



Annual Report 2015

Izumi Co., Ltd.



Creating living spaces where dreams can grow

The Izumi Group logo symbolizes the idea of customers, communities, tenants and employees working together to promote the creation of new living spaces full of surprise and delight.

For our customers, we make life more convenient and satisfying by offering better goods and services. For our communities, we energize local economies by creating employment and building pleasant environments that allow customers to move around and conduct their shopping more easily.

For our tenants, we provide a successful experience of store building in youme Town locations, leading to ongoing development.

For our employees, there is the pride and pleasure of contributing to communities and the worthwhile challenges that lead to personal growth.

We believe that it is when this surprise and delight are first created that youme Town generates new value. In pursuit of this goal, the Izumi Group will continue to create corporate value through its operations and continue to set new boundaries for traditional shopping centers in the search to create new living spaces.

Corporate philosophy

Be No. 1 in customer satisfaction

Be a company with an exciting future

Be a company worth working for

Total revenue

¥ **579.7** billion

Five consecutive years of record-breaking revenue

Operating income

¥ **30.3** billion

Three consecutive years of record-breaking operating income

Number of "youmeka" electronic money cards issued

4.75 million

Increase of 1.25 million year on year (as of February 28, 2015)

Number of stores

156

Increase of 35 stores year on year (as of February 28, 2015)



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A must-have regional presence. Our aim: Be the

Trade area

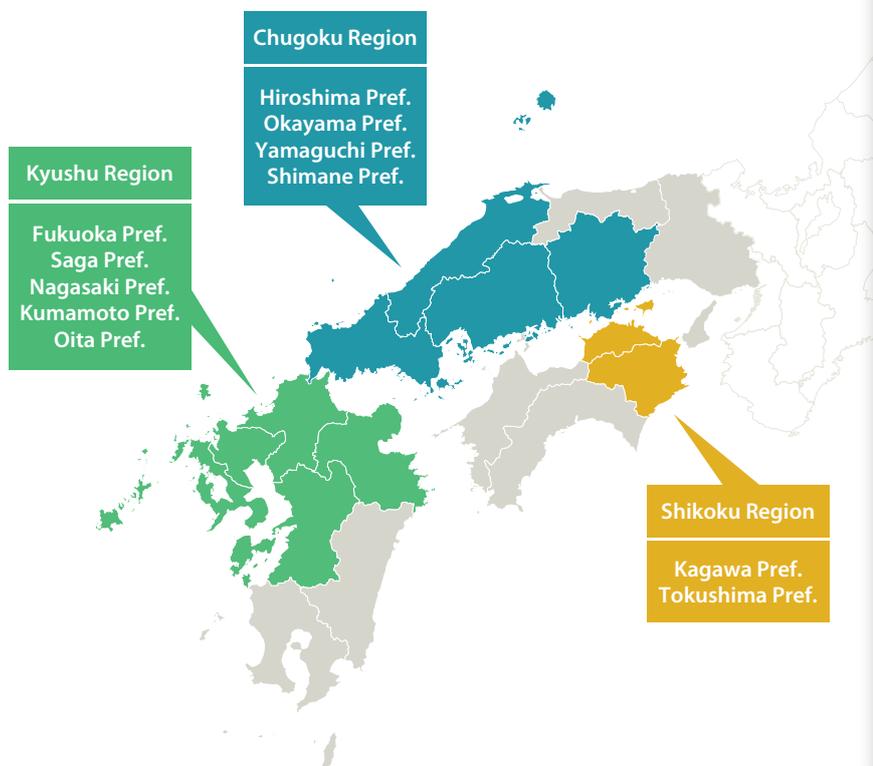
We are rolling out stores that closely fit the region and the times we live in. These generally comprise “youme Town” large-format shopping centers, as well as “youme Mart” stores that deal primarily in foodstuffs, in the Chugoku, Shikoku and Kyushu regions. Currently, the number of stores has reached three figures, and business results are improving due to the development of large-format shopping center complexes that integrate functions such as cultural, community, entertainment and dining out.

Group store network

(as of February 28, 2015)

	Kyushu Region	Chugoku Region	Shikoku Region	Others	Total
youme Town	21	35	4	1	61
youme Mall	1	1			2
youme Mart	28	20			48
Super Daiei	29	1			30
Others (stand-alone X SELL stores, etc.)	2	5		8	15
Total	81	62	4	9	156

Note: The above figures include stores of Izumi Co., Ltd., Youme Mart Co., Ltd., KOEI CO., LTD. and Super Daiei Corporation.



1 Dominant strategy

2 No. 1 regional store

As the No. 1 regional store, with an overwhelming scale and pride in our superior quality, we are fortunate to possess many stores where we enjoy very strong support from our customers. In particular, the “youme Town” mall-type large-format shopping centers act as powerful magnets for customers and are highly profitable. They are the source of our superior competitive position in our regions.



youme Town Tokushima

This super-size store was opened in Aizumi Town, which has one of the fastest growing populations in Tokushima Prefecture. youme Town Tokushima was constructed here because, as a bedroom community where the proportion of the population under 15 years old is extremely high, the town offers a combination of youth and energy. In keeping with local characteristics, the store revolves around young families with small children and includes outlets that aim to cater to 50/60-year-olds and others, aiming to meet the daily needs of three generations.

- Location: Tokushima, Japan
- Store opened: November 2011
- No. of tenants: 164
- Floor area: 51,000 m²
- Parking spaces: 3,600

No. 1 regional store.

Izumi's six strengths

We are expanding our market share within our dominant area with an intensive program of store openings focused on the Chugoku, Shikoku and Kyushu regions. Hiroshima, Fukuoka and Kumamoto are positioned as high-priority areas, and we will work to both raise our share further, using M&A if necessary, and invigorate the local economy.

In Japan's retail industry, the changing times have brought structural shifts in the environment. Such changes include market contraction as a result of the declining birthrate and the aging and shrinking population, as well as the intensification of competition due to store overcapacity and polarization in consumption. We are leveraging our six strengths to cope with this increasingly severe environment. By working to maximize customer satisfaction, we are creating our own unique added value and steadily boosting corporate value.

3

Store-led management

The starting point for organizational management is the stores, which have the closest contact with customers' daily lives. This structure allows each store to work autonomously to become No. 1 in customer satisfaction with local customers. In this, they are supported by the headquarters, which concurrently issues company-wide suggestions for business improvement and develops effective activities for improvement in both directions.

4

Existing-store competitiveness

After the 2008 Lehman crisis, we initiated reforms swiftly and achieved a more complete recovery than was the norm in the industry. In this way, we work constantly to revitalize our existing stores in response to changes in the environment, resulting in greater regional competitiveness.

Same-store sales by existing stores, from the fiscal year ended February 2009

	FY2/2009	FY2/2010	FY2/2011	FY2/2012	FY2/2013	FY2/2014	FY2/2015
Izumi	98.5	95.3	100.1	101.2	100.1	102.7	101.8
Nationwide	98.7	95.8	98.1	99.1	97.2	100.2	99.1
Divergence	(0.2)	(0.5)	+2.0	+2.1	+2.9	+2.5	+2.7

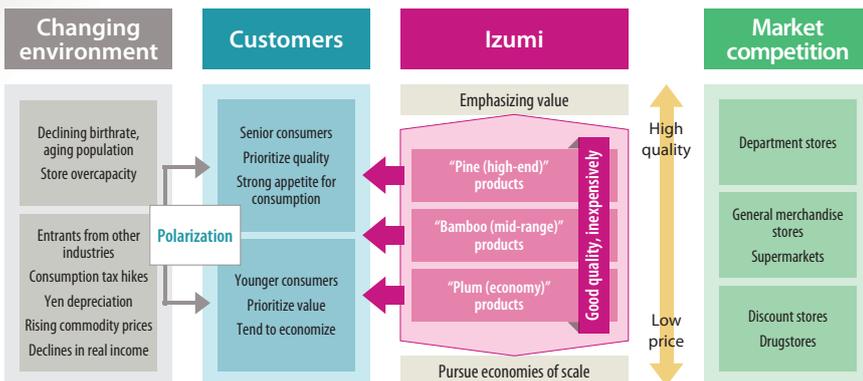
	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Total
Izumi	111.7	94.0	101.8	99.5	100.2	103.5	101.3	102.3	102.7	100.9	100.0	104.0	101.8
Nationwide	109.4	94.6	97.8	97.2	97.9	99.9	99.0	98.1	99.3	98.2	98.3	99.2	99.1
Divergence	+2.3	(0.6)	+4.0	+2.3	+2.3	+3.6	+2.3	+4.2	+3.4	+2.7	+1.7	+4.8	+2.7

Source: Japan Chain Store Association for nationwide figures.

5

Good quality, inexpensively

Thanks to our ability to respond to the changing environment of polarization in consumption and intensifying competition, we have also taken on part of the business role of department stores, which have struggled to compete locally. We set ourselves apart from competing stores by offering customers solid quality at inexpensive price points.



6

"youme" brand

In addition to the "youme Town," "youme Mart" and "youme Mall" store brands, we provide a variety of specialist stores and safe, confidence-inspiring and high-quality products, as well as comfortable spaces for three generations of customers. In this way, we aim to be a "must-have regional presence" that covers a wide range of fields including culture, community, entertainment and dining out as well as the basics of food, clothing and housing.

“Creating living spaces where dreams can grow”—this is Izumi’s Going forward, we will continue to drive our business activities in communities, with the aim of being No. 1 in customer satisfaction.

Izumi’s History

Izumi’s predecessor was a street stall opened in front of Hiroshima Station in 1946. From there, it developed as a supermarket chain with close ties to the local community and a support base spread throughout Chugoku, Kyushu and Shikoku.

Currently, Izumi operates a total of 156 stores centered on three formats: “youme Town” (large-format shopping centers and mid-size general supermarkets covering a medium trade area), “youme Mart” (supermarkets covering a small trade area), and “youme Mall” (shopping malls).

We will continue to create living spaces where dreams can grow, using as our motto the corporate philosophy: “Be No. 1 in customer satisfaction.”



1961 Hatchobori store



1973 Gion store

1970s

- 1973** | The first suburban store, Gion store, opens in Hiroshima City.
- 1974** | Nihon Ryutsu Sangyo Co., Ltd., a cooperative purchasing organization, is established.
- 1977** | Izumi joins the Japan Chain Stores Association.
- 1978** | The Company’s stock is listed on the Second Section of the Osaka Securities Exchange, and on the Hiroshima Securities Exchange.

1946 | Yoshimasa Yamanishi (the current chairperson) opens a stall outside Hiroshima train station.

1950 | Apparel wholesaler Yamanishi K.K. is established.

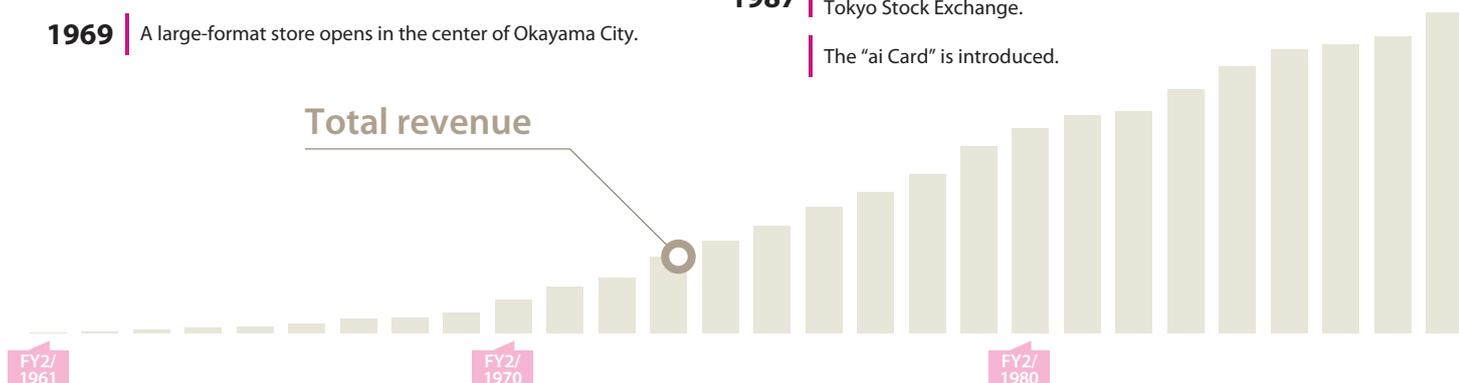
1960s

- 1961** | Izumi Co., Ltd., is established, and the first Izumi supermarket is opened.
- 1967** | The second store opens next to Hiroshima train station.
- 1968** | Hiring of large numbers of new college graduates begins.
- 1969** | A large-format store opens in the center of Okayama City.

1980s

- 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 revitalize the entire organization.
- 1985** | The point-of-sale (POS) system is introduced, and progress is made on the integration of corporate information.
- 1986** | The Company’s stock is listed on the Second Section of the Tokyo Stock Exchange and on the First Section of the Osaka Securities Exchange.
- 1987** | The Company’s stock is listed on the First Section of the Tokyo Stock Exchange.
- The “ai Card” is introduced.

Total revenue



ever-present theme.
close concert with local

1990s



1990 youme Town Higashihiroshima

- 1990** | youme Town Takahashi and Higashihiroshima open.
- 1991** | Yoshimasa Yamanishi (the current chairperson) is awarded the Japanese Medal of Honor with the blue ribbon for excellence in public service.
| The Company is awarded the Chugoku Regional Quality Control Award.
- 1993** | Yasuaki Yamanishi is appointed president and representative director. Yoshimasa Yamanishi is appointed chairperson.
- 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 youme Town Onga mall in Fukuoka.
- 1996** | Izumi Food Service Co., Ltd., is established.
- 1997** | The Izumi Museum of Art is founded.
| Youme Card Co., Ltd., is established.
- 1998** | youme Town Takamatsu, one of the largest retail facilities in western Japan, opens.
- 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 Labour Minister's Award for businesses that provide employment opportunities for people with disabilities.
| The Izumi women's handball team becomes a "triple crown" winner for the first time in its history.



1993 youme Town Chofu



1998 youme Town Takamatsu

¥648,200 million
FY2/2016 forecast

¥579,739 million
FY2/2015

2000s

- 2001** | The Izumi women's handball team becomes the Hiroshima Maple Reds, representing the entire prefecture of Hiroshima.
- 2002** | Four large-scale stores are acquired from now-defunct retailer Nikonikodo Co., Ltd.
- 2004** | The Company receives an Award for Excellence from the Minister of Health, Labour and Welfare for its promotion of active roles for women in the workplace.
- 2006** | The Company is awarded the Hiroshima Labour Bureau Chief's Award for family-friendly businesses.
- 2008** | Four youme Town stores open in Hiroshima, Izumo, Mitoyo and Marugame.
| Two subsidiaries are acquired and merged: youme Town Kumamoto Co., Ltd. and X SELL Inc.
- 2009** | youme City and youme Town Miyuki open.
| Four subsidiaries are acquired and merged.



2008 youme Town Hiroshima

2010s

- 2010** | "youmeka" electronic money service begins.
| Small trade area discount stores open.
- 2011** | The Company's 50th anniversary. Commemorative events are held to express our gratitude to business partners and all our customers in the community.
| youme Town Tokushima opens.
- 2012** | youme Mart Kokura Higashi opens.
| Youme Mart Co., Ltd., acquires shares of Seiko Co., Ltd., and makes it a subsidiary.
- 2013** | The Company's headquarters is relocated to 3-3-1 Futabanosato, Higashi-ku, Hiroshima.
| Store names of the Izumi Group/youme Town are standardized.
- 2014** | Shares of youme Mart Matsuhashi, youme Town Oe, youme Mall Yanagawa and KOEI CO., LTD., are acquired, and companies are made into subsidiaries.
- 2015** | Business alliance is formed with Super Daiei Corporation, which becomes a consolidated subsidiary.

FY2/1990

FY2/2000

FY2/2010

FY2/2015

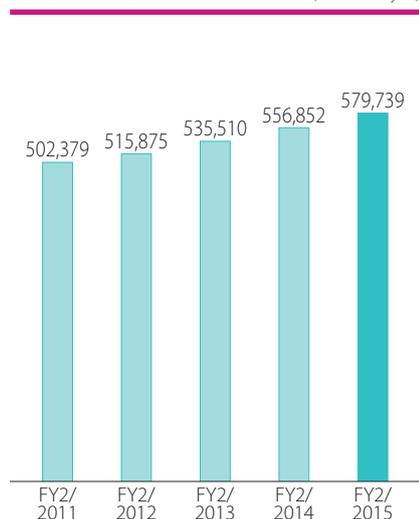
FY2/2016 (forecast)

Eleven-Year Summary: Main Consolidated Financial Indicators

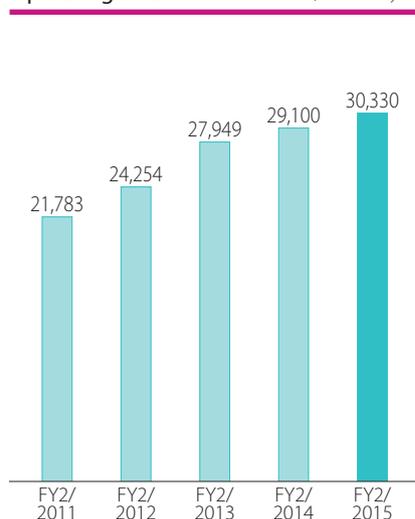
	FY2/2005	FY2/2006	FY2/2007	FY2/2008
Operating results				
Total revenue	¥426,437	¥436,825	¥446,820	¥470,698
Operating income	19,770	22,706	24,143	24,798
Ordinary income	19,463	22,675	24,134	24,763
Net income	9,601	11,583	13,157	13,664
Financial condition				
Total assets	318,893	313,086	335,545	355,588
Total net assets	85,519	88,542	105,005	105,646
Total liabilities	228,742	219,071	230,539	249,941
Cash flows				
Net cash provided by operating activities	17,966	26,970	20,695	25,247
Net cash used in investing activities	(21,118)	(11,338)	(15,211)	(27,416)
Net cash provided by (used in) financing activities	5,519	(15,980)	(7,260)	42
Cash and cash equivalents at end of period	12,600	12,250	11,614	9,429
Per-share indicators (Yen and U.S. dollars)				
Book value per share (BPS)	¥1,546.04	¥1,691.52	¥1,918.99	¥1,037.63
Earnings per share (EPS)	166.88	216.60	251.80	135.10
Dividends per share	24.00	26.00	32.00	16.00
Financial indicators				
Equity ratio	26.8%	28.3%	29.7%	27.6%
Return on assets (ROA)	6.3%	7.2%	7.4%	7.2%
Return on equity (ROE)	11.3%	13.3%	14.0%	13.8%

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S. \$1 as of February 27, 2015
 2. ROA is calculated using ordinary income for the numerator

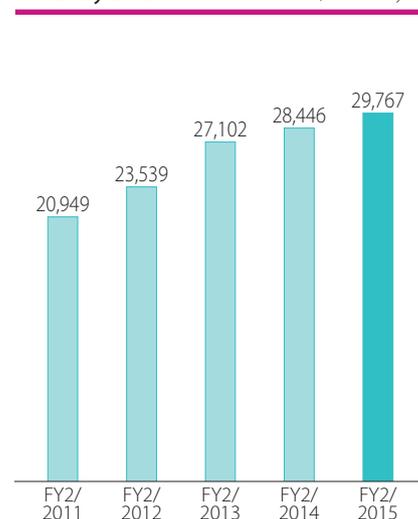
Total revenue (millions of yen)



Operating income (millions of yen)



Ordinary income (millions of yen)



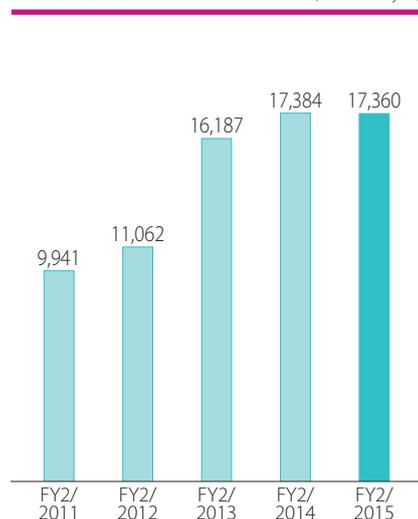
Millions of yen

Thousands of U.S. dollars

FY2/2009	FY2/2010	FY2/2011	FY2/2012	FY2/2013	FY2/2014	FY2/2015	FY2/2015
¥500,293	¥492,140	¥502,379	¥515,875	¥535,510	¥556,852	¥579,739	\$4,849,749
20,412	20,410	21,783	24,254	27,949	29,100	30,330	253,723
19,638	19,730	20,949	23,539	27,102	28,446	29,767	249,013
12,734	8,752	9,941	11,062	16,187	17,384	17,360	145,223
385,159	388,277	368,584	370,377	379,824	397,071	432,416	3,617,333
116,667	123,745	132,513	125,389	126,139	130,178	145,709	1,218,914
268,491	264,531	236,071	244,987	253,684	266,892	286,706	2,398,411
36,100	34,427	12,181	25,561	27,196	25,683	52,246	437,059
(39,451)	(20,253)	(8,230)	(9,682)	(20,356)	(19,948)	(20,897)	(174,812)
3,683	(8,393)	(7,117)	(21,934)	(6,272)	(5,501)	(25,159)	(210,465)
9,751	15,490	12,316	6,260	6,862	6,800	12,990	108,667
¥1,154.70	¥1,228.70	¥1,286.20	¥1,388.45	¥1,541.32	¥1,672.92	¥1,876.22	\$15.70
134.09	91.86	104.35	123.74	207.01	236.55	241.60	2.02
16.00	16.00	16.00	20.00	38.00	43.00	51.00	0.43
28.6%	30.1%	33.2%	30.3%	30.4%	30.3%	31.2%	—
5.3%	5.1%	5.5%	6.4%	7.2%	7.3%	7.2%	—
12.2%	7.7%	8.3%	9.4%	14.2%	14.8%	13.6%	—

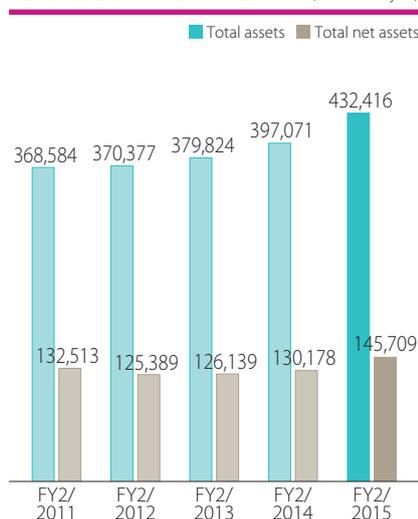
Net income

(millions of yen)



Total assets / Total net assets

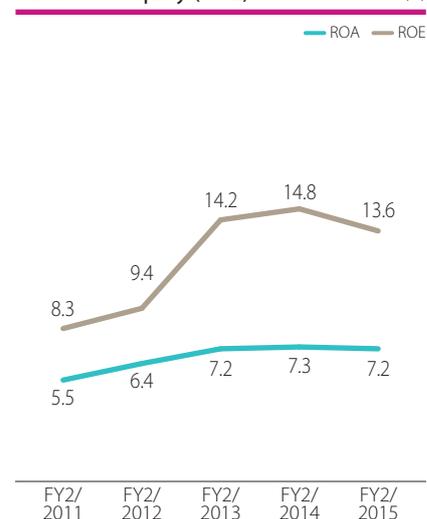
(millions of yen)



Return on assets (ROA)

Return on equity (ROE)

(%)



Total revenue and operating income both reached record-high Pressing ahead with our “dominant strategy,” we are driving

The Izumi Group has expanded its network to more than 150 stores, mostly in the Chugoku, Shikoku and Kyushu regions, consisting of “youme Town” large-format shopping centers, as well as “youme Mart” supermarkets covering a small trade area.

Consolidated total revenue for the fiscal year ended February 28, 2015 rose 4.1% year on year to reach ¥579,739 million, the fifth consecutive year of record-breaking revenue. Consolidated operating income posted a third consecutive year of record-breaking profit, rising 4.2% to ¥30,330 million.

This is entirely the result of the support of our stakeholders, to whom we are deeply grateful. So as not to fail to meet their expectations, we will continue to enhance corporate value and strive for the further development of the entire region.

Izumi’s corporate philosophy

The Izumi Group bases its day-to-day corporate activities on three tenets of its corporate philosophy.

The first is “Be No. 1 in customer satisfaction.” Customer satisfaction is forever changing to meet the needs of the times and the accompanying changes in the wishes of customers. It is vital to grasp these changes rapidly and to respond quickly and with precision. The issue is how to deliver better goods and services that are calibrated for the needs of the times and the wishes of customers. We at the Izumi Group keep this in mind each day, as we target the creation of new stores that are full of surprise and delight.

The second tenet is “Be a company with an exciting future.” In particular, youme Town aims to provide large-format complexes that integrate a range of functions such as shopping, cultural, community, entertainment and dining out. We offer customers living in these communities a place to discover never-before-experienced convenience, comfort, enjoyment and happiness. Moreover, the goals and mission of the Izumi Group call for involving ourselves closely in many aspects of the community such as creating employment, welfare and protecting the environment, and in turn contributing to overall vitalization of the local economy.

The third tenet is “Be a company worth working for.” If both full-time and part-time employees do not take pride and pleasure in working with us, at some point we risk losing our driving force as a company. We strive to improve and enhance our systems so that all employees can take pride and pleasure in contributing to the community, creating a sense of doing worthwhile work that leads to lively personal growth.

Looking back on the fiscal year ended February 28, 2015

Due to the lull in demand after the rise in the consumption tax, the consumption environment in the fiscal year under review turned out differently than we had expected at the beginning of the fiscal year. However, by steadily implementing a number of measures, we overcame these issues as early as May and sales thereafter turned firmly positive. Ultimately we set new records for total revenue and operating income.

We believe that one of the factors in these favorable results was our basic strategy of targeting “good quality, inexpensively,” whereby we pursue added value by emphasizing product quality. In addition, we are implementing a program of reinvigorating existing stores, and have boosted store competitiveness by expanding directly managed sales floors for such lines as foodstuffs, enriching product lineups, and promoting a shift to stronger tenants. As a result, in addition to offering comfortable spaces for three generations of customers, we addressed the issue of appealing to young families, and same-store sales reached 101.8% of the previous fiscal year, surpassing the industry average of 99.1%. Having set a good precedent, we believe this will have a significant and positive impact on new store openings in the next fiscal year and beyond.

In April we completed the most substantial renewal of our flagship store, youme Town Hiroshima (Minami Ward, Hiroshima City), and opened three new stores one after the other in three different formats, namely youme Mart Matsubase (Uki City, Kumamoto Prefecture), youme Town Oe (Chuo Ward, Kumamoto City), and youme Mall Yanagawa (Yanagawa City, Fukuoka Prefecture). With this, we further advanced our dominance in the areas where the stores were opened.

Moreover, the newly constructed Izumi Hiroshima Distribution Center (Nishi Ward, Hiroshima City), which is key

levels! toward our goal of becoming a corporate group that is useful to all!



to our “dominant strategy,” has begun operation. It gathers in one place the cold/dry functions, which had previously been scattered over four locations, and as a result we expect to achieve annual cost savings of ¥300 million.

Based on our capital and business alliance with Super Daiei Corporation (Kitakyushu City, Fukuoka Prefecture), we acquired shares issued by Super Daiei in a third-party allocation, making it a consolidated subsidiary of the Company as of February 2015. In addition we acquired the shares of KOEI CO., LTD. (Nishi Ward, Kumamoto Prefecture) and made it a wholly owned subsidiary. As a result, the store count for the Izumi Group as a whole as of the end of February 2015 reached 156 stores, up from 121 at the end of the previous fiscal year.

In retail-peripheral operations, as a result of promoting the wider use of “youmeka” electronic money, the cumulative number of cards issued reached 4.75 million by the end of the period under review. Cashless transactions, including credit cards, accounted for 50% of the total, and we are convinced that this not only enhances customer convenience and improves the productivity of checkout operations but also boosts the Group’s ability to attract customers.

Due to the above factors, consolidated results for the fiscal year under review came to total revenue of ¥579,739

million (up 4.1% year on year), operating income of ¥30,330 million (up 4.2%), ordinary income of ¥29,767 million (up 4.6%) and net income of ¥17,360 million (down 0.1%).

With regard to shareholder return, in recognition of the strong results the interim dividend per share was raised to ¥23 (compared to ¥20 in the previous fiscal year). To further compensate shareholders, the year-end dividend per share was raised to ¥28 (versus ¥23 in the previous fiscal year). As a result, the annual dividend per share came to ¥51 (compared to ¥43 in the previous fiscal year).

Izumi’s six strengths

We expect visibility in the market environment to remain limited, and we assume that the market will gradually contract due to declining birthrates, the aging population and other demographic changes. Moreover, intensifying competition caused by store overcapacity cannot be avoided going forward.

In addition to these issues, we must prepare for a shift from deflation to inflation, polarization in consumption caused by diversification in lifestyles, and rising product prices caused by soaring raw material costs, which stem in turn from the rise of emerging countries and the weaker yen.

To respond speedily to this changing environment, we are strategically promoting Izumi's "six strengths" policies, with the aim of securing continued expansion in earnings.

By "six strengths," we mean **(1)** our dominant strategy, **(2)** being the No. 1 regional store, **(3)** store-led management, **(4)** existing-store competitiveness, **(5)** good quality, inexpensively, **(6)** the "youme" brand.

(1) Regarding our "dominant strategy," in this term as well we opened four new stores, steadily advancing our dominant position in the Chugoku, Shikoku and Kyushu regions and raising the Izumi Group's market share.

(2) As for being the "No. 1 regional store," so that we can do an even better job of meeting our customers' expectations, we completed a major expansion of floor area at our existing stores: youme Town Hikari no Mori, youme Town Kurume and youme Town Yamaguchi, each of which has gotten off to a good start since reopening. **(1)** and **(2)** are, as it were, "hard" strengths, while on the "soft" side there is **(3)** enhancing "store-led management." Customers' wants and needs are not necessarily uniform, but differ naturally depending on the community. The Izumi Group prioritizes marketing rooted in each community and endorses autonomous store management that can respond rapidly to the specifics of customers' wishes. This makes possible rapid reorganization and strengthens **(4)** "existing-store competitiveness," enabling us to extricate ourselves quickly from such adverse events as the 2008 Lehman crisis and the headwind caused by the consumption tax hike in 2014.

(5) "Good quality, inexpensively" is an advantage that guarantees the Company's superiority even in a situation of intensifying competition and polarization of consumption. Finally, as a result of accumulating these strengths, the **(6)** "youme" brand has become widely recognized today by our customers in the community.

Outlook for the fiscal year ending February 29, 2016

In the fiscal year ending February 29, 2016, the effects of the fall in consumption, which partly caused the economic slowdown after the last-minute rush in demand ahead of the consumption tax hike in April 2014, has started to fade, but we expect the state of limited visibility in the consumption environment to continue. On the other hand, we can expect some positive factors, such as rising wages and falling oil prices putting an end to declines in real income. The Izumi Group will accurately read changing customer needs caused by fluctuations in the wider environment and deliver a careful, detailed response. At the same time, we will take our strategy of "good quality, inexpensively" a step further by

offering high-quality, fresh, safe and reassuring products at an affordable price.

In June we opened our first new large-format store in four years, youme Town Hatsukaichi (Hatsukaichi City, Hiroshima Prefecture) while in August youme Mart Saga (Saga City, Saga Prefecture) opened on schedule and is performing well. In the autumn we opened youme Mall Chikugo (Chikugo City, Fukuoka Prefecture) and youme Mart Suwano (Kurume City, Fukuoka Prefecture), making a total of four new stores. Moreover, to further strengthen our "No. 1 regional store" status we will work on both hard and soft aspects, including floor space expansion, to reinvigorate existing stores, further bolstering and developing our local dominance as well as driving business growth.

Due to the above factors and the full contribution of newly consolidated subsidiary Super Daiei Corporation to the fiscal-year figures, we forecast the following consolidated results for the fiscal year under review: total revenue of ¥648,200 million (up 11.8% year on year), operating income of ¥33,300 million (up 9.8%), ordinary income of ¥32,100 million (up 7.8%) and net income of ¥18,100 million (up 4.3%).

Together with our stakeholders

Taking as our slogan "Aiming to be a trillion yen company with dreams," we the Izumi Group are pushing ahead with innovations to achieve the dreams of all our stakeholders. In the process of becoming a trillion yen company, we see our greatest mission as not only realizing benefits such as creating/maintaining employment, reinvigorating communities, growing along with suppliers, creating returns for shareholders, and protecting the richness of the environment, but also instilling a compliance culture appropriate to the Company and stimulating each employee's sense of worthwhile work.

Going forward, the Izumi Group will strive to meet the expectations of those around us through hard work, with a spirit of accepting new challenges. In pursuit of our dreams, we will continue to leap ahead, in advance of the times, with the goal of obtaining your continued patronage.

November 2015

Yasuaki Yamanishi

President and Representative Director
Izumi Co., Ltd.

Operating Results by Segment

Retail operations

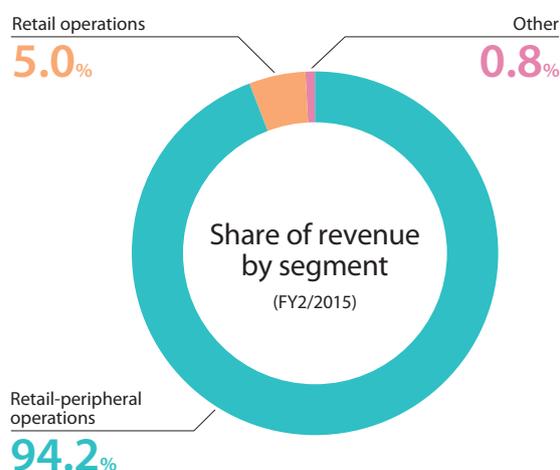
In the retail operations, we worked actively to revitalize existing stores by expanding directly operated sales floors for such lines as foodstuffs, bolstering product lineups and promoting a shift to stronger tenants to improve store competitiveness. In April 2015 we completed the most substantial renewal of our flagship store, youme Town Hiroshima (Minami Ward, Hiroshima City), and opened new stores one after the other, namely youme Mart Matsubase (Uki City, Kumamoto Prefecture) in March, youme Town Oe (Chuo Ward, Kumamoto City) in June, and youme Mall Yanagawa (Yanagawa City, Fukuoka Prefecture) in July, further reinforcing our domination in the areas in which the stores were opened. Moreover, in January 2015 the newly constructed Izumi Hiroshima Distribution Center (Nishi Ward, Hiroshima City) began operations.

With regard to sales trends, in the first half of the fiscal year ended February 28, 2015 we captured bulk-buying demand ahead of the rise in the consumption tax, with processed foodstuffs, daily goods and functional clothing showing significant surges in sales. To deal with the slump that followed, we actively rolled out measures such as introducing seasonal goods including fresh foods and launching new products, allowing our same-store sales to turn positive again in May.

In the second half of the fiscal year, we generated a surge in demand by holding a sale to commemorate the strong performance of the local baseball team and its victory in the Japan Series. During the winter, fresh food and prepared food remained strong, but we also observed a reaction to the last-minute rush in demand ahead of the previous fiscal year's consumption tax hike. This caused a lull in demand, but the overall sales trend for this operation was favorable.

On the subject of costs, due to new hires at new stores, the need to secure human resources to cover labor shortages and deal with outflows, we expanded our "Partner Supervisor" promotion system. We also controlled labor costs by reducing overall working hours, as we improved labor productivity and worked to cut other expenses. In February 2015, based on our capital and business alliance with Super Daiei Corporation (Kitakyushu City, Fukuoka Prefecture), we acquired shares issued by Super Daiei in a third-party allocation, making it a consolidated subsidiary of the Company. Separately, we acquired the shares of KOEI CO., LTD. (Nishi Ward, Kumamoto Prefecture) and made it a wholly owned subsidiary.

As a result, total revenue for the segment reached ¥582,788 million (up 4.7% year on year) and operating income was ¥26,254 million (up 5.3%).



Retail-peripheral operations

In the retail-peripheral business, in certain operations there was a review of terms and conditions for intra-group transactions with other segments, but on the other hand we worked to acquire new members by continuing to promote the use of credit cards and greater use of "youme" electronic money when shopping. (The cumulative number of "youme" cards issued rose to 4.75 million, up from 3.5 million at the end of the previous fiscal year.) In addition, we worked to contribute to the region through cooperation with communities and through sports, issuing a special local version of the "youme" card that was well received. At the same time as positioning "youme" as a community currency, we worked to enhance convenience for customers and improve the productivity of checkout operations by promoting cashless payments. Through these initiatives, we saw an increase in commission income from external affiliated stores, which boosted our ability to attract customers to our retail operations.

Total revenue for the segment was ¥31,020 million (down 3.8% year on year) while operating income came in at ¥3,509 million (down 1.9%).

Other

In wholesale operations, profit levels declined due to a worsening in the consumption environment and sluggish sales, in addition to the progression of the weaker yen. Real estate operations continued to generate stable income, and we worked to reduce sundry expenses.

Consequently, total revenue for the segment was ¥4,865 million (down 0.2% year on year) and operating income came in at ¥758 million (up 11.0%).

Based on the slogans “doing everything we can for the custo and quality,” we are strengthening our position as No. 1 re



GRAND OPENING

The ultimate youme Town store, five years in preparation, is open!
youme Town Hatsukaichi

youme Town Hatsukaichi, which aroused great interest and expectations as the anchor facility of the large-scale public-private joint project “Civic Core,” has opened in Hatsukaichi City in western Hiroshima Prefecture.

At this new store, our largest youme Town, we aim to introduce charming special features to elicit surprise and delight, making it the best youme Town ever.

Store overview	■ Site area: Approx. 51,000 m ²	■ Floor area: Approx. 179,000 m ²
	■ Store area: Approx. 46,000 m ²	■ Parking spaces: Approx. 3,400

Surprise and delight: Point 1

Top for excitement too



This is the largest-ever youme Town in terms of site area and floor space. The building has three levels and a central atrium, with one circuit of the mall measuring 550 m, making it the largest in the Chugoku region. The building brings together some 200 specialty stores, of which 57 are new to Hiroshima.



Surprise and delight: Point 2

An even better dining-out experience

A spacious food court faces out over the Seto Inland Sea, with 14 restaurants and 900 seats. Its appeal will make customers want to visit every day for the food court alone.



Surprise and delight: Point 3

Top-ranking ladies' restrooms

Ladies' restrooms are spaces for relaxing and freshening up. The design and functions of the eight ladies' restrooms within the store have been carefully thought out, with the aim of winning a No. 1 ranking from our female guests.



Surprise and delight: Point 4

The latest environmentally friendly systems

On the roof of the store, solar electric panels of 350 kW have been installed. All the sales floor lighting uses LED bulbs and the air conditioning uses a ground-source heat pump, creating an interior that is both comfortable and environmentally friendly.

mer” and “product lineups competitive on both price regional store still further!



GRAND OPENING

Our second Saga City store specializes in the daily round of shopping!
youme Mart Saga

youme Mart Saga has opened in a quiet and scholarly neighborhood in the center of Saga City, close to the Saga Prefectural Office and home to Saga University and Saga Castle.

While a youme Town Saga has operated in Saga City since 2006, our second store was developed in the youme Mart format. On the assumption that it will be used mainly for day-to-day shopping, the product lineup consists mainly of fresh foodstuffs and everyday goods that add to the convenience of daily life.

With youme Town Saga and youme Mart Saga offering both formats, we will further strengthen the presence and boost the competitiveness of the youme brand in the Saga trade area.

Store overview
Site area: Approx. 11,500 m ²
Floor area: Approx. 4,500 m ²
Store area: Approx. 2,700 m ²
Parking spaces: Approx. 200 (65 on the roof, 135 on the ground level)
Bicycle parking spaces: Approx. 110

GRAND OPENING		Scheduled opening of new store	
			
Opened in November 2015	Opened in November 2015	Scheduled to open in 2016 or later	Scheduled to open in 2016 or later
youme Mart Suwano	youme Mall Chikugo	youme Town Tokuyama (provisional name)	Shoko Center store (provisional name)



Store overview

Before expansion

- Site area: Approx. 84,200 m²
- Floor area: Approx. 143,000 m²
- Store area: Approx. 47,300 m²
- Number of specialized stores: 158
- Parking spaces: 3,590

After expansion

- Floor area: Approx. 153,600 m²
- Number of specialized stores: Approx. 190

Reopened with
more space in
November 2015

Raising the bar in the 13th year with a major increase in floor area! youme Town Kurume

Since opening in 2003, youme Town Kurume has been treasured by many people from the local community. Because some of these customers asked us to refurbish the store to reflect changes in society and lifestyles, we resolved to carry out a major expansion in floor area.

In line with the expansion, we have introduced “fast fashion” stores and specialty boutiques while upgrading the children’s zone to meet the needs of young families even more convincingly. The food and dining zone attracts highly specialized tenants and a broader product lineup, enabling us to offer an even more satisfying in-store experience for all three generations when they visit together.



Store overview

Before expansion

- Site area: Approx. 42,000 m²
- Floor area: Approx. 45,400 m²
- Store area: Approx. 19,200 m²
- Number of specialized stores: 79

After expansion

- Site area: Approx. 48,400 m²
- Floor area: Approx. 50,300 m²
- Store area: Approx. 24,700 m²
- Number of specialized stores: 103

Reopened with
more space in
September 2015

More fun and more comfort at the new youme Town! youme Town Yamaguchi

Opened in 1997, youme Town Yamaguchi attracted many customers from a wide area as the flagship store of Yamaguchi Prefecture. In September 2015, we carried out a renovation focused mainly on fresh foodstuffs and the prepared food corner. The response from customers was so positive that we embarked on a major expansion in floor space to take “good quality, inexpensively” even further.

Following the expansion, in addition to introducing family fashion and enhancing the appeal of young casual stores, we doubled the number of seats in the food court and added new restaurants to further satisfy young families as part of our systematic plan of enlargement and renovation. We increased not only the number of stores but also the number of parking spaces (by 400), enhancing the facility’s appeal as the No. 1 regional store.

Special feature 2 Dominant strategy

A facility to further strengthen our “dominant strategy” in the Chugoku region began operation!



Facility overview

- Site area: Approx. 28,600 m²
- Floor area: Approx. 26,800 m²
- Dry: Approx. 18,000 m²
- Cold: Approx. 7,600 m²

Izumi Hiroshima Distribution Center

On January 15, 2015, construction of the large-scale Izumi Hiroshima Distribution Center, a key to Izumi’s “dominant strategy,” was completed and operations began from its location in the Shoko Center commercial district of Hiroshima City.

This center includes both cold and dry functions, and has enabled high-volume, centralized storage, sorting and delivery of fresh foodstuffs, confectionery, alcoholic beverages, prepared food and other items.

The launch of operations at the center makes it possible for us to further strengthen Izumi’s “dominant strategy.”



Sorting using voice-directed picking



Four distribution centers consolidated

In the Hiroshima area, goods delivered daily (including prepared food and fresh food such as fresh fish, meat and vegetables) were delivered until recently from distribution centers in four locations to individual stores. Managing all of this centrally at the new distribution center has dramatically boosted the efficiency of storage, sorting and delivery.

Covering approximately 40 stores in Hiroshima Prefecture, Yamaguchi Prefecture and Shimane Prefecture

The new Distribution Center has been sited in the Hiroshima Shoko Center Commercial District, which has easy access to Hiroshima Expressway Route 3 and National Route 2 bypass as well as the Sanyo Expressway. In this advantageous location, we have built a structure that allows timely deliveries to not only western Hiroshima Prefecture but also stores in Yamaguchi and Shimane prefectures.

Hiroshima Pref.	Cold: 26 stores/dry: 26 stores
Yamaguchi Pref.	Cold: 7 stores/dry: 5 stores
Shimane Pref.	Cold: 6 stores/dry: 6 stores



Picking carts



Automatic sorter

CSR Promotion Guidelines

We aim to be a company where social responsibility is fulfilled through the daily behavior of each employee.

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 No. 1 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 tenants.
- (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

Respect for 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 offer services and products that are safe and beneficial to society, thus securing the trust and satisfaction of customers.
2. We strive for fair transactions, based on the principle of free competition.
3. We create structures to manage customer data and internal data in an appropriate manner.
4. We disclose corporate information actively and fairly to both shareholders and society.
5. We behave in ways that take into account the natural and global environment.
6. We resolutely confront antisocial forces and organizations that threaten the social order and the safety of citizens.
7. We contribute to the development of other regions in our international business activities, while respecting international rules and local laws, culture and customs.
8. We follow the founding spirit of the Company, respecting each other and behaving with humility.
9. We 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 will listen to opinions both inside and outside the Company and set up internal structures to further promote a law-abiding culture.

2

Protection of personal information

To protect personal information entrusted to us by customers, 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 will be used to send marketing materials such as direct mail, product and special event announcements, and aftersales service.
2. When handling personal information, the Company will make every effort to implement secure management to prevent leaks.
3. The Company will 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 will 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 will 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 "No. 1 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 work to offer safe products and services that take the environment into account.
2. We 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 work to promote the use of recycled materials, buy and use products with a smaller environmental footprint and use resources effectively.
4. We work to contribute to society by cooperating with local residents and local authorities to promote environmental conservation activities.
5. We work to help individual employees promote and improve environmentally friendly practices on an ongoing basis, and we comply with environmental regulations.

Izumi: Our **four** dreams

We encourage customers, communities, tenants and employees to come together to create urban spaces that surprise and delight.

Customers

We lead customers to a more convenient and pleasant lifestyle by offering high-quality products and services.

Communities

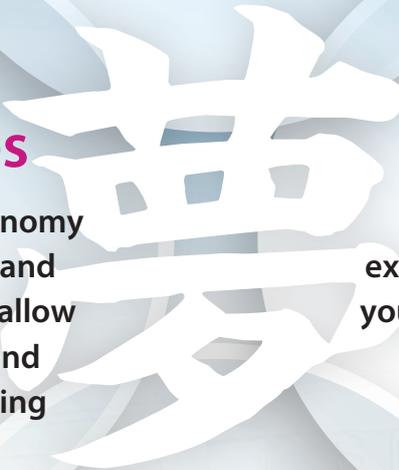
We invigorate the local economy by creating employment and building retail spaces that allow customers to move around and conduct their shopping more easily.

Tenants

We provide a successful experience of store building in youme Town locations, leading to further development.

Employees

We offer the pride and pleasure of contributing to communities and the worthwhile challenges that lead to personal growth.





Escorting assistants

Escorting assistants are stationed in proportion to the size of each store. To assist in the shopping of customers with disabilities, they will push wheelchairs around the sales floor and help with product choice. They also guide customers from the parking lot to the store and so on. This initiative has also raised the “barrier-free awareness” of employees.



Parking lot facilities for the exclusive use of pregnant customers

Advancing barrier-free stores

All of Izumi's stores that opened from 2000 onward meet the requirements of the Act on Promotion of Smooth Transportation, etc. of Elderly Persons, Disabled Persons, etc. Because we want customers using wheelchairs to also enjoy a pleasant shopping experience, existing stores are being upgraded when they undergo renewal or floor expansion. We are also implementing a number of detailed changes such as putting facilities in parking lots for the exclusive use of pregnant customers, installing multi-purpose bathrooms and using high-visibility signs.



Multi-purpose bathrooms for flexible use

1

For customers

We lead customers to a more convenient and pleasant lifestyle by offering high-quality products and services.



Magnifiers installed on carts

Shopping carts with magnifiers

The display of ingredients and indication on the label of the product origin are an important part of choosing products. As society continues to age, however, an increasing numbers of customers have commented that the small text on the label is hard to read. Accordingly, we are proceeding with the adoption of carts that have magnifiers attached.

Introduction of automatic external defibrillator (AEDs)

When ventricular fibrillation occurs in the heart, an AED can help save a life. Just in case, every store is equipped with an AED. We implement training programs for sales floor staff and security guards, so that if the need arises they can respond calmly. In fact, a number of customers have already been helped by these initiatives.



Store AED

Safety confirmation by quality checkers

To protect the safety of food, it is extremely important not to sell products past their sell-by date and to display accurately the origin of foodstuffs. The quality checkers assigned to each store check the quality and freshness as well as the displayed origin of the product every day at 11 a.m. and 3 p.m., to maintain food safety and customers' peace of mind. The quality checkers have undergone training in the Food Sanitation Act and also received guidance from an external quasi-official organization, the Japan Frozen Foods Inspection Corporation (JFFIC), and take the lead on quality control initiatives. In addition, as leaders of their store's quality control efforts, they educate other staff.

We have also implemented a study of agricultural policy and study meetings for managers and store managers on labeling, and have set out thorough rules for our stores as a whole.



Quality checker study meeting

Locally produced, locally consumed (display of fresh vegetables straight from the producer)

Sales floors for vegetables delivered straight from the producer who carefully grew them have won a favorable reception, including comments such as “The vegetables were just picked and delicious” and “I feel a sense of closeness when I know that a local person grew them.” In some stores, a photo of the producer’s face is provided, generating a sense of connection on the sales floor between the consumer and the producer.

At youme Town Hiroshima, vegetables are delivered straight from the Sera Highlands in central Hiroshima Prefecture. These vegetables, grown in a rich and sun-blessed natural environment, continue to glow in the store itself.



Display at youme Town Hiroshima of fresh vegetables that came straight from the producer

Joining hands with local governments: An agreement to supply emergency provisions

Izumi, which cultivates close ties between its stores and the local community, has put in place structures for cooperating with local governments in each area. It has concluded a comprehensive regional revitalization partnership agreement with Kumamoto and Hiroshima prefectures and confirmed that it is working with them on matters such as selling special local products, conducting tourism-related public relations and working on environmental measures.

Agreements concerning responses in times of emergency have also been concluded with the prefectural and municipal governments in each region. On March 14, 2014, Izumi entered into a cooperation agreement on disaster prevention activities and emergency shelters with Shunan City in Yamaguchi Prefecture. In times of emergency, the parking lot of youme Town Shinnanyo will be offered as an emergency shelter and the Company will work to secure food and other resources.

Together with the community

We invigorate the local economy by creating employment and building retail spaces that allow customers to move around and conduct their shopping more easily.

2

Improving the convenience and vibrancy of local communities

In youme Town Etajima, there is a “Citizens Service Center,” which serves as an external office of the local government. In youme Town Takamatsu, there is a machine for automatic dispensing of identification documents for the Takamatsu municipal office. Both can be used by any customer when the municipal office is closed on evenings and weekends to print official copies of certificates of residence, seal registration certificates, income and tax declaration certificates and so on. This has been very well received by those who use it while shopping.

At youme Town Takeo, there is a Local Government Plaza Takeo Navi, where the latest information on Takeo City, such as notifications from the local government and tourist guides, can be obtained.

Orange ribbons to prevent child abuse

The orange ribbon movement is a citizen’s campaign that works to achieve a society in which child abuse does not exist. To prevent such abuse, it is important to build a society in which everybody is kind to children and parents rather than relying on children’s welfare centers and public agencies at local governments. To convey this feeling, employees in both stores and management have adopted the orange ribbon.

Bringing much-loved “local flavors” to stores

Izumi brings together products that fit the locations in which its stores are opened, handling products that have been loved by the local community for years. At youme Mart Aga: we offer *kamaboko* (boiled fish paste) products from a local store, and many customers have commented happily on this.



“Local flavors” display at youme Mart Aga



Women to rise to 20% of management roles

In 2014, Izumi began its project to promote women's advancement by creating an environment in which it is easier for female employees to carry out both work and child rearing, and by supporting career formation. By 2020, we aim for women to account for more than 20% of management positions.

Promoting women using a license system

To promote people with high ability and ambition to managerial positions, regardless of gender, Izumi has adopted a licensing system that clarifies the standards for management promotion. Many supervisors have come from among not only full-time employees but also part-time employees who have undertaken training and passed examinations. Moreover, the proportion of women in management and purchasing positions is rising each year. While working on broadening the support system for women such as the maternity leave system, we are also putting greater effort into promoting women.



3

Lively employees

We offer the pride and pleasure of contributing to communities and the worthwhile challenges that lead to personal growth.

Maternity, nursing and caregiving leave system

To facilitate the advancement of women, Izumi has been promoting positive action since 1995. Our robust systems for maternity, nursing and caregiving leave, tailored to the circumstances of individual employees, have been well received by local governments. As the system has been put in place, an awareness has spread among employees of the need to support those on maternity leave or caregiving, so that they do not leave work permanently. This workplace climate has also helped to boost the number of women taking maternity leave.



Employees with disabilities exceed the minimum employment ratio required by law

As a company that maintains close ties to and grows along with local communities, as far as possible we at Izumi want to provide a space where people with disabilities may work. We employ more persons with disabilities than required by law, and they contribute actively in a number of departments. At youme Town Otake, a young man with Down syndrome is in charge of managing shopping carts. He greets everybody cheerfully and, as one letter to us commented, "always gives off positive energy."

Part-timer "youme delight stories"

At Izumi, we refer to part-time employees as "partner employees." We regard them as vital partners of our youme Town stores, because they live locally and have an excellent understanding of the needs of the local community. We call examples of our partner employees applying their unique form of *kaizen* to the business "youme delight stories," which we announce within the Company. We send out to the entire company ideas for events, recipe proposals, clever food-serving arrangements and heart-warming stories of shared work. This enables those making the announcement to get a better feel for the value of their work and gain further motivation, in addition to serving as models for other employees.



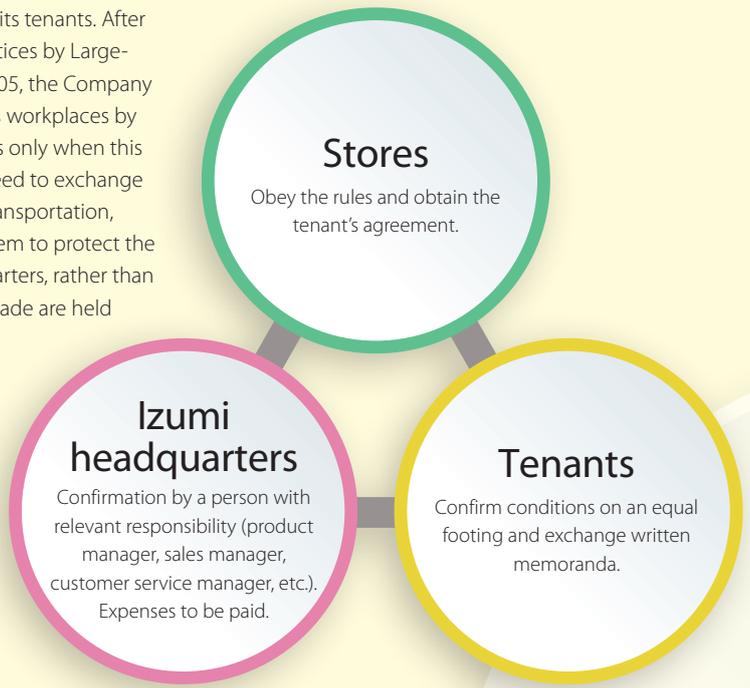
youme delight stories presentation

Holding fair trade study meetings

Izumi has always placed a priority on relationships of trust with its tenants. After the announcement of Designation of Specific Unfair Trade Practices by Large-Scale Retailers Relating to Trade with Suppliers in November 2005, the Company revisited its rules for the support of employees dispatched to its workplaces by tenants. We committed to accepting the dispatch of employees only when this had been agreed on an equal footing with the tenants. We agreed to exchange memoranda clearly stating that Izumi would bear personnel, transportation, accommodation and food expenses. We also established a system to protect the rules by requiring the prior approval of coordinators at headquarters, rather than leaving it to store management alone. Study meetings on fair trade are held twice a year for these coordinators, and the research of relevant legislation is encouraged.



Fair trade study meeting



Working together with tenants

We provide a successful experience of store building in youme Town locations, leading to further development.

4

Improving through contests

To improve morale and boost sales jointly, we also involve those working at our tenants in study meetings and contests. Divided into three teams of East, West, and Kyushu, we compete with each other in role-playing contests with tenants, to sharpen our customer service skills.



Role-playing contest

Mutual prosperity through mutual effort with the Izumi Association

In 1975, we instituted the Izumi Association with the aim of cementing our relationship with tenants and achieving mutual prosperity through mutual effort. As of May 2014, 305 companies were registered in the association. At the association's general meeting held each year in May, we explain Izumi's management policies and share other information, while vowing to provide better products and services to raise customer satisfaction even further.



Izumi Association meeting in May 2014

Hosting charity events

To support people suffering from visual impairment, each year we hold a Charity Musicthon in the youme Town stores of Hiroshima, Fukuoka and Kagawa prefectures. Izumi and the tenants collect donations together in a tie-up with Kyushu Asahi Broadcasting Co., Ltd. (KBC), RCC BROADCASTING CO., LTD. (RCC) and Nishinippon Broadcasting Co., Ltd. (RNC). The money is used for purposes such as installing audible pedestrian crossing signals.



A Charity Musicthon

Corporate Governance

Creating systems that improve the transparency, efficiency and fairness of management

Basic approach

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

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

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

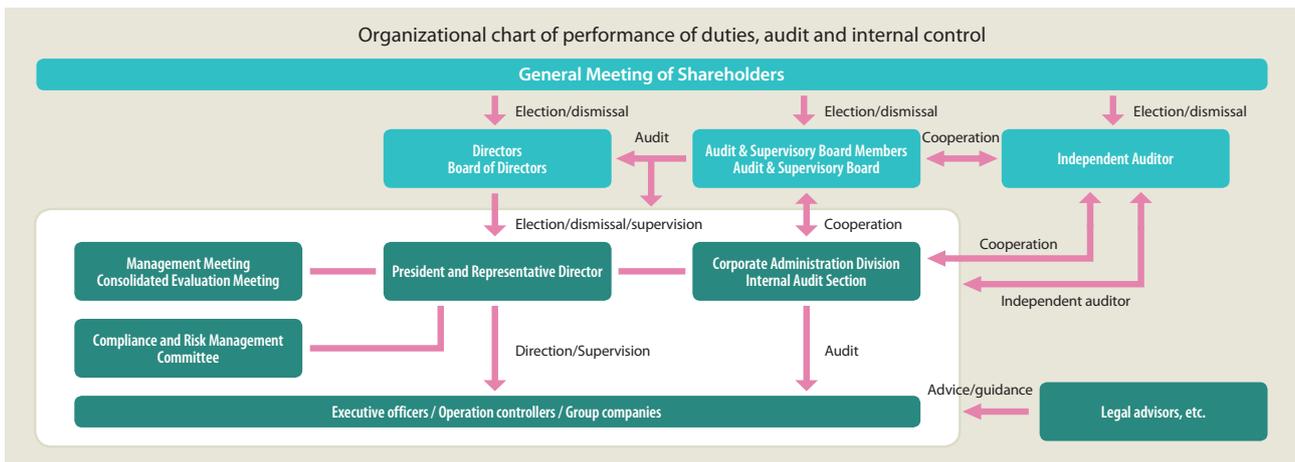
The Company has seven directors, of whom two are outside directors. To maintain management responsibility and transparency in the performance of their duties, the term of office for directors is limited to two years. As a rule, the Board of Directors meeting is held once a month to supervise and conduct a full discussion of the performance of duties by directors. From the seven directors, one president and representative director is chosen and eight executive officers are elected to perform a range of duties. Each week, the directors and executive officers hold a management meeting to report progress on management policies and exchange

opinions. The business conditions of the Group companies are considered at the once-monthly Consolidated Evaluation Committee to which the presidents and directors responsible for finance and accounting are summoned, forming a system to check the management of each company.

The Company has adopted an Audit & Supervisory Board system, with three members (of whom two are outside members). The members supervise the decisions of the Board of Directors and the performance of duties, while the directors seek members' objective opinions on proposals at the Board of Directors meeting. In addition, four legal advisors offer advice and guidance to provide an appropriate and efficient oversight function.

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

The Audit & Supervisory Board consists of one full-time member and two outside members, for a total of three members. As a rule, the Audit & Supervisory Board meeting is held once a month. The full-time member is a tax accountant with extensive knowledge and experience as a specialist in tax and accounting matters, while the two outside members are a certified public accountant and a tax accountant,



respectively. Each member receives reports from the Internal Audit Section and shares internal audit information. The Audit & Supervisory Board members, the independent auditor and the Internal Audit Section work together to share information gathered from regular on-site audits of stores. In this way, the internal controls and the state of accounting audits can be tracked and the report of the independent auditor on the results of the audit of the accounts is submitted at the Audit & Supervisory Board meeting. To fully support the audit operations of the Audit & Supervisory Board members, two members of staff are appointed (in non-exclusive capacities) to assist the members, further strengthening the audit function.

Status of internal control/risk management systems

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

■ The Compliance and Risk Management Committee is the area of responsibility of the Corporate Administration Division, which is independent from other divisions, and it meets once

a month. Risk 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 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 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 Division, headed by the President and Representative Director, can be contacted immediately.

Compliance

Raising compliance awareness by implementing training

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

Specifically, the following initiatives are under way.

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

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

■ 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

Directors

Chairperson and Director

Yoshimasa Yamanishi

- March 1946 Finds wholesaler of secondary textile products
- June 1950 Finds Yamanishi K.K. (the current 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)

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

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 (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

Toyomi Nakamura

- March 1972 Joins the Company
- March 1988 Becomes Section Chief of the Fruit and Vegetable Section of the Food Department
- 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 (current position)

Outside Director

Misako Aida

- October 1998 Professor, Faculty of Science, Hiroshima University
- April 2000 Professor, Graduate School of Science, Hiroshima University (current position)
- December 2011 Office Director, University Management Planning Office, Hiroshima University (current position)
- April 2013 Vice President responsible for University Planning, Hiroshima University (current position)
- May 2015 Becomes Director of the Company (current position)

Outside Director

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 (current position)
- May 2015 Becomes Director of the Company (current position)

Audit & Supervisory Board Members

Full-time member

Kuniaki Kawamoto

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

Outside member

Jiro Matsubara

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

Outside member

Yasuyuki Tsudo

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

Management Analysis of the Fiscal Year under Review

Total revenue, operating income and ordinary income all reached record-high levels!

Major renewal of youme Town Hiroshima flagship store

Three new stores were opened: youme Mart Matsubase, youme Town Oe and youme Mall Yanagawa

Operations were started at the new Izumi Hiroshima Distribution Center, aiming to further reinforce domination in the store area

We acquired the shares of Super Daiei Corporation and KOEI CO., LTD., making them consolidated subsidiaries

Results summary

In total revenue, net sales rose by ¥21,874 million (up 4.1% year on year) to ¥552,746 million. Operating revenue increased by ¥1,011 million (up 3.9%) to reach ¥26,992 million. This was due mainly to the Company raising sales through new store openings, but same-store sales were also firm.

Gross profit came in at ¥116,930 million, rising ¥4,736 million. The gross profit margin was 21.2%, an improvement of 0.1 percentage point over the previous fiscal year. This was due to efforts to reduce costs and cut down on product waste.

With regard to selling, general and administrative (SG&A) expenses, due to implementing human resources measures to hire staff for new stores, secure employees to cover labor shortages and deal with outflows, labor costs increased. On the other hand, as a result of careful cost-benefit analysis, miscellaneous expenses were reduced and the rise in SG&A expenses was limited to ¥4,518 million (up 4.1%) for a total of ¥113,592 million. The SG&A ratio was 20.6%, a rise of 0.1 percentage point over the previous fiscal year. Accordingly, operating income increased by ¥1,229 million (up 4.2%) to ¥30,330 million, for an operating margin of 5.5%, on a par with the previous fiscal year.

Due to posting of equity in earnings of an affiliated company of ¥244 million, non-operating income rose by ¥45 million to ¥1,473 million. Conversely, non-operating expenses declined by ¥45 million to ¥2,036 million. As a result, ordinary income rose by ¥1,320 million (up 4.6%) to ¥29,767 million, for an ordinary margin of 5.4%, unchanged from the previous fiscal year.

Extraordinary income came to ¥37 million, down ¥2,176 million from the previous fiscal year. Extraordinary losses included an impairment loss of ¥464 million and a loss on retirement of non-current assets of ¥323 million for a total of ¥1,292 million, a decline of ¥1,412 million compared to the previous fiscal year. Total income taxes were ¥10,943 million, up ¥550 million year on year, while minority interests in income were ¥207 million, rising ¥28 million. As a result of the above, net income fell ¥23 million (down 0.1%) to ¥17,360 million for a net profit margin of 3.1%, 0.2 percentage point below the previous fiscal year's level.

Earnings per share for the fiscal year under review were ¥241.60 (an increase of ¥5.05 year on year), while net assets per share at the year-end were ¥1,876.22, an increase of ¥203.30 over the end of the previous fiscal year.

Analysis of financial position

With regard to total assets, capital investment in property, plant and equipment and intangible assets during the fiscal year under review came to ¥24,451 million, consisting mainly of construction of new stores. Accordingly, property, plant and equipment after accounting for depreciation rose by ¥20,128 million. Trade notes and accounts receivable rose by ¥3,057 million due to an increase in credit transactions. Because the settlement date for trade notes and accounts payable fell on a bank holiday, settlement was carried over to the start of the following month, leading to a rise in liabilities of ¥17,373 million. Short-term loans payable and long-term loans payable fell by a combined ¥16,294 million.

Retained earnings were reduced by dividend payments but, due to an increase in internal reserves, net assets rose by ¥15,531 million. As a result of the above factors, the equity ratio was 31.2%, 0.9 percentage point higher than the 30.3% recorded at the end of the previous fiscal year.

Statement of cash flows

The main items in cash inflows from operating activities were income before income taxes and minority interests of ¥28,511 million and depreciation of ¥12,902 million. The main cash outflows were income taxes paid of ¥9,551 million and an increase in trade notes and accounts receivable of ¥3,024 million. This resulted in a rise of ¥26,563 million compared to the previous fiscal year, but this was mostly due to the settlement date falling on a bank holiday, causing payments of trade payables to be carried over to the beginning of the following month.

The main item in cash outflows from investing activities was the purchase of property, plant and equipment, which came to ¥18,699 million. This was related primarily to the construction of new stores.

The main item in cash inflows from financing activities was proceeds from long-term loans payable of ¥32,075 million. The main outflows were repayments of long-term loans payable of ¥24,322 million and a net decrease in short-term loans payable of ¥29,438 million.

In consequence, cash and cash equivalents at the end of the period rose by ¥6,189 million over the end of the previous fiscal year to ¥12,990 million.

Dividend policy

Dividends paid from surplus this fiscal year were set at ¥28 per share. Including the interim dividend, the annual dividend came to ¥51 per share, an increase of ¥8 over the previous fiscal year.

Outlook for the fiscal year ending February 29, 2016

In the fiscal year ending February 29, 2016, the effects of the fall in consumption, which partly caused the economic slowdown after the last-minute rush in demand ahead of the consumption tax hike in April 2014, started to fade, but we expect the state of limited visibility in the consumption environment to continue. On the other hand, we can expect some positive factors, such as rising wages and falling oil prices putting an end to declines in real income. The Izumi Group will accurately read changing customer needs caused by fluctuations in the wider environment and deliver a careful, detailed response. At the same time, we will take our strategy of “good quality, inexpensively” a step further by offering high-quality, fresh, safe and reassuring products at an affordable price.

In June 2015 we opened our first new large-format store in four years, youme Town Hatsukaichi (Hatsukaichi City, Hiroshima Prefecture) while in August youme Mart Saga (Saga City, Saga Prefecture) opened on schedule and is performing well. In the autumn we opened youme Mall Chikugo (Chikugo City, Fukuoka Prefecture) and youme Mart Suwano (Kurume City, Fukuoka Prefecture), making a total of four new stores. Moreover, to strengthen our status as the “No. 1 regional store” we will work on both hard and soft aspects, including floor space expansion, to reinvigorate existing stores.

In addition to bolstering and developing our local dominance, these will lead to further growth for the Company. For the coming fiscal year, the Company expects same-store sales to grow by 2.2% year on year.

Risks to the Business

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

Risk of market fluctuations

- 1 | The core of the Group's business is the sale of goods and services to general consumers, and as such it is materially affected by the weather, the economic climate, trends in personal consumption and competition with other companies in the retail industry. Fluctuations in these factors could lead to lower profitability at existing stores or at stores opened in the future, or could lead to losses posted as a result of stores being closed, causing changes in the Group's business results and in its financial condition.
- 2 | The Group funds its capital investment through interest-bearing debt and also handles products that have been imported from overseas, in addition to which it holds marketable securities of firms outside the Group. Accordingly, the Group's business results and financial position are materially affected by interest rates, foreign exchange rates and share prices. The Group's business results and financial condition could be materially affected by fluctuations in retail prices as well as the procurement cost of products and materials, or by real estate rental rates, labor costs, miscellaneous expenses and real estate prices.
- 3 | In the event of natural disasters, accidents, crime or computer system problems occurring at our retail stores, headquarters, distribution facilities or at the main facilities of our suppliers, the continued operation of the Group's stores and the sourcing of products could be materially affected. In addition, disorder in the secondary market, such as that caused by consumers halting purchases after the occurrence of bovine spongiform encephalopathy (BSE) and avian flu, could result in material changes in the Group's financial results and financial position.

Regulatory/systemic risk

- 1 | The Group takes every possible measure to ensure the safety of the products and services it offers, but should faulty goods or food poisoning occur for some unexpected reason, the Group could be subject to regulation by authorities, post losses related to liability for damages, or lose the trust of consumers.
- 2 | The Group strives to comply with statutory regulations, such as those related to antitrust matters, consumer protection, the environment and recycling and the protection of personal information. However, if due to unexpected changes and unforeseen reasons the Group were to infringe such laws, the Group's activities could suffer from regulation, increased expenses and loss of consumer trust.
- 3 | Construction of new large-scale commercial facilities is regulated by the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment, the City Planning Act and the Building Standards Act, among others. If the construction of new stores or the renovation of existing stores were to become difficult due to the amendment of these laws or changes in the regulations applied by local authorities and municipalities, or if there were a decline in candidate locations for new stores in the future, the Group's financial results, financial position and business strategy could be materially affected.

Consolidated Balance Sheets

Izumi Co., Ltd. and Its Consolidated Subsidiaries
As of Feb. 28, 2014 and Feb. 28, 2015

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
(Assets)			
Current assets:			
Cash and deposits	¥ 6,800	¥ 13,380	\$ 111,929
Notes and accounts receivable—trade	25,482	28,540	238,749
Merchandise and finished goods	24,125	24,517	205,095
Work in process	84	85	711
Raw materials and supplies	319	383	3,204
Deferred tax assets	2,631	2,687	22,478
Other	12,086	13,726	114,823
Allowance for doubtful accounts	(635)	(627)	(5,245)
Total current assets	70,895	82,692	691,752
Non-current assets:			
Property, plant and equipment:			
Buildings and structures	296,867	315,239	2,637,101
Accumulated depreciation	(163,392)	(178,561)	(1,493,734)
Buildings and structures, net	133,474	136,677	1,143,358
Machinery, equipment and vehicles	6,055	6,623	55,404
Accumulated depreciation	(4,646)	(4,867)	(40,714)
Machinery, equipment and vehicles, net	1,409	1,755	14,681
Land	141,011	147,469	1,233,637
Leased assets	876	1,331	11,134
Accumulated depreciation	(363)	(638)	(5,337)
Leased assets, net	513	693	5,797
Construction in progress	1,477	10,617	88,815
Other	31,164	34,835	291,409
Accumulated depreciation	(25,017)	(27,886)	(233,278)
Other, net	6,147	6,949	58,131
Total property, plant and equipment	284,033	304,162	2,544,437
Intangible assets:			
Goodwill	431	554	4,634
Other	6,987	7,430	62,155
Total intangible assets	7,418	7,985	66,798
Investments and other assets:			
Investment securities	6,164	8,563	71,633
Long-term loans receivable	1,504	1,480	12,381
Deferred tax assets	5,468	5,285	44,211
Lease and guarantee deposits	16,965	17,477	146,202
Other	5,040	5,165	43,207
Allowance for doubtful accounts	(419)	(395)	(3,304)
Total investments and other assets	34,723	37,575	314,330
Total non-current assets	326,175	349,723	2,925,573
Total assets	¥ 397,071	¥ 432,416	\$ 3,617,333

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S.\$1 as of February 27, 2015.

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade	¥ 23,191	¥ 40,564	\$ 339,334
Short-term loans payable	46,726	20,387	170,545
Current portion of long-term loans payable	23,249	25,888	216,563
Accounts payable-other	12,389	22,080	184,708
Income taxes payable	5,287	6,987	58,449
Provision for bonuses	1,451	1,491	12,473
Provision for directors' bonuses	47	37	310
Provision for point card certificates	1,817	2,017	16,873
Provision for loss on recollection of gift certificates	53	81	678
Asset retirement obligations	335	–	–
Other	9,264	14,560	121,800
Total current liabilities	123,813	134,096	1,121,767
Non-current liabilities:			
Long-term loans payable	103,471	110,876	927,522
Lease obligations	503	615	5,145
Long-term lease and guarantee deposited	22,966	23,119	193,400
Provision for retirement benefits	6,540	–	–
Provision for directors' retirement benefits	1,241	1,405	11,753
Provision for loss on interest repayment	329	273	2,284
Liability for retirement benefits	–	8,193	68,538
Deferred tax liabilities	1,074	1,082	9,051
Asset retirement obligations	6,501	6,723	56,241
Other	449	321	2,685
Total non-current liabilities	143,079	152,610	1,276,644
Total liabilities	266,892	286,706	2,398,411
(Net assets)			
Shareholders' equity:			
Capital stock	19,613	19,613	164,071
Capital surplus	22,282	22,282	186,398
Retained earnings	94,517	108,283	905,831
Treasury shares	(16,760)	(16,763)	(140,229)
Total shareholders' equity	119,652	133,416	1,116,078
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	822	1,785	14,932
Foreign currency translation adjustment	(264)	–	–
Defined retirement benefit plans	–	(383)	(3,204)
Total accumulated other comprehensive income	558	1,402	11,728
Minority interests	9,966	10,890	91,099
Total net assets	130,178	145,709	1,218,914
Total liabilities and net assets	¥ 397,071	¥ 432,416	\$ 3,617,333

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S.\$1 as of February 27, 2015.

Consolidated Statements of Income

Izumi Co., Ltd. and Its Consolidated Subsidiaries
For the years ended Feb. 28, 2014 and Feb. 28, 2015

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Net sales	¥ 530,871	¥ 552,746	\$ 4,623,942
Cost of sales	418,677	435,815	3,645,767
Gross profit	112,193	116,930	978,166
Operating revenue	25,981	26,992	225,799
Operating gross profit	138,175	143,923	1,203,974
Selling, general and administrative expenses:			
Advertising and promotion expenses	8,707	9,919	82,976
Distribution expenses	6,063	6,550	54,793
Provision of allowance for doubtful accounts	165	161	1,347
Employees' salaries and bonuses	37,135	38,830	324,829
Provision for bonuses	1,414	1,451	12,138
Welfare expenses	6,477	6,740	56,383
Retirement benefit expenses	669	827	6,918
Rent expenses	9,273	9,337	78,108
Utilities expenses	6,301	6,720	56,215
Depreciation	12,403	12,474	104,350
Other	20,463	20,579	172,152
Total selling, general and administrative expenses	109,074	113,592	950,243
Operating income	29,100	30,330	253,723
Non-operating income:			
Interest income	145	147	1,230
Dividend income	71	102	853
Purchase discounts	361	307	2,568
Gain on adjustment of account payable	97	92	770
Equity in earnings of associated company	41	244	2,041
Penalty income	107	87	728
Other	603	491	4,107
Total non-operating income	1,428	1,473	12,322
Non-operating expenses:			
Interest expenses	1,716	1,614	13,502
Other	365	421	3,522
Total non-operating expenses	2,082	2,036	17,032
Ordinary income	28,446	29,767	249,013
Extraordinary income:			
Gain on bad debts recovered	584	-	-
Gain on sales of non-current assets	1,528	5	42
Gain on negative goodwill	-	31	259
Other	101	0	0
Total extraordinary income	2,213	37	310
Extraordinary losses:			
Loss on sales of non-current assets	10	71	594
Loss on retirement of non-current assets	432	323	2,702
Impairment loss	2,054	464	3,882
Loss on sales of subsidiaries' stocks	-	315	2,635
Loss on step acquisitions	-	94	786
Other	207	23	192
Total extraordinary losses	2,704	1,292	10,808
Income before income taxes and minority interests:	27,955	28,511	238,506
Income taxes—current	10,367	11,181	93,534
Income taxes—deferred	25	(238)	(1,991)
Total income taxes:	10,392	10,943	91,543
Income before minority interests	17,562	17,568	146,963
Minority interests in income	178	207	1,732
Net income	¥ 17,384	¥ 17,360	\$ 145,223

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S.\$1 as of February 27, 2015.

Consolidated Statements of Comprehensive Income

Izumi Co., Ltd. and Its Consolidated Subsidiaries
For the years ended Feb. 28, 2014 and Feb. 28, 2015

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Income before minority interests	¥ 17,562	¥ 17,568	\$ 146,963
Other comprehensive income:			
Valuation difference on available-for-sale securities	288	1,164	9,737
Foreign currency translation adjustment	6	0	0
Total other comprehensive income	295	1,165	9,746
Comprehensive income	17,858	18,733	156,709
Total comprehensive income attributable to:			
Owners of the parent	17,629	18,325	153,296
Minority interests	228	408	3,413

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S.\$1 as of February 27, 2015.

Consolidated Statement of Changes in Net Assets

Izumi Co., Ltd. and its subsidiaries

Millions of yen

Fiscal year ended February 28, 2014

	Shareholders' equity					Accumulated other comprehensive income				Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	¥19,613	¥22,282	¥80,942	¥(7,770)	¥115,067	¥583	¥(270)	–	¥312	¥10,759	¥126,139
Cumulative effects of changes in accounting policies			(835)		(835)						(835)
Restated balance	19,613	22,282	80,107	(7,770)	114,232	583	(270)	–	312	10,759	125,304
Changes of items during period											
Dividends of surplus			(2,974)		(2,974)						(2,974)
Change of scope of consolidation			–		–						–
Net income			17,384		17,384						17,384
Purchase of treasury shares				(8,989)	(8,989)						(8,989)
Net changes of items other than shareholders' equity											(546)
Total changes of items during period	–	–	14,409	(8,989)	5,420						4,873
Balance at end of current period	¥19,613	¥22,282	¥94,517	¥(16,760)	¥119,652						¥130,178

Millions of yen

Fiscal year ended February 28, 2015

	Shareholders' equity					Accumulated other comprehensive income				Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	¥19,613	¥22,282	¥94,517	¥(16,760)	¥119,652	¥822	¥(264)	–	¥558	¥9,966	¥130,178
Changes of items during period											
Dividends of surplus			(3,305)		(3,305)						(3,305)
Change of scope of consolidation			(289)		(289)						(289)
Net income			17,360		17,360						17,360
Purchase of treasury shares				(2)	(2)						(2)
Net changes of items other than shareholders' equity						963	264	(383)	843	923	1,767
Total changes of items during period	–	–	13,766	(2)	13,763	963	264	(383)	843	923	15,530
Balance at end of current period	¥19,613	¥22,282	¥108,283	¥(16,763)	¥133,416	¥1,785	–	¥(383)	¥1,402	¥10,890	¥145,709

Thousands of U.S. dollars

Fiscal year ended February 28, 2015

	Shareholders' equity					Accumulated other comprehensive income				Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	\$164,071	\$186,398	\$790,673	\$(140,204)	\$1,000,937	\$6,876	\$(2,208)	–	\$4,668	\$83,370	\$1,088,991
Changes of items during period											
Dividends of surplus			(27,648)		(27,648)						(27,648)
Change of scope of consolidation			(2,418)		(2,418)						(2,418)
Net income			145,223		145,223						145,223
Purchase of treasury shares				(17)	(17)						(17)
Net changes of items other than shareholders' equity						8,056	2,208	(3,204)	7,052	7,721	14,782
Total changes of items during period	–	–	115,158	(17)	115,133	8,056	2,208	(3,204)	7,052	7,721	129,915
Balance at end of current period	\$164,071	\$186,398	\$905,831	\$(140,229)	\$1,116,078	\$14,932	–	\$(3,204)	\$11,728	\$91,099	\$1,218,914

Note: U.S.dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S.\$1 as of February 27, 2015.

Consolidated Statements of Cash Flows

Izumi Co., Ltd. and Its Consolidated Subsidiaries
For the years ended Feb. 28, 2014 and Feb. 28, 2015

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 27,955	¥ 28,511	\$ 238,506
Depreciation	12,827	12,902	107,930
Impairment loss	2,054	464	3,882
Gain on bargain purchase	–	(31)	(259)
Increase (decrease) in allowance for doubtful accounts	(28)	(30)	(251)
Interest and dividend income	(216)	(249)	(2,083)
Interest expenses	1,716	1,614	13,502
Share of (profit) loss of entities accounted for using equity method	(41)	(244)	(2,041)
Loss (gain) on sales of non-current assets	(1,518)	66	552
Loss on retirement of non-current assets	432	323	2,702
Decrease (increase) in notes and accounts receivable—trade	(3,397)	(3,024)	(25,297)
Decrease (increase) in inventories	(2,842)	503	4,208
Increase (decrease) in notes and accounts payable—trade	1,849	14,703	122,996
Increase (decrease) in provision for retirement benefits	182	(7,311)	(61,159)
Increase (decrease) in net defined benefit liability	–	7,599	63,569
Other	(239)	7,311	61,159
Subtotal	38,734	63,106	527,907
Interest and dividend income received	216	252	2,108
Interest expenses paid	(1,693)	(1,560)	(13,050)
Income taxes (paid) refund	(11,574)	(9,551)	(79,898)
Net cash provided by (used in) operating activities	25,683	52,246	437,059
Cash flows from investing activities:			
Purchase of property, plant and equipment	(25,381)	(18,699)	(156,425)
Proceeds from sales of property, plant and equipment	6,287	110	920
Purchase of intangible assets	(1,449)	(943)	(7,889)
Purchase of investment securities	(331)	(803)	(6,717)
Proceeds from sales of investment securities	314	59	494
Purchase of investments in subsidiaries resulting in change in scope of consolidation	–	(246)	(2,058)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	(36)	(301)
Decrease (increase) in short-term loans receivable	(73)	(249)	(2,083)
Other	686	(89)	(745)
Net cash provided by (used in) investing activities	(19,948)	(20,897)	(174,812)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	5,101	(29,438)	(246,261)
Proceeds from long-term loans payable	25,100	32,075	268,320
Repayments of long-term loans payable	(23,584)	(24,322)	(203,463)
Purchase of treasury shares	(8,989)	(2)	(17)
Cash dividends paid	(2,974)	(3,305)	(27,648)
Cash dividends paid to minority shareholders	(20)	(28)	(234)
Other	(133)	(137)	(1,146)
Net cash provided by (used in) financing activities	(5,501)	(25,159)	(210,465)
Effect of exchange rate change on cash and cash equivalents:			
Net increase (decrease) in cash and cash equivalents	8	0	0
Net increase (decrease) in cash and cash equivalents	242	6,189	51,773
Cash and cash equivalents at beginning of period	6,862	6,800	56,885
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(304)	–	–
Cash and cash equivalents at end of period	¥ 6,800	¥ 12,990	\$ 108,667

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.54=U.S.\$1 as of February 27, 2015.

Company Overview

(As of February 28, 2015)

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: 2,347 Part-time: 4,832 (8-hour shift equivalent)
Number of malls/stores	103 (including 12 standalone X SELL stores) <ul style="list-style-type: none"> ■ Chugoku Region: 61 Hiroshima Pref.: 33; Yamaguchi Pref.: 12; Okayama Pref.: 10; Shimane Pref.: 6 ■ Kyushu Region: 29 Fukuoka Pref.: 14; Kumamoto Pref.: 9; Oita Pref.: 2; Saga Pref.: 2; Nagasaki Pref.: 2 ■ Shikoku Region: 4 Kagawa Pref.: 3; Tokushima Pref.: 1 ■ Other Regions: 9 Hyogo Pref.: 4; Other: 5

Stock Information

(As of February 28, 2015)

Total number of shares issued by the Company	195,243,000
Total number of outstanding shares	78,861,920
Number of shareholders	3,791

Major Shareholders

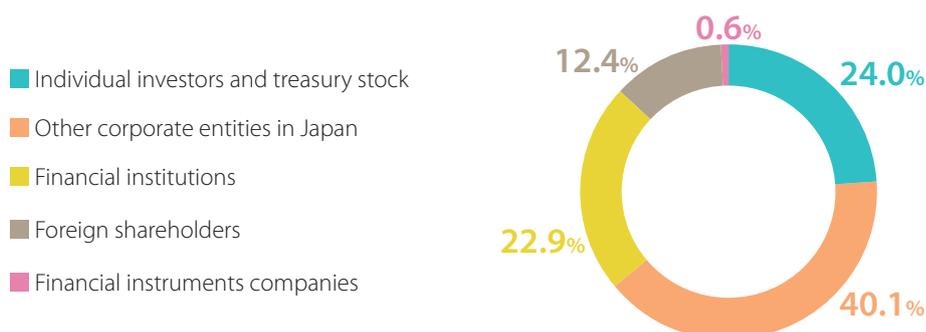
(As of February 28, 2015)

Shareholder name	Shares held (thousands)	Percentage of total shares
Yamanishi World, Ltd.	19,935	27.7%
DAIICHI HUDOUSAN CO., LTD.	4,208	5.9%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,560	3.6%
The Hiroshima Bank, Ltd.	2,362	3.3%
Nippon Life Insurance Co.	2,300	3.2%
Izumi Hiroshima Kyoeikai	2,141	3.0%
Yasuaki Yamanishi	2,035	2.8%
Daiichi Life Insurance Co.	2,030	2.8%
National Mutual Insurance Federation of Agricultural Cooperatives	1,495	2.1%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,462	2.0%

Note: The percentage of total shares is calculated after excluding treasury stock (7,002 thousand shares).

Distribution of Shares by Type of Shareholder

(As of February 28, 2015)





Izumi Co., Ltd.

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