



April 7, 2005

# Notice of settlement of consolidated accounts for the fiscal year ended February 28, 2005

## Ito-Yokado Co., Ltd.

8-8, Nibancho, Chiyoda-ku, Tokyo 102-8450

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

Securities Code No. 8264

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

Date of the meeting of the Board of Directors to settle consolidated accounts: April 7, 2005

President and Representative Director : Sakae Isaka

An inquiry relating to this notice should be made to: Shiro Ozeki

Director of Finance Division

Tel: (03) 6238-2111

U.S. GAAP is not applied.

### 1. Business results for the fiscal year ended February 28, 2005 [from March 1, 2004 to February 28, 2005]

#### (1) Results of Operations

(Millions of Yen, except per-share data)

	Revenues from Operations		Operating Income		Ordinary Income	
Fiscal year ended February 28, 2005	3,623,554	2.3 %	211,950	2.0 %	208,267	3.7 %
Fiscal year ended February 29, 2004	3,542,146	0.3 %	207,783	3.2 %	200,787	5.9 %

	Net Income		Net Income per Share	Diluted Net Income per Share	Net Income/Shareholders' Equity	Ordinary Income/Total Assets	Ordinary Income/Revenues from operations
Fiscal year ended February 28, 2005	17,205	(67.9) %	40.73	40.51	1.5 %	8.3 %	5.7 %
Fiscal year ended February 29, 2004	53,632	15.0 %	128.25	128.22	4.8 %	8.3 %	5.7 %

#### Notes:

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

2. Equity in earnings of affiliates

Fiscal year ended February 28, 2005 ----- 653 million yen

Fiscal year ended February 29, 2004 ----- 2,460 million yen

3. Average number of shares outstanding:

Fiscal year ended February 28, 2005 ----- 417,273,984 shares

Fiscal year ended February 29, 2004 ----- 416,295,502 shares

4. Change in accounting policy: Yes

5. Percentages above represent the change from the prior fiscal year unless otherwise stated.

#### (2) Financial Position

(Millions of Yen, except per-share data)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
As of February 28, 2005	2,574,817	1,144,504	44.4%	2,742.42
As of February 29, 2004	2,461,927	1,138,210	46.2%	2,726.99

#### Note:

Total number of shares outstanding

As of February 28, 2005 ----- 417,257,815 shares

As of February 29, 2004 ----- 417,299,292 shares

(3) 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 fiscal year
Fiscal year ended February 28, 2005	266,709	(94,758)	(56,524)	683,100
Fiscal year ended February 29, 2004	237,956	(117,632)	(153,731)	567,389

(4) Number of companies included in consolidated accounts

- (a) Consolidated subsidiaries: 54
- (b) Unconsolidated subsidiaries for which equity method were applied: 2
- (c) Affiliated companies under the equity method: 7

(5) Change of the number of companies included in consolidated accounts

- (a) Consolidated subsidiaries  
(added) 3
- (b) Companies under equity method  
(excluded) 2
- (c) Companies under equity method  
(added) 0
- (d) Companies under equity method  
(excluded) 0

**2. Outlook for the fiscal year ending February 28, 2006 [From March 1, 2005 to February 28, 2006]**

(Millions of Yen)

	Revenues from Operations		Operating Income		Ordinary Income		Net Income	
First Six Months	1,820,000	1.4 %	118,000	5.0 %	117,000	4.6 %	31,300	(3.4) %
Full Year	3,700,000	2.1 %	233,000	9.9 %	230,000	10.4 %	63,700	270.2 %

< Reference > Expected consolidated net income per share for the fiscal year ending February 28, 2006 ----- 152.16 yen

Note : Percentages above represent increase over prior fiscal year or corresponding prior period.

The outlook for fiscal year ending February 28, 2006 is based on Ito-Yokado's hypotheses, plans and estimates at the date of publication. It is possible that some uncertain factors will cause the Company's future performance to differ significantly from the contents of outlook. See the descriptions relating to the above outlook in page 15 to 16 of this document.

## MAJOR ITO-YOKADO GROUP COMPANIES

Ito-Yokado Group consists 65 diversified retail companies, mainly engaged in superstore operations, convenience store operations, restaurant operations and financial services. Business segments, major group companies and number of companies are as follows.

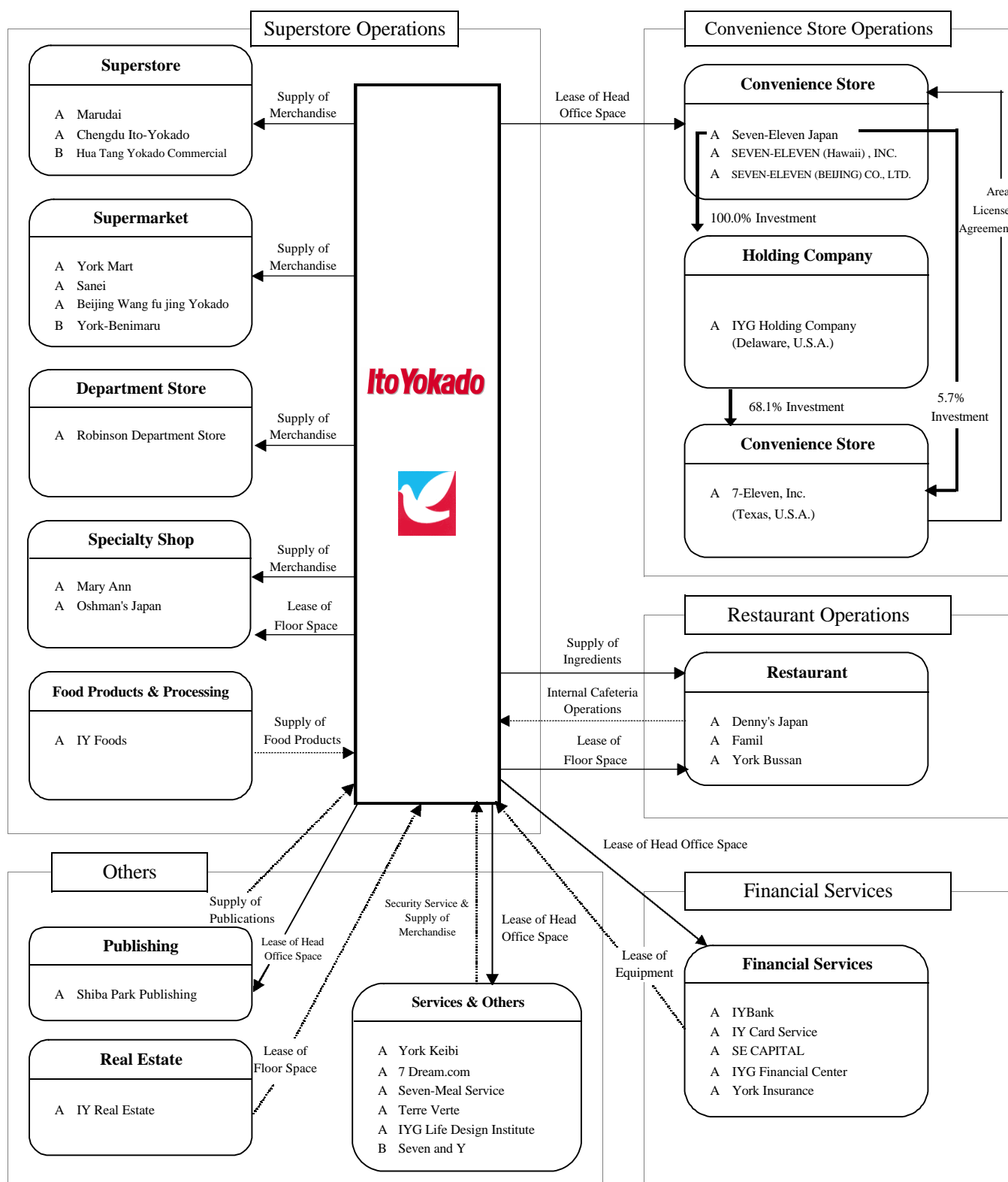
This segmentation is same as the business segment shown in the section of segment information.

Business Segment (Number of companies belong to each category)	Major Group Companies	Number of Companies
<b>Superstore Operations:</b>		
Superstore (4)	Ito-Yokado Co., Ltd. Marudai Co., Ltd. Chengdu Ito-Yokado Co., Ltd. Hua Tang Yokado Commercial Co., Ltd.	Consolidated Subsidiaries 9
Supermarket (4)	York Mart Co., Ltd. K.K. Sanei Beijing Wang fu jing Yokado Commercial Co., Ltd. York-Benimaru Co., Ltd.*	Affiliates 2 Ito-Yokado 1
Department Store (1)	Robinson Department Store Co., Ltd.	Total 12
Specialty Shop (2)	Mary Ann Co., Ltd. Oshman's Japan Co., Ltd.	
Food Products & Processing (1)	IY Foods K.K.	
<b>Convenience Store Operations: (35)</b>	Seven-Eleven Japan Co., Ltd.* 7-Eleven, Inc. IYG Holding Company SEVEN-ELEVEN (Hawaii), INC. SEVEN-ELEVEN (BEIJING) CO., LTD.	Consolidated Subsidiaries 29 Unconsolidated Subsidiaries 3 Affiliates 3 Total 35
<b>Restaurant Operations: (3)</b>	Denny's Japan Co., Ltd.* Famil Co., Ltd. York Bussan K.K.	Consolidated Subsidiaries 3
<b>Financial Services: (5)</b>	IYBank Co., Ltd. IY Card Service Co., Ltd. SE CAPITAL CORPORATION IYG Financial Center Co., Ltd. K.K. York Insurance	Consolidated Subsidiaries 5
<b>Others:</b>		
Publishing (1)	Shiba Park Publishing Co., Ltd.	Consolidated Subsidiaries 8
Real Estate (2)	IY Real Estate Co., Ltd.	Affiliates 2
Services & Others (7)	K.K. York Keibi IYG Life Design Institute Co., Ltd. K.K. 7dream.com Seven-Meal Service Co., Ltd. K.K. Terre Verte Seven and Y Corp.	Total 10

\* These Companies' shares are listed on the First Section of the Tokyo Stock Exchange

- Companies stated in the above table are consolidated subsidiaries, except York-Benimaru Co., Ltd., Hua Tang Yokado Commercial Co., Ltd. and Seven and Y Corp., which are affiliates accounted for under the equity method.  
e-Shopping Books! Corp. changed its corporate name to Seven and Y Corp. on January 5, 2005.
- Due to the expansion of bank business, the Company's senior management reviewed the segment categories and decided to create a new segment, "Financial services", in addition to the existing four segments.  
The financial services segment mainly consists of bank, credit card and lease business. Accordingly, the Company now has five reporting segments which consist of superstore operations, convenience store operations, restaurant operations, financial services and others.
- IYG Agency Co., Ltd. changed its corporate name to IYG Life Design Institute Co., Ltd. on February 28, 2005.

# BUSINESS RELATIONSHIP IN GROUP



Notes: A Consolidated subsidiary  
B Affiliate accounted for by the equity method

25 of consolidated subsidiaries, three of unconsolidated subsidiaries and four of affiliates were not included in this chart because of their immaterial scale.

Besides above chart, there are inter-group transactions as follows:

SE CAPITAL CORPORATION leases store buildings and furniture and fixtures to Seven Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd.  
K.K. York Keibi principally provides security services to Robinson Department Store Co., Ltd., Marudai Co., Ltd. and other group companies.  
Shiba Park Publishing Co., Ltd. sells magazine issued twice a month to group retail companies through agencies.  
As of March 31, 2005, IYBank Co., Ltd. placed 9,981 units of ATM machines in the stores of group companies.

## MANAGEMENT POLICIES

### **Fundamental Management Policies**

Ito-Yokado Co., Ltd. ("the Company") and Ito-Yokado group companies ("TY Group"), without depending on historical data and past experience, pursue operations that can quickly and consistently meet their customers' needs for products and services. In these activities, we are guided by our corporate philosophy of "responding to change while strengthening fundamentals."

### **Mid-term to Long-term Management Strategy**

Overall, economic sentiment has begun to improve in Japan, but consumer spending is expected to remain sluggish. Consumer needs for most products have been satisfied, and domestic consumer markets are saturated. In this setting, consumer purchasing behavior is marked not by an emphasis on price but by a strengthening focus on new products and on levels of convenience, safety, healthiness, and flavor that were not previously available. In addition, as the speed of change in customer needs increases, we must continue to provide high-quality, appealing products in order to earn the support of customers.

In this environment, the IY Group will continue striving to maintain the trust of its customers as well as the growth potential of the Group. To meet those goals, we must take steps to enhance our management from the customer's perspective and to raise profitability, capital efficiency, and productivity. Accordingly, we are implementing the IY Group business reengineering plan.

### **1. Fundamental strategy for business reengineering plan**

- (1) Enhance our management infrastructure by leveraging our strong financial position
- (2) Improve profitability by integrating the management resources of the IY Group
- (3) Strengthen the development of differentiated products by teaming up with outside organizations
- (4) Bolster our ability to respond to market changes by implementing thorough marketing

### **2. Key challenges for the business reengineering plan**

- (1) Implement new reforms in retail operations, centered on improved profitability in superstore operations
- (2) Further bolster operational foundation in financial services
- (3) Expand retail operations in China
- (4) Reform group management, including consolidating management of convenience store operations, and establish new operations

### **3. Specific actions in regard to key challenges**

#### **(1) Retail operations (superstore, convenience store, and restaurant operations)**

In retail operations, we are implementing the following policies. Improving the profitability of superstore operations is a point of special emphasis.

***(A) Product development***

1. IYG Lifestyle Design Institute Co., Ltd.<sup>\*1</sup> was launched as an independent organization that will take over existing buying activities. The institute will work to enhance the Group's merchandising activities, centered on apparel, by directing the entire process, including the coordination of marketing, product planning, production, and sales, as well as sales area visual merchandising and sales promotion activities.
2. With the cooperation of business partners at each stage, we will implement team merchandising, where we play a leadership role in product development. In this way, we will work to provide proprietary and original products that are available only at IY Group stores and to differentiate ourselves from competitors.
3. We will emphasize Group Merchandising, where we focus and leverage the product development capabilities of the IY Group and where Group members cooperate in the sale of products developed through joint Group initiatives.
4. With product lifecycles contracting, we will utilize optimal supply routes and supply methods while flexibly making revisions without being limited by initial stocking plans.
5. We will establish a system at each store that can provide products that accurately meet the preferences of customers in the store's region, and we will also aggressively promote "local buying," including bolstering procurement directly from producers and arranging regional product distributors for each sales zone.
6. To ensure full consideration for product safety and the provision of a product lineup that can always be trusted by customers, we are paying careful attention to hygiene management and product history at all stages from the site of production to the store.

***(B) Sales policies***

1. We will build sales areas based on scenarios that reflect changes in customer lifestyles. Also, we will focus on thoroughly implementing a sales system that enables us to offer quick changes of sales area lineups and layouts in accordance with events.

In superstore operations, we will leverage the strength of the comprehensive product selection offered by a General Merchandise Store ("GMS") and develop sales areas that make shopping easier and offer apparel, household goods, and food unified around specific themes.

2. Rather than making all stores the same, we will take steps to ensure that each store accurately reflects its management environment, including such factors as the location, the scale of the sales areas, and regional tastes. We will pursue product lineups and sales methods that match the differing needs of each region's customers.

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<sup>\*1</sup> Please refer to 4. Reforming and Streamlining Group Management and Establishing New Operations , B. Launch of IYG Lifestyle Design Institute Co., Ltd.

3. We will further strengthen item-by-item management, expand displays of new products that meet changing customer needs and lifestyles and products with value, and thoroughly eliminate slow-selling products.

4. In customer service, we will bolster our in-house training system to ensure that we pay careful attention to each individual customer, offering cheerful greetings, implementing swift and appropriate guidance, and providing detailed product explanations and advice. In addition, we will take a thorough approach to meeting customer needs, including bolstering food sampling, sales of smaller packages, and sales by weight through face-to-face sales as well as expanding order-made products.

5. By ensuring that sales plans and product information are understood by all staff members in sales, procurement, and marketing support areas, we will work to achieve optimal sales area management, allocation of employees, and operational improvement, thereby raising sales efficiency.

### ***(C) Store development policies***

1. The Company will continue to implement its area dominance strategy, where it focuses on developing stores in regions where it can achieve a high store density, and to earn the loyalty of customers by developing attractive stores.

2. Rather than mainly emphasizing openings that expand our market share, our basic policy is to focus on store openings and management that emphasize the profitability, efficiency, and regional character of each store.

3. In superstore operations, we will open high-quality stores that are suited to the characteristics of their local communities.

a. In high-density urban markets, we will emphasize the Company's GMS stores.

b. In wide-area markets, we will open shopping centers ("SCs") and shopping malls.

c. In line with regional characteristics and store locations, we will also develop neighborhood shopping centers (NSCs) that emphasize food sales areas.

### **(2) Financial Services**

In order to provide customers with a higher level of convenience, our financial services will make full use of the reliability that the Group has cultivated, our store network (the largest in Japan), our strong operational foundation, our information systems, and our distribution network. In this way, we will pursue synergies among the members of the IY Group, such as increases in the number and frequency of IY Group store visits and enhanced customer loyalty for the Group as a whole.

#### ***(A) Banking***

IYBank Co., Ltd. aims to provide customers with convenient financial services available 24 hours a day, 365 days a year. To that end, the bank has aggressively installed ATMs in Ito-Yokado Group stores and entered ATM tie-ups with diverse financial institutions. IYBank continues to steadily expand its operational base. As of the end of March 2005, the Bank had installed 9,981 ATMs in 24 prefectures and

established tie-ups with various financial institutions, including banks, shinkin banks, shinyo kumiai banks, labor banks, Japan Post (operator of postal savings), securities companies, life insurance companies, and credit card companies. In the future, we will work to bolster our ATM network and expand our customer base. At the same time, we will consider new financial services offered in conjunction with other members of the IY Group and do our utmost to be a bank that is increasingly relied upon by the customers in the regions we serve.

***(B) Credit Card Operations***

IY Card Service Co., Ltd. issues the "IY Card", which integrates credit card and point card functions, with the goal of increasing shopping convenience at IY Group stores. The company has steadily expanded the number of cardholders, which had reached 2.76 million at the end of February 2005. In the future, to achieve increases in the utilization rates and amounts of card members, IY Card Service will provide a variety of services and special offers. In conjunction with the development of new SC and mall-style retail spaces, IY Card Service plans to issue a new card that can be used for point services not only at IY Group stores but also at other tenant stores.

**(3) Retail Operations in China**

In China, we will develop superstores, convenience stores, and food supermarkets. As in Japan, we will follow our area dominance strategy for store openings and work to ensure that our stores are known for being attractive to the region's customers. As of the end of December 2004, the IY Group had three superstores and 10 convenience stores in Beijing and two superstores in Chengdu.

In superstores, we will open two stores in 2005 and work toward the goal of having 10 superstores in Beijing by the opening of the 2008 Beijing Olympics. In April 2005, we will open our first food supermarket in Beijing, where we will continue to develop our convenience store and food supermarket network in the years ahead.

**(4) Reforming and Streamlining Group Management and Establishing New Operations**

After careful consideration of the profitability and productivity of operations or departments, the Company will move rapidly to reform and to streamline without being limited by past experience. Furthermore, in areas where Group synergies can be expected, we will aggressively establish new operations.

***(A) Consolidating Management of Convenience Store Operations***

On February 28, 2005, Ito-Yokado Co., Ltd. sold its shares of IYG Holding Company<sup>\*2</sup> to Seven-Eleven Japan Co., Ltd., making IYG Holding Company a wholly owned subsidiary of Seven-Eleven Japan. On the same date, Ito-Yokado Co., Ltd. sold its stock and securities in 7-Eleven, Inc. to Seven-Eleven Japan Co., Ltd. The total amount of these transactions was approximately \$1.2 billion (125.0 billion yen). As a result of these measures, the operational management of the IY Group's convenience store business has been consolidated under Seven-Eleven Japan Co., Ltd.

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<sup>\*2</sup> As of December 31, 2004, IYG Holding Company was a consolidated subsidiary of the Company and owned a 68.1% stake in U.S. convenience store chain operator 7-Eleven, Inc.

***(B) Launch of IYG Lifestyle Design Institute Co., Ltd.***

IYG Lifestyle Design Institute was launched as a central part of the business reengineering initiative for product development, particularly with regard to apparel. The institute will direct the entire product development effort, taking over the existing buying activities as an independent organization and taking charge of the coordination of marketing, product planning, production, and sales, as well as sales area visual merchandising and sales promotion activities.

***(C) Establishment of Mall & SC Development, Inc.***

On March 9, 2005, Ito-Yokado and Mitsui & Co., Ltd. established Mall & SC Development, Inc. The goal of the company is to develop and manage SCs, malls, and NSCs in retail areas.

***(D) Early Application of Accounting for Impairment of Fixed Assets***

The IY Group undertook the early application of impairment accounting for fixed assets for the fiscal year ended February 28, 2005. A loss of 26.5 billion yen stemming from the application of impairment accounting was recorded. The Company will work to further improve its financial position and, in response to market changes, to enhance its store network and bolster the competitiveness of its stores.

***(E) Group System Integration Project***

The Group System Integration project will integrate the foundation of information systems that have been established by each IY Group company. As a result, the Group's procurement capabilities will be bolstered, information and data will be more easily shared among Group companies, and the systems will be streamlined and less expensive to operate. We are working to complete the Group System Integration project by February 2008.

***(F) Reform of Corporate Pension Fund***

On September 1, 2004, with the permission of the Minister of Health, Labour, and Welfare, the Company converted from the Ito-Yokado Group Employee Pension Fund, which covered the Company and domestic consolidated subsidiaries, to the IY Group Employees' Pension Fund. On the same date, the Company and its domestic consolidated subsidiaries have changed the calculation method of the defined benefit obligation to the Point System.

**Fundamental Approach, Policies, and Progress in Corporate Governance**

In corporate governance, the Company takes a rational approach to three challenges: (1) building a system that enables the board of directors to effectively supervise the administrative execution of directors, (2) ensuring sound financial condition based on thorough compliance, and (3) increasing the effectiveness and efficiency of administration. At the same time, we are emphasizing the frameworks and processes needed to fulfill our corporate social responsibilities ("CSR"), including environmental and product safety. Based on this approach, we will continue to reform our management system, centered on our system of auditors, and to bolster our corporate governance.

In the fiscal year ended February 29, 2004, we introduced an executive officer system that positions the

chairman, representative director, and CEO and the president, representative director, and COO as the leaders of our management team. We separated the supervisory functions of the board of directors from the operational functions of the executive officers, and enabled directors to focus on "formulation of management strategies" and "supervision of operational execution," while executive officers can focus on "operational execution." We also clarified management responsibilities by changing the term of directors from two years to one.

In the fiscal year ending February 28, 2005, the size of the board was reduced from 22 members to 17, in order to build a system that can respond flexibly and rapidly to dramatic market changes. Also, a CSR specialist joined our outside directors. In this way, from a CSR perspective, we bolstered the director and executive officer supervisory function.

The Board of Auditors is composed of two outside auditors (specialists in finance and law) and two full-time auditors (formerly in finance and accounting). From independent viewpoints, these auditors will supervise and audit the board of directors.

In addition to improving our management system, we are working to establish a system for promoting compliance with laws, regulations, and social standards and respect for human rights by all officers and employees.

In July 2001, we issued an updated version of the IYG Corporate Action Guidelines, which were formulated in May 1993. At the same time, we established the Corporate Ethics Committee to ensure thorough understanding of the guidelines. This committee, together with the Fair Trade Committee, which promotes fair transactions with customers and suppliers, and the Environment Committee, which promotes environmental conservation activities, is working to promote understanding of the importance of compliance and CSR among all employees.

From a risk management perspective, a sound financial position is supported by information systems, such as POS systems, and by the strict observance of rules regarding decision-making authority. We are working to identify risks and prepare countermeasures through the Public Affairs Department for disasters, accidents, and crimes; the Quality Control Department for product safety; and the Legal Department, Corporate Ethics Committee, and Fair Trade Committee for compliance.

Through these reforms and efforts, the Company will work to further speed up management and to bolster the board's supervisory and internal control functions for directors and executive officers in order to achieve the long-term maximization of enterprise value and shareholder value.

### **Corporate Citizenship**

In the 21st century, society is placing higher expectations on corporations and evaluating them more strictly. To enhance their value, companies must consider all related parties, including not only shareholders but also customers, suppliers, employees, local communities, and the government. From that viewpoint, we are constantly working to fulfill our responsibilities in the areas of social and environmental

activities, and we will continue striving to contribute to society as a corporate citizen.

## **1. Social Activities**

### **(1) Respect for human rights and individual dignity**

We will strictly respect the human rights and dignity of all people related to the IY Group.

### **(2) Employment and workplace environment**

In accordance with nondiscriminatory, fair, and open standards, we are working to establish a vibrant corporate culture where each individual can utilize their abilities in the workplace and employees respect each other.

### **(3) Universal Design**

We are promoting Universal Design, which is based on the concept of optimal standards for everyone and for society. Our goal is to provide store facilities, customer services, and products that make shopping comfortable for all customers, without regard to age, gender, or disabilities.

### **(4) Support for disaster areas**

When disasters strike, we participate in relief efforts by deploying our distribution networks and facilitating lifestyle support and donation activities for disaster areas.

### **(5) Cultural & social support**

By region, we support activities that promote cultural awareness in such areas as education, music, sports, and recreation.

## **2. Environmental Protection Activities**

### **(1) Reduction of environmental burden**

We aim to be a retailer that places a low burden on the environment. To that end, we are implementing environmental burden reduction measures in all product processes, from product development to final sale. These include developing and supplying products with low environmental burdens, introducing environmentally friendly vehicles, building an efficient distribution system promoting sales methods that use less packaging and wrapping, such as sales of individual products and sales by weight, introducing highly efficient energy saving facilities when new stores are opened or existing stores remodeled, and working to reduce waste and increase recycling.

### **(2) Introduction of environmental accounting and comprehensive standards**

In addition to quantifying our environmental burden reduction activities and collecting data, we have introduced environmental accounting and comprehensive standards in order to objectively analyze the data and to use that analysis in our future environmental conservation activities. In environmental accounting, while taking an overall view of operational activities, as a means of clearly reducing the

environmental burden, data is collected on items for which costs and effects can be quantified. In comprehensive standards, environmental reduction amounts for which data can be collected are converted to equivalent CO<sup>2</sup> emission amounts. Also, to analyze the relationship between expanded operational activities, such as higher numbers of stores and extended operating hours, and the environmental burden of our operations, we have introduced IY Environmental Burden Indices, and we are working to improve environmental efficiency.

We have prepared the Corporate Social Responsibility Annual Report, which serves as a comprehensive guide to our activities in the area of corporate social responsibilities, including those outlined above. It is available on our web site ([http://www.itoyokado.iyg.co.jp/company/eco/index\\_e.htm](http://www.itoyokado.iyg.co.jp/company/eco/index_e.htm)).

### **Dividend Policies**

At the Company, funds procured in equity markets are regarded as deposits entrusted to us by shareholders. Accordingly, our dividend policy stresses a solid return on equity and a stable dividend payout ratio.

Since the listing of the stock, the Company has worked to increase the value of its stock. Through stock splits and dividends, we have steadily returned profits to shareholders.

We will apply retained earnings mainly to investment in construction of new stores and renovation of existing locations. In addition, we invest in new business and information systems to speed our responses to changing customer preferences. In this way, we will work to improve our results, increase our operational efficiency, and meet the expectations of our shareholders.

### **Policies Related to Changing Stock Trading Unit**

Our top management priorities include ensuring the appropriate valuation of the Company's stock, increasing the stock's liquidity, and providing investment opportunities to a wide range of investors.

On August 2, 2004, in recognition of the importance of providing more investors, especially individual investors, with an environment in which it is convenient to invest in our stock, we changed the trading unit of the Company's stock from 1,000 shares to 100 shares.

## OPERATIONAL RESULTS & FINANCIAL POSITION

### 1. Operational Results in the Fiscal Year Ended February 28, 2005

#### Overview

In the fiscal year ended February 28, 2005, Japan's economy gradually moved toward recovery against a background of increased exports, principally to the United States and China; improvement in corporate profitability, centered on the manufacturing industry; and growth in capital investment.

Nonetheless, the consumer spending situation remained uncertain. In the retail industry, strong sales were recorded by certain products, such as summer goods, which were supported by the hot weather, and digital electronics products. Overall, however, consumer purchasing behavior remained cautious. In addition, sales in the retail industry were significantly affected by unseasonable weather, such as unprecedented high temperatures from early fall to early winter and unusually low temperatures from late winter to early spring.

Results in the year under review were as follows:

	(Billions of Yen)	
	Fiscal year ended February 28, 2005	% change
Revenues from Operations	3,623.5	+2.3%
Operating Income	211.9	+2.0%
Ordinary Income	208.2	+3.7%
Net Income	17.2	(67.9)%

Higher revenues, operating income and ordinary income were primarily attributable to continued strong results in convenience store operations and to a substantial increase in the profitability of financial services.

The decline in net income was attributable to several factors. The Company recorded a special loss of 20.8 billion yen stemming from the IY Group business reengineering plan and a special loss of 26.5 billion yen accompanying the early application of impaired asset accounting standards<sup>\*3</sup>. The transfer of stock<sup>\*4</sup> in U.S. convenience store chain 7-Eleven Inc. and stock of IYG Holding Company to Seven-Eleven Japan resulted in a gain on change in holding ratio of subsidiary of 5.9 billion yen and taxes on the gain from the transfer of about 17.0 billion yen.

#### Segment Information

In superstore operations, revenues declined 1.6% from the previous fiscal year, to 1,642.2 billion yen. Operating income was down 63.1%, to 7.8 billion yen. The declines in revenues and operating income

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<sup>\*3</sup> Please refer to 4. Reforming and Streamlining Group Management and Establishing New Operations ,D. Early Application of Accounting for Impairment of Fixed Assets

<sup>\*4</sup> Please refer to 4. Reforming and Streamlining Group Management and Establishing New Operations ,A. Consolidating Management of Convenience Store Operations

were principally attributable to continued sluggish consumer spending; slack sales of seasonal goods, especially apparel and household goods, due to unseasonable weather; and merchandising that did not sufficiently reflect changes in the operating environment and customer needs.

In convenience store operations, revenues rose 4.9%, to 1,806.1 billion yen, and operating income increased 4.2%, to 195.3 billion yen. Seven-Eleven Japan Co., Ltd., which operates domestically, and 7-Eleven, Inc., which operates in North America, achieved steady results. The yen-dollar exchange rate used in the consolidation of 7-Eleven, Inc.'s accounts for the fiscal year was 108.23 yen, compared with the rate of 116.00 yen used in the previous fiscal year.

In restaurant operations, revenues were unchanged at 126.1 billion yen, and operating income rose 11.0% to 3.6 billion yen. The increase in operating income was attributable to an improvement from the previous year in the weather in the summer, when restaurants get the bulk of their annual sales, and to aggressive introduction of new menu items.

In financial services, revenues increased 64.5%, to 61.2 billion yen. Operating income was 5.4 billion yen, compared with an operating loss of 3.9 billion yen in the previous fiscal year. The increase in revenues was primarily attributable to growth in revenues at both IYBank Co., Ltd., and IY Card Service Co., Ltd., as a result of higher customer recognition and expanded lines of business. The success in moving from an operating loss to operating income was a result of better profitability at IYBank.

In others, revenues were up 16.7% from the previous fiscal year, to 17.1 billion yen, and operating income was 0.2 billion yen, compared with a loss of 0.2 billion yen in the previous fiscal year.

## **2. Financial Position**

Total assets at year-end were 2,574.8 billion yen, up 112.8 billion yen from the previous year-end. Property and equipment declined 36.6 billion yen, to 839.3 billion yen, due to the application of accounting for impairment of fixed assets and the sale of property and equipment. Current assets rose 143.0 billion yen, to 1,058.6 billion yen, due in part to increases of 96.7 billion yen in cash and cash equivalents and 20.7 billion yen in inventories.

Current liabilities increased 91.0 billion yen, and long-term debt declined 21.3 billion yen. Total liabilities were up 69.7 billion yen, to 1,027.4 billion yen. Minority interest in earnings of consolidated subsidiaries rose 36.8 billion yen, to 402.8 billion yen, and total shareholders' equity increased 6.2 billion yen, to 1,144.5 billion yen. As a result, the shareholders' equity ratio at year-end was 44.4%, compared with 46.2% at the end of the previous fiscal year.

Cash and cash equivalents increased 115.7 billion yen from the end of February 2004, to 683.1 billion yen at the end of February 2005.

Compared with the previous fiscal year, net cash provided by operating activities rose 28.7 billion yen, to 266.7 billion yen. Income before income taxes declined 26.9 billion yen, to 150.8 billion yen. However, non-cash items were recorded, such as valuation loss of property and equipment of 26.5 billion yen and

business reengineering expense of 20.8 billion yen. Also, proceeds from debt in subsidiary (Bank) totaled 15.0 billion yen.

Net cash used in investing activities declined 22.8 billion yen from the previous fiscal year, to 94.7 billion yen. Although payment for purchase of investments in securities increased 31.7 billion yen, proceeds from sale of investments in securities increased 27.4 billion yen, and proceeds from sales of property and equipment rose 9.0 billion yen. Proceeds from the refund of long-term leasehold deposits were up 24.1 billion yen.

Net cash used in financing activities was 56.5 billion yen, a decrease of 97.2 billion yen from the previous fiscal year. Repayment of long-term debt increased 44.8 billion yen, but purchase of subsidiaries' treasury stock declined 53.1 billion yen, and in the previous fiscal year payment for redemption of bonds had totaled 72.8 billion yen.

Trend in the cash flow indices are as follows:

	Fiscal year ended February 28, 2003	Fiscal year ended February 29, 2004	Fiscal year ended February 28, 2005
Shareholders' equity ratio (%)	46.3	46.2	44.4
Shareholders' equity ratio on market value basis (%)	54.5	69.9	70.0
Redemption years	1.6	1.1	1.0
Interest coverage ratio (times)	16.6	21.1	39.3

**Notes:**

Shareholders' equity ratio<sup>\*1</sup>: Shareholders' equity at end of each fiscal year / total assets at end of each fiscal year

Shareholders' equity ratio on market value basis<sup>\*1</sup>: Total market value at end of each fiscal year<sup>2</sup> / total assets at end of each fiscal year

Redemption years<sup>\*1</sup>: Interest-bearing debt<sup>\*3</sup> / cash flows from operating activities<sup>\*4</sup>

Interest coverage ratio<sup>\*1</sup>: Cash flows from operating activities<sup>\*4</sup> / interest paid<sup>\*5</sup>

<sup>\*1</sup> The indices above were calculated based on consolidated financial figures.

<sup>\*2</sup> Total market value = Closing price on the last trading day of each fiscal year multiplied by total shares outstanding at end of each fiscal year (excluding treasury stock)

<sup>\*3</sup> Interest-bearing debt is the total amount of debt from the consolidated balance sheets on which interest is paid.

<sup>\*4</sup> Cash flows from operating activities are taken from the consolidated statements of cash flows.

<sup>\*5</sup> Interest paid are the amount of interest expense from the consolidated statements of cash flows.

### 3. Outlook

#### Outlook for Fiscal Year Ending February 28, 2006

The IY Group's operating environment is expected to remain difficult, with continued uncertainty regarding the future course of consumer spending.

Guided by its principle of "responding to change while strengthening fundamentals," the Ito-Yokado Group will not limit itself to past ways of doing things. The Group will continue working to further increase the precision of its merchandising and marketing and to provide products and services that accurately meet changing customer needs.

In this setting, we forecast the following results for the fiscal year ending February 28, 2006. Plans call for dividends of 34 yen per share for the fiscal year.

	(Billions of Yen)	
	Fiscal year ending February 28, 2006	% change
Revenues from Operations	3,700.0	+2.1%
Operating Income	233.0	+9.9%
Ordinary Income	230.0	+10.4%
Net Income	63.7	+270.2%

#### **Assumptions Used in the Outlook for the Fiscal Year Ending February 28, 2006**

The exchange rates used in the consolidation of the accounts of overseas subsidiaries were 105 yen to 1 dollar and 13 yen to 1 yuan.

#### **(Notices)**

#### **Forward-Looking Statements**

This document contains certain statements based on Ito-Yokado's current plans, estimates, strategies, and beliefs; all statements that are not historical fact are forward-looking statements. These statements represent the judgments and hypotheses of the Company's management based on currently 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.

# CONSOLIDATED BALANCE SHEETS

(Millions of Yen)

	As of February 28, 2005	% to the total assets	As of February 29, 2004	% to the total assets	Increase (Decrease)
<b>&lt;ASSETS&gt;</b>					
<b>Current Assets:</b>					
Cash and deposits	664,124		567,389		
Notes and accounts receivable, trade	72,465		65,364		
Trade accounts receivable - Financial services	32,840		20,757		
Marketable securities	19,941		-		
Inventories	120,300		99,530		
Prepaid expenses	21,442		20,104		
Deferred income taxes	31,201		24,875		
Other	96,772		118,092		
Allowance for doubtful accounts	<u>(465)</u>		<u>(494)</u>		
<b>Total Current Assets</b>	<b>1,058,623</b>	<b>41.1</b>	<b>915,621</b>	<b>37.2</b>	<b>143,002</b>
<b>Property and Equipment:</b>					
Buildings and structures	321,523		343,251		
Furniture and fixtures	147,821		148,391		
Vehicles	50		16		
Land	353,136		373,605		
Construction in progress	<u>16,795</u>		<u>10,687</u>		
<b>Total Property and Equipment</b>	<b>839,327</b>	<b>32.6</b>	<b>875,951</b>	<b>35.6</b>	<b>(36,624)</b>
<b>Intangible assets</b>	<b>148,792</b>	<b>5.8</b>	<b>148,178</b>	<b>6.0</b>	<b>614</b>
<b>Investments and Other Assets:</b>					
Investments in securities	95,997		83,517		
Long-term loans	20,140		23,361		
Long-term leasehold deposits	352,236		379,220		
Advances for store construction	11,946		4,448		
Deferred income taxes	28,246		14,742		
Other	26,073		22,968		
Allowance for doubtful accounts	<u>(6,568)</u>		<u>(6,082)</u>		
<b>Total Investments and Other Assets</b>	<b>528,073</b>	<b>20.5</b>	<b>522,176</b>	<b>21.2</b>	<b>5,896</b>
<b>Total Fixed Assets</b>	<b>1,516,193</b>	<b>58.9</b>	<b>1,546,305</b>	<b>62.8</b>	<b>(30,112)</b>
<b>Total Assets</b>	<b>2,574,817</b>	<b>100.0</b>	<b>2,461,927</b>	<b>100.0</b>	<b>112,890</b>

## CONSOLIDATED BALANCE SHEETS (Cont'd)

(Millions of Yen)

	As of February 28, 2005	% to the total assets	As of February 29, 2004	% to the total assets	Increase (Decrease)
<b>&lt;LIABILITIES&gt;</b>					
<b>Current Liabilities:</b>					
Notes and accounts payable, trade	250,095		250,800		
Short-term loans	5,654		4,367		
Current portion of long-term loans	11,467		7,971		
Current portion of bonds	20,000		-		
Income taxes payable	55,583		44,167		
Accrued expenses	69,526		62,340		
Deposits received	73,100		65,071		
Allowance for bonuses to employees	9,983		9,625		
Other	177,292		137,282		
<b>Total Current Liabilities</b>	<b>672,703</b>	<b>26.1</b>	<b>581,626</b>	<b>23.6</b>	<b>91,076</b>
<b>Non-Current Liabilities:</b>					
Bonds	115,000		135,000		
Long-term loans	90,676		86,353		
Commercial paper	22,493		34,135		
Deferred income taxes	18,811		15,025		
Accrued pension and severance costs	10,463		9,304		
Allowance for retirement benefits to directors and corporate auditors	2,867		4,566		
Deposits received from tenants and franchised stores	45,342		44,245		
Other	49,091		47,466		
<b>Total Non-Current Liabilities</b>	<b>354,747</b>	<b>13.8</b>	<b>376,097</b>	<b>15.3</b>	<b>(21,350)</b>
<b>Total Liabilities</b>	<b>1,027,450</b>	<b>39.9</b>	<b>957,724</b>	<b>38.9</b>	<b>69,726</b>
<b>Minority Interest</b>	<b>402,862</b>	<b>15.7</b>	<b>365,992</b>	<b>14.9</b>	<b>36,869</b>
<b>&lt;SHAREHOLDERS' EQUITY&gt;</b>					
<b>Common stock</b>	<b>47,987</b>	<b>1.9</b>	<b>47,987</b>	<b>2.0</b>	
<b>Capital surplus</b>	<b>122,653</b>	<b>4.8</b>	<b>121,807</b>	<b>4.9</b>	
<b>Retained earnings</b>	<b>983,675</b>	<b>38.2</b>	<b>980,876</b>	<b>39.8</b>	
<b>Unrealized gains on available-for-sale securities</b>	<b>3,080</b>	<b>0.1</b>	<b>2,225</b>	<b>0.1</b>	
<b>Cumulative translation adjustments</b>	<b>(8,850)</b>	<b>(0.4)</b>	<b>(10,773)</b>	<b>(0.4)</b>	
<b>Treasury stock, at cost</b>	<b>(4,041)</b>	<b>(0.2)</b>	<b>(3,913)</b>	<b>(0.2)</b>	
<b>Total Shareholders' Equity</b>	<b>1,144,504</b>	<b>44.4</b>	<b>1,138,210</b>	<b>46.2</b>	<b>6,294</b>
<b>Total Liabilities, Minority Interest and Shareholders' Equity</b>	<b>2,574,817</b>	<b>100.0</b>	<b>2,461,927</b>	<b>100.0</b>	<b>112,890</b>

## CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

	Fiscal year ended February 28, 2005	% of sales	Fiscal year ended February 29, 2004	% of sales	Increase (Decrease)
<b>Revenues from Operations</b>	[ 3,623,554]		[ 3,542,146]		<b>81,408</b>
Net sales	3,200,997	100.0	3,161,316	100.0	39,680
Cost of sales	<u>2,292,457</u>	71.6	<u>2,240,910</u>	70.9	51,546
<b>Gross profit on sales</b>	<b>908,540</b>	<b>28.4</b>	<b>920,405</b>	<b>29.1</b>	<b>(11,865)</b>
Other income	422,556	13.2	380,829	12.1	41,727
<b>Gross profit from operations - Total</b>	<b>1,331,097</b>	<b>41.6</b>	<b>1,301,235</b>	<b>41.2</b>	<b>29,862</b>
<b>Selling, general and administrative expenses</b>					
Advertising and decoration expenses	79,273		77,004		
Salaries and wages	325,463		326,184		
Provision for allowance for bonuses to employees	9,963		9,601		
Retirement benefits	11,517		13,119		
Legal welfare and employee benefits	36,884		38,456		
Land and building rent	156,818		149,790		
Depreciation and amortization	92,908		92,010		
Utility expenses	72,417		69,977		
Store maintenance and repair	61,632		57,609		
Other	<u>272,267</u>		<u>259,698</u>		
<b>Total selling, general and administrative expenses</b>	<b>1,119,146</b>	<b>35.0</b>	<b>1,093,451</b>	<b>34.6</b>	<b>25,694</b>
<b>Operating income</b>	<b>211,950</b>	<b>6.6</b>	<b>207,783</b>	<b>6.6</b>	<b>4,167</b>
<b>Non-operating income:</b>					
Interest income and dividends	2,438		2,862		
Equity in earnings of affiliates	653		2,460		
Foreign currency exchange gains	83		-		
Other	<u>2,068</u>		<u>2,069</u>		
<b>Total non-operating income</b>	<b>5,242</b>	<b>0.2</b>	<b>7,392</b>	<b>0.2</b>	<b>(2,149)</b>
<b>Non-operating expenses:</b>					
Interest expense	(5,819)		(9,910)		
Interest on bonds	(1,389)		(1,704)		
Foreign currency exchange losses	-		(1,373)		
Other	<u>(1,717)</u>		<u>(1,398)</u>		
<b>Total non-operating expenses</b>	<b>(8,926)</b>	<b>(0.3)</b>	<b>(14,387)</b>	<b>(0.4)</b>	<b>(5,461)</b>
<b>Ordinary income</b>	<b>208,267</b>	<b>6.5</b>	<b>200,787</b>	<b>6.4</b>	<b>7,479</b>
<b>Special gains:</b>					
Gain from sales of property and equipment	116		664		
Gain on reversal of allowance for retirement benefits to directors and corporate auditors	565		-		
Gain on reversal of allowance for doubtful accounts	654		528		
Gain on increase of per share amount of consolidated subsidiaries	5,999		906		
Other	<u>565</u>		<u>493</u>		
<b>Total special gains</b>	<b>7,902</b>	<b>0.2</b>	<b>2,593</b>	<b>0.0</b>	<b>5,309</b>
<b>Special losses:</b>					
Loss on sales of property and equipment	(1,838)		(3,728)		
Loss on disposals of property and equipment	(4,592)		(7,365)		
Valuation loss of property and equipment	(1,543)		(6,277)		
Impairment loss	(26,514)		-		
Loss on business reengineering	(20,882)		-		
Head office relocation expenses	(2,205)		-		
Loss on write-down of investments in securities	(68)		(181)		
Other	<u>(7,691)</u>		<u>(8,043)</u>		
<b>Total Special losses</b>	<b>(65,336)</b>	<b>(2.0)</b>	<b>(25,597)</b>	<b>(0.8)</b>	<b>(39,739)</b>
<b>Income before income taxes and minority interest</b>	<b>150,832</b>	<b>4.7</b>	<b>177,784</b>	<b>5.6</b>	<b>(26,951)</b>
Income taxes - current	97,120	3.0	76,353	2.4	20,767
Income taxes - deferred	(16,695)	(0.5)	108	0.0	(16,804)
Minority interest in earnings of consolidated subsidiaries	53,202	1.7	47,689	1.5	5,513
<b>Net income</b>	<b>17,205</b>	<b>0.5</b>	<b>53,632</b>	<b>1.7</b>	<b>(36,427)</b>

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004	Increase (Decrease)
<b>Capital surplus</b>			
<b>Capital surplus at beginning of year</b>	<b>121,807</b>	<b>121,477</b>	<b>329</b>
<b>Increase in capital surplus</b>			
Increase through a stock for stock exchange	-	154	(154)
Gain on sales of treasury stock	5	175	(169)
Increase resulting from adoption of U.S. GAAP by foreign subsidiary	840	-	840
<b>Total</b>	<b>846</b>	<b>329</b>	<b>516</b>
<b>Capital surplus at end of year</b>	<b>122,653</b>	<b>121,807</b>	<b>846</b>
<b>Retained earnings</b>			
<b>Retained earnings at beginning of year</b>	<b>980,876</b>	<b>941,280</b>	<b>39,595</b>
<b>Increase in retained earnings</b>			
Net income	17,205	53,632	(36,427)
Increase resulting from adoption of U.S. GAAP by foreign subsidiary	9	422	(412)
<b>Total</b>	<b>17,214</b>	<b>54,054</b>	<b>(36,839)</b>
<b>Decrease in retained earnings</b>			
Cash Dividends	14,193	14,163	30
Directors' and corporate auditors' bonuses	222	294	(72)
<b>Total</b>	<b>14,415</b>	<b>14,458</b>	<b>(42)</b>
<b>Retained earnings at end of year</b>	<b>983,675</b>	<b>980,876</b>	<b>2,798</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004	Increase (Decrease)
<b>Cash flows from operating activities:</b>			
Income before income taxes	150,832	177,784	(26,951)
Depreciation and amortization	95,160	94,984	175
Increase (decrease) in allowance for bonuses to employees	357	(1,075)	1,433
Increase (decrease) in accrued pension and severance costs	1,318	(1,088)	2,407
Interest and dividend income	(2,438)	(2,862)	424
Interest expense and interest on straight bonds	7,208	11,615	(4,406)
Foreign currency loss	907	1,389	(482)
Equity in earnings of affiliates	(653)	(2,460)	1,807
Loss on sale and disposals of property and equipment	6,431	11,094	(4,662)
Valuation loss of property and equipment	1,543	6,277	(4,734)
Impairment loss	26,514	-	26,514
Loss on business reengineering	20,882	-	20,882
Increase in notes and accounts receivable	(9,188)	(15,977)	6,788
Increase in trade accounts receivable - Financial services	(12,083)	(12,634)	550
Increase in inventories	(17,366)	(3,316)	(14,050)
Increase in notes and accounts payable	657	17,357	(16,699)
Proceeds from debt and issuance of bonds in subsidiary (Bank)	35,000	20,000	15,000
Other	52,926	14,589	38,336
Subtotal	358,012	315,678	42,333
Interest and dividend received	1,908	2,882	(973)
Interest paid	(6,789)	(11,270)	4,481
Income taxes paid	(86,422)	(69,334)	(17,088)
<b>Net cash provided by operating activities</b>	<b>266,709</b>	<b>237,956</b>	<b>28,753</b>
<b>Cash flows from investing activities:</b>			
Acquisitions of property and equipment	(125,700)	(126,732)	1,032
Proceeds from sales of property and equipment	29,138	20,100	9,038
Payment for purchase of investments in securities	(32,129)	(416)	(31,712)
Proceeds from sale and maturity of investments in securities	28,447	976	27,471
Payment of loans receivable	(822)	(1,668)	846
Collection of loans receivable	1,028	4,015	(2,986)
Payment for long-term leasehold deposits and advance for store construction	(34,626)	(30,645)	(3,981)
Refund of long-term leasehold deposits	51,383	27,193	24,190
Proceeds from deposits from tenants	3,580	3,086	493
Return of deposits from tenants	(3,291)	(4,530)	1,239
Other	(11,767)	(9,011)	(2,756)
<b>Net cash used for investing activities</b>	<b>(94,758)</b>	<b>(117,632)</b>	<b>22,873</b>
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans	1,307	-	1,307
Proceeds from long-term debt	22,000	17,500	4,500
Repayment of long-term debt	(50,105)	(5,239)	(44,865)
Proceeds from commercial paper issued by foreign subsidiary	614,226	592,106	22,119
Payments for redemption of commercial paper issued by foreign subsidiary	(619,793)	(610,359)	(9,434)
Payment for redemption of bonds	-	(72,827)	72,827
Increase of deposits received from affiliate	5,000	8,000	(3,000)
Contribution from minority shareholders of consolidated subsidiary	768	3,650	(2,882)
Dividends paid	(14,192)	(14,163)	(28)
Dividends paid for minority shareholders	(16,446)	(15,255)	(1,190)
Purchase of treasury stock	(137)	(12,067)	11,930
Purchase of subsidiaries' treasury stock	(147)	(53,259)	53,111
Other	996	8,182	(7,186)
<b>Net cash (used for) provided by investing activities</b>	<b>(56,524)</b>	<b>(153,731)</b>	<b>97,207</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(368)</b>	<b>(4,097)</b>	<b>3,729</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>115,058</b>	<b>(37,505)</b>	<b>152,564</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>567,389</b>	<b>604,895</b>	<b>(37,505)</b>
<b>Cash and cash equivalents of newly consolidated variable interest entities at beginning of year</b>	<b>651</b>	<b>-</b>	<b>651</b>
<b>Cash and cash equivalents at end of year</b>	<b>683,100</b>	<b>567,389</b>	<b>115,710</b>

## Significant Accounting Policies for the Preparation of Financial Statements

### 1. Scope of consolidation

#### (1) Number of consolidated subsidiaries:54

Major consolidated subsidiaries: Seven-Eleven Japan Co., Ltd.,

Denny's Japan Co., Ltd. and 7-Eleven, Inc.

EXIL S.A. became a consolidated subsidiary by a stock acquisition. Beijing Wang fu jing Yokado Commercial Co., Ltd. and another overseas subsidiary were established and included in the consolidation. Robinson's Japan Co., Ltd. and one overseas subsidiary were liquidated and excluded from the consolidation.

#### (2) Number of unconsolidated subsidiaries:3

Names: 7-Eleven, Limited, Puerto Rico-7, Inc. and Brazos Comercial E. Empreendimentos Ltda.

Reason for non-consolidation: Their total assets, sales, the Company's portion of their net income or loss, retained earnings and the effect on the Company's consolidated financial statements are not considered material.

### 2. Application of equity method

#### (1) Number of unconsolidated subsidiaries to which the equity method was applied: 2

Names: Puerto Rico-7, Inc. and Brazos Comercial E. Empreendimentos Ltda.

#### (2) Number of affiliates to which equity method was applied: 7

Major affiliate: York-Benimaru Co., Ltd.

#### (3) Name of unconsolidated subsidiary to which equity method was not applied:

7-Eleven, Limited

Reason for not applying equity method: The Company's portion of its net income or loss (as calculated by the equity method), retained earnings (as calculated by the equity method) and the effect on the Company's consolidated financial statements are not considered material.

#### (4) Procedure for applying equity method

(a) The affiliates which have different closing dates are included in the consolidated financial statements based on their respective fiscal year-end.

(b) The investments and advance to an affiliate that has negative net assets was reduced to zero and a reserve for additional loss was provided.

### 3. Accounting period of consolidated subsidiaries

Overseas subsidiaries, including 7-Eleven, Inc. and its subsidiaries, and certain domestic subsidiaries are included in the Consolidated Financial Statements on the basis of fiscal year ended December 31. All material transactions during the period from January 1 to February 28 or 29 were adjusted for in the Consolidated Financial Statements in the procedure of its consolidation.

The closing date of IYBank Co., Ltd. is March 31. Pro forma statements as of February 28 or 29 prepared in a manner that is substantially identical to the preparation of the official financial statements were prepared for IYBank Co., Ltd. in order to facilitate its consolidation.

#### 4. Summary of significant accounting policies

##### (1) Valuation method of major assets

###### (a) Securities valuation

(I) Held-to-maturity debt securities are carried at cost, and amortized using the straight-line method.

(II) Available-for-sale securities are classified into two categories:

###### (i) Fair value is available

Securities, whose fair value is available, are valued at the 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 of shareholders' equity at a net-of-tax amount. Cost of sales is determined using the moving-average method.

###### (ii) Fair value is not available.

Securities, whose fair value is not available, are valued at cost. Cost is determined using the moving-average method.

###### (b) Derivatives valuation:

Fair value

###### (c) Inventories Valuation

###### (I) Merchandise:

Inventories are valued principally at the lower of cost or market. Cost is determined principally by the average retail method for domestic companies and the LIFO method for foreign subsidiaries.

###### (II) Supplies:

Supplies are carried at cost. Cost is determined by the last purchase price method.

##### (2) Depreciation and amortization

###### (a) Property and equipment

Depreciation of property and equipment is computed generally on the declining-balance method for the Company and its domestic subsidiaries and on the straight-line method for foreign subsidiaries.

###### (b) Intangible assets

Intangible assets, except software for internal use, are amortized using the straight-line method. Software for internal use is amortized using the straight-line method on estimated useful life (5 years). The subsidiaries in the United States make an impairment test for goodwill and other intangible assets with indefinite lives in accordance with the provisions of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets", and decrease the book value if required.

##### (3) Allowances

###### (a) Allowance for doubtful accounts

An allowance for doubtful accounts is provided against potential losses on collection at an amount measured by a historical bad debt ratio, plus an amount individually measured on collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency.

###### (b) 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.

(c) 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 arose.

(d) 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.

(4) Foreign currency translation for major assets and liabilities denominated in foreign currency

All assets and liabilities of the Company and its domestic subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates. Translation gains or losses are included in the accompanying Consolidated Statements of Income.

All balance sheets accounts, except shareholders' equity, of foreign subsidiaries are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates and all income and expense accounts are translated at the average exchange rate for the period. The resulting translation adjustments are included in "Minority interest in consolidated subsidiaries and "Translation adjustments".

(5) Leases

Finance leases, except those for which ownership of the leased assets is considered to be transferred to lessee, are accounted for as in the same manner as operating leases.

(6) Hedge accounting

(a) Hedge accounting

If interest rate swaps are used as hedges and meet certain hedging criteria, the Company defers recognition of gains and losses resulting from the changes in fair value of interest rate swaps until the related gains and losses on the hedged item are recognized. However, certain interest rate swaps which meet specific hedging criteria are not measured at fair value but the differences between paid and received under the swap agreements are recognized and included in interest income or expense as incurred. The consolidated subsidiary in the United States applied hedge accounting under U.S. GAAP to its interest rate swap.

(b) Hedge instruments and hedged items

Hedge instruments---Interest swap

Hedged items---Fixed-rate bonds

Variable-rate commercial paper of a consolidated subsidiary in the United States\*

\* Interest rate swap contract expired during the year ended February 28, 2005. Accordingly hedge instruments and hedged items ceased as of February 28, 2005.

(c) Hedging policies

The Company and its subsidiaries utilize derivative instruments for the purposes of hedging its exposure to fluctuation in foreign currency rates, interest rates, and reducing financing costs.

The Company and its subsidiaries do not hold or issue derivative instruments for trading or speculative purposes.

(d) Assessing hedge effectiveness

The Company assesses hedge effectiveness for interest rate swap quarterly except for those that meet specific hedging criteria.

(7) Other accounting issues

(a) Accounting for franchised stores in convenience store operations

7-Eleven, Inc. includes the assets, liabilities, equity and results of operations of its franchised stores in its consolidated financial statements. Seven-Eleven Japan Co., Ltd. recognizes franchise fees from its franchised stores as revenues and includes it in “Other income”.

(b) Accounting for consumption taxes and excise tax

The Japanese consumption taxes withheld and consumption taxes paid are not included in the Consolidated Statements of Income. The excise tax levied in the U.S. and Canada is included in the revenues from operations.

5. Cash and cash equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows are comprised of cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition, that are liquid, readily convertible into cash and are subject to minimum risk of price fluctuation.

**Changes in Accounting Policy**

(Accounting Standard for Impairment of Fixed Assets)

On August 9, 2002, the Business Accounting Council issued an “Accounting Standard of Accounting for Impairment of Fixed Assets”, and on October 31, 2003, the Accounting Standard Board of Japan 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 and its consolidated domestic subsidiaries early adopted the new accounting standard for impairment of fixed assets for fiscal year beginning on March 1, 2004. As a result of adopting the new accounting standard for impairment of fixed assets, income before income taxes for the year ended February 28, 2005, decreased by 25,976 million yen.

Accumulated impairment losses are deducted directly from related fixed assets.

Consolidated subsidiaries in the United States have ever applied accounting standards for fixed assets impairment under U.S. GAAP. Impairment losses for the current year include the impairment loss incurred in the consolidated subsidiaries in the United States.

**Additional information**

(Accounting for franchised stores in convenience store operations)

7-Eleven, Inc. adopted FASB Interpretation No. 46, “Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51”(“FIN 46”) and subsequent revision to FIN 46 (“FIN 46R”), as of January 1, 2004. Accordingly, the assets, liabilities, equity and results of operations of its franchised stores are included in its consolidated financial statements. The impact on net income resulted from the adoption of these interpretations was immaterial. Upon the adoption of FIN 46 and FIN 46R, cash and cash equivalents held by the franchised stores of 7-Eleven, Inc. are included in the Company’s consolidated

financial statements. Its balance at beginning of the period is reported on the Consolidated Statements of Cash Flows as “Cash and cash equivalents of newly consolidated variable interest entities at beginning of year”.

Before the adoption of FIN 46 and FIN 46R, merchandise sales and cost of sales operated by the franchised stores are included in “Net sales” and “Cost of sales” and the franchisee’s share of the gross profit of franchised stores is presented as “Selling, general and administrative expenses”.

(Change of 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 and its domestic consolidated subsidiaries participate 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 and the calculation method of the defined benefit obligation was changed to the Point system on the same date. As a result, 744 million yen of net prior service costs were recognized as the group total, of which 4,045 million yen (decrease of liabilities) was recognized by the Company, 3,326 million yen (increase of liabilities) by Seven-Eleven Japan Co., Ltd. and 1,462 million yen (increase of liabilities) by other subsidiaries. The Company's portion of the prior service costs was not amortized because unrecognized assets had existed. The consolidated subsidiaries' portion of the prior service costs was either recognized immediately or amortized over 10 years.

# Notes to Consolidated Financial Statements

## Consolidated Balance Sheets

### 1. Depreciation of Property and Equipment

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Accumulated Depreciation	728,217	686,701

### 2. Collateral Assets

#### Assets pledged as collateral

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Buildings	-	18,126
Land	7,319	12,024
Furniture and fixtures	-	2,844
Investments in securities	16,511	16,512
Total	23,830	49,508
Debts for which above assets are pledged as collateral (including current portion of long-term debt)	6,750	48,849

#### Assets pledged as collateral for the debts of affiliates and vendors

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Buildings	1,602	1,722
Land	2,628	2,628
Debt of affiliates and vendors for which above assets are pledged as collateral	6,045	6,341

#### Assets pledged as collateral for business purpose

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Investments in securities	5,499	5,499

### 3. Guarantees

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
7-Eleven Mexico, S.A. de C.V.	387	396
Goshogawara Machi Dukuri K.K.	883	1,000
K.K. Delica Land	600	600
Yugen Gaisha TR Kikaku	-	84
Employees housing Loans	1,342	1,452
Total	3,213	3,533

*Consolidated Statements of Income*

1. Merchandise inventories valuation included in "Cost of sales" are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Inventories valuation loss	5,577	3,981

2. The franchised fee from Seven-Eleven Japan Co., Ltd's franchised stores is included in "Other income".  
The franchised fee from franchised stores and net sales of franchised stores are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Franchised fee from franchised stores	343,617	324,186
Net sales of franchised stores	2,319,544	2,223,998

3. Major items included in "Gain from sales of property and equipment" are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Buildings and structures	38	651
Land	78	-
Others	0	13
Total	116	664

4. Major items included in "Loss on sales of property and equipment" are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Buildings and structures	239	545
Land	1,481	3,068
Others	118	114
Total	1,838	3,728

5. Major items included in "Loss on disposals of property and equipment" are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Buildings and structures	3,360	3,852
Furniture and Fixtures	1,073	935
Others	158	2,577
Total	4,592	7,365

6. Valuation loss was recognized on property and equipment held for sale.

Major items included in "Valuation loss of property and equipment" are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Buildings and structures	387	1,051
Land	1,156	5,165
Others	-	60
Total	1,543	6,277

7. Impairment loss

In the year ended February 28, 2005, the Company and its consolidated subsidiaries recognized 26,514 million yen of impairment loss on the following group of assets.

(Millions of Yen)

Description	Classification	Location	Amount
Stores ( Superstores Department stores )	Land and buildings etc.	Aichi Pref. 3 Stores	22,958
		Chiba Pref. 3 Stores	
		Other 8 Stores	
Stores (Convenience stores)	Land and buildings etc.	Tokyo 11 Stores	
		Saitama Pref. 7 Stores Other (including U.S.)	
Stores (Restaurant)	Building and structures etc.	Tokyo & other 36 Stores	
Stores (Other)	Buildings etc.	Chiba & other 5 Stores	
Other facilities etc.	Land and buildings etc.	Saitama & other 5 Stores	3,556
Total			26,514

The Company and its consolidated domestic subsidiaries group their fixed assets by store which is the minimum cash-generating unit.

The book value of stores whose land had significantly depreciated, or which incurred consecutive operating losses, were reduced to recoverable amounts, and the amount written down was recorded as impairment loss in special losses.

Breakdown of impairment loss are as follows:

(Millions of Yen)

	Stores	Other facilities etc.	Total
Building and structures	11,837	119	11,957
Land	9,984	3,435	13,420
Other	1,135	1	1,137
Total	22,958	3,556	26,514

In the case where net selling prices were used as recoverable amounts, relevant assets were evaluated based on real estate appraisal standards, and in the case where values in use were used as recoverable amounts, relevant assets were evaluated by discounting estimated future cash flows to which the 3.1% - 6.5% discount rates were applied.

Impairment losses for the current year include 538 million yen of impairment loss incurred in the consolidated subsidiaries in the United States, and 791 million yen impairment losses for the previous year were included in Special loss.

*Consolidated Statements of Cash Flows*

1. Reconciliation of cash and cash equivalents of consolidated statements of cash flows and account balances of consolidated balance sheets

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Cash and bank deposits	664,124	567,389
Marketable securities	19,941	-
Total	684,066	567,389
Time deposits with an original maturity of more than three months	(965)	-
Cash and cash equivalents	683,100	567,389

## Leases

1. Finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees

(1) As lessee

(a) Acquisition cost, accumulated depreciation and net book value, including the interest portion, are summarized as follows:

Furniture and fixtures		(Millions of Yen)	
	As of February 28, 2005	As of February 29, 2004	
Acquisition cost	41,227	44,761	
Accumulated depreciation	20,576	24,757	
Net book value	20,651	20,004	

(b) The amounts of outstanding future lease payments, including the interest portion, are summarized as follows:

		(Millions of Yen)	
	As of February 28, 2005	As of February 29, 2004	
Within one year	7,335	7,168	
Over one year	13,316	12,835	
Total	20,651	20,004	

(c) Lease payments and depreciation expense are as follows:

		(Millions of Yen)	
	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004	
Lease payments	8,378	8,553	
Depreciation expense	8,378	8,553	

(d) Depreciation expense is computed by the straight-line method over the lease term of the leased assets assuming no residual value.

(2) As lessor

(a) Acquisition cost, accumulated depreciation and net book value are summarized as follows:

Furniture and fixtures		(Millions of Yen)	
	As of February 28, 2005	As of February 29, 2004	
Acquisition cost	17,449	12,389	
Accumulated depreciation	6,070	3,395	
Net book value	11,379	8,994	

(b) The amounts of outstanding future lease payments to be received are summarized as follows:

		(Millions of Yen)	
	As of February 28, 2005	As of February 29, 2004	
Within one year	3,023	2,274	
Over one year	8,533	6,681	
Total	11,557	8,955	

(c) Lease income, depreciation expense and interest income are as follows:

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Lease income	3,013	2,059
Depreciation expense	2,793	1,888
Interest income	311	239

(d) Allocation of interest income to each period is computed by interest method.

## 2. Operating leases

As lessee

The amounts of outstanding future lease payments, including the interest portion, are summarized as follows:

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Within one year	54,982	55,458
Over one year	313,736	303,790
Total	368,718	359,248

## Securities Information

### 1. Held-to-maturity debt securities (fair value is available)

(Millions of Yen)

	As of February 28, 2005			As of February 29, 2004		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value exceeding book value	0	0	0	0	0	0
Securities with fair value not exceeding book value	-	-	-	-	-	-
Total	0	0	0	0	0	0

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

(Millions of Yen)

		As of February 28, 2005			As of February 29, 2004		
		Acquisition cost	Book value	Net unrealized gain (losses)	Acquisition cost	Book value	Net unrealized gain (losses)
Securities with book value exceeding acquisition cost	Equity securities	9,770	15,984	6,213	9,413	13,833	4,420
	Debt securities	6,005	6,021	16	21,987	22,011	24
	Sub total	15,776	22,006	6,229	31,400	35,845	4,444
Securities with book value not exceeding acquisition cost	Equity securities	308	241	(67)	693	582	(111)
	Debt securities	20,634	20,603	(30)	134	113	(20)
	Sub total	20,942	20,844	(98)	827	696	(131)
Total		36,718	42,850	6,131	32,228	36,541	4,312

### 3. Available-for-sale securities sold during the fiscal year ended February 28, 2005

Information is not disclosed because the transactions are immaterial.

### 4. Major securities (fair value is not available)

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
	Book value	Book value
Held-to-maturity debt securities - bonds	199	199
Available-for-sale securities		
-Unlisted securities (excluding OTC securities)	1,193	1,261
-Unlisted foreign securities	5,009	5,006
Money market mutual fund		
-Commercial paper	19,941	-

5. Redemption schedule of available-for-sale securities with fixed maturities and held-to maturity debt securities

(Millions of Yen)

	As of February 28, 2005				As of February 29, 2004			
	within 1 year	1 to 5 years	5 to 10 years	over 10 years	within 1 year	1 to 5 years	5 to 10 years	over 10 years
Governmental and municipal bonds	20,500	6,010	-	-	16,000	6,000	-	-
Corporate bonds	104	203	-	-	-	109	203	-
Total	20,604	6,213	-	-	16,000	6,109	203	-

## Derivative Transactions

Notional amounts, fair value and unrealized gain (loss) of derivative instruments

### 1. Currency-related transactions

(Millions of Yen)

	As of February 28, 2005				As of February 29, 2004			
	Notional amounts total	Notional amounts, due over one year	Fair Value	Unrealized gain (loss)	Notional amounts total	Notional amounts, due over one year	Fair Value	Unrealized gain (loss)
Forward exchange contracts								
Buy:								
U.S. Dollar	5,259	-	5,011	(248)	7,380	298	7,185	(195)
Euro	42	-	43	0	25	-	26	0
Denmark Krone	1	-	1	0	-	-	-	-
Foreign currency options								
Sell:								
Put U.S. Dollar	-	-	-	-	92	-	(4)	0
Buy:								
Call U.S. Dollar	-	-	-	-	92	-	0	(3)
Foreign currency swap								
U.S. Dollar	47,472	47,472	6,839	6,839	47,472	47,472	3,817	3,817
Total	52,776	47,472	11,895	6,590	55,063	47,770	11,023	3,617

Note: Calculation of fair value :

Forward exchange contracts --- The fair value is based on the prices obtained from financial institutions.

Foreign currency swap and Options --- The fair value is based on the prices obtained from financial institutions.

### 2. Interest-related transactions

(Millions of Yen)

	As of February 28, 2005				As of February 29, 2004			
	Notional amounts total	Notional amounts, due over one year	Fair Value	Unrealized gain (loss)	Notional amounts total	Notional amounts, due over one year	Fair Value	Unrealized gain (loss)
Interest rate swap								
Receive float / Pay fix	35,000	35,000	(477)	(477)	35,000	35,000	(582)	(582)
Total	35,000	35,000	(477)	(477)	35,000	35,000	(582)	(582)

Note: Calculation of fair value :

Fair value of Interest rate swap is based on the prices obtained from financial institutions.

Interest rate swap transactions presented above exclude those for which hedge accounting has been adopted.

## Retirement Benefits

### 1. Summary of the retirement benefit plans

The Company and its domestic consolidated subsidiaries provide two types of contributory defined benefit plans, which are the employees pension fund plan and the lump-sum severance payment plan. Premium on employees' retirement benefit may be added upon retirement of employee.

A consolidated subsidiary, in the United States, has a defined contribution pension plan in addition to a defined benefit plan.

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 and its domestic consolidated subsidiaries participate 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 and the calculation method of the defined benefit obligation was changed to the Point System on the same date.

### 2. Projected retirement benefit obligations

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Projected benefit obligations (Note 1)	(157,019)	(150,879)
Fair value of plan assets (including employee retirement benefit trust)	146,401	136,052
Unfunded pension obligations	(10,617)	(14,827)
Unrecognized actuarial differences	3,911	6,474
Unrecognized prior service cost	(2,140)	649
Others (Note 2)	(1,617)	(1,601)
Accrued pension and severance costs	(10,463)	(9,304)

(Notes)

Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
1. For some of the consolidated subsidiaries, the simplified method is employed in computing retirement benefit obligations.	1. For some of the consolidated subsidiaries, the simplified method is employed in computing retirement benefit obligations.
2. Others includes 1,168 million yen of allowance for postretirement benefit obligations that is provided for by a consolidated subsidiary in the United States.	2. Others includes 1,179 million yen of allowance for postretirement benefit obligations that is provided for by a consolidated subsidiary in the United States.

3. Net periodical benefit cost

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Service cost (Notes 1 and 2)	10,023	11,072
Interest cost	3,983	3,729
Expected return on plan assets	(5,476)	(4,729)
Amortization of actuarial differences	787	971
Amortization of prior service cost	3,519	98
Premium on employees' retirement benefit	360	1,062
Net periodic benefit cost	13,198	12,205

(Notes)

Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
1. Net periodic benefit cost of subsidiaries using the simplified method are included.	1. Net periodic benefit cost of subsidiaries using the simplified method are included.
2. Besides the above net periodic benefit costs, 1,688 million yen of benefit cost related to the defined contribution plan employed by a subsidiary in the United States is recorded.	2. Besides the above net periodic benefit costs, 1,751 million yen of benefit cost related to the defined contribution plan employed by a subsidiary in the United States is recorded.

4. Assumptions used in accounting for the retirement benefit obligations

(Millions of Yen)

	Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
Allocation method of estimated total retirement benefits	Point basis	Benefit formula basis
Discount rate	Mainly 2.5% A consolidated subsidiary in the United States 6.0%	Mainly 2.5% A consolidated subsidiary in the United States 6.25%
Expected rate of return on plan assets	Mainly 3.5%	Mainly 3.5%
Periods over which the prior service cost is amortized	Immediate recognition or 10 years	-
Periods over which the actuarial differences are amortized	Actuarial differences are amortized in the year following the year in which the differences are recognized primarily by the straight-line method over the period (manly 10 years) which is shorter than the average remaining years of service of the eligible employees. A consolidated subsidiary in the United States has adopted the corridor approach for the amortization of actuarial differences.	Actuarial differences are amortized in the year following the year in which the differences are recognized primarily by the straight-line method over the period (manly 10 years) which is shorter than the average remaining years of service of the eligible employees. A consolidated subsidiary in the United States has adopted the corridor approach for the amortization of actuarial differences.

## Tax Effect Accounting

### 1. The components of deferred tax assets and liabilities

(Millions of Yen)

	As of February 28, 2005	As of February 29, 2004
Deferred tax assets		
Inventory reserve	2,416	2,137
Allowance for bonuses to employees	4,075	3,390
Allowance for sales promotion expenses	2,722	2,370
Accrued payroll	3,613	3,325
Allowance for retirement benefits to directors and corporate auditors	1,123	1,858
Accrued pension and severance costs	3,870	2,990
Impairment loss	4,513	-
Depreciation and amortization	5,371	4,842
Tax loss carryforwards	15,772	25,171
Tax credit carryforwards	-	491
Loss on write-down of available-for-sale securities	546	570
Allowance for doubtful accounts	2,911	3,391
Unrealized loss on fixed assets	1,391	1,023
Loss on write-down of land	9,046	4,043
Accrued enterprise taxes and business office taxes	5,554	4,518
Non-deductible accrued expenses	8,416	8,295
Loss on business reengineering	8,499	-
Other	8,742	7,094
Sub-total	88,587	75,515
Less valuation allowance	(19,726)	(22,505)
Total	68,860	53,009
Deferred tax liabilities		
Unrealized gain on fixed assets	(21,410)	(20,141)
Unrealized gain on Royalties	(1,492)	(1,533)
Deferred gain on sales of property and equipment	(1,113)	(1,143)
Unrealized gain on available-for-sale securities	(3,102)	(4,162)
Other	(3,859)	(3,019)
Total	(30,978)	(30,000)
Net deferred tax assets	37,882	23,008

2. Reconciliation between the statutory tax rate and the effective tax rate

Fiscal year ended February 28, 2005		Fiscal year ended February 29, 2004
Statutory tax rate	42.1	The reconciliation between the statutory tax rate and the effective tax rate has not been disclosed because the difference is less than 5%.
	(%)	
Gain from sales of subsidiaries' stock and convertible bond issued by a subsidiary	10.8	
Gain on equity share fluctuation in consolidated subsidiaries	(1.6)	
Non-deductible items such as entertainment expenses	0.4	
Changes of valuation allowance	0.8	
Inhabitants taxes per capita	0.7	
Effects of the change of statutory tax rate in relation to the partial amendment of the Local Tax Law	0.8	
Other	(0.7)	
Effective tax rate	53.3	

3. Change in statutory income tax rate

Fiscal year ended February 28, 2005	Fiscal year ended February 29, 2004
_____	Legislation was issued on March 31, 2003, which amended a part of local taxes. Thus, the statutory tax rate which was used to calculate deferred tax assets and deferred tax liabilities for temporary differences that are expected to reverse beginning March 1, 2005 was changed accordingly from the prior fiscal year's rate of 42.1% to 40.7%. The impact of this change of tax rate was immaterial.

# SEGMENT INFORMATION

## 1. Business Segments

Fiscal year ended February 28, 2005

(Millions of Yen)

	Superstore operations	Convenience store operations	Restaurant operations	Financial services	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income (loss)								
<b>Revenues</b>								
1. Customers	1,630,144	1,805,810	124,364	52,125	11,108	3,623,554	-	3,623,554
2. Intersegment	12,119	357	1,817	9,110	6,086	29,492	(29,492)	-
<b>Total revenues</b>	<b>1,642,264</b>	<b>1,806,168</b>	<b>126,181</b>	<b>61,236</b>	<b>17,195</b>	<b>3,653,046</b>	<b>(29,492)</b>	<b>3,623,554</b>
<b>Operating expenses</b>	<b>1,634,449</b>	<b>1,610,783</b>	<b>122,561</b>	<b>55,834</b>	<b>16,984</b>	<b>3,440,613</b>	<b>(29,009)</b>	<b>3,411,603</b>
<b>Operating income (loss)</b>	<b>7,814</b>	<b>195,385</b>	<b>3,620</b>	<b>5,401</b>	<b>211</b>	<b>212,433</b>	<b>(482)</b>	<b>211,950</b>
<b>Assets, depreciation and capital expenditure</b>								
Assets	1,082,567	1,144,039	83,088	486,374	15,112	2,811,182	(236,364)	2,574,817
Depreciation	22,345	63,725	3,252	5,798	38	95,160	-	95,160
Impairment loss	19,878	5,405	547	-	683	26,514	-	26,514
Capital expenditures	43,047	76,755	3,664	7,356	3,275	134,099	-	134,099

### Notes:

- The classification of business segment is made according to the type of products and service and the type of sales.
- Major businesses of each segment are as follows:
  - Superstore operations ----- Superstore, supermarket, department store and specialty shop
  - Convenience store operations ----- Convenience store business operated by corporate stores and franchised stores under the name of "7-Eleven".
  - Restaurant operations ----- Coffee shop style restaurant, family restaurant operated in shopping center and catering
  - Financial services ----- Bank, credit card and lease business
  - Others ----- Electronic commerce business and other services
- Effective from the year ended February 28, 2005, the Company and its consolidated domestic subsidiaries adopted new accounting standard for impairment of fixed assets. The consolidated subsidiaries in the United States have ever applied accounting standard of fixed assets impairment under U.S. GAAP. Impairment loss in Convenience store operations includes 538 million yen recorded by them.
- Due to the expansion of bank business, the Company's senior management reviewed the segment categories and decided to create a new segment, "Financial services", in addition to the existing four segments. The financial services segment mainly consists of bank, credit card and lease business. Accordingly, the Company now has five reporting segments which consist of superstore operations, convenience store operations, restaurant operations, financial services and others. The following tables show the business segment information for the prior fiscal year under the new segment categories adopted in the current fiscal year.

Fiscal year ended February 29, 2004

(Millions of Yen)

	Superstore operations	Convenience store operations	Restaurant operations	Financial services	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income (loss)								
<b>Revenues</b>								
1. Customers	1,656,544	1,721,200	124,381	31,110	8,909	3,542,146	-	3,542,146
2. Intersegment	12,784	257	1,808	6,108	5,828	26,788	(26,788)	-
<b>Total revenues</b>	<b>1,669,329</b>	<b>1,721,458</b>	<b>126,189</b>	<b>37,219</b>	<b>14,737</b>	<b>3,568,934</b>	<b>(26,788)</b>	<b>3,542,146</b>
<b>Operating expenses</b>	<b>1,648,163</b>	<b>1,533,990</b>	<b>122,928</b>	<b>41,155</b>	<b>14,943</b>	<b>3,361,182</b>	<b>(26,819)</b>	<b>3,334,362</b>
<b>Operating income (loss)</b>	<b>21,165</b>	<b>187,467</b>	<b>3,261</b>	<b>(3,936)</b>	<b>(205)</b>	<b>207,752</b>	<b>31</b>	<b>207,783</b>
<b>Assets, depreciation and capital expenditure</b>								
Assets	1,003,548	1,220,587	83,954	392,415	22,219	2,722,725	(260,798)	2,461,927
Depreciation	23,927	62,866	3,456	4,685	48	94,984	-	94,984
Capital expenditures	40,405	80,451	3,560	7,485	9,328	141,231	-	141,231

**Fiscal year ended February 29, 2004**

(Millions of Yen)

	Superstore operations	Convenience store operations	Restaurant operations	Others	Total before eliminations	Eliminations	Consolidated Total
<b>Revenues and operating income (loss)</b>							
<b>Revenues</b>							
1. Customers	1,656,544	1,721,200	124,381	40,020	3,542,146	-	3,542,146
2. Intersegment	12,784	257	1,808	11,935	26,786	(26,786)	-
<b>Total revenues</b>	<b>1,669,329</b>	<b>1,721,458</b>	<b>126,189</b>	<b>51,955</b>	<b>3,568,933</b>	<b>(26,786)</b>	<b>3,542,146</b>
<b>Operating expenses</b>	<b>1,648,163</b>	<b>1,533,990</b>	<b>122,928</b>	<b>56,098</b>	<b>3,361,180</b>	<b>(26,817)</b>	<b>3,334,362</b>
<b>Operating income (loss)</b>	<b>21,165</b>	<b>187,467</b>	<b>3,261</b>	<b>(4,142)</b>	<b>207,752</b>	<b>31</b>	<b>207,783</b>
<b>Assets, depreciation and capital expenditure</b>							
Assets	1,003,548	1,220,587	83,954	407,679	2,715,770	(253,843)	2,461,927
Depreciation	23,927	62,866	3,456	4,734	94,984	-	94,984
Capital expenditures	40,405	80,451	3,560	16,813	141,231	-	141,231

## SEGMENT INFORMATION

### 2. Geographic area segments

Fiscal year ended February 28, 2005

(Millions of Yen)

	Japan	U.S.A.	Others	Total before eliminations	Eliminations	Consolidated Total
Revenues and operating income						
<b>Revenues</b>						
1. Customers	2,271,682	1,231,259	120,611	3,623,554	-	3,623,554
2. Intersegment	73	2,722	-	2,796	(2,796)	-
<b>Total revenues</b>	<b>2,271,756</b>	<b>1,233,982</b>	<b>120,611</b>	<b>3,626,350</b>	<b>(2,796)</b>	<b>3,623,554</b>
<b>Operating expenses</b>	<b>2,086,029</b>	<b>1,208,391</b>	<b>119,927</b>	<b>3,414,348</b>	<b>(2,745)</b>	<b>3,411,603</b>
<b>Operating income</b>	<b>185,726</b>	<b>25,591</b>	<b>683</b>	<b>212,002</b>	<b>(51)</b>	<b>211,950</b>
<b>Assets</b>	2,182,616	400,471	33,803	2,616,891	(42,073)	2,574,817

Fiscal year ended February 29, 2004

(Millions of Yen)

	Japan	U.S.A.	Others	Total before eliminations	Eliminations	Consolidated Total
Revenues and operating income						
<b>Revenues</b>						
1. Customers	2,258,043	1,173,141	110,961	3,542,146	-	3,542,146
2. Intersegment	59	2,328	-	2,387	(2,387)	-
<b>Total revenues</b>	<b>2,258,103</b>	<b>1,175,469</b>	<b>110,961</b>	<b>3,544,534</b>	<b>(2,387)</b>	<b>3,542,146</b>
<b>Operating expenses</b>	<b>2,073,711</b>	<b>1,153,032</b>	<b>110,006</b>	<b>3,336,750</b>	<b>(2,387)</b>	<b>3,334,362</b>
<b>Operating income</b>	<b>184,392</b>	<b>22,436</b>	<b>954</b>	<b>207,783</b>	<b>-</b>	<b>207,783</b>
<b>Assets</b>	2,060,124	415,520	31,280	2,506,925	(44,997)	2,461,927

#### Notes

1. The classification of geographic area segments is made by the geographical distances.
2. Others mainly consist of the business results in P.R.C. and Canada.

## SEGMENT INFORMATION

### 3. Overseas sales

Fiscal year ended February 28, 2005

(Millions of Yen)

	U.S.A.	Others	Total
Overseas sales	1,231,259	120,611	1,351,871
Consolidated sales	-	-	3,623,554
Percentage of overseas sales to consolidated sales (%)	34.0	3.3	37.3

Fiscal year ended February 29, 2004

(Millions of Yen)

	U.S.A.	Others	Total
Overseas sales	1,173,141	110,961	1,284,102
Consolidated sales	-	-	3,542,146
Percentage of overseas sales to consolidated sales (%)	33.1	3.1	36.3

#### Notes

1. The classification of geographic area segments is made by the geographical distances.
2. Others consists of sales in P.R.C. and Canada.
3. Overseas sales represent those of consolidated subsidiaries to country and area outside of Japan.

## Related Party Transactions

There was no related party transactions for the year end February 28, 2005.