



Yaoko Group Integrated Report

YAOKO REPORT 2020



The Joy of Living Near This Store

Eating is a major source of pleasure in life. The small joys of daily life include fresh juice on the breakfast table, fun treats for children, delicious snacks with alcohol, and dinner shared with the family around the table. We would like to provide that happiness.

We're aiming for a store that makes shopping fun and gives you a sense of enrichment. Appreciating the seasons, appealing to all five senses, making new discoveries, and being moved by the kindness of others. We aim to become the kind of store where you feel spiritually enriched in a society that is already materially enriched.

Food is culture. We believe that it is our important duty to get to know producers, to be grateful for the blessings of nature and the efforts of producers, to impart regional traditions and food cultures, to put into practice eating habits that lead to long, healthy lives, and to inherit and further develop our abundant food culture. We'll build a store that regions need; a store for connecting people and nurturing cultures.

We want to be a presence that all customers feel "happy to live nearby" and at the same time all our members feel "happy to work at."

Management Philosophy

To contribute to the improvement and development of regional culture through enriching the everyday life of our customers by offering quality food.

Company Policy

A cheerful life will create a cheerful store.

1. Create reliable goods that will make customers happy.
2. Build a spirit of service that is sincere to customers.
3. Build people who are always healthy, smiling, and active.



Yaoko store around 1958

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Editorial Policy

"Yaoko Report 2020" will include performance and business summaries, financial information, and more, focusing on our management philosophy and business strategies. In addition, comprehensive non-financial information which supports dynamic growth will also be included. We hope it will be used by a variety of stakeholders, especially shareholders and investors, to promote understanding of Yaoko Group.

Important Points about Future Estimations

The "Yaoko Report 2020" contains uncertain elements, such as estimates and forecasts of the future performance of our group. These elements are based on information and certain premises determined to be reasonable, as currently obtained by our company at the time of issuing this report. Actual results may differ greatly from these forecasts due to various causes.

To be a company enriching our customers' daily lives

This year marks the 130th anniversary of the founding of Yaoko. There are about 4,000,000 companies in Japan, but long-established companies in business for over a century are just over 30,000, accounting for less than 1%. Long-lived companies are almost all relatively small, such as traditional Japanese confectioners in Kyoto. Very few are on the scale of Yaoko, which has annual sales of 400 billion yen. What is more, Yaoko has been continuing to grow, extending the reach steadily.

It goes without saying that the retail business is one of constant adaptation to change. We update the products and services to meet the changing needs of our customers, sometimes by encouraging changes in customers' daily lives. However, there is one thing that has not changed, and that should never change in the company; which is the corporate philosophy that forms the company's fundamental way of thinking. A company with a strongly-held corporate philosophy and the principle as the backbone of its corporate management will develop steadily for many years.

This company's fundamental philosophy is to contribute to the improvement and development of regional culture through enriching the everyday life of our customers by offering quality food. We don't just look at what will sell and what will be profitable. Our work is useful in making people's daily lives enjoyable and fulfilling, with a focus on regional foods. We want lots of people to feel happy that they live near our stores. That is our reason for existing and our purpose. Yaoko is often said to be unwavering, and I believe this is because our corporate philosophy is unwavering. Yaoko's principled management since the time of its founding has been the driving force for development of the company.

Enjoyable and fulfilling eating habits are the foundation of an enjoyable life for many people. The level of their supermarket determines the level of local people's eating habits. Therefore, our role is important and our work is worthwhile. We endeavor to enrich our customers' daily lives, in the hope of being a company appreciated by our customers.

Chairman
Yukio Kawano

川野幸夫

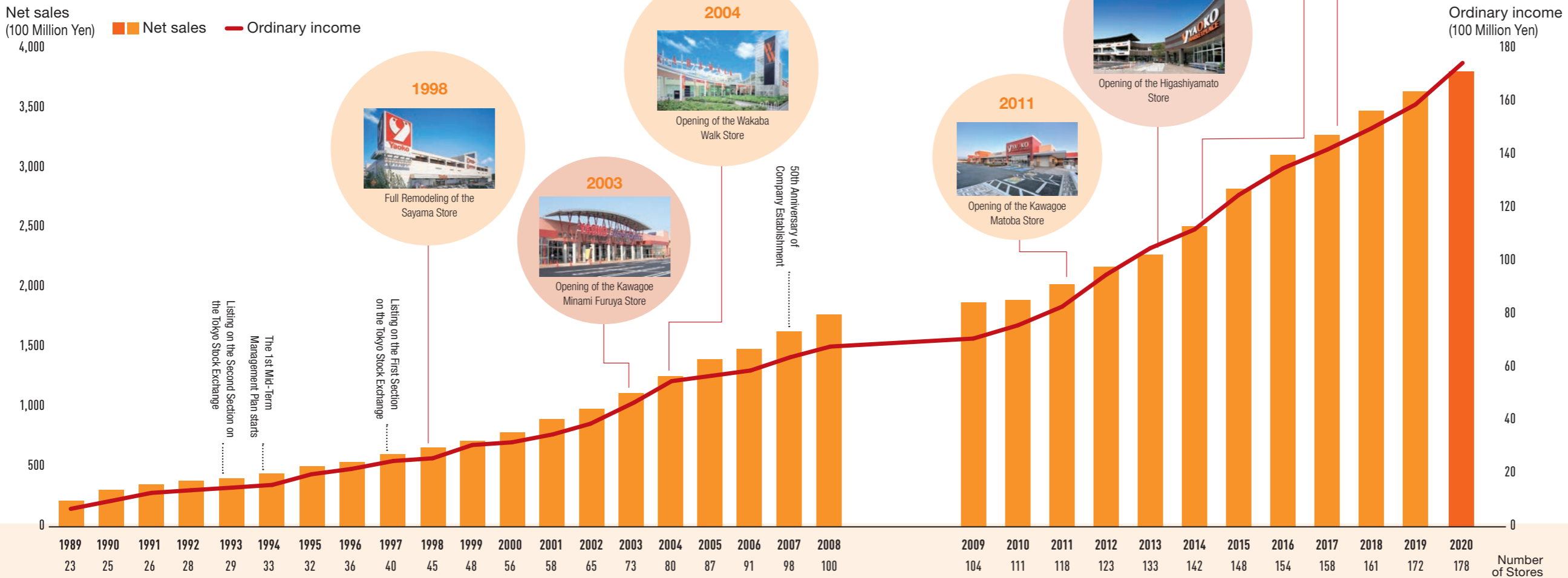


Yaoko History and Performance Trends

Thanks to support from all of our stakeholders, Yaoko achieves 31 consecutive terms of increasing non-consolidated profitability as of March 2020.

Yaoko's growth in recent years derives from our three-year-term management plans, and we have a history of achieving store creation targets over these. This is the result of all stores coming together as one to achieve goals of year-over-year improvement time after time.

Yaoko achieves 31 consecutive terms of increasing non-consolidated profitability!



Shifts in Mid-Term Management Plans

| 1st Mid-Term Management Plan | 2nd Mid-Term Management Plan | 3rd Mid-Term Management Plan | 4th Mid-Term Management Plan | 5th Mid-Term Management Plan | 6th Mid-Term Management Plan | 7th Mid-Term Management Plan | 8th Mid-Term Management Plan | 9th Mid-Term Management Plan |
|--|---|---|---|--|--|---|---|--|
| Term 1994 - 1996 Financial Year | Term 1997 - 1999 Financial Year | Term 2000 - 2002 Financial Year | Term 2003 - 2005 Financial Year | Term 2006 - 2008 Financial Year | Term 2009 - 2011 Financial Year | Term 2012 - 2014 Financial Year | Term 2015 - 2017 Financial Year | Term 2018 - 2020 Financial Year |
| Theme Establishing a Supermarket Business Format | Theme Creating Everyday Lifestyle Assortment-style Supermarkets | Theme Enriching the Sayama Model | Theme Enriching Meal Solutions | Theme Establishing the Yaoko Brand | Theme Perfecting Supermarkets That Offer Customers Abundant and Enjoyable Dietary Lives | Theme To Make a Clear Distinction as a Chain | Theme "To be Called Yaoko, not just a Supermarket" Relentlessly Building the Foundation for the Next Stage without Compromise | Theme Establishing the Yaoko Way |
| Store Building Grand Opening of the Sayama Store (Apr. 1994) | Store Building Full Remodeling of the Sayama Store (Oct. 1998) | Store Building Grand Opening of the Kawagoe Minami Furuya Store (Mar. 2003) | Store Building Opening of the Wakaba Walk Store (Jun. 2004) | Store Building Grand Opening of the Kawagoe Shinjuku Store (Jul. 2007) | Store Building Opening of the Kawagoe Matoba Store (Mar. 2012) Grand Opening of the Tokorozawa Mihara Store (Jan. 2010) | Store Building Grand Opening of the Higashiyamato Store (Jun. 2013) | Store Building Grand Opening of the Yaoko Seijo Store (Nov. 2017) Full Remodeling of the Kawagoe Minami Furuya Store (Mar. 2017) Grand Opening of the Lalaport Fujimi Store (Apr. 2015) | Store Building Opening of the Higashimatsuyama Shinjuku-cho Store (Feb. 2018) Opening of the Kuki Shobu Store (Mar. 2019) |

Company Overview

Company Name YAOKO CO., LTD.
 Location of Head Office 1-10-1 Arajukumachi, Kawagoe-shi, Saitama Prefecture 350-1124
 Tel: 049-246-7000 (Switchboard)
 Representatives Chairman Yukio Kawano
 President Sumito Kawano
 Executive Vice President Masao Kobayashi
 Capital Stock 4.199 Billion Yen
 Employees 3,613 (as of end of March 2020) <Consolidated>
 *Plus 11,628 partner and casual members (calculated at 8 hours per day)
 Number of Stores 178 (as of March 2020) <Consolidated>
 Subsidiaries Ave Co., Ltd.
 Yaoko Business Service Co., Ltd.
 Ogawa Trading Co., Ltd.

2017



Establishment of the Kumagaya Distribution Center

2014



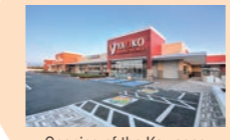
Opening of the Delicatessen & Fresh Food Center

2013



Opening of the Higashiyamato Store

2011



Opening of the Kawagoe Matoba Store

2004



Opening of the Wakaba Walk Store

1998



Full Remodeling of the Sayama Store

2003



Opening of the Kawagoe Minami Furuya Store

50th Anniversary of Company Establishment

History

1890

Establishment of Yaoko

1957

Incorporation of Yaoko (Ltd.)



1958

Introduction of Self-Service, Conversion to a Supermarket



1972

Opening of the Ogawa Shopping Center, Actual Start of Development as a Chain



1974

Reorganization of Yaoko to Go Public (YAOKO Co., Ltd.)

1978

Opening of Ogawa Shopping Center Expansion



1986

Headquarters Moved to Kawagoe

1988

Stock Offering as Over-the-Counter Registered Stock

Yaoko Group's Value Creation Story

Yaoko Group enriches the daily consumption of its customers and contributes to the improvement and development of regional culture by creating supermarkets that offer customers abundant and enjoyable dietary lives in a proposition style. We continue to grow, aiming to be both number one in regional market share for the community and as a lifeline.



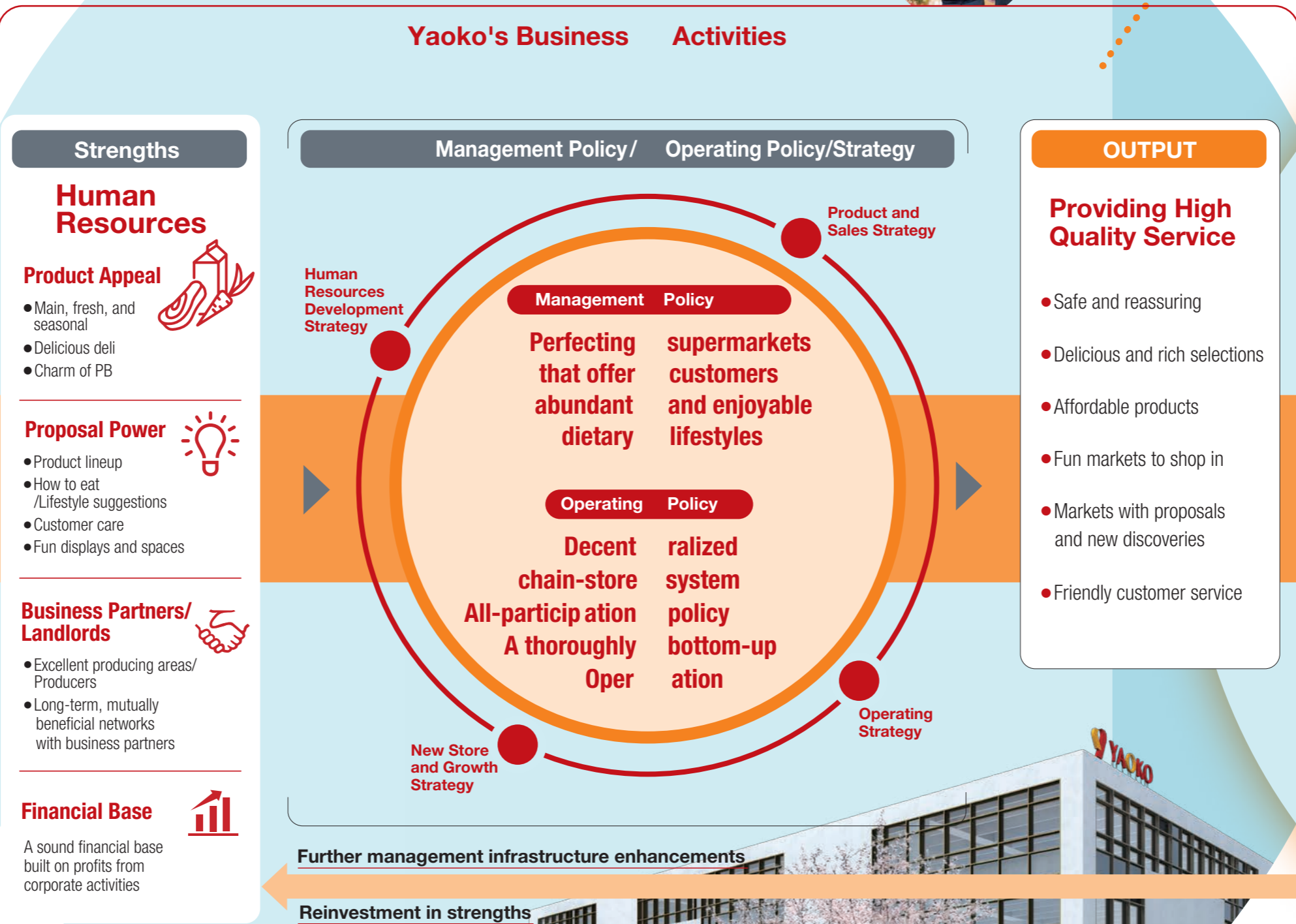
Achieving the Management Philosophy

Achieving Our Long-Term Vision



Social Issues Surrounding Yaoko Group

- Aging Population and Declining Birthrate
- Labor Shortage
- Population Urbanization
- Increasing Public Finance Deficit
- Polarization of Consumption
- Other Industries Overcoming Barriers to Entry
- Advancement of Technology
- Climate Change and Environmental Issues



Message from the President



Under the significant social changes, we will respond to the changing needs of our customers accurately and quickly.

We are engaged in efforts to develop our business day to day, with our policy to create supermarkets that offer customers abundant and enjoyable dietary lives. Customers will not travel far to shop for their daily meals. Therefore, the quality of their diet depends on how good their neighborhood store is. We aim to create stores where customers feel enjoyable by everyday shopping convenient and comfortable, and offered friendly service to customers and suggestions the menu for dinner.

In order to achieve this end, we have structured ourselves around the concepts of "decentralized chain-store system" and "all participation policy". In other words, each person and each store considers local customer needs and takes actions as a team to satisfy them. The members working in each store are also local consumers. Making the most of this customer view-point in our marketplaces enable us to create stores where customers can find what they really want.

Our main strengths are our high-quality products and customer-oriented suggestions. We use only the best ingredients, such as in our specialty "ohagi" rice balls, and strive for freshness by processing foods in our stores. Our buyers travel across Japan and the world to find excellent products and suppliers, so that our stores are stocked with only the high-quality products. Homemaker is always concerned with what to cook for tonight. In terms of customer-oriented suggestions, we are making our marketplace where customers can decide dinner menu, through massive in-store presentation of seasonal fresh products. Moreover, we tailor product selections to meet various customer needs, such as by offering smaller packs for elderly customers or seasoned foods for busy young families.

These activities have gained us incredibly valuable assets in both our network of outstanding producers and suppliers, as well as the positive relationships we share with the landlords who have assisted in our regional expansion. We have

been achieving continuous, steady growth thanks to the support of so many stakeholders, and have now successfully achieved 31 consecutive terms of increasing profitability.

Currently, the social environment surrounding the supermarket industry is changing drastically. The spread of COVID-19 has accelerated social changes even further. Consumers have become more savings-oriented, and drugstores and e-commerce have been emerging as our competitors even more. At the same time, customers have rediscovered the joy of cooking and having meals with their family at home.

We will adapt rapidly to this changing environment while remaining dedicated to our unwavering philosophy and policies. FY2020 is the third year of our 9th Mid-Term Management plan, in which we stated the theme of "Establishing the Yaoko Way." This year also marks the 130th anniversary of the founding of YAOKO. In FY2020, we will intend to reinforce our chain store operation and to differentiate ourselves as attractive local stores with decentralized management, which will become the foundation of the next ten year growth.

All of us at Yaoko will make our best effort to ensure that all of our stakeholders are happy to have us here. We ask for your continued patronage and support.

President
Sumito Kawano

川野澄人

9th Mid-Term Management Plan to Achieve our Long-Term Vision

Yaoko has developed strategic scenarios since our 1st Mid-Term Management plan starting in 1994, in order to achieve our goal of "perfecting supermarkets that offer customers abundant and enjoyable dietary lives." Starting in 2018, the 9th Mid-Term Management Plan is positioned as a three-year base for further growth of Yaoko, and calls for us to retain our Yaoko spirit even as the company expands in scale, using a systematic approach (establishing the Yaoko Way) for Yaoko's unchanging values and way of thinking, building up a corporate structure capable of adapting to survive any business environment. FY2020 is the third and final

year of the 9th Mid-Term Management Plan. While it has been posed a continued heavy cost burden on Yaoko, such as amortization of infrastructure investment in the past few years, personnel and utility expenses, our business environment has been shifted to which Yaoko has never experienced before, by the pandemic outbreak of COVID-19. Nonetheless, we aim to maintain continuous non-consolidated profit records, and reach 32 consecutive terms of increasing profitability by adequately responding to environmental changes.

9th Mid-Term Management Plan Main Theme

Establishing the Yaoko Way

- Be a company which customers and members are happy to live nearby.
- Make customers' shopping and life experience comfortable (stress-free, abundant, and fun).

Management Guideline

Perfecting supermarkets that offer customers abundant and enjoyable dietary lives

Operating Policy

Decentralized chain-store system
All-participation policy
Bottom-up operation

Establishment of a "Yaoko Way"

Reconfirming Yaoko's Strengths

Yaoko Store Strengths

- "Product Appeal" - Fresh and Seasonal, Delicatessen Taste, the Appeal of PB
- "Proposal Power" - Product Lineup by Use and Setting, How to Eat/Dietary Lifestyle Proposals
- "Customer Care" - Interacting, Caring For, and Taking Orders from Customers
- "Store Appeal" - Displaying Fun, Creating a Comfortable Atmosphere

Core of our Strengths

"Location Appeal" (= Human Power)

Base of our Strengths

System and Structure as a Chain

- Corporate Culture and Initiatives to Spread Management Philosophy
- Information System, Distribution Center, and Delicatessen and Fresh Food Center to Support Store Operations
- Long-term Mutually Beneficial Networks with Excellent Producing Areas, Producers, and Business Partners

1 Priority Issues

In order to polish our strengths in "supermarkets that offer customers abundant and enjoyable dietary lifestyles in a proposition style" to an unmatched difference with competitors over the term of our 9th Mid-Term Management Plan, we will develop an environment where stores can focus on what they truly need to do. We have reinforced our chain elements and value our time with each customer in order to enrich our store-by-store management chain-wide. And furthermore, we will use this to increase the share of customers in our business area that think "Yaoko is the only choice for shopping" within all areas we operate in.

Structural Reforms to Strengthen the "Chain"

Reduced store work
"Visualization" and "standardization" with the system upgrade

Increase Market Share in Business Areas
(25% share within 1km areas)

Reinforcing Yaoko strengths (selection, treats, and customer service)
Gaining absolute trust on frequent purchases (vegetables and daily use items)

2 Numerical Plan

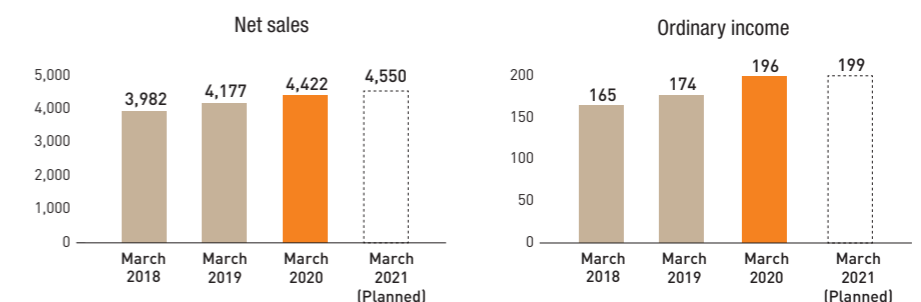
In FY2019, we achieved profit goals stated in the 9th Mid-Term Management Plan.

We plan to formulate the upcoming 10th Mid-Term Management Plan in FY2020, therefore, the earnings forecast for FY2020 is used for the target figures for the final year of the 9th Mid-Term Management Plan.

FY2020 Target Numbers

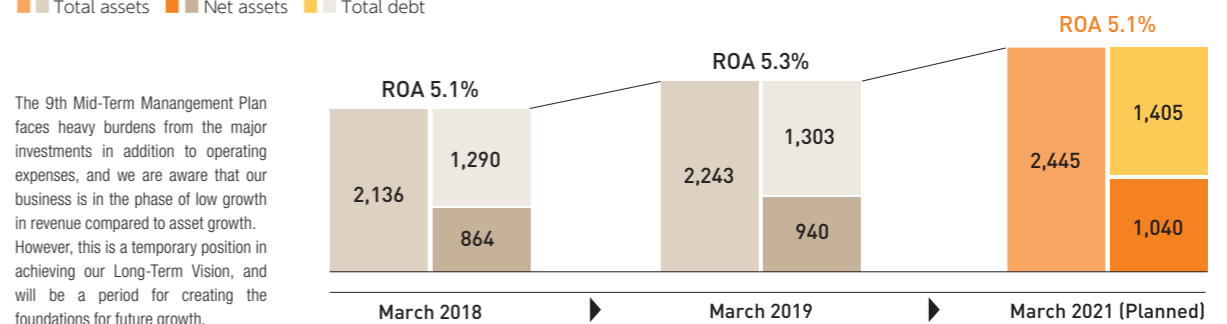
| | | | | | | |
|------------------|-----------|--------------|-----------------|---------------|------------------------------------|------|
| Consolidated | Net sales | ¥455 billion | Ordinary income | ¥19.9 billion | Net sales to ordinary income ratio | 4.4% |
| Non-consolidated | Net sales | ¥395 billion | Ordinary income | ¥18 billion | Net sales to ordinary income ratio | 4.6% |

Net sales and operating income ratio (¥100M)



Balance sheet management (ROA) (¥100M)

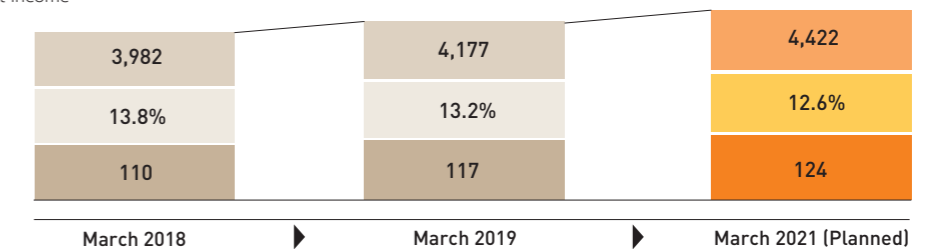
■ Total assets ■ Net assets ■ Total debt



The 9th Mid-Term Management Plan faces heavy burdens from the major investments in addition to operating expenses, and we are aware that our business is in the phase of low growth in revenue compared to asset growth. However, this is a temporary position in achieving our Long-Term Vision, and will be a period for creating the foundations for future growth.

Profit and loss plan (ROE) (¥100M, %)

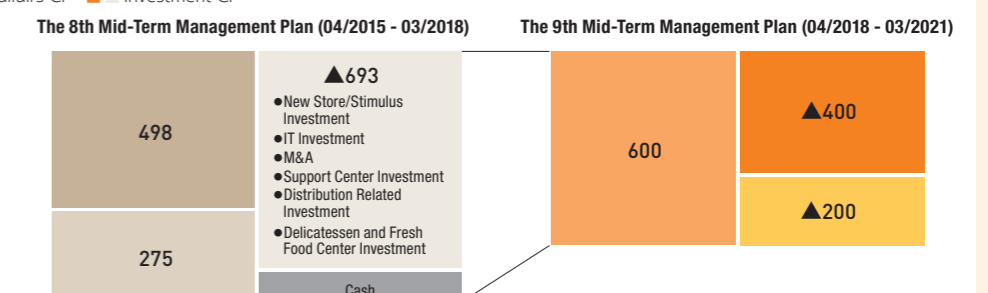
■ Net sales ■ ROE ■ Net income



Cash flow (¥100M)

■ Business CF ■ Financial affairs CF ■ Investment CF

Increases in interest-bearing debts from past major investments exceeded sales cash flow. As major investments are temporarily halted for the 9th Mid-Term Management Plan, the plan calls for maintenance of investments within the scope of sales cash flow. Furthermore, Yaoko holds stable dividends as part of its dividends policy, and plans to aim for a payout ratio of 20%.



Yaoko Group's Vision and Strategy

Yaoko Group has stated its management philosophy as "To contributing to the improvement and development of regional culture through enriching the everyday life of our customers by offering quality life." To support local customers making their daily lives enjoyable and fulfilling is our importance of existence and the mission of our company. We strive to sustain growth, in pursuit our mission through achieving to perfect "supermarkets that offer customers abundant and enjoyable dietary lifestyles." Specifically, we have set our vision for the future in three areas: "Our Store Creation & Merchandising," "System Development," and "Work Environments."



Our vision of the future

Long-Term Vision

To become the best supermarket chain which enriches the everyday lives of customers

Long-Term Goals

Making "500 Stores, 1 Trillion Yen in Sales" and "A Corporation that Delivers Lots of Happiness" a Reality.

Mid-Term Goals

250 Stores ¥500 Billion in Sales



Strategies for achievement

Product and Sales Strategy
▶ P17
New Stores and Growth Strategy
▶ P23

Operational Strategy
▶ P19

Human Resources Development Strategy
▶ P21

Corporate Governance
▶ P25
Environmental Management
▶ P31

Efforts to solve societal issues

Store Creation & Merchandising

To be the best store and customers' base for their dietary lives solution in the community

- Unique merchandising with very fresh food and abundant delicatessen
- To deliver stores in which incorporated feedback from customers and the local community (each store has its own merchandising)
- As the company with customers' perspective, to have overwhelming competence in product and production area development
- To create stores that bring customers in by being community-based and providing entertainment experience (enhancing brick-and-mortar store strengths against online stores)



System Development

To create an environment that eliminates "overburden", "waste", and "nonuniformity" from store operation in order to focus on the strengths of Yaoko

- Standardizing simple work, while partially replacing with IT, and thoroughly systematizing work process
- Making full use of IT to incorporate all customers' feedback
- To streamline in-store work so that knowledgeable members can offer customers better service.



Working Environment

Inheriting the Yaoko spirit, and to be a company worth working at

- To be the best company in Japan to join and work
- To maintain a family-like company culture



Business infrastructure and the global environmental conservation

- Reducing the environmental burdens from packaging (eliminating plastics)
- Realizing energy savings
- Reducing food loss and promoting recycling
- Enhancing corporate governance
- Promoting fair business practices



Social issues surrounding Yaoko Group

- Aging Population and Declining Birthrate
- Labor Shortage
- Population Urbanization
- Increasing Public Finance Deficit
- Polarization of Consumption
- Other Industries Overcoming Barriers to Entry
- Advancement of Technology
- Climate Change and Environmental Issues

Product and Sales Strategy



Store Creation & Merchandising
To be the best store and customers' base for their dietary lives solution in the community

Yaoko Group's Vision

- Unique merchandising with very fresh food and abundant delicatessen
- To deliver stores in which incorporated customers' and the local community's opinions (each store has its own merchandising)
- As the company with customers' perspective, to have overwhelming competence in product and production area development
- To create stores that bring customers in by being community-based and providing entertainment experience (enhancing brick-and-mortar store strengths against online stores)

9th Mid-Term Management Plan Key Issues

Policy

- Improve the base level (freshness, cleanliness, stock availability, customer service)
- Create a store chosen for its fruit and vegetables
- Create products only available at Yaoko
- Increase sales strength (massive in-store presentation of products, menu suggestions)

Target > 25% market share within 1km

KPI progress

| Year | Market Share |
|----------|--------------|
| 2018/3 > | 16.6% |
| 2019/3 > | 17.0% |
| 2020/3 > | 19.5% |

FY2019 Efforts and Toward FY2020

In terms of product, we have focused our efforts on a selection that lends itself to distinction and independence, using direct imports and product development with ingredients from raw material procurement, in order to develop our private brands and explore new producers and sources within and outside Japan.

On the sales front, we have worked to enhance sales of seasonal and core products, and to invigorate our stores from evening.

With the FSP (Frequent Shoppers Program) using Yaoko Cards, we have worked to win further customer support by developing powerful sales promotion to suit changes in consumer confidence after the consumption tax hike.

It is expected that COVID-19 global pandemic would change people's behaviors and values to shift to a new consumption style, and accelerate the polarization of consumption. In FY2020, we will continue to refine the sales strength which is our core competence, and enhance proposals for new dietary lives and menus, in light of the fact that supermarkets importance of existence would increase as people eat at home more often. At the same time, it is expected that consumers would tend to be more in low-price orientation, and so we will also enrich our efforts for taking measures to attract the price-conscious consumer.

Expanding upon unique ingredients utilization

Expanding upon Product Development by Utilizing our "Yes! Yaoko Junsui Hachimitsu" Brand as an Ingredient

We procure delicious ingredients developed only after our buyers see the production area with their own eyes and taste ingredients with their own tongues, and use the ingredients across divisions and share with business partners in order to develop products only available at Yaoko to differentiate in the market. We not only expand our product lineup, but also use our unique ingredients to make suggestion on menu working with Cooking Support for customers.

each store to provide suitable and speedy sales floor suggestions and brush-up our product lineup. For the 9th Mid-Term Management Plan period, we have stated our approach to the high-volume "home cooking segment" as a priority measure in order to expand support from young families. We are working to develop and sell semi-prepared food and time-saving food products, and sales have risen year-on-year for these products in existing stores among "home cooking segment".



Jitan ("Time Saving") Series

TOPICS

To make products only available at Yaoko
Delicatessen Products

In order to be the store specializing in food with a wide variety of products to provide customers enjoyable choices, we are working to develop products unique to Yaoko utilizing our Delicatessen and Fresh Food Center. We have promoted the fresh and flavorful appeal of our products utilizing the strength in-store merchandise, and launched our own delicatessen brand such as "Sachikara" for deep-fried chicken in March 2019, "Isaribi" for fish delicatessen in December 2019, and "Ajian" for all kinds of Asian cuisine in March 2020.



"Ajian"



Expanding upon unique ingredients utilization

Product Proposals Using FSP Data

With the introduction of the Yaoko Card, we have been using data from the FSP (Frequent Shoppers Program) to find potential customer needs and features of

Efforts to improve sales strength

Yaoko Challenge!

We basically implement five in-store promotions every month, and inform customers by promotional flyers. With our promotional flyers, we propose as "Today's item!" by providing massive in-store presentation of seasonal fresh products. We have linked this project of massive in-store presentation of seasonal fresh products with our employee training, called "Yaoko Challenge!". All store members work together to propose their own way of massive in-store presentation of seasonal fresh product under the same theme at each store, in order to improve sales results and strength.



The Yaoko Challenge!

Operational Strategy



System Development
To create an environment that eliminates "overburden", "waste", and "nonuniformity" from store operation in order to focus on the strengths of Yaoko.

Yaoko Group's Vision

- Standardizing simple work, while partially replacing with IT, and thoroughly systematizing work process
- Making full use of IT to incorporate the opinions of customers
- To streamline in-store work so that knowledgeable members can offer customers better service.

9th Mid-Term Management Plan Key Issues

Policy

- Establishing, absorbing, and advancing improvements
- To create benefits with new information systems (streamlining and upgrading business)
- Utilizing the function of our Delicatessen & Fresh Food Center and new Logistics Center

Target

Reduce in-store work by **15%**, improvement of existing store MH sales

KPI progress

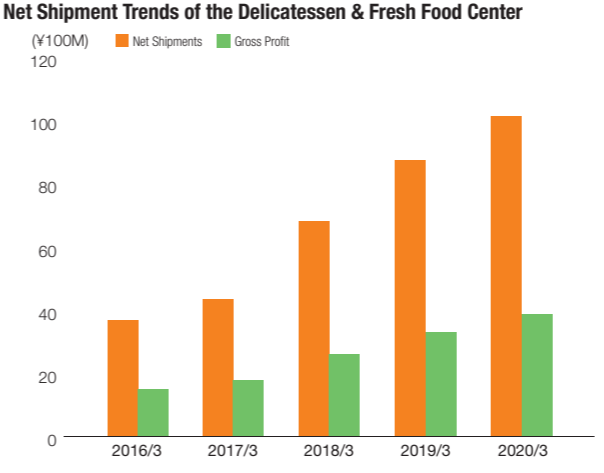
Comparison of existing store MH sales

| | | |
|--------|---|--------|
| 2018/3 | > | 100.4% |
| 2019/3 | > | 102.7% |
| 2020/3 | > | 104.7% |

FY2019 Efforts and Toward FY2020

We have gone deeper and broader with our model for productivity improvement based on revision of in-store work processes, while also expanding the introduction of self check-out registers, automation using IT devices such as through operation of our new core system, and otherwise promoting efficiency of work. We have also made greater use of our Delicatessen and Fresh Food Center to increase our share of supply to stores and ensure a high level of product quality, thereby promoting product development and introduction that lead to energy and labor savings in stores.

In FY2020, we continued and developed improvement measures in stores to reinforce solidarity as a chain, while also enriching the individual stores and sales floors that are the core strength of Yaoko.



Improving Foundational Strength

Developing our Logistics Network

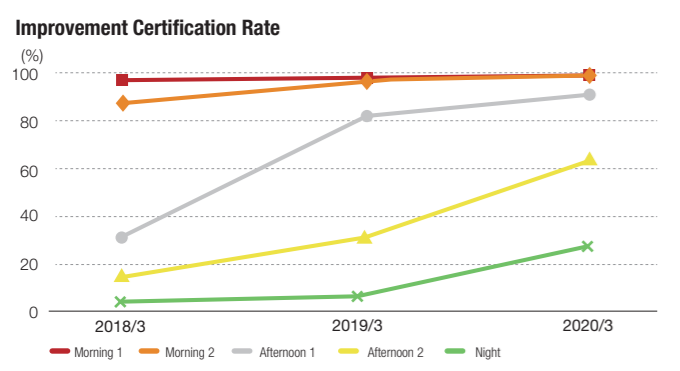
With the goal of reaching "a 500-store operation and ¥1 trillion in sales," we are developing and enriching the foundation of logistics infrastructure. At present, we have opened dry logistics centers at 3 locations (Sayama, Kumagaya, and Chiba), and chilled logistics centers at 6 locations (Sayama, Kumagaya, Chiba, Isesaki, Yokohama, and Matsudo). By operating these centers, we have shortened shipping distances, reduced logistics costs, cut back our environmental footprint, and enabled safe and steady shipment to all of our stores. At our Kumagaya Logistics Center, which began operation in FY2017, we have taken initiatives to improve productivity and enhance our unique product lineup, such as subdividing category deliveries, and building a warehouse for direct import wine, as well as a produce processing plant.

TOPICS

Effects of Improvements

Enriching our sales floors from evening onwards

In terms of improvement initiatives to standardize work in stores, we are laterally expanding our Soka Hara-cho Store model started in FY2013. We are now recognizing and firmly establishing improvements in each district, with a focus on model stores. We have divided work throughout the day into five time slots: Morning 1, Morning 2, Afternoon 1, Afternoon 2, and Night. Recognition of improvements has been completed in nearly all of our stores up to the Afternoon 1 time slot. Currently, we are making improvements throughout the day, including the Afternoon 2 and Night time slots. We are also working to raise revenue from the evening onwards, such as by revitalizing night markets.

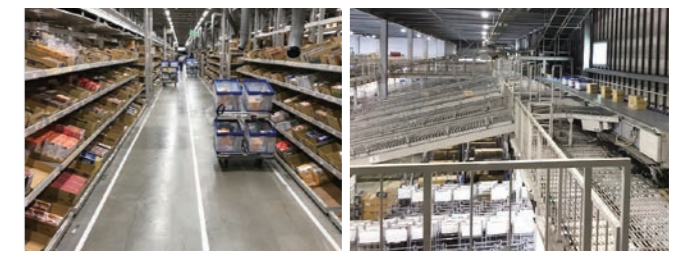


Enhancing Proposal Strength and Improving Productivity

Opening of the Delicatessen & Fresh Food Center

At our Delicatessen & Fresh Food Center in Higashimatsuyama, we opened Center No. 2 in FY2017, further enhancing our mechanisms for backing up stores. In order to develop unique products that can only be bought at Yaoko, we are enhancing our in-store strengths, as well as further refining and differentiating our products. By expanding the supply of finished products and kit products from our Delicatessen & Fresh Food Center, we have reduced work done in stores. In FY2019, the Delicatessen & Fresh Food Center reached a 29.0% share of the supply to our Deli Departments.

With the goal of ensuring the safety and security of food, in 2014 we obtained, the International Organization for Standardization "Food Safety Management Systems" certification or "ISO22000," and we are working to further enhance, maintain, and improve our systems.



Sayama Logistics Center



Kumagaya Logistics Center

Human Resources Development Strategy



Yaoko Group's Vision

- To be the best company in Japan to join and work
- To Maintain a family-like company culture

9th Mid-Term Management Plan Key Issues

Policy

- Continuation of recruitment, retention, and training of personnel resources
- Establishing a training and support system for leader-centered teams
- Building organizations to understand each other's thoughts and see each other's faces
- Building workplaces where diverse human resources can succeed (diversity)

Target

- Making work worthwhile and improving work environments

KPI progress

| | Paid Leave Use Rate | Employee Satisfaction Levels |
|--------|---------------------|------------------------------|
| 2018/3 | 20.0% | 3.45 |
| 2019/3 | 18.1% | 3.43 |
| 2020/3 | 36.4% | 3.38 |

FY2019 Efforts and Toward FY2020

In parallel with these improvements, we have continued awareness reform of work styles and efforts to improve work environments. In particular, we have worked to develop and use work systems that make it easier for employees to take leave and ensure the same pay for same work, in compliance with the Revised Labor Standards Act. We have also expanded our systematic education offered at Yaoko University, which we established within the company as a foundation for personnel training, and have continued to accept foreign technical interns, who are active in our stores as well as our Delicatessen & Fresh Food Center. FY2020 marks the 130th anniversary of our founding. We will incorporate the Yaoko spirit carried on since our founding into various educational tools, and inherit a corporate culture that allows each individual employee to take initiative in their thoughts and actions.

Efforts on societal issues in our training strategy

Promoting diversity

As Japanese society experiences a declining birth rate and aging population, and as the size of our company grows, labor shortages have become a constant issue. We are working to reduce employee turnover by promoting work-life balance with reform of work styles inside the company, and by enhancing our educational system so that our employees find it comfortable and meaningful to work at Yaoko. Another effort we have made towards priority measures has been to actively promote the advancement of women and hire more foreign applicants. In terms of promoting the advancement of women, based on the Act on Promotion of Women's Participation and Advancement in the Workplace, we have announced an action plan to add 30 more women to management positions in the 5 years from 2016. Following this plan, we have increased the total number of women in management positions from 44 in the first year to 62 as of March 31, 2020. In terms of hiring more foreign applicants, we have nearly 500 foreign employees as of March 31, 2020. Of those employees, nearly 250 are foreign technical interns learning skills while they work in our stores and

the Delicatessen & Fresh Food Center. By not only working at Yaoko, but also participating in recreational activities and company events, they also experience Japanese culture.



Foreign Technical Interns from Sri Lanka

TOPICS

Aiming to maintain the health of employees

Implementing health management

For the second year in a row, Yaoko was certified as a top Healthy Management Company (White 500) in 2020. We were appraised on and certified for our past several years of company-wide efforts to promote health. These efforts included improving physical examination rates, assigning public health nurses, conducting original Yaoko Exercises, and holding a huge athletic meet titled "Celebration of Sports and Music." Based on the idea of "making health part of the Yaoko brand," we have implemented various sports event plans as part of "health projects" aimed at improving health awareness among employees, and are also using these events as a venue for interaction between other companies in our industry and members of local communities. We see maintaining the mental and physical health of employees through these efforts as one of the most important factors in the sustainable development of our company.



Health Project: Futsal Tournament



Work Environment Data

| | 2018/3 | 2019/3 | 2020/3 | |
|---|--|--------|--------|--------|
| Number of Employees | Men | 2,584 | 2,695 | 2,782 |
| | Women | 549 | 606 | 663 |
| | Total | 3,133 | 3,301 | 3,445 |
| | PHA Employees (calculated at an average of 8H over the period) | 10,690 | 10,899 | 11,185 |
| Average Age (years) | 38.4 | 38.6 | 38.8 | |
| Average Years of Service | 10.3 | 10.5 | 10.7 | |
| Male/Female Ratio in Management Positions | Ratio of men | 93.2% | 92.4% | 92.4% |
| | Ratio of women | 6.8% | 7.6% | 7.6% |
| | Number of Women in Management | 51 | 64 | 62 |
| Employment Rate of Disabled Persons *Including PHA employees | 2.34% | 2.46% | 2.47% | |
| Number of Childcare Leave Takers *Including PHA employees | 70 | 90 | 98 | |
| Paid Leave Use Rate | 20.0% | 18.1% | 36.4% | |
| Rate of Work Accidents (per thousand employee annually) | 3.2 | 3.1 | 4.05 | |
| Average Annual Salary (¥1,000) | 6,015 | 5,858 | 5,830 | |
| Labor Distribution Rate | 48.7% | 48.1% | 47.9% | |
| Employee Satisfaction Level *Leader, Employee in Charge, PH Employee Work Satisfaction Score / Maximum 5 points | 3.45 | 3.43 | 3.38 | |

New Stores and Growth Strategy



Store Creation & Merchandising
To be the best store and customers' base for their dietary lives solution in the community

Yaoko Group's Vision

- Unique merchandising with very fresh food and abundant delicatessen
- To deliver stores in which incorporated customers' and the local community's opinions (each store has its own merchandising)
- As the company with customers' perspective, to have overwhelming competence in product and production area development
- To create stores that bring customers in by being community-based and providing entertainment experience (enhancing brick-and-mortar store strengths against online stores)

9th Mid-Term Management Plan Key Issues

Policy

- Opening new stores (comply dominant strategy) and continuing deliberate remodeling
- Acquiring knowhow of Ave business and examining opening new type of stores
- Establishing the e-commerce-ready store model

Target

Achievement of **5%** growth

KPI progress

Number of Stores <Consolidated>

| | | |
|--------|---|-------------------|
| 2018/3 | > | 168 stores |
| 2019/3 | > | 172 stores |
| 2020/3 | > | 178 stores |

FY2019 Efforts and Toward FY2020

Our new store and growth strategy forms the base for achieving our long-term vision for "Store Creation & Merchandising." We will be the best store in the community and the customers' base for dietary lives solution, and open new stores so that customers can experience the joy of having Yaoko in their lives, while also opening new businesses that form the foundation for growth.

In FY2019, we opened 5 stores such as Higashikurume Takiyama Store and SMARK Iseaki Store. We have also remodeled existing 9 stores for its revitalization. We have laterally expanded measures that make it possible to save energy and streamline work at Kuki Shobu Store, which we originally opened as a model for future flagship stores. This was the 6th year since we started online supermarket business, and now we offer online supermarket service at 6 existing stores in total, including the store which has started the service in April 2020.

In FY2020, we will continue our dominant strategy to enhance competitiveness, restructuring store formats, standardizing and expanding online supermarkets service in order to increase our market share.

Responding to e-commerce

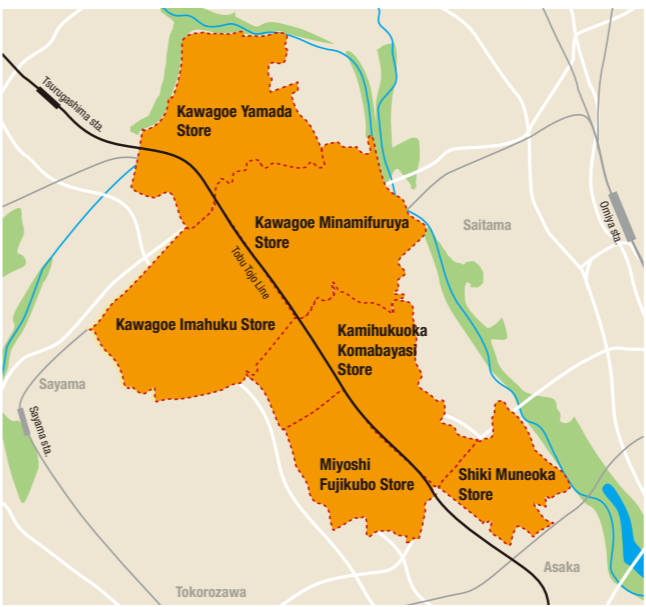
Online Supermarket Efforts

ネットスーパー

We launched Yaoko Online Supermarkets in FY2014 to complement physical supermarkets, and we currently offer its service at 6 existing stores. This is an effort to remove hardships for customers who can't go shopping for various reasons, such as households with children or elderly individuals. Their delivery areas generally range around 1.5 to 2 kilometers (or a larger range only for the Kamifukuoka Komabayashi Store) covering areas where we do not have physical stores. This effort contributes to increasing our market share, and we are currently establishing dominance in the Kawagoe area.



Online Supermarket Workspace in Kamifukuoka Komabayashi Store



Map of area covered by our Online Supermarkets Service

TOPICS

Store Opening Strategy
Opening new stores around Tokyo Metro Area

We plan to make a formation of dominant new stores in a donut-shaped area 20 to 40 kilometers from the city center of Tokyo. We are opening stores in the Kanto region, and at present view the more concentrated population centers of Saitama, Tokyo, Chiba, and Kanagawa prefectures as our most important areas. Each new store will have a business area in a 1 to 3 kilometer radius around the store. We assess new store locations using all information networks and based on a sound investment recovery plan. Landlords are made aware of our management policies, operation policies, and strategies, and we work to build long-term, trusting relationships with them. We are also experimenting with small urban stores for advances into the city center market inside the donut-shaped area. We are currently testing the urban model by building its own merchandising and store operations at Yaoko Seijo Store.



Kuki Shobu Store

ave

Ave Store Creation

Ave store creation continues to boost productivity through incredibly low prices and low cost operations. Ave's strengths are its use of a processing center, as well as its expertise and systems for support of high productivity, such as infrastructure and materials handling equipment. In September of FY2018, Ave opened its Shin-Tsurumi Store in Tsurumi Ward, Yokohama, the first new openings in 4 years. In September 2019, it opened its Nanbu Ichiba Store in Kanazawa Ward of the same city.

Corporate Governance

Executive Group Photo



Executives

Back row from left

Tsuyoshi Ikarashi

Auditor(External)
(New)

Yukio Sato

Auditor(External)

Takao Wakabayashi

Auditor(Full-time)

Katsuhiro Hashimoto

Auditor(External)
(New)

Shinichi Togawa

Director
General Manager of Information Systems Division and
Infrastructure Division in charge

Middle row from left

Hiroaki Yagihashi

Director
General Manager of Development Division

Takanori Ishiduka

Director
General Manager of Sales Division

Masanobu Kamiike

Executive Managing Director
Chief Administrative Officer and
Development Division in charge

Hisashi Sakamaki

Director(External)

Mitsuo Kozawa

Director
General Manager of Sales and Marketing Division

Front row from left

Masao Kobayashi

Executive Vice President

Yukio Kawano

Chairman

Sumito Kawano

President

Shigeyuki Kurokawa

Director(External)

Asako Yano

Director(External)

Corporate Governance



Governance that has made it possible to achieve 31 consecutive terms of increasing non-consolidated profitability

The basis of company management is "honesty" declared in company policy.

Honest business with no lies or tricks and the transparent, healthy management is our first principle, and since our founding 1890, we have dedicated ourselves to unwavering business according to our unwavering management philosophy. Our management philosophy and company policy are the very reason for our existence. We consider it to be of utmost importance for each and every employee to understand this principle, and apply it in their day to day work, thus, top management reminds employees repeatedly at morning meetings, conferences or other opportunities. We consider carrying on these management philosophy and company policy since the time of our founding to be the foundation of the governance that has made it possible for us to achieve 31 consecutive terms of increasing profitability.

Governance

Overview of the Basic Policy on Corporate Governance

The basis for corporate governance of Yaoko is to maximize corporate value by meeting the expectations of our shareholders and all other stakeholders, and conducting efficient and sound corporate management.

In order to do so, we consider it crucial for us to comply with various laws, rules, and social norms, and maintain our high ambitions for management and unity, while executing fair and transparent business and maintaining stable, continuous growth

as a corporation.

Through our supermarket business, we contribute to customers and communities by broadly fulfilling our corporate social responsibility (CSR) such as ensuring the safety of our products and conforming to the social environment, and we have given special status to management with the goal of creating a unique presence.

Yaoko's Corporate Governance System

Board of Directors

The Board of Directors decides on important matters relating to management, including the budget, financial results, opening new stores, remodeling and other store data, as well as monitoring the status of business execution.

Board of Corporate Auditors

Our Board of Corporate Auditors has 1 full-time auditor and 3 external auditors. Experts (tax accountants, public health nurses, and former police officers) have been chosen as outside auditors in order to ensure the legality and propriety of business executed by Yaoko. The Board of Corporate Auditors audits management issues.

Management Promotion Council

This council generally meets once monthly in order to discuss and decide on important executive policies relating to the management and business operation administration of Yaoko and its affiliate companies.

The President of Yaoko chairs these meetings, with internal directors, full-time auditors, executive officers, and department managers in attendance.

Internal Control Committee

This committee generally meets four times annually to discuss and decide on important matters relating directly or indirectly to financial reports, in order to ensure the suitability of financial reports. The president of Yaoko chairs these meetings, with vice presidents, full-time auditors, section managers, relevant department managers, and fiscally-concerned parties in attendance.

Compliance Committee

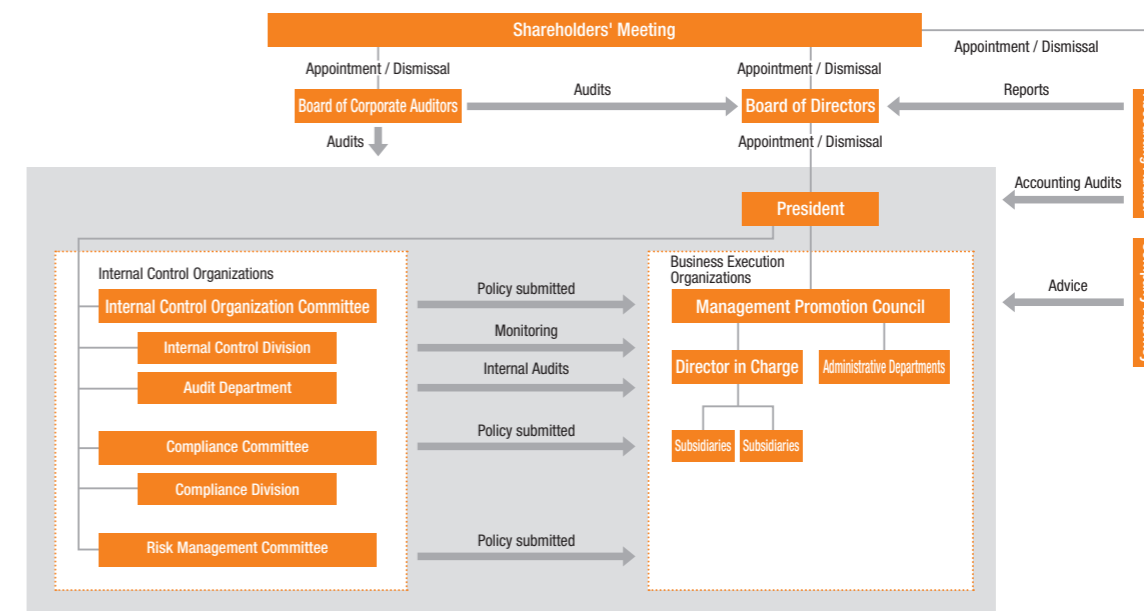
This committee generally meets twice annually to discuss and decide on compliance, environmental problems, fair transactions, privacy protection and management, and other such issues.

The President of Yaoko chairs these meetings, with internal directors, full-time auditors, executive officers, and department managers in attendance.

Risk Management Committee

This committee generally meets twice annually to evaluate and discuss specific risk scenarios and risk reduction measures, apply the PDCA concept, and discuss and decide on issues relating to risk management in the company. The President of Yaoko chairs these meetings, with internal directors, full-time auditors, executive officers, and department managers in attendance.

Yaoko's Corporate Governance System



Overview of Board of Directors & Board of Corporate Auditors

| Main Items | Content |
|--|--|
| Organizational Structure | Company with Board of Corporate Auditors |
| Number of Directors (of whom, External Directors) | 11 (3) |
| Number of Auditors (of whom, External Auditors) | 4 (3) |
| Number of meetings of the Board of Directors (FY2019) | 14 |
| Number of meetings of Board of Corporate Auditors (FY2019) | 16 |
| Term of office for Directors | 1 year |
| Term of office for Auditors | 4 years |

Assessment of the effectiveness of the Board of Directors

The Board of Directors analyzed and assessed its effectiveness in FY2019. A questionnaire survey was conducted on directors and auditors, and the Board of Directors debated the results. They reached the conclusion that the effectiveness of the Board of Directors of Yaoko has been secured.

The Board of Directors is also working on the issue of "taking appropriate measures to ensure transparency in our business processes" in order to maintain and improve its effectiveness.

Corporate Governance

Director Compensation Basic Policy

Director compensation at Yaoko is set to an amount thought to be appropriate based on the management performance of the company and evaluation of each Directors' execution of their work duties, within the limits of compensation determined by the General Meeting of Shareholders.

The authority to decide policies relating to the amount and method of calculating compensation for Directors of Yaoko is determined by President Sumito Kawano, who himself was appointed by the Board of Directors. After explaining to the Board of Directors the policy and methods behind determining compensation, and carefully deliberating these matters with the members of the Board of Directors including

independent outside directors, the President then determines the compensation for each director within the limit on compensation described above.

Yaoko has also introduced a stock compensation system delivered through trusts to internal directors, in a separate category from the aforementioned compensation amount.

Compensation for auditors is determined by discussion by auditors, within the aforementioned limit on compensation.

Reason for appointment of external officers

| | Name | Reason for appointment |
|-------------------|---------------------|--|
| External Director | Shigeyuki Kurokawa | Mr. Kurokawa has been highly evaluated for his achievements and insight as an executive manager in the finance and real estate industries. He was appointed to use this expertise for deciding on important matters of management and monitoring business execution. |
| | Asako Yano | Ms. Yano has been highly evaluated for her achievements and insight as an executive manager in marketing and branding. She was appointed to use this expertise for deciding on important matters of management and monitoring business execution. |
| | Hisashi Sakamaki | Mr. Sakamaki has been highly evaluated for his achievements as an executive manager. He was appointed to use this expertise for deciding on important matters of management and monitoring business execution. |
| External Auditor | Name | Reason for appointment |
| | Yukio Sato | Mr. Sato was appointed in order to receive his advice mainly relating to crime prevention measures and measures to respond to crimes committed against the company, based on his experience as a police officer and his expertise in crisis management. |
| | Katsuhiro Hashimoto | Mr. Hashimoto was appointed because we can expect him to give general advice on Yaoko's hygiene management, based on his experience at a public health center, and expertise as a hygiene management supervisor. |
| | Tsuyoshi Ikarashi | Mr. Igarashi was appointed because we can expect him to give general advice mainly relating to accounting and tax affairs, based on his expertise as a tax accountant. |

The Company appoints all external directors and external auditors as independent officers. Criteria for determining independence follow the independence criteria set forth by the Tokyo Stock Exchange.

Compliance

Establishing the Yaoko Group Code of Conduct

Yaoko Group has established the "Yaoko Group Code of Conduct," which specifically illustrates our management philosophy, and we are taking thorough steps to raise awareness of the basic ideas and code of conduct common to all group employees. By using this as the axis for daily conduct, we will earn the trust of our customers and fulfill our corporate social responsibility.

Establishing an internal reporting office

The "Yaoko Compliance Hotline" in the Compliance Division is a place to report and receive consultation about criminal or potentially-criminal activities in the workplace. We are working to ensure the effectiveness of this system by not limiting consultations to criminal activities, allowing anonymous reports and consultation, and preventing whistleblowers from being disadvantaged.

Efforts to Enforce Compliance

In order to improve and establish compliance awareness, Yaoko conducts compliance training for employees based on the law and past incidents at other companies, including training for new employees by year, and through various meetings and individual events, and we also work to foster a workplace culture that gives priority to compliance.



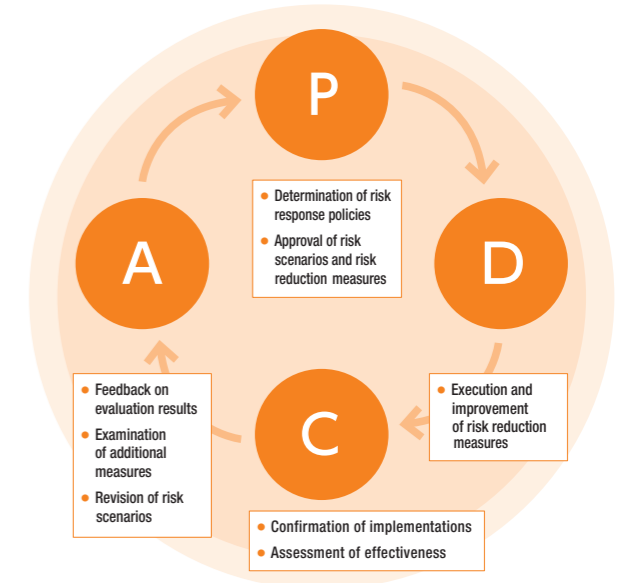
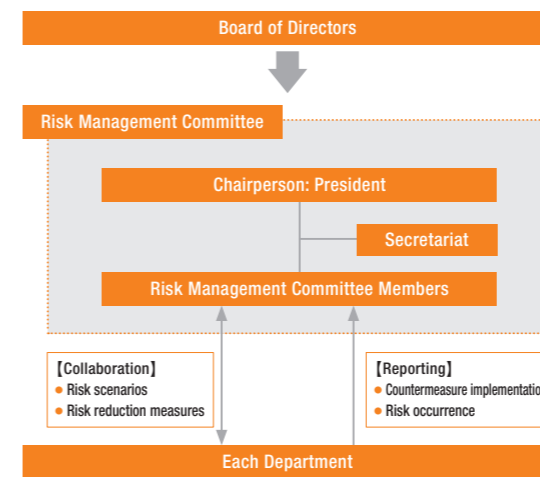
Risk Management

Basic Principles

In order to respond appropriately to various risks facing corporations and to keep damages to a minimum by taking early measures when risks occur, Yaoko Group has established the Risk Management Committee (which

generally meets twice annually). This Committee enforces thorough risk management, such as applying the concepts of PDCA by evaluating and deliberating major and specific risk scenarios and risk reduction measures.

Risk Management System



Business Risks

Yaoko executive management recognizes the following major risks as having the potential to make a severe impact on the financial situation, business performance, and cash flow of our affiliated companies: ① Consumer trends ② Intensifying competition and reliance on specific business fields ③ Labor shortages and rising labor costs ④ Development of technology ⑤ Climate change and environmental

problems ⑥ Safety of products ⑦ Developer risk ⑧ Impairment of fixed assets ⑨ Occurrence of natural disasters and infectious diseases ⑩ System trouble ⑪ Management of personal information.

*For details, see the "Business Risks" section of the Securities Report.

TOPICS

Example Risk Countermeasure

Risk: Safety of products

Countermeasure: The Yaoko Group handles a wide variety of products, including both processed foods and foods delivered daily, as well as fresh foods and delicatessen products which we process in-house. We are working to prevent mislabeling of ingredients and allergens, as well as contamination and food poisoning. We are working to address each of these risks by doing management according to manuals produced in-house.



Example in-store manual

Environmental Management



Basic Principles

As a grocery store and supermarket chain rooted in the community, the Yaoko Group's goals are to offer healthy choices through our business, make more healthy and happy people, and contribute to promoting health in local communities. As a foundation for such value creation, we aim to sincerely address environmental problems in regions where our stores are located through efforts to reduce our environmental footprint, and engage in sustainable management overall so that people will be glad that Yaoko is there. In January 2021, we revised our Sustainability Basic Policy (Yaoko Group Code of Conduct).

*For details, see the "Sustainability" page of our website.

Energy saving efforts

We have made steady progress in our efforts to save energy through building low-cost stores, especially after the 2011 Tohoku Earthquake and Tsunami. As a result of these efforts, our company-wide energy consumption **rate has decreased by nearly 30% compared to 2010**. Furthermore, our CO₂ emissions **rate has decreased by nearly 20% compared to 2010**.

Efforts to go all-electric and use renewable energy

As a measure to promote clean energy, we are making efforts such as introducing all-electric stores, as well as using renewable energy including solar power generation. As of March 31, 2020, we have converted a cumulative total 81 stores to all-electric. At a total of 40 stores we have installed solar power generation systems, 3 of which including our Sagami-hara Hikarigaoka Store were installed in-house, while the other 37 were installed in collaboration with our business partners. At our Soka Haracho Store, we also serve our customers with an electric vehicle charging station.



Solar panel installation



EV charging stations

Energy saving efforts

Our energy-saving efforts include converting in-store lighting to LED, as well as reducing power consumption with demand monitors. We are also steadily introducing reach-in cases to our frozen foods sections, and are striving to reduce energy use and CO₂ emissions.



Reach-in and LED

Logistics efforts

We have placed logistics centers in each area, reduced driving distance by combining deliveries for two stores in one truck, and are working to reduce energy consumption and costs. We are making efforts to eliminate our environmental footprint as much as possible, such as by introducing clean diesel vehicles and using reusable shipping cartons.



Low-emissions trucks

Recycling efforts

Recyclable waste efforts

We are actively recycling biodegradable waste, cardboard produced by our stores, and recyclable waste collected our stores.



Recycling Box

Plastic reduction efforts

Since July 2020, we charge customers for plastic bags at all Yaoko stores. We use environmentally-friendly plastic bags made with 50% biomass plastic. Our Higashikurume Takiyama Store and SMARK Isesaki Store opened in FY2019 have charged customers for plastic bags since they first opened, and over 70% of customers bring their own shopping bags. Customers have become more aware of the environment, so we will continue to reduce our use of single-use plastics.



50% biomass shopping bags

Food waste reduction and food product recycling efforts

Our basis for reducing food waste is our sales plan and proper orders made at the store level. In order to appeal to customers using the freshness of our foods, we work to sell out products by lowering prices daily. Since April 2019, we have changed the delivery deadline for dry food products other than rice from the 1/3 rule to the 1/2 rule. Starting in April 2020, we expanded the scope of this rule to snacks and have extended the standard price sale deadline of non-glutinous rice. These are part of efforts to reduce food product loss throughout our supply chain. We have introduced biodegradable waste composting machines at our Delicatessen and Fresh Food Center, in an effort to reduce our environmental footprint.



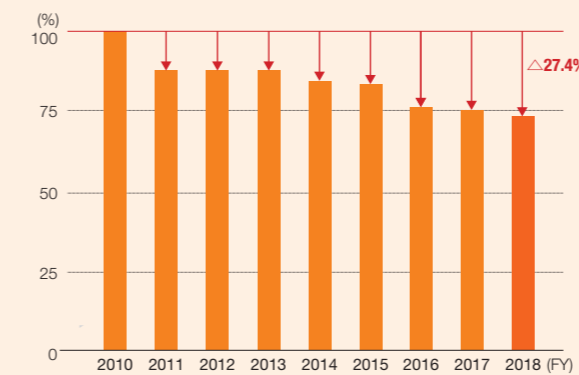
Rice freshness management



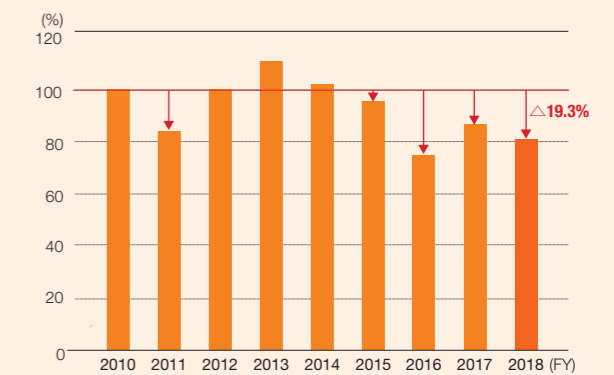
Biodegradable waste processor

Environmental Data

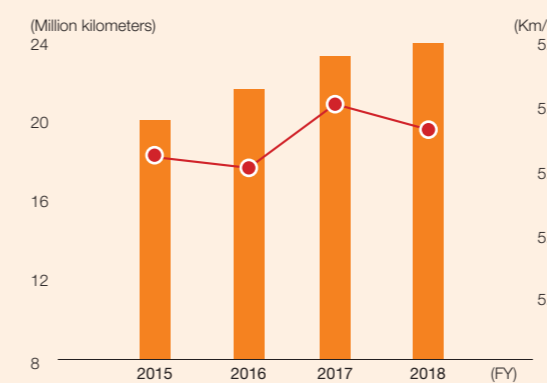
Rate of energy consumption, with rate in 2010 as 100



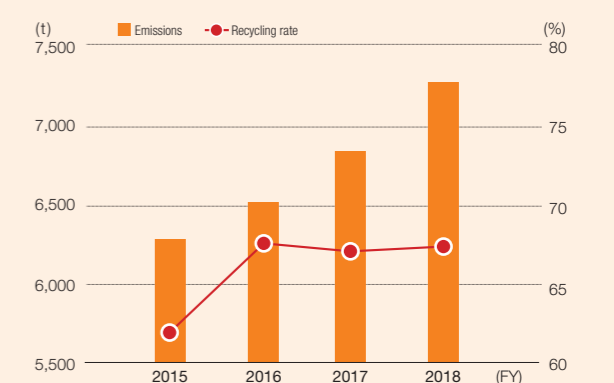
Rate of greenhouse gas emissions, with rate in 2010 as 100



Truck driving distance (million km) and fuel efficiency (km/L)



Food residue emissions and recycling rate



| | 2017/3 | 2018/3 | 2019/3 | |
|---|---|-----------|-----------|-------|
| Power use (thousand kWh) | 241,775 | 283,323 | 233,557 | |
| Water use (thousand m ³) | 1,550 | 1,614 | 1,594 | |
| Truck driving distance (million km) | 21,550 | 23,199 | 23,845 | |
| Logistics fuel use (L) | 4,037,099 | 4,335,886 | 4,448,912 | |
| Fuel efficiency (km/L) | 5.3 | 5.4 | 5.36 | |
| Total CO ₂ emissions (t-CO ₂) *Logistics, company vehicles, stores | 127,539 | 142,671 | 125,418 | |
| Waste | Food waste (t) biodegradable, fish scraps, used oil | 6,504 | 6,828 | 7,278 |
| | Recycling rate (MAFF Regular Report) | 67.5% | 67.0% | 67.3% |
| Plastic bag reduction rate | 37.1% | 36.9% | 37.2% | |

Map of Yaoko Group Stores and Logistics Bases



Number of Yaoko Group Stores
(as of March 2020)

| | Yaoko | Ave |
|---------------------|------------|-----------|
| Saitama Prefecture | 89 | 0 |
| Chiba Prefecture | 30 | 0 |
| Gunma Prefecture | 16 | 0 |
| Tokyo Prefecture | 11 | 1 |
| Kanagawa Prefecture | 8 | 11 |
| Ibaraki Prefecture | 7 | 0 |
| Tochigi Prefecture | 5 | 0 |
| Total | 166 | 12 |

Total
178 stores

