

Notice of Settlement of Non-consolidated Accounts for the Fiscal Year Ended February 2005

DENNY'S JAPAN Co., LTD.

(URL <http://www.dennys.co.jp>)

8-8, Nibancho, Chiyoda-ku, Tokyo 102-8415, Japan

Securities Code No. 8195

1. Date of the meeting of the Board of Directors to accounts ----- April 7, 2005
2. Date of the ordinary general meeting of shareholders ----- May 28, 2005
3. Parent Company ----- Ito-Yokado Co., Ltd. (Cord No.8264)
Percentage of shares parent company is holding : 51.6%
of the Denny's Japan Co., Ltd.
4. Business Results for the Current Fiscal Year
(From March 1, 2004 to February 28, 2005)

The Company's shares are listed on the First Section of the Tokyo Stock Exchange.

The Company's fiscal year ends on the last day of February of each year.

Payment of interim cash dividends (Yes)

Kenichi Asama, President and Chief executive Officer.

Inquiries relating to this notice should be made to:

Kyousuke Suzuki, Director of Finance Department.

Tel: (03)6238-3548

(1) Results of operation

(Millions of yen, except for per share amount)

| | Revenue from Operations | Increase (decrease) over the Prior Fiscal Year | Operating Income | Increase (decrease) over the Prior Fiscal Year | Ordinary Income | Increase (decrease) over the Prior Fiscal Year |
|---------------------|-------------------------|--|------------------|--|-----------------|--|
| | Net Sales | | | | | |
| Current Fiscal Year | | (%) | 3,220 | (%) | 3,317 | (%) |
| | 96,523 | 0.9 | | 7.9 | | 3.1 |
| Prior Fiscal Year | 95,676 | (0.7) | 2,984 | (14.9) | 3,217 | (13.7) |
| | 95,496 | (0.6) | | | | |

| | Net Income | Increase (decrease) over the Prior Fiscal Year | Net Income per Share | Ratio of Net Income to Shareholders' Equity | Ratio of Ordinary Income to Total Assets | Ratio of Ordinary Income to Revenue from Operations |
|---------------------|------------|--|----------------------|---|--|---|
| Current Fiscal Year | | (%) | (yen) | (%) | (%) | (%) |
| | 1,284 | 11.4 | 39.08 | 2.2 | 5.0 | 3.4 |
| Prior Fiscal Year | 1,153 | (59.6) | 34.92 | 2.0 | 4.8 | 3.4 |

Note:1.Average number of shares outstanding

Current fiscal year 32,181,444 shares

Prior fiscal year 32,202,786 shares

2 Change in accounting method: Yes

3. All amounts less than one million yen have been disregarded.

4. Percentages above represent increase/decrease over prior fiscal year unless otherwise stated.

(2) Dividends

(Millions of yen, except for per share amount)

| | Total Dividends Per Share | Year-End Dividends Per Share | Interim Dividends Per Share | Total Dividends (for the year) | Payout Ratio | Ratio of Dividends to Shareholders' Equity |
|---------------------|---------------------------|------------------------------|-----------------------------|--------------------------------|--------------|--|
| | (yen) | (yen) | (yen) | | (%) | (%) |
| Current Fiscal Year | 31.00 | 15.50 | 15.50 | 997 | 79.3 | 1.7 |
| Prior Fiscal Year | 31.00 | 15.50 | 15.50 | 998 | 88.8 | 1.7 |

(3) Financial Position

(Millions of yen, except for per share amount)

| | Total Assets | Shareholders' Equity | Ratio of shareholders' Equity to Total Assets | Shareholders' Equity per Share |
|-------------------------|--------------|----------------------|---|--------------------------------|
| | | | (%) | (yen) |
| As of February 28, 2005 | 66,184 | 57,752 | 87.3 | 1,794.00 |
| As of February 29, 2004 | 66,813 | 57,476 | 86.0 | 1,784.51 |

Notes1 : Number of outstanding shares

Notes2 : Number of treasury shares

As of February 28, 2005 32,177,089 shares

As of February 29, 2004 32,192,329 shares

As of February 28, 2005 179,521 shares

As of February 29, 2004 164,281 shares

(4) Cash Flows

(Millions of yen)

| | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents at End of Year |
|---------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| Current Fiscal Year | 3,488 | (2,487) | (1,029) | 27,862 |
| Prior Fiscal Year | 5,584 | (12,812) | (1,035) | 27,891 |

4. Business Outlook for Fiscal Year Ending February 28, 2006(From March 1, 2005 to February 28, 2006)

(Millions of yen, except for per share amount)

| | Revenue from Operations Net Sales | Operating Income | Ordinary Income | Net Income | Interim Cash Dividend per Share | Annual Cash Dividend per Share |
|----------------|---|------------------|-----------------|------------|---------------------------------|--------------------------------|
| | (%) | (%) | (%) | (%) | (yen) | (yen) |
| Interim period | 52,050 3.7 52,000 3.8 | 3,140 35.4 | 3,120 32.7 | 1,490 44.2 | 15.50 | |
| Entire year | 100,500 4.1 100,400 4.2 | 4,200 30.4 | 4,300 29.6 | 2,000 55.8 | 15.50 | 31.00 |

(Reference)

Expected net income per share for the year ending February 28, 2006 : 62.16 yen

Note: Percentage above represent increase /decrease over prior fiscal year.

FORWARD-LOOKING STATEMENTS

This document contains certain statements based on Denny's Japan's current plans, estimates, and strategies; all statements that are not of historical fact are forward-looking statements. These statements represent the judgements and hypotheses of the Company's management based on current available information. It is possible that the Company's future performance will differ significantly from the contents of these forward-looking statements. Accordingly, there is no assurance that the forward-looking statements in this document will prove to be accurate.

BALANCE SHEETS

(Millions of yen)

| | February 28, 2005 | Ratio to Total assets | February 29, 2004 | Ratio to Total assets | Increase (decrease) |
|--|-------------------|--------------------------|-------------------|--------------------------|------------------------|
| ASSETS | | % | | % | |
| Current assets: | | | | | |
| Cash and bank deposits | 27,862 | | 27,891 | | |
| Accounts receivable, trade | 338 | | 343 | | |
| Accounts receivable, other | 461 | | 263 | | |
| Inventories | 429 | | 453 | | |
| Prepaid expenses | 987 | | 976 | | |
| Deposits held at financial service company | 10,000 | | 10,000 | | |
| Short-term leasehold deposits | 437 | | 455 | | |
| Deferred income taxes | 413 | | 398 | | |
| Other current assets | 70 | | 57 | | |
| Total current assets | 41,002 | 62.0 | 40,840 | 61.1 | 162 |
| Property and equipment: | | | | | |
| Buildings and restaurant facilities | 10,356 | | 10,232 | | |
| Automobiles | 0 | | 1 | | |
| Furniture, fixtures and equipment | 1,394 | | 1,693 | | |
| Land | 1,864 | | 1,864 | | |
| Construction in progress | 8 | | 42 | | |
| Total property and equipment | 13,624 | 20.6 | 13,834 | 20.7 | (210) |
| Intangible assets: | | | | | |
| Software | 531 | | 623 | | |
| Other | 247 | | 250 | | |
| Total intangible assets | 779 | 1.2 | 873 | 1.3 | (94) |
| Investments and other assets: | | | | | |
| Investments in securities | 415 | | 333 | | |
| Long-term prepaid expenses | 240 | | 241 | | |
| Long-term lease deposits | 9,392 | | 10,111 | | |
| Deferred income taxes | 506 | | 394 | | |
| Other investments | 223 | | 183 | | |
| Total investments and other assets | 10,778 | 16.3 | 11,265 | 16.9 | (486) |
| Total non-current assets | 25,181 | 38.0 | 25,973 | 38.9 | (791) |
| Total assets | 66,184 | 100.0 | 66,813 | 100.0 | (628) |

(Millions of yen)

| | February 28, 2005 | Ratio to Total liabilities and shareholders' equity | February 29, 2004 | Ratio to Total liabilities and shareholders' equity | Increase (decrease) |
|--|-------------------|--|-------------------|--|------------------------|
| LIABILITIES | | % | | % | |
| Current liabilities: | | | | | |
| Accounts payable, trade | 2,171 | | 2,307 | | |
| Accounts payable, other | 756 | | 935 | | |
| Income taxes payable | 860 | | 975 | | |
| Consumption taxes payable | 453 | | 529 | | |
| Accrued expenses | 2,447 | | 2,649 | | |
| Deposits received | 98 | | 211 | | |
| Accrued bonuses to employees | 618 | | 629 | | |
| Accounts payable, construction | 232 | | 289 | | |
| Other current liabilities | 112 | | 112 | | |
| Total current liabilities | 7,750 | 11.7 | 8,641 | 12.9 | (890) |
| Non-current liabilities : | | | | | |
| Accrued pension and severance costs | 345 | | 384 | | |
| Allowance for retirement benefits to directors and corporate auditors | 285 | | 252 | | |
| Other | 49 | | 59 | | |
| Total non-current liabilities | 681 | 1.0 | 695 | 1.0 | (14) |
| Total liabilities | 8,432 | 12.7 | 9,337 | 14.0 | (904) |
| SHAREHOLDERS' EQUITY | | | | | |
| Common stock | 7,125 | 10.8 | 7,125 | 10.7 | - |
| Capital surplus | 9,785 | 14.8 | 9,784 | 14.6 | 0 |
| Retained earnings: | | | | | |
| Legal reserve | 1,383 | | 1,383 | | |
| General reserve | 36,409 | | 36,411 | | |
| Unappropriated retained earnings | <u>3,262</u> | | <u>3,002</u> | | |
| Total retained earnings | 41,055 | 62.0 | 40,798 | 61.1 | 257 |
| Net unrealized gains on available-for-sale securities | 126 | 0.2 | 76 | 0.1 | 50 |
| Treasury stock | (340) | (0.5) | (307) | (0.5) | (32) |
| Total shareholders' equity | 57,752 | 87.3 | 57,476 | 86.0 | 275 |
| Total liabilities and shareholders' equity | 66,184 | 100.0 | 66,813 | 100.0 | (628) |

STATEMENTS OF INCOME

(Millions of yen)

| | Current Fiscal Year | Ratio to Net sales | Prior Fiscal Year | Ratio to Net sales | Increase (decrease) |
|--|---------------------|--------------------|-------------------|--------------------|---------------------|
| | | % | | % | |
| Net sales | 96,360 | 100.0 | 95,496 | 100.0 | 864 |
| Cost of sales | 31,932 | 33.1 | 31,417 | 32.9 | 515 |
| Gross profit | 64,428 | 66.9 | 64,078 | 67.1 | 349 |
| Revenues from other operations | 162 | 0.1 | 180 | 0.2 | (17) |
| Operating gross profit | 64,590 | 67.0 | 64,258 | 67.3 | 332 |
| Selling, general and administrative expenses | 61,370 | 63.7 | 61,274 | 64.2 | 96 |
| Operating income | 3,220 | 3.3 | 2,984 | 3.1 | 235 |
| Non-operating income and expenses | | | | | |
| Non-operating income: | | | | | |
| Interest income | 35 | | 25 | | |
| Dividend income | 1 | | 1 | | |
| Advertising media installation income | 126 | | 102 | | |
| Expropriation compensation income | - | | 193 | | |
| Miscellaneous income | 35 | | 42 | | |
| Total non-operating income | 199 | 0.2 | 366 | 0.4 | (166) |
| Non-operating expenses: | | | | | |
| Interest expenses | - | | 1 | | |
| Demolition expense for closed stores | 49 | | 89 | | |
| Miscellaneous expenses | 53 | | 42 | | |
| Total non-operating expenses | 102 | 0.1 | 133 | 0.1 | (31) |
| Ordinary income | 3,317 | 3.4 | 3,217 | 3.4 | 100 |
| Special gains and losses | | | | | |
| Special gains: | | | | | |
| Gain on sales of investments in securities | 4 | | 40 | | |
| Gain from cancellation of lease contracts | 100 | | 15 | | |
| Total special gains | 104 | 0.1 | 55 | 0.1 | 48 |
| Special losses: | | | | | |
| Loss on disposal of property and equipment | 298 | | 124 | | |
| Impairment losses | 228 | | - | | |
| Loss from cancellation of lease contracts | 65 | | 32 | | |
| Other | 89 | | 531 | | |
| Total special losses | 681 | 0.7 | 688 | 0.7 | (6) |
| Income before income taxes | 2,740 | 2.8 | 2,585 | 2.7 | 155 |
| Income taxes - current | 1,617 | 1.7 | 1,550 | 1.6 | 67 |
| Income taxes - deferred | (161) | (0.2) | (118) | (0.1) | (42) |
| Net income | 1,284 | 1.3 | 1,153 | 1.2 | 131 |
| Unappropriated retained earnings brought forward | 2,477 | | 2,348 | | |
| Interim dividends | 498 | | 499 | | |
| Unappropriated earnings | 3,262 | | 3,002 | | |

PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS

(Millions of yen)

| | Current Fiscal Year | Prior Fiscal Year | Increase (decrease) |
|---|---------------------|-------------------|---------------------|
| Unappropriated retained earnings | 3,262 | 3,002 | 260 |
| Reversal of reserve for deferred gain on sale of property and equipment | 0 | 2 | (1) |
| Total | 3,263 | 3,005 | 258 |
| The above shall be appropriated as follows : | | | |
| Cash dividends | 498 | 498 | (0) |
| Bonuses for directors and corporate auditors | 26 | 28 | (2) |
| [Portion to corporate auditors] | [2] | [2] | |
| Total | 525 | 527 | (2) |
| Retained earnings carried forward | 2,738 | 2,477 | 260 |

Statements of Cash Flows

(Millions of yen)

| | Current Fiscal Year | Prior Fiscal Year | Increase (decrease) |
|--|---------------------|-------------------|------------------------|
| Cash flows from operating activities: | | | |
| Income before income taxes | 2,740 | 2,585 | 155 |
| Depreciation and amortization | 2,307 | 2,424 | (116) |
| Decrease in accrued bonuses | (10) | (5) | (5) |
| Reversal of accrued pension and severance costs | (38) | (17) | (21) |
| Interest and dividend income | (37) | (27) | (10) |
| Gain on sale of investments in securities | (4) | (40) | 36 |
| Loss on disposal of property and equipment | 298 | 124 | 173 |
| Business reengineering cost | - | 240 | (240) |
| Impairment losses | 228 | - | 228 |
| Decrease (increase) in accounts receivable | 4 | (19) | 23 |
| Decrease in inventories | 23 | 140 | (116) |
| (Decrease) increase in accounts payable | (136) | 33 | (170) |
| Other, net | (170) | 433 | (603) |
| Sub total | 5,204 | 5,871 | (666) |
| Interest and dividends received | 16 | 8 | 8 |
| Income taxes paid | (1,732) | (295) | (1,437) |
| Net cash provided by operating activities | 3,488 | 5,584 | (2,095) |
| Cash flows from investing activities: | | | |
| Acquisition of property and equipment | (2,414) | (3,000) | 586 |
| Acquisition of intangible assets | (177) | (98) | (79) |
| Proceeds from sales of investments in securities | 6 | 115 | (109) |
| Increase in deposits held at financial service company | - | (10,000) | 10,000 |
| Payment of leasehold deposits | (235) | (566) | 331 |
| Refund of leasehold deposits | 332 | 737 | (404) |
| Other, net | 1 | 1 | 0 |
| Net cash used in investing activities | (2,487) | (12,812) | 10,325 |
| Cash flows from financing activities: | | | |
| Purchase of treasury stock | (35) | (42) | 6 |
| Proceeds from sale of treasury stock | 3 | 5 | (1) |
| Cash dividends paid | (998) | (998) | 0 |
| Net cash used in financing activities | (1,029) | (1,035) | 5 |
| Decrease in cash and cash equivalents | (28) | (8,263) | 8,235 |
| Cash and cash equivalents at beginning of year | 27,891 | 36,154 | (8,263) |
| Cash and cash equivalents at end of year | 27,862 | 27,891 | (28) |

Significant Accounting Policies

1. Valuation method of Securities

Available-for-sale securities are classified into two categories: () fair value is available and () fair value is not available.

(i) Securities, whose fair value is available, are valued at quoted market price prevailing at the end of the fiscal year.

Net unrealized gains or losses on these securities are reported as a separate component in the shareholders' equity at a net-of-tax amount. Cost of sales are determined by the moving average method.

(ii) Securities, whose fair value is not available, are valued at cost, determined by the moving-average method.

2. Valuation method of Inventories

Foods, merchandise and other inventories are valued at cost, determined by the last purchase price method.

3. Depreciation and amortization

(i) Depreciation expense of property and equipment is computed principally using the declining-balance method.

(ii) Amortization expense of intangible assets is computed using the straight-line method. Software is amortized using the straight-line method over an estimated useful life (5 years).

4. Allowances

Allowance for bonuses to employees

An allowance for bonuses to employees is provided for bonuses payable to employees at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

Allowance for accrued pension and severance costs

An allowance for accrued pension and severance costs is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year.

Unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise.

Allowance for retirement benefits to directors and corporate auditors

An allowance for retirement benefits to directors and corporate auditors is provided in accordance with the Company's internal policy.

5. Leases

All finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees are accounted for as operating lease.

6. Cash and cash equivalents

Cash and cash equivalents in the accompanying statements of cash flows are composed of cash on hand, bank deposits which are able to be withdrawn at any time, and short-term investments which are considered to represent a low risk of market price fluctuation.

7. Accounting for consumption taxes

Consumption taxes are separately accounted for, and are excluded from the amounts of the underlying income and expense transactions.

Change in accounting method

1. Impairment losses

On August 9, 2002, the Business Accounting Council issued an Accounting Standard for Impairment of Fixed Assets, and on October 31, 2003, the Accounting Standards Board of Japan (ASB) issued Financial Accounting Standards Guidance No.6, "Implementation Guidance for Accounting Standards for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The company early adopted the new accounting standards for impairment of fixed assets for the fiscal year beginning on March 1, 2004.

As a result of adopting the new accounting standards for impairment of fixed assets, income before income taxes for the year ended February 28, 2005, decreased by 228 million yen. Accumulated impairment losses are deducted directly from the related fixed assets.

Notes to non-consolidated Financial Statements

<Balance Sheets>

| | (Millions of yen) |
|---|-------------------|
| | February 29, 2005 |
| 1. Contingent liabilities | 0 |
| 2. Net assets resulted from revaluating assets at fair market value as stipulated in Article 124, item 3 of the Enforcement Regulations of the Commercial Code of Japan | 126 |
| 3. Treasury stock | |
| Number of outstanding shares at the end of year (shares) | 32,356,610 |
| Number of treasury stock (shares) | 179,521 |

<Statements of Income>

| | (Millions of yen, except for per share amount) |
|--|--|
| | Current Fiscal Year |
| 1. Impairment losses | 228 |
| The Company groups its fixed assets by the minimum cash-generating unit. Impairment losses of ¥ 228 million (Building, ¥ 184 million and Other, ¥ 43 million) were recognized and recorded in special losses as a result of the procedures for categorizing them by asset group. Impairment losses are carrying amounts in excess of the recoverable value of asset group. Value in use was calculated by discounting estimated future cash flows to which the 6.0% discount rate was applied, and used as the recoverable value in any cases. | |
| 2. Net income per share | 39.08 |

<Statements of Cash flows>

Reconciliation of cash and cash equivalents of statements of cash flows and account balances of balance sheets

| | (Millions of yen) |
|---------------------------|-------------------------|
| | As of February 28, 2005 |
| Cash and bank deposits | 27,862 |
| Cash and cash equivalents | 27,862 |

Leases

1. Financial leases other than those by which the ownership of the leased assets is to be transferred to lessee

Acquisition cost, accumulated depreciation and net book value

Facilities and equipment:

| | <u>As of February 28,</u> <u>2005</u> | <u>As of February 29,</u> <u>2004</u> |
|--------------------------|--|--|
| Acquisition cost | 5,623 | 4,646 |
| Accumulated depreciation | <u>2,749</u> | <u>2,085</u> |
| Net book value | 2,874 | 2,560 |

The amounts of outstanding future lease payments are summarized as follows:

| | <u>As of February 28,</u> <u>2005</u> | <u>As of February 29,</u> <u>2004</u> |
|-----------------|--|--|
| Within one year | 855 | 932 |
| Over one year | <u>2,059</u> | <u>1,614</u> |
| Total | 2,915 | 2,546 |

Lease payments, depreciation expenses and interest expense:

| | <u>Current Fiscal Year</u> | <u>Prior Fiscal Year</u> |
|-----------------------|----------------------------|--------------------------|
| Lease payments | 1,133 | 962 |
| Depreciation expenses | 1,073 | 915 |
| Interest expense | 65 | 51 |

Depreciation method and calculation method of interest portion:

• Depreciation expense is computed using the straight-line method over the lease term with no residual value.

• Interest expense is calculated as the total lease payments less the original acquisition cost of leased equipments. Allocation of interest expense to each period is using the interest method.

2. Operating leases

The amounts of outstanding future lease payments are summarized as follows:

| | <u>As of February 28,</u> <u>2005</u> | <u>As of February 29,</u> <u>2004</u> |
|-----------------|--|--|
| Within one year | 247 | 293 |
| Over one year | <u>759</u> | <u>956</u> |
| Total | 1,007 | 1,250 |

Securities Information

As of and for the Fiscal year ended February 28, 2005

1. Available-for-sale securities (fair value is available)

(Millions of yen)

| | Description | Acquisition cost | Fair value | Difference |
|---|-------------------|------------------|------------|------------|
| Securities with book value exceeding acquisition cost | Equity securities | 130 | 354 | 223 |
| | Sub-Total | 130 | 354 | 223 |
| Securities with book value not exceeding acquisition cost | Equity securities | 31 | 21 | (9) |
| | Sub-Total | 31 | 21 | (9) |
| Total | | 162 | 375 | 213 |

2. Available-for-sale securities sold

(Millions of yen)

| | Amount sold | Total gain on sales | Total loss on sales |
|-------|-------------|---------------------|---------------------|
| Total | 6 | 4 | - |

3. Major securities which are not subject to revaluation

(Millions of yen)

| | Book value |
|--|------------|
| Available-for-sale securities | |
| Unlisted securities (excluding OTC securities) | 40 |

As of and for the Fiscal year ended February 29, 2004

1. Available-for-sale securities (fair value is available)

(Millions of yen)

| | Description | Acquisition cost | Fair value | Difference |
|---|-------------------|------------------|------------|------------|
| Securities with book value exceeding acquisition cost | Equity securities | 121 | 259 | 137 |
| | Sub-Total | 121 | 259 | 137 |
| Securities with book value not exceeding acquisition cost | Equity securities | 42 | 33 | (8) |
| | Sub-Total | 42 | 33 | (8) |
| Total | | 164 | 293 | 129 |

2. Available-for-sale securities sold

(Millions of yen)

| | Amount sold | Total gain on sales | Total loss on sales |
|-------|-------------|---------------------|---------------------|
| Total | 115 | 40 | - |

3. Major securities which are not subject to revaluation

(Millions of yen)

| | Book value |
|--|------------|
| Available-for-sale securities | |
| Unlisted securities (excluding OTC securities) | 40 |

Derivative Transactions

There were no derivative transactions for the years ended February 28, 2005 and February 29, 2004.

Related party transactions

(As of and for the Fiscal year ended February 28, 2005)

1.Directors and major shareholders

(Millions of yen)

| Relationship | Name | Addresses | Common stock | Business or position in-law | Relationship | | | Transaction | | Resulting account | |
|--|-------------------------|----------------------------|--------------|--|---|------------------------------|------------------------------|--|-----------------------|--|---------------------|
| | | | | | Percentage of equity ownership held by the Company | Number of directors assigned | Business relationship | Description of the Company's transaction | Amount of transaction | Name of account on book | Balance at year-end |
| Directors and their close relatives | Shigeo Nukui | Higashi Kurume City, Tokyo | - | Father of wife of Masashi Goto, Director of the Company | - | - | - | Lease of land for store parking | 0 | Prepaid expenses | 0 |
| | Toshiyuki Nukui | Higashi Kurume City, Tokyo | - | Brother of wife of Masashi Goto, Director of the Company | - | - | - | Lease of land for store parking | 1 | Prepaid expenses | 0 |
| Companies which our directors or their close relatives own majority portion of the company's voting rights | Maruko Co.,Ltd. | Higashi Kurume City, Tokyo | 10 | Lease and management of real estate | Close relative of Mr.Masashi Goto, Director of the Company. Directly holds 100% | None | Lease of real estate | Lease of store buildings | 13 | Prepaid expenses Long-term leasehold deposits | 1 3 |
| | Kurume Interior Co.,Ltd | Higashi Kurume City, Tokyo | 10 | Interior business and sale office furniture | Close relative of Mr.Masashi Goto, Director of the Company. Directly holds 100% | None | Purchase of office furniture | Purchase of office furniture | 5 | Accounts payable | 0 |

Note: The terms and conditions of the above transactions are on an arm's-length basis. The above amounts exclude consumption taxes in amount of transaction, prepaid expenses to Shigeo Nukui, Toshiyuki Nukui and long-term leasehold deposits. And the above amounts include consumption taxes in other balances at the end of year.

2.Affiliates

(Millions of yen)

| Relationship | Name | Addresses | Common stock | Business or position in-law | Relationship | | | Transaction | | Resulting account | |
|--------------------------------|------------------------------|---------------------|--------------|---|--|------------------------------|-----------------------|--|-----------------------|--|---------------------|
| | | | | | Percentage of equity ownership held by the Company | Number of directors assigned | Business relationship | Description of the Company's transaction | Amount of transaction | Name of account on book | Balance at year-end |
| Subsidiaries of parent company | IY bank Co.,Ltd | Chiyoda ward, Tokyo | 61,000 | Banking | - | None | Bank deposit | Negotiable bank deposit | 10,000 | Cash and bank deposits | 5,000 |
| | IYG Financial Center Co.,Ltd | Chiyoda ward, Tokyo | 10 | Cash management for the group companies | - | 1 | Cash deposit | Cash deposit | 20,000 | Deposits held at financial service company | 10,000 |

Note: The terms and conditions of the above transaction are on arm's-length basis. The above transaction amounts exclude consumption taxes.

(As of and for the Fiscal Year ended February 29, 2004)

1.Directors and major shareholders

(Millions of yen)

| Relationship | Name | Addresses | Common stock | Business or position in-law | Relationship | | | Transaction | | Resulting account | |
|--|-------------------------|----------------------------|--------------|---|---|------------------------------|------------------------------|--|-----------------------|--|---------------------|
| | | | | | Percentage of equity ownership held by the Company | Number of directors assigned | Business relationship | Description of the Company's transaction | Amount of transaction | Name of account on book | Balance at year-end |
| Directors and their close relatives | Shigeo Nukui | Higashi Kurume City, Tokyo | - | Father of wife of Masashi Goto, Director of the Company | - | - | - | Lease of land for store parking | 2 | Prepaid expenses | 0 |
| Companies which our directors or their close relatives own majority portion of the company's voting rights | Maruko Co.,Ltd. | Higashi Kurume City, Tokyo | 10 | Lease and management of real estate | Close relative of Mr.Masashi Goto, Director of the Company. Directly holds 94% | None | Lease of real estate | Lease of store buildings | 14 | Prepaid expenses Long-term leasehold deposits | 1 3 |
| | Kurume Interior Co.,Ltd | Higashi Kurume City, Tokyo | 10 | Interior business and sale office furniture | Close relative of Mr.Masashi Goto, Director of the Company. Directly holds 86% | None | Purchase of office furniture | Purchase of office furniture | 8 | Accounts payable | 1 |
| | Yamatame Kogyo Co.,Ltd | Meguro Ward, Tokyo | 5 | Lease and management of real estate | Close relative of Mr.Masayoshi Ito, Director of the Company. Directly holds 55% | None | Lease of real estate | Lease of store buildings | 5 | Prepaid expenses Long-term leasehold deposits | 1 5 |

Note:

- The terms and conditions of the above transactions are on an arm's-length basis. The above amounts exclude consumption taxes in amount of transaction, prepaid expenses to Shigeo Nukui, and long-term leasehold deposits. And the above amounts include consumption taxes in other balances at the end of year.
- Masatoshi Ito has resigned as director effective from the date of general shareholders' meeting, May 24, 2003. The amounts of the above transactions and balances apply to the period until May, 2003.

2.Affiliates

(Millions of yen)

| Relationship | Name | Addresses | Common stock | Business or position in-law | Relationship | | | Transaction | | Resulting account | |
|--------------------------------|------------------------------|---------------------|--------------|---|--|------------------------------|-----------------------|--|-----------------------|--|---------------------|
| | | | | | Percentage of equity ownership held by the Company | Number of directors assigned | Business relationship | Description of the Company's transaction | Amount of transaction | Name of account on book | Balance at year-end |
| Subsidiaries of parent company | IY bank Co.,Ltd | Chiyoda ward, Tokyo | 61,000 | Banking | - | None | Bank deposit | Negotiable bank deposit | 28,000 | Cash and bank deposits | 5,000 |
| | IYG Financial Center Co.,Ltd | Minato ward, Tokyo | 10 | Cash management for the group companies | - | 1 | Cash deposit | Cash deposit | 10,000 | Deposits held at financial service company | 10,000 |

Note: The terms and conditions of the above transaction are on arm's-length basis. The above transaction amounts exclude consumption taxes.

Deferred income taxes

1. The tax effects of temporary differences that give rise to the significant components of deferred tax assets and liabilities are as follows:

| | (Millions of yen) | |
|--|----------------------|----------------------|
| | February 28, 2005 | February 29, 2004 |
| Deferred tax assets: | | |
| Non-deductible portion of depreciation and amortization | 212 | 159 |
| Non-deductible portion of allowance for bonuses to employees | 251 | 222 |
| Non-deductible portion of allowance for accrued pension and severance costs | 140 | 156 |
| Non-deductible portion of allowance for retirement benefits to directors and corporate auditors | 116 | 102 |
| Other | <u>291</u> | <u>213</u> |
| Total deferred tax assets | 1,012 | 855 |
| Deferred tax liabilities: | | |
| Reserve for deferred gain on sale of property and equipment | (5) | (6) |
| Net unrealized gains on available-for-sale securities | <u>(86)</u> | <u>(56)</u> |
| Total deferred tax liabilities | <u>(92)</u> | <u>(62)</u> |
| Deferred tax assets, net | 920 | 793 |

2. The reconciliation between the statutory tax rate and the effective tax rate is as follows:

| | February 28, 2005 | February 29, 2004 |
|--|----------------------|----------------------|
| | % | % |
| Statutory tax rate | 42.1 | 42.1 |
| Adjustments: | | |
| Per capita levy of local resident income taxes | 10.3 | 11.2 |
| Other | <u>0.7</u> | <u>2.1</u> |
| Effective tax rate | 53.1 | 55.4 |

Equity in earnings of affiliate

There were no affiliates that should be accounted for by equity method for the years ended February 28, 2005 and February 29, 2004.

Accounting for Retirement Benefits

1 Retirement benefit plans

Following approval from Japan's Ministry of Health, Labour and Welfare on September 1, 2004, the "Ito-Yokado Group Employee Pension Fund", which the Company participates in, was transferred to the "IY Group Employees' Pension Fund" based on the Defined Benefit Corporate Pension Plan Act. Following the transition, the retirement benefits plan was revised.

2 The accrued pension and severance costs as of February 28, 2005 and 2004 are analyzed as follows:

(Millions of yen)

| | As of February 28, 2005 | As of February 29, 2004 |
|-------------------------------------|-------------------------|-------------------------|
| Projected benefit obligations | 8,101 | 7,049 |
| Plan assets | 7,116 | 6,195 |
| Accrued pension and severance costs | 345 | 384 |
| Unrecognized prior service costs | 874 | - |
| Unrecognized actuarial differences | (235) | 468 |

3 The components of net pension expense relating to retirement benefits are as follows:

(Millions of yen)

| | For the fiscal year ended February 28, 2005 | For the fiscal year ended February 29, 2004 |
|--|--|--|
| Net pension expense | 805 | 851 |
| Service cost | 654 | 683 |
| Interest cost | 188 | 165 |
| Expected return on plan assets | 216 | 174 |
| Amortization of unrecognized prior service costs | 46 | - |
| Amortization of unrecognized actuarial differences | 63 | 129 |
| Additional retirement allowance paid temporarily | 70 | 46 |

4 Assumptions used in calculation of accrued pension and severance costs and net pension expense are as follows:

| | As of and for the fiscal year ended February 28, 2005 | As of and for the fiscal year ended February 29, 2004 |
|--|--|--|
| Discount rate | 2.5% | 2.5% |
| Expected rate of return on plan assets | 3.5% | 3.5% |
| Method of allocating the projected benefits to periods of service | Point basis | Benefit formula basis |
| Amortization of unrecognized prior service costs | 10 years | - |
| Amortization of unrecognized actuarial differences | 10 years | 10 years |

A seating capacity and an accommodation actual result

| | For the Fiscal Year ended February 28, 2005 | | | | For the Fiscal Year ended February 29, 2004 | | | |
|-------------|---|----------------------------|------------------|----------------------------|---|----------------------------|------------------|----------------------------|
| | Number of seats | % of the prior fiscal year | Number of people | % of the prior fiscal year | Number of seats | % of the prior fiscal year | Number of people | % of the prior fiscal year |
| | Thousand seats | % | Thousand people | % | Thousand seats | % | Thousand people | % |
| Tokyo | 6,173 | 101.7 | 29,272 | 101.9 | 6,073 | 106.4 | 28,724 | 103.7 |
| Kanagawa | 4,017 | 95.2 | 17,476 | 96.4 | 4,221 | 99.9 | 18,131 | 97.8 |
| Chiba | 2,711 | 99.5 | 10,408 | 99.4 | 2,723 | 100.5 | 10,472 | 97.7 |
| Saitama | 2,151 | 100.9 | 7,906 | 100.9 | 2,133 | 99.6 | 7,836 | 97.1 |
| Total | 15,052 | 99.4 | 65,062 | 99.9 | 15,150 | 102.5 | 65,163 | 100.2 |
| Fukushima | 817 | 99.7 | 3,055 | 97.5 | 819 | 99.0 | 3,134 | 93.5 |
| Total | 817 | 99.7 | 3,055 | 97.5 | 819 | 99.0 | 3,134 | 93.5 |
| Ibaraki | 773 | 94.9 | 2,478 | 92.5 | 815 | 95.7 | 2,678 | 93.3 |
| Tochigi | 405 | 95.9 | 1,547 | 93.4 | 423 | 100.9 | 1,657 | 93.1 |
| Gunma | 584 | 99.7 | 2,073 | 96.5 | 585 | 107.3 | 2,149 | 101.4 |
| Total | 1,762 | 96.7 | 6,098 | 94.0 | 1,823 | 100.4 | 6,484 | 95.8 |
| Yamanashi | 390 | 99.7 | 1,328 | 96.3 | 391 | 100.2 | 1,379 | 97.4 |
| Nagano | 603 | 99.7 | 2,364 | 98.6 | 605 | 105.6 | 2,397 | 98.8 |
| Total | 993 | 99.7 | 3,692 | 97.8 | 996 | 103.5 | 3,776 | 98.3 |
| Gifu | 358 | 105.7 | 1,552 | 107.8 | 339 | 120.3 | 1,440 | 109.6 |
| Shizuoka | 706 | 93.9 | 3,172 | 99.7 | 752 | 100.3 | 3,181 | 97.9 |
| Aichi | 2,146 | 104.4 | 9,498 | 102.2 | 2,055 | 106.7 | 9,294 | 100.5 |
| Mie | 311 | 112.0 | 1,362 | 106.5 | 278 | 98.7 | 1,279 | 99.9 |
| Total | 3,521 | 103.0 | 15,584 | 102.6 | 3,424 | 105.8 | 15,194 | 100.7 |
| Osaka | 568 | 99.7 | 2,573 | 97.0 | 570 | 100.2 | 2,651 | 96.4 |
| Hyougo | 254 | 90.1 | 1,150 | 89.4 | 281 | 95.2 | 1,286 | 90.5 |
| Total | 822 | 96.5 | 3,723 | 94.6 | 851 | 98.5 | 3,937 | 94.4 |
| Grand total | 22,967 | 99.6 | 97,214 | 99.5 | 23,063 | 102.6 | 97,688 | 99.4 |

Sales status

| | For the Fiscal Year ended February 28, 2005 | | | | | For the Fiscal Year ended February 29, 2004 | | | | |
|-------------|---|------------------|-----------------|----------------------------|----------------------|---|------------------|-----------------|----------------------------|----------------------|
| | Net Sales | | | | | Net Sales | | | | |
| | A dish and tea drinking | Shop front goods | Total | % of the prior fiscal year | Number of restaurant | A dish and tea drinking | Shop front goods | Total | % of the prior fiscal year | Number of restaurant |
| | Millions of yen | Millions of yen | Millions of yen | % | stores | Millions of yen | Millions of yen | Millions of yen | % | stores |
| Tokyo | 28,649 | 917 | 29,566 | 103.5 | 155 | 27,675 | 900 | 28,575 | 103.5 | 154 |
| Kanagawa | 17,072 | 578 | 17,650 | 98.0 | 101 | 17,423 | 593 | 18,016 | 97.9 | 102 |
| Chiba | 10,287 | 355 | 10,642 | 101.0 | 67 | 10,197 | 341 | 10,538 | 97.8 | 67 |
| Saitama | 7,660 | 272 | 7,932 | 102.2 | 54 | 7,500 | 261 | 7,761 | 97.0 | 53 |
| Total | 63,668 | 2,122 | 65,790 | 101.4 | 377 | 62,795 | 2,095 | 64,890 | 100.2 | 376 |
| Fukushima | 2,738 | 103 | 2,841 | 97.7 | 20 | 2,806 | 102 | 2,908 | 92.6 | 20 |
| Total | 2,738 | 103 | 2,841 | 97.7 | 20 | 2,806 | 102 | 2,908 | 92.6 | 20 |
| Ibaraki | 2,490 | 89 | 2,579 | 94.0 | 19 | 2,651 | 92 | 2,743 | 92.5 | 20 |
| Tochigi | 1,495 | 50 | 1,545 | 94.8 | 10 | 1,577 | 52 | 1,629 | 92.7 | 10 |
| Gunma | 1,987 | 70 | 2,057 | 97.8 | 14 | 2,035 | 69 | 2,104 | 101.2 | 14 |
| Total | 5,972 | 209 | 6,181 | 95.4 | 43 | 6,263 | 213 | 6,476 | 95.2 | 44 |
| Yamanashi | 1,335 | 47 | 1,382 | 97.2 | 9 | 1,376 | 47 | 1,423 | 97.3 | 9 |
| Nagano | 2,239 | 73 | 2,312 | 99.1 | 15 | 2,260 | 72 | 2,332 | 98.1 | 15 |
| Total | 3,574 | 120 | 3,694 | 98.4 | 24 | 3,636 | 119 | 3,755 | 97.8 | 24 |
| Gifu | 1,320 | 55 | 1,375 | 109.6 | 11 | 1,210 | 45 | 1,255 | 109.9 | 10 |
| Shizuoka | 3,005 | 101 | 3,106 | 100.7 | 19 | 2,984 | 102 | 3,086 | 97.7 | 18 |
| Aichi | 8,333 | 329 | 8,662 | 103.4 | 57 | 8,067 | 310 | 8,377 | 101.5 | 52 |
| Mie | 1,217 | 43 | 1,260 | 108.4 | 8 | 1,125 | 37 | 1,162 | 100.1 | 8 |
| Total | 13,875 | 528 | 14,403 | 103.8 | 95 | 13,386 | 494 | 13,880 | 101.2 | 88 |
| Osaka | 2,288 | 100 | 2,388 | 98.4 | 14 | 2,326 | 101 | 2,427 | 96.4 | 14 |
| Hyougo | 1,021 | 42 | 1,063 | 91.6 | 6 | 1,116 | 44 | 1,160 | 90.4 | 6 |
| Total | 3,309 | 142 | 3,451 | 96.2 | 20 | 3,442 | 145 | 3,587 | 94.4 | 20 |
| Grand total | 93,136 | 3,224 | 96,360 | 100.9 | 579 | 92,328 | 3,168 | 95,496 | 99.4 | 572 |

Purchase Status

| | | For the Fiscal Year ended February 28, 2005 | | For the Fiscal Year ended February 29, 2004 | |
|--------------|-----------------------|---|----------------------------|---|----------------------------|
| | | Amount of goods purchased | % of the prior fiscal year | Amount of goods purchased | % of the prior fiscal year |
| | | millions of yen | % | millions of yen | % |
| Raw material | Cereals | 4,360 | 95.9 | 4,549 | 94.4 |
| | Marine products | 2,506 | 104.8 | 2,391 | 121.7 |
| | Meat | 5,024 | 102.6 | 4,895 | 89.9 |
| | Vegetables and fruits | 5,202 | 106.0 | 4,907 | 102.5 |
| | Processed food | 5,939 | 103.5 | 5,739 | 99.6 |
| | Others | 6,261 | 99.8 | 6,272 | 103.2 |
| | Total | 29,292 | 101.9 | 28,753 | 99.6 |
| Merchandise | Shop front goods | 2,617 | 102.6 | 2,551 | 98.1 |
| Total | | 31,909 | 101.9 | 31,304 | 99.5 |