



October 7, 2004

# Notice of settlement of Non-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

The Company has a policy of paying interim dividends

The Company applies a unit share system. (1 unit: 100 shares)

Date of the meeting of the Board of Directors to settle non-consolidated accounts: October 7, 2004

The starting date of payment of interim cash dividends: November 15, 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

### 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 [Net Sales]		Operating Income		Ordinary Income	
Six months ended August 31, 2004	736,218	(0.2) %	7,082	0.5 %	16,128	5.3 %
	[ 727,134 ]	[ (0.1) % ]				
Six months ended August 31, 2003	737,789	(2.0) %	7,048	(60.5) %	15,312	(39.3) %
	[ 728,109 ]	[ (1.8) % ]				
Fiscal year ended February 29, 2004	1,493,962	(2.2) %	24,103	(30.3) %	42,317	(14.1) %
	[ 1,474,808 ]	[ (2.1) % ]				

	Net Income		Net Income per Share
Six months ended August 31, 2004	12,065	8.2 %	28.90
Six months ended August 31, 2003	11,149	(33.7) %	26.76
Fiscal year ended February 29, 2004	28,695	(32.9) %	68.65

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

2 Weighted average number of shares outstanding:

Six months ended August 31, 2004 ----- 417,457,968 shares

Six months ended August 31, 2003 ----- 416,674,406 shares

Fiscal year ended February 29, 2004 ----- 416,453,454 shares

3 Changes in accounting method ----- None

4 Percentages above represent the change from the prior interim period (fiscal year) unless otherwise stated.

(2) Dividends per Share

	Interim Dividend per Share	Annual Dividend per Share
Six months ended August 31, 2004	16.00 yen	-
Six months ended August 31, 2003	16.00 yen	-
Fiscal year ended February 29, 2004	-	34.00 yen

## (3) 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	1,085,796	752,969	69.3 %	1,803.75
As of August 31, 2003	1,091,077	727,155	66.6 %	1,754.52
As of February 29, 2004	1,078,299	748,177	69.4 %	1,791.92

Notes :

1 Number of outstanding shares:		
As of August 31, 2004	-----	417,447,674 shares
As of August 31, 2003	-----	414,447,058 shares
As of February 29, 2004	-----	417,469,836 shares
2 Number of treasury stock shares:		
As of August 31, 2004	-----	1,270,011 shares
As of August 31, 2003	-----	4,270,627 shares
As of February 29, 2004	-----	1,247,849 shares

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

(Millions of Yen, except per-share data)

	Revenues from Operations [Net Sales]		Operating Income		Ordinary Income		Net Income		Cash Dividend per Share	
									Annual	Year-End
Full Year	1,535,000	2.7 %	30,000	24.5 %	47,000	11.1 %	30,000	4.5 %	34.00	18.00
	[1,517,000]	[ 2.9 %]								

<Reference> Estimated net income per share for the fiscal year ending February 28, 2005 ----- 71.61 yen

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

The outlook for the fiscal year ending February 28, 2005 is based on the Company'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 outlook. See the descriptions relating to the above outlook in page 14 of this document.

# 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
<b>&lt;ASSETS&gt;</b>						
<b>Current Assets:</b>						
Cash and bank deposits	102,662		114,091		104,845	
Accounts receivable, trade	18,461		19,757		18,516	
Marketable securities	25,830		767		-	
Inventories	84,797		65,578		74,848	
Short-term loans	673		52,374		677	
Deposits held at financial service company	38,000		-		38,000	
Other	40,736		33,904		39,882	
Allowance for doubtful accounts	-		(93)		-	
<b>Total current assets</b>	<b>311,162</b>	<b>28.7</b>	<b>286,380</b>	<b>26.2</b>	<b>276,770</b>	<b>25.7</b>
<b>Property and equipment:</b>						
Building	106,000		114,669		110,644	
Land	155,710		156,437		156,936	
Other	26,674		24,838		24,159	
<b>Total property and equipment</b>	<b>288,385</b>	<b>26.6</b>	<b>295,945</b>	<b>27.1</b>	<b>291,740</b>	<b>27.1</b>
<b>Intangible Assets</b>	<b>5,954</b>	<b>0.5</b>	<b>7,101</b>	<b>0.7</b>	<b>6,682</b>	<b>0.6</b>
<b>Investments and other assets:</b>						
Investments in subsidiaries and affiliates	153,609		137,095		153,452	
Investment in a subsidiary's convertible bonds	15,550		20,810		15,550	
Long-term loans	11,889		21,988		12,126	
Long-term leasehold deposits	243,077		282,964		271,861	
Prepaid pension cost	22,859		22,878		22,695	
Advances for store construction	12,572		4,169		5,197	
Other	24,791		25,681		26,278	
Allowance for doubtful accounts	(4,055)		(13,937)		(4,055)	
<b>Total investments and other assets</b>	<b>480,294</b>	<b>44.2</b>	<b>501,650</b>	<b>46.0</b>	<b>503,106</b>	<b>46.6</b>
<b>Total Fixed Assets</b>	<b>774,634</b>	<b>71.3</b>	<b>804,697</b>	<b>73.8</b>	<b>801,529</b>	<b>74.3</b>
<b>Total Assets</b>	<b>1,085,796</b>	<b>100.0</b>	<b>1,091,077</b>	<b>100.0</b>	<b>1,078,299</b>	<b>100.0</b>

## 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
<b>&lt;LIABILITIES&gt;</b>						
<b>Current Liabilities:</b>						
Notes payable, trade	1,298		152		819	
Accounts payable, trade	86,793		89,050		78,476	
Current portion of straight bonds	-		30,000		-	
Short-term loans	2,465		3,635		3,635	
Income taxes payable	469		835		284	
Allowance for bonuses to employees	6,271		6,479		5,563	
Allowance for sales promotion expenses	2,839		1,774		1,761	
Notes payable, property and equipment	1,461		2,998		2,060	
Other	47,865		45,495		52,115	
<b>Total current liabilities</b>	<b>149,464</b>	<b>13.8</b>	<b>180,421</b>	<b>16.6</b>	<b>144,717</b>	<b>13.4</b>
<b>Non-Current Liabilities:</b>						
Straight bonds	120,000		120,000		120,000	
Long-term loans	9,450		10,125		9,787	
Deposits received from tenants	44,777		45,756		45,692	
Allowance for retirement benefits to directors and corporate auditors	1,167		2,990		3,073	
Other	7,968		4,629		6,851	
<b>Total Non-Current Liabilities</b>	<b>183,362</b>	<b>16.9</b>	<b>183,501</b>	<b>16.8</b>	<b>185,404</b>	<b>17.2</b>
<b>Total Liabilities</b>	<b>332,827</b>	<b>30.7</b>	<b>363,922</b>	<b>33.4</b>	<b>330,122</b>	<b>30.6</b>
<b>&lt;SHAREHOLDERS' EQUITY&gt;</b>						
<b>Common stock</b>	<b>47,987</b>	<b>4.4</b>	<b>47,987</b>	<b>4.4</b>	<b>47,987</b>	<b>4.5</b>
<b>Capital surplus</b>						
Additional paid-in capital	121,477		121,477		121,477	
Other	179		-		175	
<b>Total capital surplus</b>	<b>121,657</b>	<b>11.2</b>	<b>121,477</b>	<b>11.1</b>	<b>121,653</b>	<b>11.3</b>
<b>Retained earnings</b>						
Legal reserve	11,700		11,700		11,700	
General reserves	510,459		510,461		510,461	
Unappropriated retained earnings at the end of period	63,263		47,899		58,815	
<b>Total retained earnings</b>	<b>585,422</b>	<b>53.9</b>	<b>570,061</b>	<b>52.2</b>	<b>580,977</b>	<b>53.9</b>
<b>Unrealized gains on available-for-sale securities</b>	<b>1,838</b>	<b>0.2</b>	<b>714</b>	<b>0.1</b>	<b>1,392</b>	<b>0.1</b>
<b>Treasury stock</b>	<b>(3,937)</b>	<b>(0.4)</b>	<b>(13,086)</b>	<b>(1.2)</b>	<b>(3,833)</b>	<b>(0.4)</b>
<b>Total Shareholders' Equity</b>	<b>752,969</b>	<b>69.3</b>	<b>727,155</b>	<b>66.6</b>	<b>748,177</b>	<b>69.4</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,085,796</b>	<b>100.0</b>	<b>1,091,077</b>	<b>100.0</b>	<b>1,078,299</b>	<b>100.0</b>

# STATEMENT 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 ]	[ 736,218]		[ 737,789]		[ 1,493,962]	
Net sales	727,134	100.0	728,109	100.0	1,474,808	100.0
Cost of sales	526,798	72.4	531,725	73.0	1,066,599	72.3
<b>Gross profit on sales</b>	<b>200,336</b>	<b>27.6</b>	<b>196,384</b>	<b>27.0</b>	<b>408,208</b>	<b>27.7</b>
Other income	9,084	1.2	9,680	1.3	19,153	1.3
<b>Gross profit from operations - Total</b>	<b>209,420</b>	<b>28.8</b>	<b>206,064</b>	<b>28.3</b>	<b>427,362</b>	<b>29.0</b>
Selling, general and administrative expenses	202,338	27.8	199,016	27.3	403,259	27.4
<b>Operating income</b>	<b>7,082</b>	<b>1.0</b>	<b>7,048</b>	<b>1.0</b>	<b>24,103</b>	<b>1.6</b>
<b>Non-operating income &amp; expenses:</b>						
non-operating income	10,020	1.3	9,696	1.3	21,011	1.4
non-operating expenses	(974)	(0.1)	(1,432)	(0.2)	(2,796)	(0.1)
<b>Ordinary income</b>	<b>16,128</b>	<b>2.2</b>	<b>15,312</b>	<b>2.1</b>	<b>42,317</b>	<b>2.9</b>
<b>Special gains and losses:</b>						
Special gains	705	0.1	3	0.0	1,061	0.1
Special losses	(1,876)	(0.2)	(1,454)	(0.2)	(6,617)	(0.5)
<b>Income before income taxes</b>	<b>14,957</b>	<b>2.1</b>	<b>13,860</b>	<b>1.9</b>	<b>36,761</b>	<b>2.5</b>
Income taxes - current	384	0.1	773	0.1	468	0.1
Income taxes - deferred	2,507	0.3	1,937	0.3	7,597	0.5
<b>Net income</b>	<b>12,065</b>	<b>1.7</b>	<b>11,149</b>	<b>1.5</b>	<b>28,695</b>	<b>1.9</b>
Retained earnings at beginning of period	51,198		36,750		36,750	
Interim cash dividends	-		-		6,631	
Loss on sales of treasury stock	-		0		-	
<b>Unappropriated retained earnings at the end of period</b>	<b>63,263</b>		<b>47,899</b>		<b>58,815</b>	

# SIGNIFICANT ACCOUNTING POLICIES FOR INTERIM NON-CONSOLIDATED ACCOUNTS

## 1. Valuation method of major assets

### (1) Securities valuation

Investments in subsidiaries and affiliates are carried at cost. Cost is determined using the moving average method.

#### Other securities

##### 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.

##### Fair value is not available.

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

### (2) Inventories valuation

#### Fresh foods :

Cost, determined using the last purchase price method.

#### Merchandise at stores (except fresh foods) :

The lower of cost or market. Cost is determined using the retail method.

#### Merchandise at distribution centers

##### (except fresh foods) :

Cost, determined using the moving average method.

#### Supplies :

Cost, determined using the last purchase price method.

### (3) Derivatives valuation

Fair value

## 2. Depreciation and amortization

### Property and equipment:

Decline-balance method

### Intangible assets:

Straight-line method

Software for internal use is amortized using the straight-line method over an estimated useful life (5 years).

## 3. Allowances

### 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.

### Allowance for bonuses to employees

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

### Allowance for accrued pension and severance costs (Prepaid pension cost)

An allowance for accrued pension and severance costs is provided at the amount incurred during the interim period, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of the plan assets at the end of the fiscal year. The excess of the estimated fair value of the plan assets over the estimated present value of projected benefit obligation adjusted by unrecognized actuarial differences is recognized as prepaid pension cost for the interim period ended August 31, 2004. Unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arose.

### 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.

### Allowance for sales promotion expenses

An allowance for sales promotion expenses is provided for future usage of 'points' that entitle customers to receive reductions in the price of goods. This point card program was established as a sales promotion program.

## **SIGNIFICANT ACCOUNTING POLICIES FOR INTERIM NON-CONSOLIDATED ACCOUNTS (Cont'd)**

### **4. Foreign currency translation for major assets and liabilities denominated in foreign currencies**

All assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate in effect at the respective balance sheets dates. Resulting translation gains or losses are included in the accompanying Statement of Income.

### **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**

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 included in interest income or expense as incurred.

### **7. Consumption taxes**

Consumption taxes withheld and consumption taxes paid are not included in the accompanying Statement of Income.

# NOTES

## <Balance sheets>

	<u>As of August 31, 2004</u>	<u>As of August 31, 2003</u>	<u>As of February 29, 2004</u>
	(Millions of Yen)		
1. Accumulated depreciation of property and equipment	201,768	196,849	199,768
2. Assets pledged as collateral			
Building	821	883	849
Land	1,698	1,698	1,698
	<u>2,520</u>	<u>2,581</u>	<u>2,548</u>
3. Contingent liabilities (guarantees)	14,214	38,476	51,104

## <Statement of Income>

	<u>Six months ended August 31, 2004</u>	<u>Six months ended August 31, 2003</u>	<u>Fiscal year ended February 29, 2004</u>
	(Millions of Yen)		
1. Depreciation and amortization expense			
Property and equipment	8,280	8,467	17,611
Intangible assets	1,281	1,542	2,928
	<u>9,562</u>	<u>10,010</u>	<u>20,540</u>
2. Major items of non-operating income			
Interest income	670	847	1,520
Dividends	9,034	8,440	18,922
3. Major items of non-operating expenses			
Interest expense	159	211	386
Interest on straight bonds	700	900	1,704
4. Major items of special gains			
Gain on reversal of allowance for retirement benefits to directors and corporate officers	565	-	-
5. Major items of special losses			
Loss on disposals of property and equipment	542	1,190	3,035
Head office relocation expenses	1,216	-	-

## <Lease Transaction>

1. Financial, leases except those for which ownership of the leased assets is considered to be transferred to lessees.

(Millions of Yen)

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

	<u>As of August 31, 2004</u>	<u>As of August 31, 2003</u>	<u>As of February 29, 2004</u>
Furniture and fixtures:			
Acquisition cost	11,403	18,915	19,712
<u>Accumulated depreciation</u>	<u>6,197</u>	<u>13,512</u>	<u>14,309</u>
Net book value	5,205	5,402	5,403

(2) Future lease payments

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

	<u>As of August 31, 2004</u>	<u>As of August 31, 2003</u>	<u>As of February 29, 2004</u>
Within one year	1,767	3,000	2,249
<u>Over one year</u>	<u>3,438</u>	<u>2,402</u>	<u>3,153</u>
Total	5,205	5,402	5,403

(3) Lease payments and depreciation expense

	<u>Six months ended August 31, 2004</u>	<u>Six months ended August 31, 2003</u>	<u>Fiscal year ended February 29, 2004</u>
Lease payments	1,390	1,817	3,737
Depreciation expense	1,390	1,817	3,737

(4) Depreciation method:

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

2. Lease transaction through a special purpose company.

(Millions of Yen)

	<u>As of August 31, 2004</u>	<u>As of August 31, 2003</u>	<u>As of February 29, 2004</u>
(1) Acquisition cost			
Land	695	695	695
Building	399	399	399
(2) Lease payments	28	28	57

3. Operating leases

(Millions of Yen)

	<u>As of August 31, 2004</u>	<u>As of August 31, 2003</u>	<u>As of February 29, 2004</u>
Future lease payments			
Within one year	30,436	28,406	30,661
<u>Over one year</u>	<u>167,300</u>	<u>141,284</u>	<u>162,880</u>
Total	197,737	169,691	193,541

## <Marketable Securities>

Stock of subsidiaries and affiliate (fair value is available)

(Millions of Yen)

	<u>As of August 31, 2004</u>	<u>As of August 31, 2003</u>	<u>As of February 29, 2004</u>
Stock of subsidiaries			
Book value	21,747	21,747	21,747
<u>Fair value</u>	<u>1,427,198</u>	<u>1,358,704</u>	<u>1,469,189</u>
Unrealized gain	1,405,451	1,336,957	1,447,442
Stock of affiliate			
Book value	5,478	5,478	5,478
<u>Fair value</u>	<u>39,352</u>	<u>33,813</u>	<u>38,993</u>
Unrealized gain	33,874	28,334	33,514

All amount less than one million yen have been disregarded.