to katakana).
1983	Total Quality Control (TQC) is introduced, and efforts are made to vitalize the entire organization.
1985	Point of sale (POS) system is introduced, and progress is made on integration of company information. Fashion boutique building Wiz Wonderland is opened.
1986	Stock is listed on the Tokyo Stock Exchange, second section, and the Osaka Securities Exchange, first section.
1987	Stock is listed on the Tokyo Stock Exchange, first section. ai Card is introduced.
1990	The You Me Town shopping center format is launched. X-sell Inc. is established as part of the Company's import business.
1991	Yoshimasa Yamanishi (the current chairperson) is awarded the Japanese Medal of Honor with blue ribbon for excellence in public service. The Company is awarded the Chugoku Regional Quality Control Award.
1993	Yasuaki Yamanishi is appointed as president and representative director. Yoshimasa Yamanishi is appointed as chairperson and representative director.
1994	The Izumi women's handball team is launched. Izumi becomes an official sponsor of the 14th Asian Handball Championships in Hiroshima.
1995	Izumi begins pursuing a growth strategy based on opening shopping malls in Kyushu. The first to open is the You Me Town Onga mall in Fukuoka.
1996	Eight new shopping malls are opened, including the Kyushu flagship mall You Me Town Chikushino. Izumi Food Service Co., Ltd., is established.
1997	The Izumi Museum of Art is founded. Youme Card Co., Ltd., is established.
1998	You Me Town Takamatsu, one of the largest retail facilities in west Japan, is opened.
1999	The Company receives two awards, the Hiroshima Josei Shonen Shitsu-cho Award for businesses that promote equal opportunities for men and women, and the Ministry of Health, Labour and Welfare Award for businesses that provide employment opportunities for the disabled. The Izumi women's handball team becomes a "triple crown" winner for the first time in its history.
2000	Yumesaito, You Me Town Hakata, and You Me Town Yame malls are opened.
2001	You Me Town Omuta is opened. The Izumi women's handball team becomes the Hiroshima Maple Reds, representing the entire prefecture of Hiroshima.
2002	You Me Town Gakuen is opened. Four large-scale stores are acquired from now-defunct retailer Nikonikodo Co., Ltd.
2003	City Park Hamada and You Me Town Kurume are opened.
2004	You Me Town Hikari no Mori is opened. The Company receives an Award for Excellence from the Ministry of Health, Labour and Welfare for its promotion of active roles for women in the workplace. You Me Town Kure is opened. City Park Kure (formerly Izumi Kure) is opened.
2005	You Me Town Yatsushiro is opened.
2006	You Me Town Saga is opened. The Company is awarded the Hiroshima Labour Bureau Chief's Award for family-friendly businesses.
2007	You Me Town Beppu is opened.
2008	You Me Town Hiroshima is opened. You Me Town Izumo is opened. You Me Town Mitoyo is opened. You Me Town Marugame is opened.

"youme," evolving and expanding

Committed to being a vital part of the community, and the number one store in the region.



Consolidated Financial Highlights

Revenue

¥502,379 million

(Year-to-year comparison) **102.1%**

(Millions of yen)

Operating income

¥20,949 million

(Year-to-year comparison) **106.2%**

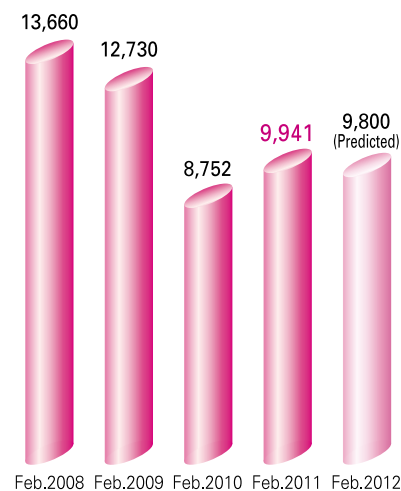
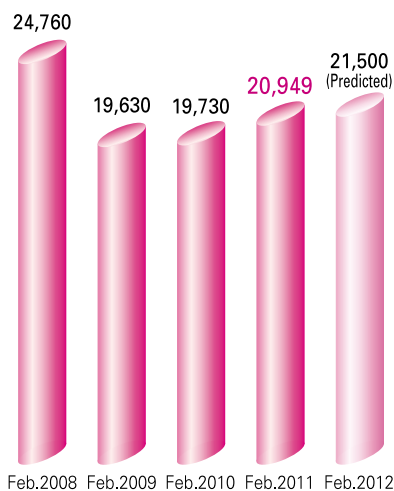
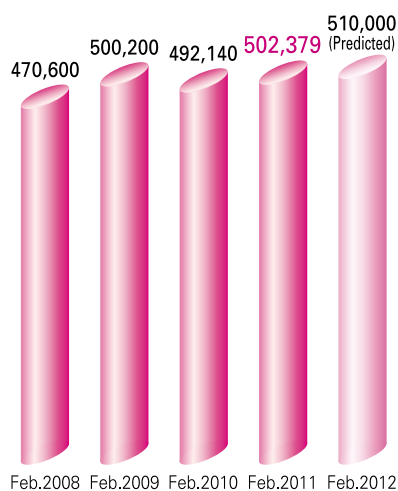
(Millions of yen)

Net income for the period

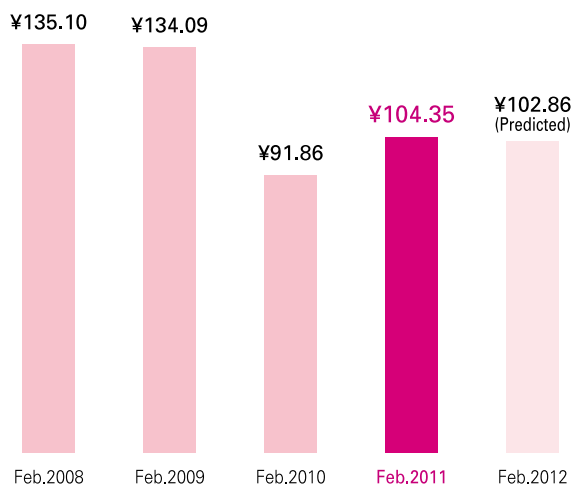
¥9,941 million

(Year-to-year comparison) **113.6%**

(Millions of yen)

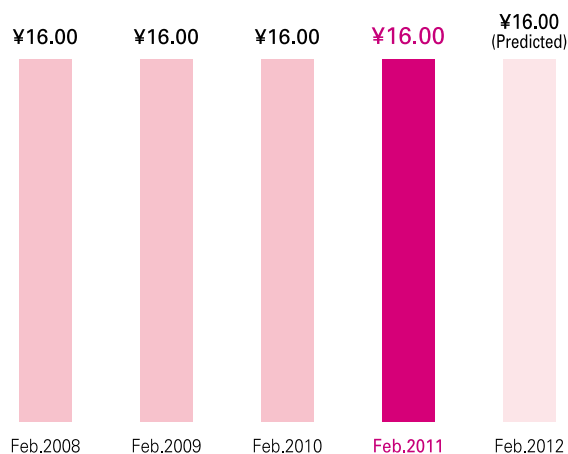


Net income per share for the period



Cash dividend per share

Cash dividends are set at ¥8 per share (for an annual dividend of ¥16 including the midterm dividend). We will continue to strengthen the business structure to ensure stable and substantial returns to our shareholders in the future.



Work with the community to build a place of "surprise and thrills" Our driving retail outlet strategy is dominance.

In small retail areas we offer a strong line of daily goods, while in regions with high growth potential we build large-scale shopping complexes like You Me Town. By selecting the retail operation best suited to the needs of each region, we heighten our presence in the community, and maximize customer draw. Building places where our customers, and the community, can fulfill their dreams: That's the Izumi theme.



You Me Town Tokushima

One of the largest shopping centers in the prefecture!

**Scheduled for opening
Winter 2011**

Overview of facility (approximate figures)

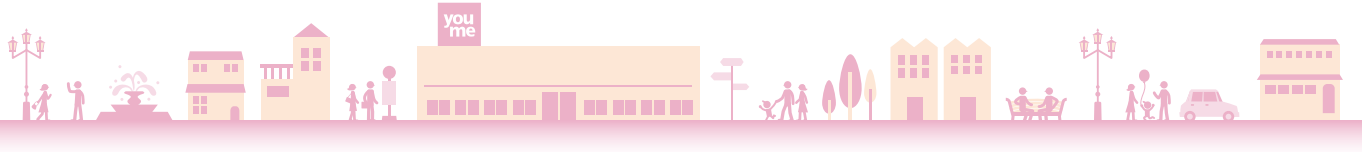
Site area: 81,200 m² / Total floor area: 125,000 m² /
Retail floor area: 40,000 m² / Parking capacity: 3,100 vehicles

Fun for three generations, especially young families

Aizumi Town is one of the fastest-growing regions of Shikoku, and construction has started here on the new You Me Town Tokushima. Aizumi has a very high ratio of population under 15, and so the complex has been designed to serve the needs of three generations of resident, concentrating on young families and children, but also covering residents in the 50s and 60s.

In addition to Super Sports XEBIO and MUJI, we will offer a range of boutiques and sundry shops, family amusements where both young children and the elderly can enjoy themselves safely, restaurant bringing together diverse menus from around the world and more to make this a shopping complex packed full of excitement.





DS Izumi Ukiha

The perfect size and line-up for a small retail area

Newly opened on
September 3, 2010

Overview of facility (approximate figures)

Site area: 27,000 m² / Total floor area: 9,900 m² /
Retail floor area: 7,300 m² / Parking capacity: 480 vehicles

Popular daily necessities at prices that are easy on the wallet



The DS Izumi Ukiha outlet is the first discount retail outlet in the Izumi Group. It brings together all the daily necessities—clothing, food and home—in a one-floor layout with low pricing and high cost performance.

It had already proved popular with the local community, and as a strategic retail outlet serves to complement our You Me Town complexes by handling smaller-scale retail areas.

DS Izumi Tsuyama

All the daily necessities in a compact retailer

Newly opened on
November 5, 2010

Overview of facility (approximate figures)

Site area: 7,900 m² / Total floor area: 3,900 m² /
Retail floor area: 2,500 m² / Parking capacity: 120 vehicles

Redesigned to meet strong local demand at the lowest price



The DS Izumi Tsuyama outlet is the redesigned Izumi Tsuyama outlet, which closed last year. The new outlet has been totally redesigned to deliver the prices and quality the local community demands.

Rather than merely pursuing the lowest possible price as other retailers often do, the driving concept here is to handle popular brand-name products, fresh-picked local produce and products made locally with pride, delivering “good daily products at low prices.”

A new frontier for Izumi You Me Town: Direct Management

You Me Town is a large-scale shopping complex, but depending on the market scale, region and company, it may be difficult for mass merchandisers to become tenants. To resolve this problem, Izumi has developed an approach that allows direct management for You Me Town operations.

Currently this management stance is used mostly for sundries and sporting goods retailers, but in the future it will be expanded to include bookstores and other new business lines. By maintaining the best balance in shop composition for each region, the Izumi Group can continue to create new, targeted demand, further contributing to customer satisfaction and revenue growth.



A fun shop with early-Showa atmosphere Yume Yokocho Country Store

Stop by for old-fashioned snacks and sundries in a store that will remind you of the early Showa era: fond memories for the older generations, and new discoveries for the kids! Following the initial launch in Yukuhashi, seven other shops are being readied in You Me Town complexes (as of May 2011).



All the famous sporting good brands in one small area Sportslet

This specialty store brings together all the jogging goods and general sportswear needed by the general public, including popular brands such as Nike, Adidas, Puma and Mizuno. About ten outlets are scheduled to begin operations this year.



CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S.dollars
	2010	2011	2011
As of Feb 28,2010 and Feb 28,2011			
(Assets)			
Current assets			
Cash and deposits	¥ 15,490	¥ 12,316	\$ 150,787
Notes and accounts receivable-trade	17,531	18,456	225,960
Merchandise and finished goods	23,181	20,726	253,748
Work in process	69	68	841
Raw materials and supplies	288	273	3,343
Deferred tax assets	2,208	2,323	28,452
Other	16,871	13,318	163,062
Allowance for doubtful accounts	(930)	(940)	(11,519)
Total current assets	74,711	66,542	814,677
Noncurrent assets			
Property, plant and equipment			
Buildings and structures	273,071	273,411	3,347,355
Accumulated depreciation	(129,833)	(138,640)	(1,697,366)
Buildings and structures, net	143,237	134,771	1,649,988
Machinery, equipment and vehicles	5,713	5,564	68,128
Accumulated depreciation	(4,035)	(4,096)	(50,152)
Machinery, equipment and vehicles, net	1,678	1,468	17,975
Land	119,265	119,080	1,457,889
Lease assets	556	556	6,808
Accumulated depreciation	(28)	(54)	(670)
Lease assets, net	527	501	6,138
Construction in progress	617	680	8,332
Other	29,644	29,349	359,318
Accumulated depreciation	(21,529)	(22,553)	(276,116)
Other, net	8,115	6,795	83,202
Total property, plant and equipment	273,441	263,297	3,223,526
Intangible assets	7,654	7,178	87,890
Investments and other assets			
Investment securities	5,376	4,840	59,263
Long-term loans receivable	2,359	1,955	23,940
Deferred tax assets	4,116	4,594	56,254
Lease and guarantee deposits	18,351	18,011	220,509
Other	3,089	2,944	36,053
Allowance for doubtful accounts	(822)	(781)	(9,571)
Total investments and other assets	32,470	31,565	386,450
Total noncurrent assets	313,565	302,041	3,697,867
Total assets	388,277	368,584	4,512,545

	Millions of yen		Thousands of U.S.dollars
	2010	2011	2011
(Liabilities)			
Current liabilities			
Notes and accounts payable-trade	¥ 30,328	¥ 20,773	\$ 254,323
Short-term loans payable	21,080	35,890	439,397
Current portion of long-term loans payable	20,724	22,178	271,530
Accounts payable-other	16,163	6,215	76,099
Income taxes payable	6,100	5,180	63,423
Provision for bonuses	1,588	1,525	18,680
Provision for directors' bonuses	12	23	284
Provision for point card certificates	1,067	1,209	14,813
Provision for loss on recollection of gift certificates	53	54	664
Other	7,453	6,631	81,184
Total current liabilities	104,572	99,682	1,220,400
Noncurrent liabilities			
Long-term loans payable	124,253	102,675	1,257,040
Lease obligations	524	506	6,194
Long-term lease and guarantee deposited	25,390	23,974	293,519
Provision for retirement benefits	5,487	5,836	71,453
Provision for directors' retirement benefits	1,163	830	10,164
Deferred tax liabilities	994	1,001	12,260
Provision for loss on interest repayment	692	565	6,927
Other	1,454	999	12,236
Total noncurrent liabilities	159,959	136,389	1,669,797
Total liabilities	264,531	236,071	2,890,197
(Net assets)			
Shareholders' equity			
Capital stock	19,613	19,613	240,130
Capital surplus	22,419	22,282	272,796
Retained earnings	107,288	96,743	1,184,426
Treasury stock	(32,705)	(16,262)	(199,101)
Total shareholders' equity	116,616	122,377	1,498,251
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	694	472	5,784
Foreign currency translation adjustment	(251)	(312)	(3,826)
Total valuation and translation adjustments	443	159	1,957
Minority interests	6,685	9,976	122,138
Total net assets	123,745	132,513	1,622,347
Total liabilities and net assets	388,277	368,584	4,512,545

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of ¥81.68=U.S.\$1 as of February 28, 2011.

CONSOLIDATED STATEMENTS OF INCOME

As of Feb 28, 2010 and Feb 28, 2011	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Net sales	¥ 468,742	¥ 478,988	\$ 5,864,206
Cost of sales	367,868	378,145	4,629,601
Gross profit	100,873	100,842	1,234,604
Operating revenue	23,398	23,391	286,374
Operating gross profit	124,272	124,233	1,520,978
Selling, general and administrative expenses			
Advertising and promotion expenses	7,962	8,292	101,527
Distribution expenses	5,387	5,479	67,087
Provision of allowance for doubtful accounts	373	638	7,812
Employees' salaries and bonuses	33,672	33,701	412,607
Provision for bonuses	1,586	1,516	18,566
Welfare expenses	5,651	5,678	69,519
Retirement benefit expenses	593	669	8,198
Rent expenses	9,539	9,268	113,475
Utilities expenses	5,683	5,692	69,697
Depreciation	14,785	14,206	173,932
Provision for loss on interest repayment	893	300	3,672
Other	17,733	17,005	208,191
Total selling, general and administrative expenses	103,862	102,450	1,254,289
Operating income	20,410	21,783	266,689
Non-operating income			
Interest income	175	172	2,116
Dividends income	76	191	2,339
Purchase discounts	437	392	4,806
Gain on adjustment of account payable	136	114	1,405
Penalty income	228	252	3,097
Other	1,179	615	7,534
Total non-operating income	2,233	1,739	21,299
Non-operating expenses			
Interest expenses	2,290	2,149	26,322
Compensation expenses	124	92	1,128
Other	498	330	4,051
Total non-operating expenses	2,913	2,573	31,501
Ordinary income	19,730	20,949	256,487
Extraordinary income			
Gain on prior period adjustment	145	—	—
Gain on sales of noncurrent assets	10	29	364
Gain on sales of investment securities	—	2,546	—
Gain on sales of subsidiaries and affiliates' stocks	757	—	31,175
Reversal of allowance for doubtful accounts	—	17	212
Reversal of provision for directors' retirement benefits	127	103	1,273
Reversal of provision for loss on guarantees	536	—	0
Other	42	170	2,084
Total extraordinary income	1,620	2,867	35,110
Extraordinary loss			
Loss on sales of noncurrent assets	64	45	556
Loss on retirement of noncurrent assets	783	396	4,854
Impairment loss	1,190	1,494	18,295
Other	292	285	3,489
Total extraordinary losses	2,329	2,221	27,196
Income before income taxes and minority interests	19,021	21,596	264,401
Income taxes-current	8,018	8,848	108,327
Income taxes-deferred	1,683	(419)	(5,130)
Total income taxes	9,701	8,429	103,197
Minority interests in income (loss)	567	3,225	39,492
Net income	¥ 8,752	¥ 9,941	\$ 121,711

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended Feb 28, 2010 and Feb 28, 2011	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	¥ 19,021	¥ 21,596	\$ 264,401
Depreciation and amortization	15,115	14,551	178,149
Impairment loss	1,190	1,494	18,295
Amortization of negative goodwill	(142)	(68)	(843)
Increase (decrease) in allowance for doubtful accounts	(47)	(31)	(379)
Interest and dividends income	(252)	(363)	(4,455)
Loss (gain) on sales of securities	—	(2,546)	(31,175)
Loss (gain) on sales of stocks of subsidiaries and affiliates	(757)	—	—
Interest expenses	2,290	2,149	26,322
Equity in (earnings) losses of affiliates	(159)	(13)	(169)
Loss (gain) on sales of noncurrent assets	53	15	191
Loss on retirement of noncurrent assets	783	396	4,854
Decrease (increase) in notes and accounts receivable-trade	(2,163)	(924)	(11,318)
Decrease (increase) in inventories	1,881	2,471	30,254
Increase (decrease) in notes and accounts payable-trade	545	(9,555)	(116,985)
Other, net	1,778	(5,231)	(64,051)
Subtotal	39,135	23,939	293,089
Interest and dividends income received	335	351	(119,593)
Interest expenses paid	(2,267)	(2,340)	4,302
Income taxes paid	(2,775)	(9,768)	(28,656)
Net cash provided by (used in) operating activities	34,427	12,181	149,142
Net cash provided by (used in) investing activities			0
Purchase of property, plant and equipment	(21,382)	(12,164)	(148,930)
Proceeds from sales of property, plant and equipment	162	195	2,397
Purchase of intangible assets	(483)	(560)	(6,867)
Purchase of investment securities	(12)	(4)	(54)
Proceeds from sales of investment securities	608	911	11,164
Decrease (increase) in short-term loans receivable	—	3,392	41,531
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	7	—	—
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	12	—	—
Other, net	833	—0	(4)
Net cash provided by (used in) investing activities	(20,253)	(8,230)	(100,762)
Net cash provided by (used in) financing activities			0
Net increase (decrease) in short-term loans payable	(1,464)	14,810	181,317
Proceeds from long-term loans payable	27,900	600	7,345
Repayment of long-term loans payable	(13,957)	(20,724)	(253,733)
Redemption of convertible bonds	(19,070)	—	—
Purchase of treasury stock	(1)	(1)	(17)
Cash dividends paid	(1,524)	(1,524)	(18,662)
Cash dividends paid to minority shareholders	(20)	(20)	(246)
Other, net	(255)	(256)	(3,137)
Net cash provided by (used in) financing activities	(8,393)	(7,117)	(87,134)
Effect of exchange rate change on cash and cash equivalents	(11)	(9)	(112)
Net increase (decrease) in cash and cash equivalents	5,769	(3,174)	(38,866)
Cash and cash equivalents at beginning of period	9,751	15,490	189,654
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(29)	—	—
Cash and cash equivalents at end of period	15,490	12,316	150,787

Izumi Corporate Profile

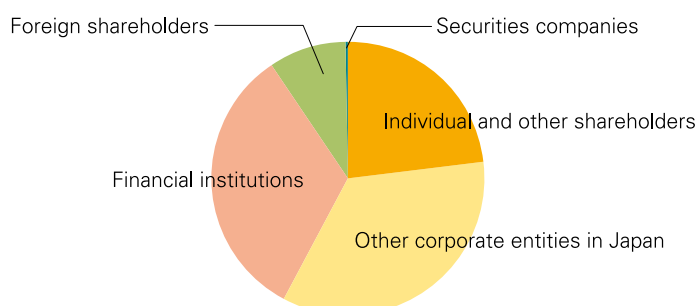
Date of establishment: **October 27, 1961**
 Head office: **2-22 Kyobashi-cho, Minami-ku, Hiroshima 732-0828, Japan**
 Tel: **+81-82-264-3211**
 Paid-in capital: **¥19,613 million**
 Employees: **2,662 full-time, 4,675 part-time (working eight-hour shifts)**
 Number of malls/stores: **87**

Chugoku Region		Kyushu Region		Other Regions	
Hiroshima Pref.	30	Fukuoka Pref.	10	Kagawa Pref.	3
Okayama Pref.	10	Saga Pref.	3	Hyogo Pref.	3
Yamaguchi Pref.	9	Oita Pref.	2	Others	5
Shimane Pref.	6	Nagasaki Pref.	1		
		Kumamoto Pref.	5		

Stock information

Total number of shares issued by the Company **195,243,000 shares**
 Total number of outstanding shares **109,117,420 shares**
 Number of shareholders **4,969**
 Lot size **100 shares**

Distribution of stock (excluding odd-lot shares)



Individual and other shareholders	23.3%
Other corporate entities in Japan	34.6%
Financial institutions	32.8%
Foreign shareholders	9.2%
Financial instruments companies	0.2%

Major shareholders

Shareholder name	Number of shares held (unit: thousands)	Percentage of total shares
Izumiya, Ltd.	11,501	10.54%
Yamanishi World, Ltd.	8,433	7.73%
Nippon Life Insurance Co.	5,214	4.78%
The Hiroshima Bank, Ltd.	4,724	4.33%
Izumi Kousan Co., Ltd.	4,104	3.76%
Daiichi Life Insurance Co.	4,030	3.69%
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,618	3.32%
Japan Trustee Services Bank, Ltd. (Trust Account)	3,133	2.87%
Izumi Hiroshima Kyoaikai	2,642	2.42%
Yasuaki Yamanishi	2,031	1.86%

Note : Shares held by the Company itself are not included.

Izumi Co., Ltd.

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Printed in Japan