



October 7, 2004

Notice of settlement of consolidated accounts for the six months ended August 31, 2004

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: October 7, 2004

President and Representative Director : Sakae Isaka

An inquiry relating to this notice should be made to: Shiro Ozeki
Director of Finance Division
Tel: 81-3-6238-2111

U.S. GAAP is not applied.

1. Business results for the six-month period [from March 1, 2004 to August 31, 2004]

(1) Results of Operations

(Millions of Yen, except per-share data)

	Revenues from Operations		Operating Income		Ordinary Income	
Six months ended August 31, 2004	1,795,602	1.4 %	112,345	13.0 %	111,807	15.7 %
Six months ended August 31, 2003	1,770,825	1.4 %	99,434	(8.4) %	96,670	(5.2) %
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
Six months ended August 31, 2004	32,410	39.5 %	77.67	77.54
Six months ended August 31, 2003	23,241	191.6 %	55.80	55.78
Fiscal year ended February 29, 2004	53,632	15.0 %	128.25	128.22

NOTES

All amounts less than one million yen have been disregarded.

Equity in earnings of affiliates:

Six months ended August 31, 2004	-----	1,308 million yen
Six months ended August 31, 2003	-----	1,130 million yen
Fiscal year ended February 29, 2004	-----	2,460 million yen

Average number of shares outstanding:

Six months ended August 31, 2004	-----	417,287,420 shares
Six months ended August 31, 2003	-----	416,528,909 shares
Fiscal year ended February 29, 2004	-----	416,295,502 shares

Change in accounting method: None

Percentages above represent the change from the prior interim period (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 August 31, 2004	2,545,244	1,164,690	45.8%	2,791.17
As of August 31, 2003	2,430,463	1,118,047	46.0%	2,698.63
As of February 29, 2004	2,461,927	1,138,210	46.2%	2,726.99

NOTE

Total number of shares outstanding:

As of August 31, 2004	-----	417,277,126 shares
As of August 31, 2003	-----	414,301,561 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 Period (Fiscal Year)
Six months ended August 31, 2004	164,228	(13,516)	(48,873)	670,264
Six months ended August 31, 2003	136,558	(60,919)	(132,537)	548,408
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: 53
(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) 2 (excluded) 2 (b) Companies under equity method (added) 0 (excluded) 0

2. Outlook for the fiscal year ending February 28, 2005 [From March 1, 2004 to February 28, 2005]

(Millions of Yen)

	Revenues from Operations		Operating Income		Ordinary Income		Net Income	
Full Year	3,560,000	0.5 %	226,000	8.8 %	220,000	9.6 %	62,000	15.6 %

< Reference > Expected consolidated net income per share for the fiscal year ending February 28, 2005 ----- 148.00 yen

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

The outlook for fiscal year ending February 28, 2005 are 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 14 of this document.

MAJOR ITO-YOKADO GROUP COMPANIES

Ito-Yokado Group consists 64 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.

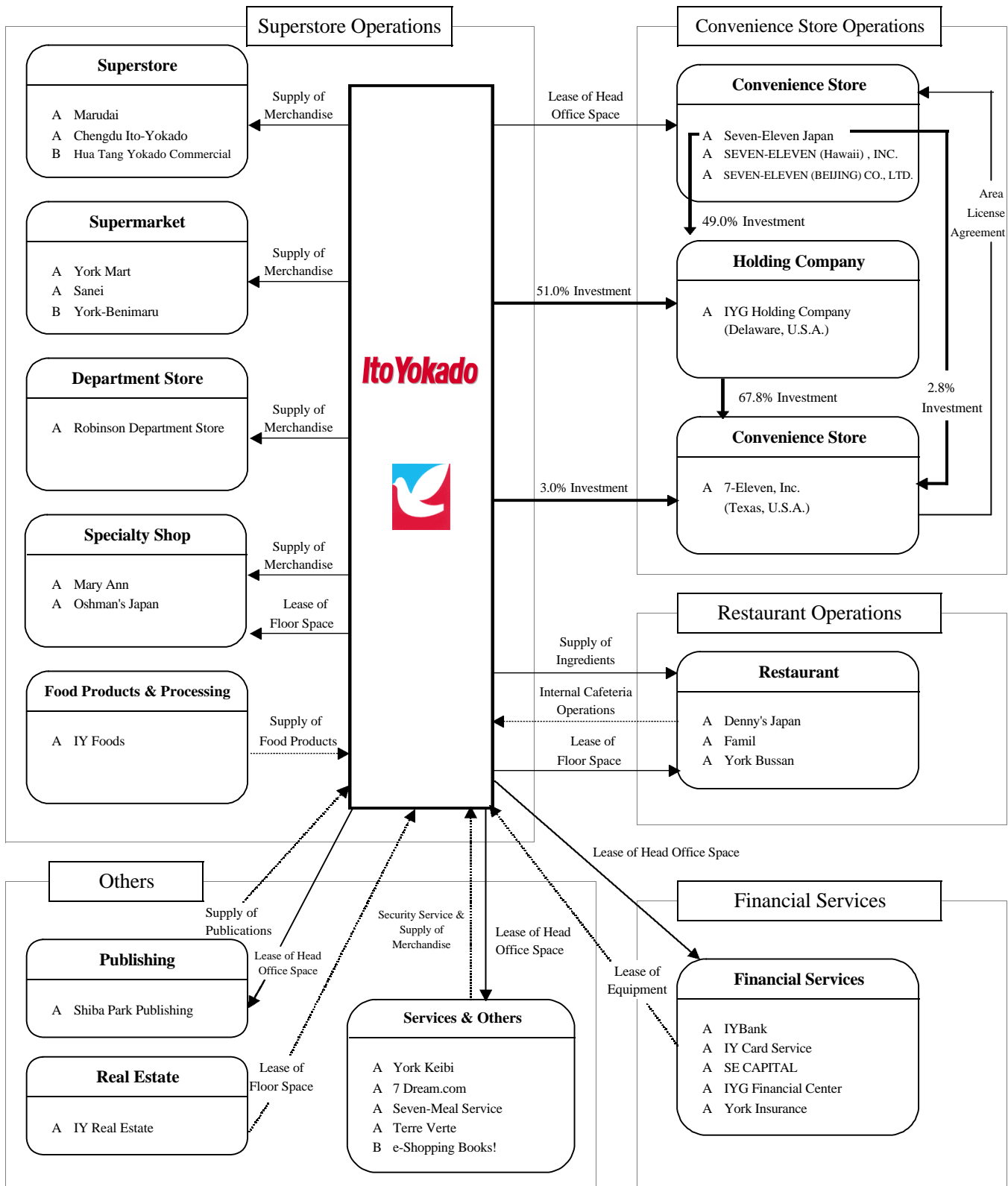
This segmentation is same as the business segment shown in the section of segment information.

Business Segment (Number of companies belong to each category)	Major Group Companies	Number of Companies
Superstore Operations:		
Superstore (4)	Ito-Yokado Co., Ltd. Marudai Co., Ltd. Chengdu Ito-Yokado Co., Ltd. Hua Tang Yokado Commercial Co., Ltd.	Consolidated Subsidiaries 8 Affiliates 2
Supermarket (3)	York Mart Co., Ltd. K.K. Sanei York-Benimaru Co., Ltd.*	Ito-Yokado 1
Department Store (1)	Robinson Department Store Co., Ltd.	Total 11
Specialty Shop (2)	Mary Ann Co., Ltd. Oshman's Japan Co., Ltd.	
Food Products & Processing (1)	IY Foods K.K.	
Convenience Store Operations: (35)	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
Restaurant Operations: (3)	Denny's Japan Co., Ltd.* Famil Co., Ltd. York Bussan K.K.	Consolidated Subsidiaries 3
Financial Services: (5)	IYBank Co., Ltd. IY Card Service Co., Ltd. SE CAPITAL CORPORATION IYG Financial Center Co., Ltd. K.K. York Insurance	Consolidated Subsidiaries 5
Others:		
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 K.K. 7dream.com Seven-Meal Service Co., Ltd. K.K. Terre Verte e-Shopping Books! Corp.	Total 10

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

1. Companies stated in the above table are consolidated subsidiaries, except York-Benimaru Co., Ltd., Hua Tang Yokado Commercial Co., Ltd. and e-Shopping Books! Corp., which are affiliates accounted for under the equity method.
2. 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.

BUSINESS RELATIONSHIP IN GROUP



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

26 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 September 30, 2004, IYBank Co., Ltd. placed 9,373 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 ("IY Group") pursue operations that can quickly and consistently meet their customers' needs for products and services. In these activities, we have been guided by our corporate philosophy of "responding to change while strengthening fundamentals."

To provide new products and services that offer value and meet rapidly changing needs, we do not limit ourselves to business methods that depend on historical data and past experience. By implementing thorough marketing, we are making an effort to enhance our merchandising capabilities by increasing the precision of demand forecasting on an item-by-item basis. In addition, we form cooperative product development teams with specialists from various fields to ensure a stable supply of high quality merchandise with value.

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 levels of convenience that were not available in the past, as well as for consistently safe, healthy, and delicious food products. In addition, in today's saturated consumer markets, there is a marked contraction in product lifecycles. To earn the support of customers, we must continue to provide appealing products with value.

In this management environment, we will continue to implement reforms that extend to the work and the attitudes of each employee and to build a system that can rapidly and accurately provide customers with new products and services that offer value and are not available outside the IY Group. We will improve management quality with a focus on the customer. In this way, we will aim to maintain our position as a corporate group that is trusted by its customers.

1. Basic Strategies of Retail Operations

(Superstore, Convenience Store and Restaurant Operations)

(A) Sales policies

a. To thoroughly eliminate slow-selling products, to continue to launch new products that meet customer needs, and to introduce products with value that feature distinctive regional qualities, we will further strengthen item-by-item management.

b. We will make effective use of marketing, build stores that support the lifestyles of our customers and match the characteristics of local communities, and boost the ability of individual stores to meet changing needs.

c. We will respond to the shortening of product life cycles with continued aggressive launches of new products and rapid changes to product lineups.

d. We will build sales areas in line with various categories of lifestyle scenarios and respond flexibly to 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 coordination with the seasons and regional events.

e. We will enhance our lineups of products with the high quality that customers want, build sales areas that always offer appropriate prices in line with product value, and work to further improve the image of IY Group stores.

f. In customer service, we will pay careful attention to each individual customer, offering cheerful greetings, implementing swift and appropriate guidance, providing detailed product explanations and advice, and responding to customers' requests with sincerity. Specific measures for superstore operations include bolstering food sampling and face-to-face sales and expanding order-made products.

g. By ensuring that sales plans and product information are understood by staff members in stores as well as in procurement and related operational support departments, we will work to achieve optimal sales area management, allocation of employees, operational improvement, and sales promotion methods, thereby raising sales efficiency.

(B) Store policies

a. 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.

b. 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.

c. In China, we will add to existing superstores with the development of 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 August 2004, the IY Group had three superstores and five convenience stores in Beijing and two superstores in Chengdu. We are also planning to open a food supermarket in Beijing in spring 2005.

(C) Product development and procurement

- a. To develop exceptionally high-quality products, we will take an active role in information collection, product planning and development, and production. 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 products that are available only at IY Group stores, to differentiate ourselves from competitors, and to enhance value added.
- b. We will establish product concepts that quantify such factors as comfort, taste, and ease of use and will accumulate objective data by thoroughly testing clothes, foods, and other products. In this way, we will bolster the development and supply of products that meet customer needs.
- c. To provide high-quality products developed in-house that satisfy customers, 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 procurement and sale of products developed through joint Group initiatives.
- d. We will establish a system that can provide products that accurately meet the preferences of customers in specific regions and we will aggressively promote "local buying", through which our regional groups and stores procure special products and seafood from nearby regions and fishing areas.
- e. 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.

2. Basic Strategies of 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. 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 September 2004, the Bank had installed 9,373 ATMs in 22 prefectures and established tie-ups with various financial institutions, including banks, shinkin banks, shinyo kumiai banks, labour 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. 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 2.65 million by the end of August 2004. 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.

3. Reforming and Streamlining Group Management

After careful consideration of the profitability and productivity of operations, departments, or stores, the Company will move rapidly to implement reform and streamlining measures without being limited by past experience.

a. 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.

b. On September 1, 2004, with the permission of the Minister of Health, Labour, and Welfare, the Company converted from the Ito-Yokado Group Employees' Pension Fund, which covered the Company and domestic consolidated subsidiaries, to the IY Group Corporate Pension Fund. On the same date, the Company and major domestic consolidated subsidiaries revised their retirement allowance systems.

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

Respect for human rights and individual dignity

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

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.

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.

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.

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

Reduction of environmental burden

We seek to reduce the environmental burden in various ways, such as protecting the environment, making effective use and reuse of resources, conserving energy, reducing waste, cutting losses, and preventing pollution. Measures targeting that goal include reduction and recycling of waste from packages and containers, saving energy by introducing the latest technologies, reducing and recycling waste from the stores, ensuring that concern for the environment and safety are reflected in production and procurement activities, as well as in products, and improving supply system efficiency by rationalizing distribution.

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 CO2 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/iy/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 new business, construction of new stores and renovation of existing locations. In addition, we invest in 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 Interim Period Ended August 31, 2004

Overview

In the interim period ended August 31, 2004, 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, and there were no clear signs of a recovery.

Results in the interim period under review were as follows:

	(Billions of Yen)	
	Six months ended August 31, 2004	% change
Revenues from Operations	1,795.6	+1.4%
Operating Income	112.3	+13.0%
Ordinary Income	111.8	+15.7%
Net Income	32.4	+39.5%

Segment Information

Starting from the interim period under review, the results of five financial services related companies, including IY Bank and IY Card Service, which had previously been included in "others," are now included in the newly established "financial services."

In superstore operations, revenues declined 0.9% from the same period of the previous fiscal year, to 819.2 billion yen. Operating income was up 27.7%, to 6.2 billion yen. Sluggish consumer spending led to the decline in revenues, but successful efforts to improve the profitability of companies in this segment resulted in significant improvement in operating income.

In convenience store operations, revenues rose 2.1%, to 887.8 billion yen, and operating income increased 4.3%, to 101.8 billion yen. Domestically, Seven-Eleven Japan Co., Ltd. recorded increases in both revenues and operating income as a result of its superior product development capabilities and aggressive store expansion strategy. In the United States, subsidiary 7-Eleven, Inc. achieved steady results and contributed to the improved performance in this segment. The yen-dollar exchange rate used in the consolidation of 7-Eleven, Inc.'s accounts for the interim period was 108.50 yen, compared with the rate of 118.71 yen used in the same period of the previous fiscal year.

In restaurant operations, revenues increased 0.8%, to 65.4 billion yen, and operating income was up 19.3%, to 2.5 billion yen. Due to much hotter weather than in the previous summer and to the aggressive introduction of new menu items, this segment achieved the increases in revenues and operating income.

In financial services, revenues increased 79.6%, to 28.3 billion yen. Operating income was 1.8 billion yen, compared with an operating loss of 5.1 billion yen in the same period of 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 services and others, which includes such operations as publishing and services, revenues were up 19.5% from the same period of the previous fiscal year, to 8.4 billion yen, and operating loss was 126 million yen, compared 83 million yen in the same period of the previous fiscal year.

2. Financial Position

Cash Flows

Cash and cash equivalents increased 102.8 billion yen from the end of February 2004, to 670.2 billion yen at the end of August 2004.

Compared with the interim period in the previous fiscal year, net cash provided by operating activities rose 27.6 billion yen, to 164.2 billion yen. This increase was primarily attributable to the higher income before income taxes and minority interest and to an increase in proceeds from long-term debt at our banking subsidiary.

Net cash used in investing activities declined 47.4 billion yen from the interim period in the previous fiscal year, to 13.5 billion yen. Although outflows were higher due to acquisitions of property and equipment accompanying capital investment and to payment for purchase of investments in securities, inflows rose due to substantial increases in proceeds from sales of property and equipment and the refund of long-term leasehold deposits.

Net cash used in financing activities was 48.8 billion yen, a decrease of 83.6 billion yen from the previous interim period. Repayment of long-term debt increased, but large outflows recorded in the previous interim period—payment for redemption of bonds, purchase of treasury stock, and purchase of subsidiaries' treasury stock—were decreased in the interim period under review.

3. Outlook

Outlook for Fiscal Year Ending February 28, 2005

At this point, the future course of consumer spending is expected to continue to be uncertain. The Ito-Yokado Group's operating environment does not lend itself to optimism.

Guided by its principle of "responding to change and 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, in fiscal year ending February 28, 2005, we forecast the following results.

(Billions of Yen)

	Fiscal year ending February 28, 2005	% change
Revenues from Operations	3,560.0	+0.5%
Operating Income	226.0	+8.8%
Ordinary Income	220.0	+9.6%
Net Income	62.0	+15.6%

Assumptions Used in the Outlook for the Fiscal Year Ending February 28, 2005

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 August 31, 2004	% to the total assets	As of August 31, 2003	% to the total assets	As of February 29, 2004	% to the total assets
<ASSETS>						
Current Assets:						
Cash and deposits	648,248		547,640		567,389	
Accounts and notes receivable, trade	72,345		68,279		65,364	
Marketable securities	25,830		767		-	
Inventories	128,618		91,222		99,530	
Trade accounts receivable - Financial services	28,904		16,064		20,757	
Prepaid expenses	24,763		22,618		20,104	
Deferred income taxes	26,360		16,736		24,875	
Other	79,744		106,277		118,092	
Allowance for doubtful accounts	<u>(387)</u>		<u>(585)</u>		<u>(494)</u>	
Total Current Assets	1,034,429	40.6	869,022	35.8	915,621	37.2
Property and Equipment:						
Building and structures	335,071		346,985		343,251	
Furniture and fixtures	146,724		153,928		148,391	
Vehicles	15		23		16	
Land	369,113		372,370		373,605	
Construction in progress	<u>10,510</u>		<u>9,782</u>		<u>10,687</u>	
Total Property and Equipment	861,435	33.9	883,089	36.3	875,951	35.6
Intangible assets	146,964	5.8	158,064	6.5	148,178	6.0
Investments and Other Assets:						
Investments in securities	85,550		75,076		83,517	
Long-term loans	22,922		25,378		23,361	
Long-term leasehold deposits	351,766		386,423		379,220	
Advances for store construction	11,103		4,213		4,448	
Deferred income taxes	14,883		21,352		14,742	
Other	22,318		15,828		22,968	
Allowance for doubtful accounts	<u>(6,130)</u>		<u>(7,987)</u>		<u>(6,082)</u>	
Total Investments and Other Assets	502,415	19.7	520,286	21.4	522,176	21.2
Total Fixed Assets	1,510,815	59.4	1,561,441	64.2	1,546,305	62.8
Total Assets	2,545,244	100.0	2,430,463	100.0	2,461,927	100.0

CONSOLIDATED BALANCE SHEETS (Cont'd)

(Millions of Yen)

	As of August 31, 2004	% to the total assets	As of August 31, 2003	% to the total assets	As of February 29, 2004	% to the total assets
<LIABILITIES>						
Current Liabilities:						
Accounts and notes payable, trade	284,877		282,178		250,800	
Short-term loans	2,820		5,032		4,367	
Current portion of long-term loans	18,147		5,904		7,971	
Current portion of bonds	-		30,000		-	
Income taxes payable	46,242		42,776		44,167	
Accrued expenses	63,441		63,155		62,340	
Deposits received	54,433		51,494		65,071	
Allowance for bonuses to employees	11,671		11,278		9,625	
Other	140,914		117,386		137,282	
Total Current Liabilities	622,548	24.4	609,207	25.1	581,626	23.6
Non-Current Liabilities:						
Bonds	135,000		120,000		135,000	
Long-term debt	84,207		54,174		86,353	
Commercial paper	22,216		45,713		34,135	
Deferred income taxes	14,952		13,515		15,025	
Accrued pension and severance costs	8,902		10,474		9,304	
Allowance for retirement benefits to directors and corporate auditors	2,629		4,401		4,566	
Deposits received from tenants and franchised stores	43,993		44,219		44,245	
Other	48,917		59,870		47,466	
Total Non-Current Liabilities	360,819	14.2	352,368	14.5	376,097	15.3
Total Liabilities	983,368	38.6	961,576	39.6	957,724	38.9
Minority interest in earnings of consolidated subsidiaries	397,185	15.6	350,839	14.4	365,992	14.9
<SHAREHOLDERS' EQUITY>						
Common stock	47,987	1.9	47,987	2.0	47,987	2.0
Capital surplus	121,811	4.8	121,477	5.0	121,807	4.9
Retained earnings	1,005,569	39.5	956,875	39.4	980,876	39.8
Unrealized gains on available-for-sale securities	2,684	0.1	1,311	0.1	2,225	0.1
Translation adjustments	(9,346)	(0.4)	3,548	0.1	(10,773)	(0.4)
Treasury stock, at cost	(4,016)	(0.1)	(13,154)	(0.6)	(3,913)	(0.2)
Total Shareholders' Equity	1,164,690	45.8	1,118,047	46.0	1,138,210	46.2
Total Liabilities & Shareholders' Equity	2,545,244	100.0	2,430,463	100.0	2,461,927	100.0

CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

	Six months ended August 31, 2004	% of sales	Six months ended August 31, 2003	% of sales	Fiscal year ended February 29, 2004	% of sales
Revenues from operations	[1,795,602]		[1,770,825]		[3,542,146]	
Net sales	1,581,544	100.0	1,580,631	100.0	3,161,316	100.0
Cost of sales	<u>1,128,006</u>	71.3	<u>1,129,214</u>	71.4	<u>2,240,910</u>	70.9
Gross profit on sales	453,537	28.7	451,417	28.6	920,405	29.1
Other income	214,057	13.5	190,193	12.0	380,829	12.1
Gross profit from operations - Total	667,595	42.2	641,611	40.6	1,301,235	41.2
Selling, general and administrative expenses	555,249	35.1	542,176	34.3	1,093,451	34.6
Operating income	112,345	7.1	99,434	6.3	207,783	6.6
Non-operating income:						
Interest income and dividends	1,170		1,498		2,862	
Equity in earnings of affiliates	1,308		1,130		2,460	
Foreign currency exchange gains	353		1,192		-	
Other	<u>1,054</u>		<u>1,083</u>		<u>2,069</u>	
Total non-operating income	3,886	0.3	4,905	0.3	7,392	0.2
Non-operating expenses:						
Interest expense	(3,280)		(5,714)		(9,910)	
Interest on bonds	(700)		(900)		(1,704)	
Foreign currency exchange losses	-		-		(1,373)	
Other	<u>(443)</u>		<u>(1,054)</u>		<u>(1,398)</u>	
Total non-operating expenses	(4,424)	(0.3)	(7,670)	(0.5)	(14,387)	(0.4)
Ordinary income	111,807	7.1	96,670	6.1	200,787	6.4
Special gains:						
Gain on reversal of allowance for doubtful accounts	679		64		528	
Gain on reversal of allowance for retirement benefits to directors and corporate officers	565		-		-	
Other	<u>208</u>		<u>1,367</u>		<u>2,064</u>	
Total special gains	1,453	0.1	1,431	0.1	2,593	0.0
Special losses:						
Loss on sales of property and equipment	(1,177)		(1,370)		(3,728)	
Loss on disposals of property and equipment	(2,408)		(2,844)		(7,365)	
Head office relocation expenses	(2,191)		-		-	
Other	<u>(2,433)</u>		<u>(3,253)</u>		<u>(14,502)</u>	
Total special losses	(8,211)	(0.6)	(7,468)	(0.5)	(25,597)	(0.8)
Income before income taxes and minority interest	105,049	6.6	90,633	5.7	177,784	5.6
Income taxes - current	44,607	2.8	39,332	2.5	76,353	2.4
Income taxes - deferred	(2,257)	(0.1)	3,323	0.2	108	0.0
Minority interest in earnings of consolidated subsidiaries	30,289	1.9	24,735	1.5	47,689	1.5
Net income	32,410	2.0	23,241	1.5	53,632	1.7

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Millions of Yen)

	Six months ended August 31, 2004	Six months ended August 31, 2003	Fiscal year ended February 29, 2004
Capital surplus			
Capital surplus at beginning of period	121,807	121,477	121,477
Increase in capital surplus			
Increase through a stock-for-stock exchange	-	-	154
Gain on sales of treasury stock	4	-	175
Total	4	-	329
Capital surplus at end of period	121,811	121,477	121,807
Retained earnings			
Retained earnings at beginning of period	980,876	941,280	941,280
Increase in retained earnings			
Net income	32,410	23,241	53,632
Increase resulting from adoption of U.S. GAAP by foreign subsidiaries	18	181	422
Total	32,429	23,423	54,054
Decrease in retained earnings			
Cash Dividends	7,514	7,532	14,163
Directors' and corporate auditors' bonuses	222	294	294
Loss on sales of treasury stock	-	0	-
Total	7,736	7,828	14,458
Retained earnings at end of period	1,005,569	956,875	980,876

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Yen)

	Six months ended August 31, 2004	Six months ended August 31, 2003	Fiscal year ended February 29, 2004
Cash flows from operating activities:			
Income before income taxes	105,049	90,633	177,784
Depreciation and amortization	46,146	46,227	94,984
Increase (decrease) in allowance for bonuses to employees	2,046	578	(1,075)
Decrease in accrued pension and severance costs	(463)	(560)	(1,088)
Interest and dividend income	(1,170)	(1,498)	(2,862)
Interest expense	3,980	6,615	11,615
Foreign currency (gain) loss	(320)	(1,183)	1,389
Equity in earnings of affiliates	(1,308)	(1,130)	(2,460)
Loss on sales or disposals of property and equipment	3,586	4,214	11,094
Valuation loss of property and equipment	1,021	308	6,277
Increase in accounts and notes receivable	(6,595)	(16,252)	(15,977)
Increase in trade accounts receivable - Financial services	(8,147)	(7,941)	(12,634)
(Increase) decrease in inventories	(10,082)	6,623	(3,316)
Increase in accounts and notes payable	33,239	43,497	17,357
Proceeds from debt and issuance of bonds in subsidiary (Bank)	25,000	-	20,000
Others	18,126	3,929	14,589
Subtotal	210,108	174,060	315,678
Interest and dividends received	998	1,752	2,882
Interest paid	(4,253)	(5,865)	(11,270)
Income taxes paid	(42,624)	(33,388)	(69,334)
Net cash provided by operating activities	164,228	136,558	237,956
Cash flows from investing activities:			
Acquisitions of property and equipment	(55,763)	(52,205)	(126,732)
Proceeds from sale of property and equipment	27,068	2,230	20,100
Payment for purchase of investments in securities	(9,002)	(3)	(416)
Proceeds from sale and maturity of investments in securities	9,162	138	976
Payment of loans receivable	(858)	(552)	(1,668)
Collection of loans receivable	569	924	4,015
Payment for long-term leasehold deposits and advance for store construction	(17,426)	(11,515)	(30,645)
Refund of long-term leasehold deposits	39,823	7,406	27,193
Proceeds from deposits from tenants	1,487	1,256	3,086
Return of deposits from tenants	(1,643)	(2,729)	(4,530)
Others	(6,934)	(5,868)	(9,011)
Net cash used in investing activities	(13,516)	(60,919)	(117,632)
Cash flows from financing activities:			
Decrease in short-term loans	(1,562)	500	-
Proceeds from long-term debt	9,000	1,500	17,500
Repayment of long-term debt	(26,526)	(2,536)	(5,239)
Proceeds from commercial paper issued by foreign subsidiary	371,937	341,591	592,106
Payments for redemption of commercial paper issued by foreign subsidiary	(384,262)	(352,827)	(610,359)
Payment for redemption of bonds	-	(43,827)	(72,827)
Contribution from minority shareholders of consolidated subsidiary	-	3,000	3,650
Dividends paid	(7,513)	(7,532)	(14,163)
Dividends paid for minority interests	(7,935)	(7,700)	(15,255)
Purchase of treasury stock	(112)	(11,968)	(12,067)
Purchase of subsidiary's treasury stock	(132)	(53,137)	(53,259)
Others	(1,765)	401	16,182
Net cash used in financing activities	(48,873)	(132,537)	(153,731)
Effect of exchange rate changes on cash and cash equivalents	384	410	(4,097)
Net increase (decrease) in cash and cash equivalents	102,222	(56,487)	(37,505)
Cash and cash equivalents at beginning of period	567,389	604,895	604,895
Cash and cash equivalents of newly consolidated variable interest entities at beginning of period	651	-	-
Cash and cash equivalents at end of period	670,264	548,408	567,389

Significant Accounting Policies for the Preparation of Interim Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries:53

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

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

EXIL S.A and one subsidiary of 7-Eleven, Inc. were established during the period and included in the consolidation. Robinson's Japan Co., Ltd. and one subsidiary of 7-Eleven, Inc. 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 interim 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 interim 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 half-year closing dates are included in the consolidated financial statements based on their respective fiscal half 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. Interim 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 half-year ended June 30. All material transactions during the period from July 1 to August 31 were adjusted for in the Consolidated Financial Statements in the procedure of its consolidation.

The interim closing date of IYBank Co., Ltd. is September 30. Pro forma interim statements as of August 31 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 interim period. 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.

(d) Assessing hedge effectiveness

The Company assesses hedge effectiveness for interest rate swap quarterly except for those that meet specific hedging criteria. The consolidated subsidiary in the United States assesses hedge effectiveness for its interest rate swap quarterly under U.S. GAAP.

(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.

Additional information

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 equipment of newly consolidated variable interest entities at beginning of period".

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".

Notes to Interim Consolidated Financial Statements

Consolidated Balance Sheets

1. Depreciation of Property and Equipment

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Accumulated Depreciation	701,785	690,330	686,701

2. Collateral Assets

Assets pledged as collateral

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Building	10,081	8,647	18,126
Land	11,673	1,968	12,024
Furniture and fixtures	1,578	1,396	2,844
Investments in securities	16,503	16,471	16,512
Total	39,837	28,484	49,508
Debt for which above assets are pledged as collateral (including current portion of long-term debt)	26,163	25,295	48,849

Assets pledged as collateral for the debts of affiliates and vendor

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Building	1,663	1,789	1,722
Land	2,628	2,628	2,628
Debt of affiliates and vendor for which above assets are pledged as collateral	6,325	6,520	6,341

Assets pledged as collateral for fund transfer

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Investments in securities	5,499	6,095	5,499

3. Contingent Liabilities

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Hua Tang Yokado Commercial Co., Ltd.	-	27	-
7-Eleven Mexico, S.A. de C.V.	406	443	396
Goshogawara Machi Dukuri K.K.	941	1,058	1,000
K.K. Delica Land	600	600	600
Yugen Gaisha TR Kikaku	-	90	84
Employees' housing Loans	1,391	1,579	1,452
Total	3,340	3,798	3,533

4. Trade accounts receivable – Financial services

Trade accounts receivable of subsidiaries in Financial services segment.

Consolidated Statements of Income

- 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)

	Six-month period ended August 31, 2004	Six-month period ended August 31, 2003	Fiscal year ended February 29, 2004
Franchised fee from franchised stores	175,785	164,088	324,186
Net sales of franchised stores	1,184,417	1,117,275	2,223,998

- Major items included in "Selling, general and administrative expenses" are as follows:

(Millions of Yen)

	Six-month period ended August 31, 2004	Six-month period ended August 31, 2003	Fiscal year ended February 29, 2004
Advertising expense	41,292	39,312	77,004
Salaries and wages	155,793	157,611	326,184
Land and building rent	76,902	74,496	149,790
Depreciation expense	45,096	44,854	92,010

3. Major items included in “Loss on sales of property and equipment” are as follows:

(Millions of Yen)

	Six-month period ended August 31, 2004	Six-month period ended August 31, 2003	Fiscal year ended February 29, 2004
Building and structures	83	264	545
Land	1,085	1,029	3,068
Others	9	76	114
Total	1,177	1,370	3,728

4. Major items included in “Loss on disposals of property and equipment” are as follows:

(Millions of Yen)

	Six-month period ended August 31, 2004	Six-month period ended August 31, 2003	Fiscal year ended February 29, 2004
Building and structures	1,491	1,156	3,852
Furniture and fixtures	635	388	935
Others	281	1,299	2,577
Total	2,408	2,844	7,365

Consolidated Statements of Cash Flows

1. Reconciliation of cash and cash equivalents of the Consolidated Statements of Cash Flows and account balances of Consolidated Balance Sheets

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Cash and bank deposits	648,248	547,640	567,389
Marketable securities	25,830	767	-
Total	674,079	548,408	567,389
Time deposits with an original maturity of more than three months	(815)	-	-
Marketable securities other than MMF and CP	(3,000)	-	-
Cash and cash equivalents	670,264	548,408	567,389

Leases

1. Finance leases, except those for which ownership of the leased assets is considered 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 August 31, 2004	As of August 31, 2003	As of February 29, 2004	
Acquisition cost	40,980	40,575	44,761	
Accumulated depreciation	18,908	21,202	24,757	
Net book value	22,072	19,373	20,004	

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

		(Millions of Yen)		
	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004	
Within one year	7,475	7,256	7,168	
Over one year	14,596	12,116	12,835	
Total	22,072	19,373	20,004	

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

		(Millions of Yen)		
	Six-month period ended August 31, 2004	Six-month period ended August 31, 2003	Fiscal year ended February 29, 2004	
Lease payments	4,221	3,976	8,553	
Depreciation expense	4,221	3,976	8,553	

(d) Depreciation expense is computed using the straight-line method over the lease term 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 August 31, 2004	As of August 31, 2003	As of February 29, 2004	
Acquisition cost	14,849	9,685	12,389	
Accumulated depreciation	4,630	2,375	3,395	
Net book value	10,219	7,310	8,994	

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

(Millions of Yen)

	As of August 31, 2004	As of August 31, 2003	As of February 29, 2004
Within one year	2,677	1,796	2,274
Over one year	7,689	5,631	6,681
Total	10,366	7,427	8,955

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

(Millions of Yen)

	Six-month period ended August 31, 2004	Six-month period ended August 31, 2003	Fiscal year ended February 29, 2004
Lease income	1,385	896	2,059
Depreciation expense	1,279	824	1,888
Interest income	145	105	239

(d) Allocation of interest income to each period is computed using the 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 August 31, 2004	As of August 31, 2003	As of February 29, 2004
Within one year	56,258	56,564	55,458
Over one year	312,358	300,881	303,790
Total	368,616	357,445	359,248

Securities Information

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

(Millions of Yen)

	As of August 31, 2004			As of August 31, 2003			As of February 29, 2004		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Governmental and municipal bonds	0	0	0	0	0	0	0	0	0

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

(Millions of Yen)

	As of August 31, 2004			As of August 31, 2003			As of February 29, 2004		
	Acquisition cost	Book value	Net unrealized gain (losses)	Acquisition cost	Book value	Net unrealized gain (losses)	Acquisition cost	Book value	Net unrealized gain
Equity securities	10,110	15,223	5,113	9,911	12,328	2,417	10,107	14,415	4,308
Debt securities	22,126	22,115	(11)	22,714	22,686	(27)	22,121	22,125	3
Total	32,236	37,338	5,102	32,625	35,015	2,389	32,228	36,541	4,312

3. Major securities (fair value is not available)

(Millions of Yen)

	As of August 31, 2004 Book value	As of August 31, 2003 Book value	As of February 29, 2004 Book value
Held-to-maturity debt securities - bonds	199	-	199
Available-for-sale securities			
-Unlisted securities (excluding OTC securities)	1,192	1,265	1,261
-Unlisted foreign securities	5,009	5,007	5,006
-Medium term notes	3,000	-	-
-Commercial paper	22,830	-	-
-Money management fund (Foreign currency)	-	767	-

Derivative Transactions

Notional amounts, Carrying amounts and fair value of derivative instruments

1. Currency-related transactions

(Millions of Yen)

	As of August 31, 2004				As of August 31, 2003				As of February 29, 2004			
	Notional amounts total	Notional amounts, due over one year	Fair value	Unrealized gains (losses)	Notional amounts total	Notional amounts, due over one year	Fair value	Unrealized gains (losses)	Notional amounts total	Notional amounts, due over one year	Fair value	Unrealized gains (losses)
Forward exchange contracts												
Buy:												
U.S. Dollar	6,992	-	6,831	(160)	3,780	-	3,752	(28)	7,380	298	7,185	(195)
Euro	18	-	17	(0)	38	-	36	(2)	25	-	26	0
U.K. Pound	16	-	15	(0)	-	-	-	-	-	-	-	-
Denmark Krone	1	-	1	(0)	-	-	-	-	-	-	-	-
Foreign currency options												
Sell:												
U.S. Dollar (Put)	-	-	-	-	646	-	(8)	20	92	-	(4)	(0)
Buy:												
U.S. Dollar (Call)	-	-	-	-	646	-	14	(11)	92	-	0	(3)
Currency swaps:												
U.S. Dollar	47,472	47,472	3,908	3,908	47,472	47,472	1,391	1,391	47,472	47,472	3,817	3,817
Total	54,500	47,472	10,774	3,746	52,584	47,472	5,187	1,370	55,063	47,770	11,023	3,617

Note: Calculation of fair value :

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

Foreign currency options and currency swaps ---The fair values is based on the prices obtained from financial institutions.

2. Interest-related transactions

(Millions of Yen)

	As of August 31, 2004				As of August 31, 2003				As of February 29, 2004			
	Notional amounts total	Notional amounts, due over one year	Fair value	Unrealized gains (losses)	Notional amounts total	Notional amounts, due over one year	Fair value	Unrealized gains (losses)	Notional amounts total	Notional amounts, due over one year	Fair value	Unrealized gains (losses)
Interest rate swaps:												
Receive float / Pay fixed	35,000	35,000	(331)	(331)	-	-	-	-	35,000	35,000	(582)	(582)

Note: Calculation of fair value :

Fair values of interest rate swaps is based on the prices obtained from financial institutions.

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

SEGMENT INFORMATION

1. Business Segments

Six months ended August 31, 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)								
Revenues								
1. Customers	813,351	887,708	64,553	24,496	5,493	1,795,602	-	1,795,602
2. Intersegment	5,936	176	902	3,874	2,929	13,820	(13,820)	-
Total revenues	819,288	887,884	65,455	28,371	8,422	1,809,422	(13,820)	1,795,602
Operating expenses	813,063	786,068	62,897	26,540	8,548	1,697,119	(13,862)	1,683,256
Operating income (loss)	6,224	101,816	2,558	1,830	(126)	112,303	42	112,345

Notes:

- The classification of business segment is made by 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
- 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 interim period and the prior fiscal year under the new segment categories adopted in this interim period.

Six months ended August 31, 2003

(Millions of Yen)

	Superstore operations	Convenience store operations	Restaurant operations	Financial services	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income (loss)								
Revenues								
1. Customers	820,142	869,453	64,032	13,099	4,097	1,770,825	-	1,770,825
2. Intersegment	6,420	106	892	2,695	2,952	13,067	(13,067)	-
Total revenues	826,563	869,560	64,924	15,794	7,050	1,783,893	(13,067)	1,770,825
Operating expenses	821,688	771,908	62,779	20,957	7,133	1,684,469	(13,078)	1,671,390
Operating income (loss)	4,874	97,651	2,145	(5,163)	(83)	99,423	11	99,434

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)								
Revenues								
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)	-
Total revenues	1,669,329	1,721,458	126,189	37,219	14,737	3,568,934	(26,788)	3,542,146
Operating expenses	1,648,163	1,533,990	122,928	41,155	14,943	3,361,182	(26,819)	3,334,362
Operating income (loss)	21,165	187,467	3,261	(3,936)	(205)	207,752	31	207,783

SEGMENT INFORMATION

1. Business Segments

Six months ended August 31, 2003

(Millions of Yen)

	Superstore operations	Convenience store operations	Restaurant operations	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income (loss)							
Revenues							
1. Customers	820,142	869,453	64,032	17,197	1,770,825	-	1,770,825
2. Intersegment	6,420	106	892	5,646	13,066	(13,066)	-
Total revenues	826,563	869,560	64,924	22,844	1,783,892	(13,066)	1,770,825
Operating expenses	821,688	771,908	62,779	28,091	1,684,468	(13,078)	1,671,390
Operating income (loss)	4,874	97,651	2,145	(5,247)	99,423	11	99,434

Fiscal year ended February 29, 2004

(Millions of Yen)

	Superstore operations	Convenience store operations	Restaurant operations	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income (loss)							
Revenues							
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)	-
Total revenues	1,669,329	1,721,458	126,189	51,955	3,568,933	(26,786)	3,542,146
Operating expenses	1,648,163	1,533,990	122,928	56,098	3,361,180	(26,817)	3,334,362
Operating income (loss)	21,165	187,467	3,261	(4,142)	207,752	31	207,783

SEGMENT INFORMATION

2. Geographic area segments

Six months ended August 31, 2004

(Millions of Yen)

	Japan	U.S.A.	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income						
Revenues						
1. Customers	1,142,075	596,204	57,322	1,795,602	-	1,795,602
2. Intersegment	34	1,172	-	1,206	(1,206)	-
Total revenues	1,142,109	597,376	57,322	1,796,809	(1,206)	1,795,602
Operating expenses	1,043,611	584,047	56,804	1,684,463	(1,206)	1,683,256
Operating income	98,497	13,329	518	112,345	-	112,345

Six months ended August 31, 2003

(Millions of Yen)

	Japan	U.S.A.	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income						
Revenues						
1. Customers	1,124,007	592,107	54,710	1,770,825	-	1,770,825
2. Intersegment	31	1,105	-	1,136	(1,136)	-
Total revenues	1,124,039	593,213	54,710	1,771,962	(1,136)	1,770,825
Operating expenses	1,036,767	581,469	54,290	1,672,527	(1,136)	1,671,390
Operating income	87,271	11,743	419	99,434	-	99,434

Fiscal year ended February 29, 2004

(Millions of Yen)

	Japan	U.S.A.	Others	Total before Eliminations	Eliminations	Consolidated Total
Revenues and operating income						
Revenues						
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)	-
Total revenues	2,258,103	1,175,469	110,961	3,544,534	(2,387)	3,542,146
Operating expenses	2,073,711	1,153,032	110,006	3,336,750	(2,387)	3,334,362
Operating income	184,392	22,436	954	207,783	-	207,783

Notes

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

SEGMENT INFORMATION

3. Overseas sales

Six months ended August 31, 2004

(Millions of Yen)

	U.S.A.	Others	Total
Overseas sales	596,204	57,322	653,527
Consolidated sales	-	-	1,795,602
Percentage of overseas sales to consolidated sales(%)	33.2	3.2	36.4

Six months ended August 31, 2003

(Millions of Yen)

	U.S.A.	Others	Total
Overseas sales	592,107	54,710	646,817
Consolidated sales	-	-	1,770,825
Percentage of overseas sales to consolidated sales(%)	33.4	3.1	36.5

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 according to the geographical distances.
2. Others consists of sales mainly in P.R.C. and Canada.
3. Overseas sales represent net sales and other operating revenue of consolidated subsidiaries in country and area outside of Japan.