



## Overview of Ito-Yokado

Ito-Yokado strives to make its store operations across Japan cater to regional characteristics and customer needs.

Ito-Yokado operates a network of 175 supermarkets across Japan (as of September 30, 2007), offering wide-ranging products from food to apparel, household goods and other daily products.

Our stores are mainly operated in the following three formats: i) Comprehensive Shopping Centers, mall-styled stores boasting various shopping and amusement facilities; ii) General Merchandizing

Stores (GMSs), large-scale retail stores targeting consumers in highly populated city areas; and iii) Neighborhood Shopping Centers (NSCs), a combination of food supermarkets and specialty stores in smaller commercial areas. In either format, all our stores throughout Japan strive to meet customer needs that may vary depending on the region in which we are located.

### Three formats of Ito-Yokado stores

#### Comprehensive Shopping Centers

Mall-styled stores featuring various retailing and amusement facilities



#### General Merchandizing Stores

Large-scale stores covering a full range of daily products, including food, apparel and household goods, to meet consumer needs in highly populated urban areas



#### Neighborhood Shopping Centers

Food supermarkets and specialty stores to meet consumer needs in smaller commercial areas

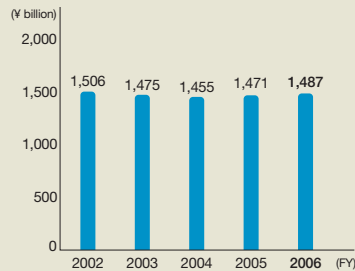


## Corporate Profile (as of February 28, 2007)

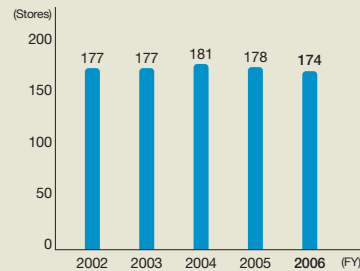
**Establishment:** April 1, 1958  
**Headquarters:** 8-8, Nibancho, Chiyoda-ku, Tokyo 102-8450, Japan  
**Nature of Business:** Operation of superstores selling food, apparel and household products  
**Paid-in capital:** ¥40.0 billion

**Total sales:** ¥1,487.4 billion  
**Number of employees:** 44,299  
**Number of stores:** 174

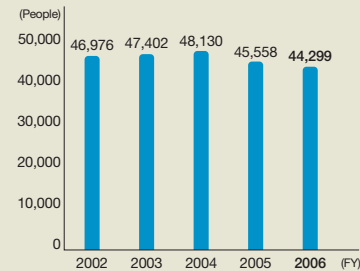
### Total sales



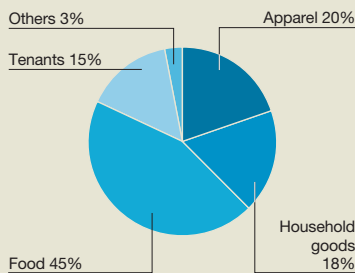
### Number of stores



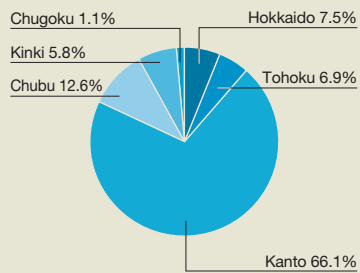
### Number of employees



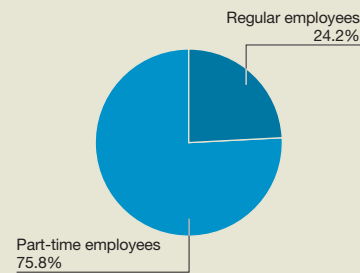
### Sales by product category



### Stores by region



### Employees by type



## Our CSR focus

- Executing rigorous quality control as a corporation that sells products having direct impact on customers' health and safety
- In consideration of the diversity of our customer mix, creating safe and comfortable store facilities for every customer
- Building and maintaining win-win relationships with our 6,500 business partners, based on the maintenance of uncompromising fairness in our trading practices
- Promoting even more equitable HR programs for part-timers, who account for 75.8% of our workforce

### Responsibilities as a supermarket chain that is closely linked with "food, clothing and housing" of local people

Ito-Yokado delivers various products, including food, apparel and household goods, which all have direct impact on customers' health and safety. This fact has led us to believe that executing rigorous quality control is a basic, but most important responsibility of ours. Securing safety and comfort in our stores also has a high priority, because customers from all walks of life—including families with babies and children, the elderly and people with disabilities—visit our stores and spend relatively long hours there.

Building and maintaining "win-win" relationships with various business partners, such as suppliers, is also important. Ito-Yokado is committed to practicing fair trade with business partners and developing and sourcing merchandise that will lead to mutual growth and prosperity.

Last but not least, as we recognize our store operations are impossible without the support from a number of part-time employees, we are focusing on developing a satisfying and equitable HR program for part-timers and creating a pleasant and fulfilling working environment.



## Toward creating safe and comfortable stores for each and every customer

Ito-Yokado has been striving to create stores that can provide a safe, comfortable and convenient shopping experience to our customers. Our efforts are guided by the Universal Design (UD) principles, which call for easy-to-use designs for everyone, including people with or without disabilities, elder people and children. In this context, Atsushi Kamei, president and COO of Ito-Yokado had a meeting with Mr. Satoshi Nakagawa, president of tripod design Co., Ltd., to discuss values and possible future development of UD applications. Mr. Nakagawa is a notable pioneer in UD consulting.

### Early adoption of UD principles in store facilities to address the aging society

**Nakagawa (N):** In a recent study, 70% of the participants said they had heard about UD and 70% of such respondents, or about half of the overall respondents, said they knew what the word means. But when Ito-Yokado started implementing UD, only limited numbers of people knew the now-commonly known word of “barrier-free,” let alone UD.

**Kamei (K):** Indeed. Our first barrier-free store in Wako opened in April 1994. It was just before the enactment of the so-called Heart Building Law.\* Our store in Kiba, Tokyo opened in November 2000, and subsequent new stores have incorporated UD principles, a further advanced idea from barrier-free, in their store equipment, fixtures and facilities.

\* Heart Building Law:

Act on the Promotion of Constructing Specified Buildings Enabling Smooth Use by the Elderly and People with Disabilities, etc. (Effective on June 29, 1996, superseded by the Barrier-Free Law in December 2006)

**N:** During that period, from the mid 1990s and the early 2000s, many Japanese companies not only in the retail industry but also in almost all sectors, were struggling to streamline their businesses in the wake of the bust of the economic bubble. I remember that Ito-Yokado’s bold decision to launch barrier-free or

UD stores in such severe economic conditions really impressed and surprised me. It was when I myself just started UD consulting for corporations in 1992.

**K:** As a corporation, business efficiency is important, of course. We are pursuing greater efficiency day in, day out. At the same time, Ito-Yokado has a tradition to value social responsibilities. We believe that “there is something precious we should not leave behind at the expense of efficiency.”

**N:** And a typical example of that “something” is attentiveness to all customers, which led to your UD implementation.

### Pursuit of safety and convenience solely from customer perspectives

**N:** What do you think are the key points in implementing UD?

**K:** First, we should consider what our customers want and expect from our services, rather than what we want to do. Customers at various ages, with or without disabilities, or those during pregnancy visit our stores every day. We should listen to them carefully and offer safe, pleasant and convenient facilities and services available for every customer.

**N:** I discover something new from every single UD survey that I often conduct for its users.



Likewise, you must have been translating customers' voices into your store arrangements and operations.

**K:** That's right. Of course our UD activities have been supported by many experts, like yourself, but it is our employees on the sales floor who have made them happen. They have listened to customers carefully and have gone through a number of trial-and-error attempts. You will never know what "optimal store facilities" mean to customers—for example, how high and wide a step of the staircase should be, what color coordination is most recognizable, and how soft and round cushions at the kids' playground should be—until you actually experiment with various options from users' standpoints. Even foliage plants on store display may become a source of unexpected injuries, if the leaves are projected at the height of children's eyes. So we are very careful about where to place them.

**N:** I think these are a demonstration of your uncompromising commitment to customers' safety, comfort and convenience, beyond merely meeting the requirements under the Heart Building Law.



**Atsushi Kamei**  
President and COO

### At the core of UD spirit, lies kindness to others and hospitality

**K:** Another key factor to succeed in UD practices is hospitality-minded employees. Any excellent facilities alone will not be able to offer customers' safety and security to the fullest extent. They must be accompanied with the hospitality and kindness of store employees who interact with customers. Therefore, Ito-Yokado has been emphasizing UD in both "hardware" and "heart" since the very beginning of our UD initiatives in 1994.

**N:** Can you elaborate on this?

**K:** Among other examples of our UD in "heart," all our employees are learning sign language. They may not have many occasions to speak in sign language with



**Satoshi Nakagawa**  
President of tripod  
design Co., Ltd.,  
Vice Executive  
Director of Universal  
Design Forum

customers in their day-to-day operations. Some may not be able to master well either. Still, this training program is meaningful to our employees as long as it at least provides opportunities for them to think, "Why do I need to learn sign language?"

**N:** Through the program, employees are expected to "recognize, think and feel" the importance of caring to diverse people, rather than being taught unilaterally and theoretically. Incidentally, what brought you to connect UD and employee' hospitality? Your own experience at the sales floor?

**K:** Actually, it dates back to when I travelled around the United States during my college years. A boy playing at Central Park in NY found a wheel-chaired elderly person crossing the street and rushed to her for support. What impressed me was the fact that the apparently ordinary boy did so just matter-of-factly.

**N:** In my impression, the Japanese tend to be shy about offering helping hands in public even when we notice someone in trouble, but Americans readily take actions on what they think is right.

**K:** I agree. That scene in Central Park made me believe that people are supposed to help each other. I always wanted to contribute myself to creating such a society.

**N:** I reckon such an inspiring experience will never fade from your memory. Now I can see better why you are enthusiastic about implementing UD. Before finishing today's interview, could you tell me your future UD plans?

**K:** As there is no limit on hospitality and kindness to others, our journey of UD implementation is still only half way. By intensifying UD education in our training programs for future leaders, we intend to make each employee at Ito-Yokado enhance the width and depth of our UD efforts. We in turn would like to play an important part in creating communities where everyone can lead a comfortable and fulfilling life in a progressing aging society in the five or ten years ahead.



# Responsibilities to Customers

## To offer safe and reliable products

### Reinforcing quality control procedures and expanding health-conscious product lineups

To fully ensure safety and reliability in all products and services to our customers, Ito-Yokado reviewed its Internal Standards on Customer Relationship Management in April 2007, resulting in improvement of the product safety section. On our sales floors, we have put more emphasis on the monitoring of proper labeling and food freshness. We also focus on health-conscious products, such as prepared food using “healthy oil,” and food products free from specified food allergens.

## Review of product safety approach and improvement of relevant internal standards

The Ministry of Economy, Trade and Industry issued the Guidelines for Development of Voluntary Action Plans on Product Safety in March 2007, encouraging Japanese companies to take on voluntary actions and develop relative internal control systems. It was followed by the revision of the Law on Consumer Products Safety in May 2007, under which if retailers notice a case of serious product accident, they are required to inform the manufacturer of the product and to cooperate with the manufacturer in product recall procedures, if implemented.

In alignment with that regulatory development, in April 2007, Ito-Yokado reviewed its reporting lines with regard to complaints and product defect information from customers, and the criteria and procedures for recalls of our manufactured or imported products. We also started collecting and organizing information on defective products. Concurrently, we revised the Voluntary Action Guidelines on Customer-related Activities, originally formulated in 2003, to upgrade its product safety provisions. The revised standards include new policies on the information gathering procedures for ensuring product safety and on implementation of product recalls.

We are now focusing on full understanding and implementation of the policies in the enhanced standards by all employees across our company, and developing a mechanism that enables smooth reporting from our business partners who repair or install our products, to inform of defects or accidents of the products on our store shelves. Through these and many other initiatives, Ito-Yokado is committed to delivering safe and reliable products to our customers.

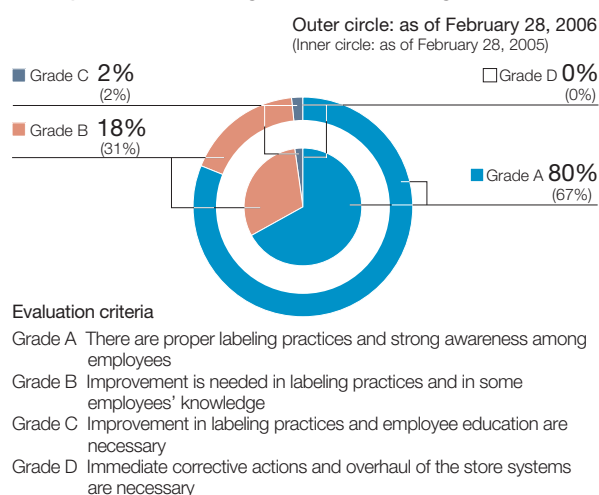
## Policing by “Freshness Checking Patrols” on behalf of customers

We have reinforced our monitoring activities on the freshness of food products and accuracy of product labeling since February 2007 with the launch of Freshness Checking Patrols, who cruise around the stores for these purposes. While we already have Freshness Checkers in place, food section employees responsible for verifying food freshness, and appropriate product labeling and POP displays, these “patrol” members—who do not include employees in food sections—scrutinize the food section to detect any products that they would avoid buying if they were customers visiting the store. Their findings are shared with the store managers, Freshness Checkers and other staff, if appropriate, to maintain and improve freshness and overall product quality. In addition, the FT Committee Secretariat reviews product labeling at all our stores every six months from FY 2006. The review results are shared with the store manager and the vice manager to develop detailed improvement measures.



Checking of in-store products by a Freshness Checking Patrol

## Store performance ratings under the labeling reviews



## Use of healthy oil for our prepared foods to meet customers' health-consciousness

A Growing number of customers are concerned about food calories or body fat these days. Responding to these concerns, our Kameari-Ekimae Store started using healthy oil, Nisshin Healthy Resetta that inhibits fat uptake in the body (a certified food for specified health use) for its prepared foods in September 2005. With great customer



response to this attempt, we made such products cooked with the healthy oil available at 68 stores by July 2007. Some other stores started using Vitamin E-enriched oil in June 2007. We have also developed bread crumbs that absorb 30% less oil, jointly with Kyoei Food Co., Ltd. and Musashino Foods Co., Ltd. In April 2007, we launched deep fried pork (loin and fillet) with the newly developed breadcrumbs in a test market, success in which led to the roll-out of the products in 138 stores in May. By August 2007, the products have expanded to include four new kinds of croquettes, totaling 6 items available at 175 stores, or all of our stores that sell food products.



Prepared foods section

## Cakes for a tasty bite for children with food allergies

Recently, an increasing number of people, especially babies and young children, have had allergic reactions to certain types of food. Wising to offer sweet treats to everybody including people with food allergies and their families, Ito-Yokado is working to develop cakes without the use of food that may induce allergic reactions.

In 2004, we sold 300 pieces of “Christmas Cakes made from Rice Flour with Soy Milk Cream,” which do not contain dairy products, wheat flour or eggs. That limited supply was sold out quickly. These cakes were initially available for special seasonal events, such as Christmas, but have eventually become available for all seasons as reservation-based birthday cakes since April 2006.

In the following July, three additional items of decorated sponge cakes and one item of pudding made their debut in 20 stores in and around Tokyo. In March 2007, a total of 82 stores started selling such dessert items—including improved-recipe decorated cakes and one additional mousse item—without using dairy products, wheat flour or eggs. We have also worked to expand these allergen-free dessert lineups. In July 2007, we launched four jelly items in this category.



Rice-flour sponge cake with soy milk cream, and mousse

## To make our stores friendlier to all customers

### Creating comfortable stores for every customer

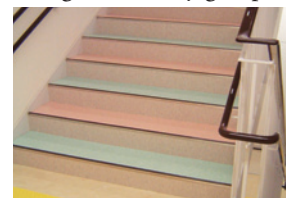
Ito-Yokado welcomes various customers in our stores every day, including families with babies and children, and elderly people. As a part of our efforts to provide a safe and comfortable shopping experience to all customers, we have incorporated UD principles into our store facilities, and have created Baby Rooms for customers with young children. Considering customers' safety and health, our stores use building material that prevents sick building syndrome, and are equipped with automated external defibrillators (AEDs).

### Expanding our Universal Design incorporated stores

Ito-Yokado started making its stores “barrier-free” in 1994, creating and remodeling stores that meet standards under the Heart Building Law. In November 2000, we took one step further to adopt UD principles in our newly opened Kiba Store in Koto-ku, Tokyo and in subsequent new stores thereafter, aiming to make stores comfortable and easy-to-use for everyone.

In these 23 stores incorporating UD, for instance, steps are contrasted in two alternate colors, two sets of handrails are installed to accommodate different heights of customers, and an easy-to-recognize color combination is applied to the staircases and their surrounding walls.

We have also lowered escalators' speed in some stores for safety of customers, especially those with young children and the elderly. In March 2005, the Tokyo Fire Department announced the findings of its study group on preventative measures against escalator-related accidents. Based on the study group's report, we conducted a customer survey on escalator operations, and 68% of the respondents were in favor of a slower mode. As a result, escalators in our six stores have been switched to slower operations (as of February 28, 2007).



Easy-to-perceive, contrasted steps



Handrails at two height levels



## Responsibilities to Customers

### Continuous improvement of Baby Rooms based on feedback from customers

In our 165 stores, Baby Rooms are available for safe and comfortable shopping by customers with babies and toddlers. The rooms have baby changing tables, hot filtered water dispensers for preparing baby formula, wash-basins (automatic sensor taps in some stores) for washing hands before and after feeding or changing, breast feeding space, height and weight measuring equipment for infants and for kids, and an emergency button to call store staff for help.

In addition to these basic facilities, new or remodeled stores feature picture book corners (19 stores), restrooms for children (23 stores), and intercom security service that will send an in-store guard to the Baby Room immediately on request via the intercom (8 stores). Three years have passed since this security guard service started, but thankfully no duty call has been requested so far. (The numbers in parentheses are as of February 28, 2007.)

Improvements during FY 2006 include the installation of an individually separated breast feeding area in our Ario Yao store. This well-received modification is our response to customers' requests for a quiet place to feed babies without feeling rushed.

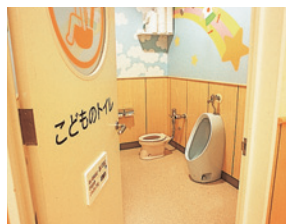
Ito-Yokado will continue listening to our customers to make the Baby Rooms safer and more comfortable both in terms of facilities and services.



Picture book corner with relaxing seats



Height and weight measuring equipment to check children's development



Spacious, stroller-accessible restrooms for kids

### Use of building material that prevents sick building syndrome for our store ceiling

Sick building syndrome (SBS)—situations in which building occupants feel sickness due to chemical substances contained in the building material or furniture—is becoming a growing public concern. In response, Ito-Yokado uses ceiling tiles that absorb and decompose airborne formaldehyde, arguably the major culprit of SBS, for all Ario Shopping Centers opened from April 2005 onward, and our traditional standalone supermarkets opened in and after December 2004

(excluding Kokuryo Store and Ootakano-Mori Food Store). These ceiling tiles will continue to be installed at all new stores.



SBS-preventative ceiling tiles

### Making Automated External Defibrillators (AEDs) available at more stores

Recently AEDs are becoming available in a growing number of public places because the availability of proper first-aid steps until an ambulance arrives can be a deciding factor for the survival of victims suffering sudden cardiac arrest, due to ventricular fibrillation or other causes.

Ito-Yokado placed AEDs in 16 in-store Community Arena sport facilities in March 2006 and in our regular store facilities from the following December. A total of 125 AED units were available at 63 stores (primarily in large-scale shopping center formats) as of June 2007. We plan to install AEDs in all our stores by February 2008.

In parallel, each store is focusing on providing first-aid training for key employees to ensure effective use of AEDs.



Employee first-aid training



# Responsibilities to Business Partners

## For fair trade practices

### Ensuring fair trading practices through day-to-day monitoring and education

Ito-Yokado established the Fair Trade (FT) Committee (chaired by the President) and the FT Committee Secretariat in 1999. Under their leadership, we strive to build and maintain fair working relationships with our business partners. We are working to ensure all our employees have good understanding of applicable regulations, such as the Anti-Monopoly Act, the Subcontracting Act, and the Regulations on Unfair Trading by Large-Scale Retail Businesses. We also monitor trade practices to detect unwarranted return of goods or unreasonable discount demands.

### Active roles of the FT Committee Secretariat in securing fair business practices

Ito-Yokado declares its commitment to “being a company that is trusted by business partners” in its corporate creed. Fair business practices and trust-based working relationships with our business partners have been at the heart of our business since the foundation.

Accordingly, members of the FT Committee Secretariat, facilitators of these fundamental values, regularly inspect our trading practices. If they find any suspicious case, they will inquire of relevant personnel about the causes and processes, and require prompt corrective measures, if necessary.

The Office also focuses on training for Buyers (sourcing representatives) and Distributors (personnel responsible for product assortment propositions, inventory level decisions, and distribution). On top of educating staff on regulatory requirements, the training programs cover wide-ranging issues, such as those featured by news papers, trade papers, and the Japan Fair Trade

Commission’s website, study groups and Q&A sessions, as well as those reported through our Help Line system. In addition to semiannual regular programs, special sessions are held when applicable laws are newly introduced or amended. In FY 2006, eight series of sessions (a total of 810 participants) were held, mainly to provide better understanding of the Guidelines for the Regulations on Unfair Trading by Large-Scale Retail Businesses.

### Recording a “Meeting Memo” for proper trading practices

Improper returns of unsold goods, discount demands or personnel dispatch are among problematic trading practices in the retail industry. To prevent these wrongdoings, Ito-Yokado requires its employees to prepare Meeting Memos, recording agreed items, such as finalized purchasing conditions. Memos must be attached with signatures of the trading counterparts. Unsold seasonal or campaign products cannot be returned to their suppliers after the agreed sales period, unless the suppliers sign their names on the instruction papers with regard to the rerun of the products. These memos and instruction papers are under periodic review by the FT Committee Secretariat. Any problem detected during the review is subject to immediate rectifying actions.

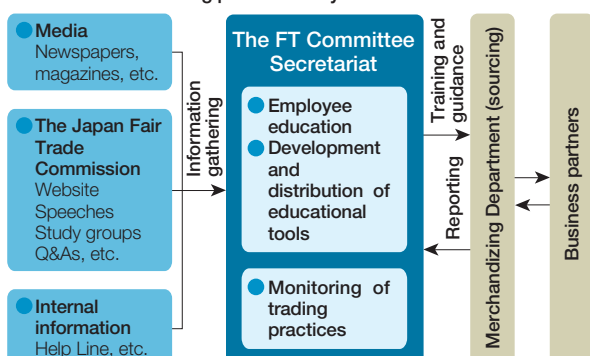
To prevent undue personnel dispatch, any of our stores which intend to request its suppliers to send their staff must fill out a request form to obtain approval from the FT Committee Secretariat in advance. We also provide a daily allowance and travel expense, and accommodation, if necessary, to certain outsourced personnel from suppliers who are engaged in specified activities. As a result, Ito-Yokado was continuously free from any regulatory disciplining actions during FY 2006.

### Updating training programs for sourcing personnel to respond to regulatory changes

A set of internal guidebooks on fair purchase and sales practices—“Guidebooks for Fair Trading” (consisting of two versions: one for Merchandizing Department and the other for Sales Department), and “Interpretation of Unfair Price Presentation under the Act against Unjustifiable Premiums and Misleading Representation”—were developed by the FT Committee Secretariat in FY 2001. They summarize key points of applicable laws, including the Anti-Monopoly Act and the Subcontracting Act, in an easy-to-understand manner. We use these guidebooks during our employee education programs.

The guidebooks are revised from time to time to reflect regulatory changes. Recent update includes the addition of the explanation on the Regulations on Unfair Trading by Large-Scale Retail Businesses in August 2006.

Fair business monitoring procedures by the FT Committee Secretariat







# Responsibilities to Local Communities

## Support for parents in local communities

### Offering various programs for children's healthy development

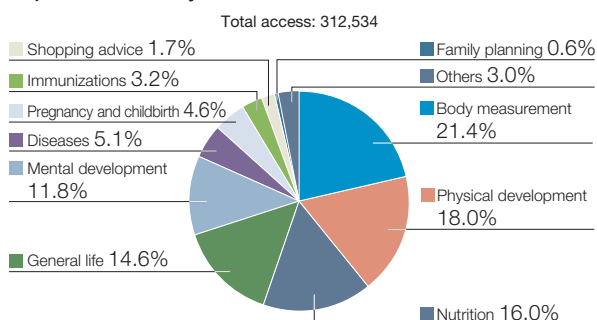
A growing number of parents feel they don't have someone nearby to ask for parenting advice, reflecting social changes, such as the increase in the percentage of nuclear families and declining birthrate. Ito-Yokado, aspiring to become a "basis for daily lives of local communities," provides various support for parents in the local communities, at our in-store "Maternity and Children's Education Centers" and "Children's Library" and through our food education programs.

### Parenting support at Maternity and Children's Education Centers

At Ito-Yokado, customers can access our complementary consultation on prenatal health care and parenting in the Maternity and Children's Education Centers. In these in-store facilities, established in 1975, our qualified counselors hold consulting sessions for 2-9 times each month. A total of 312,534 visits were paid to receive these consultations in 133 stores during FY 2006. The Centers also provide parenting classes and socializing forums for parents. During FY 2006, 6,518 families in total participated in 862 events on various themes, including the protection of infants and toddlers from accidents, and "baby massage" that strengthens the bonding between a baby and its parents.

We believe that the Centers are becoming an integral supportive function for local parents. Some customers visited the Centers for counseling or body measurement with referrals from public health centers and local governments, and a half of the visitors use our services on a recurring basis. Together with our counselors endeavoring to improve their skills, we will continue supporting local families so that they can enjoy raising their children without worries.

### Topics at Maternity and Children's Education Centers



## Nutrition education programs to promote wholesome diet in communities

The Basic Law on Food Education became effective in Japan on July 15, 2005, promoting wholesome diet for physical and mental well-being. As our business is directly linked to customer's dietary life, Ito-Yokado started offering nutrition education at our food sections in FY 2006, with the objectives to promote "delicious, delightful and proper dietary practices (food choice, purchase, cooking and eating)."

Each store provides monthly themed nutritional information on in-store display, and cooking demos of new recipe ideas. To support children in learning nutrition and appropriate eating habits in a fun way, food quiz sheets are available at our stores, which were developed in cooperation with Benesse Corporation, an education company with good expertise in food education.

We also hold quarterly events to advocate the importance of breakfast, as we approve of the "Hayane-Hayaoki-Asagohan [go to bed early, get up early and eat breakfast]" campaign promoted by the Hayane-Hayaoki-Asagohan Council and the Ministry of Education.

Focal areas in our food education during the current FY 2007 are vegetables and fish—two major food categories which face declining consumption especially by children—and having breakfast that would lead to better learning abilities, physical growth and personality development in childhood. Our food sections will continuously strive to better serve as an information center to support a wholesome dietary life for our customers.



Food quizzes developed in cooperation with Benesse Corporation



A food education event with a clay work artist/entertainer



Nutrition education display at food sections

## Discover good books in Children's Libraries

Children's Libraries, available in some Ito-Yokado stores since 1978, offer local children opportunities to discover good books. Featuring about 8,000 titles selected by experts in children books, these libraries can be accessed by everyone without charge, age limits, or residency requirements, after completing a simple registration process. All these facilities have support services by full-time librarians, and offer story-telling, craft classes and other events for children.

Children's Libraries are available at 10 Ito-Yokado stores with 385,000 members (as of February 28, 2007). A total of 227,000 copies were circulated during FY 2006, recording an accumulated total of 9.48 million books.

### Responsibilities to communities in new operational locations

## Developing safety and emergency measures that incorporate local opinion

When planning to open a new store, Ito-Yokado has the store manager and key employees of the store relocate to the intended area approximately one year in advance of the scheduled opening. By listening to local residents and conducting market research, they develop and implement preparatory activities catering to local characteristics. We also enter an agreement with the local government of the new area, under which we will provide necessary relief supplies in the case of emergency.

## Building traffic access area and pedestrian overpasses for safe, less congested traffic conditions

Before starting the construction of Ario Yao store in Osaka (opened in December 2006), Ito-Yokado held a meeting with local residents to explain and gain feedback on its store opening plan. The plan gave due considerations to local neighboring areas, in accordance with the requirements under the Large-scale Retail Store Location Law.

During the session, many neighbors raised concern about pedestrians' safety and traffic congestion of the surrounding roads. In response, Ario Yao developed its traffic control plan to facilitate the convenience and safety of local traffic systems, under guidance from the local government and police. As a result, the final store design included a traffic access area with bus terminal and

taxi station, as well as a pedestrian overpass connecting Ario Yao, the neighboring Seibu Department Store and Kintetsu Yao Station, that enables customers to visit our store without passing a busy intersection.

Approval and support by local residents is always an essential element of our store opening plans. Accordingly, we will continue to listen to our future neighbors carefully and work closely with local governments.



Pedestrian overpass connecting the station and our store



Storefront traffic access area at Ario Yao

## Disaster relief agreements with 61 local governments and organizations

If a serious disaster occurs, companies are expected to work hand-in-hand with local governments to support the recovery of the affected areas. Ito-Yokado has entered agreements with local governments, police departments, fire departments (including Tokyo Fire Department) and other organizations in the communities where we operate, under which our retail network will deliver relief supplies to the areas damaged by Typhoon, large-scale earthquakes or other disasters.

During FY 2006, we signed agreements on relief efforts with Saitama Prefecture, Chiba City, Tama City, and Japan Red Cross. As a result, Ito-Yokado has recovery support agreements with a total of 61 organizations, including 56 local governments (as of March 31, 2007). In some of these cities, we operate supply distribution drills on a regular basis. We joined an emergency drill by Yokohama City, where we practiced how to receive instructions from the city government and deliver supplies to designated locations.

For victims of the Niigata Chuetsu Earthquake on July 16, 2007, Ito-Yokado, utilizing its logistic network, delivered rescue supplies to the most affected city, Kashiwazaki immediately after the occurrence and subsequent occasions, regardless of the nonexistence of relevant agreements.



# Responsibilities to Employees

## Respect for diversity

### Creating a HR system that accommodates all employees

Ito-Yokado believes that as a socially responsible business, we should create a fulfilling and comfortable workplace for all employees, whether full-timers or part-timers; regardless of gender. Our efforts in this area during FY 2006 include upgrade of the personnel systems for part-time employees to ensure their more equitable treatment, improvement in Re-Challenge Plan (the support program for parenting and nursing care), and the increase of the number of female managers.

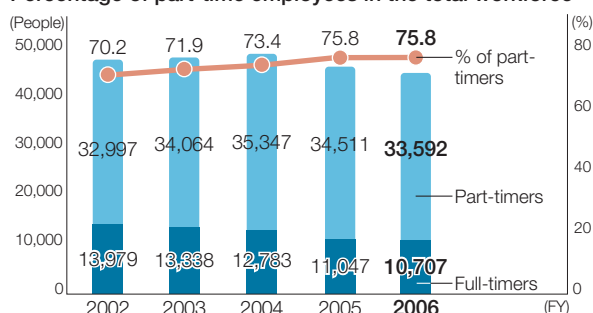
### Creation of the “Career Promotion Choice Program” for more equitable treatment of part-time employees

At Ito-Yokado, part-timers account for 75.8% of the total workforce (as of FY 2006) and play important roles in overall store operations, from customer service and sales to employee education and management. In recent years, these part-time employees, just like regular workers, have wide-ranging objectives, needs and availability with regard to their jobs.

To reflect these facts in our HR policy governing the working conditions and compensation levels for part-timers, the Labor Management Special Committee reviewed the then-existing policy. Based on their findings, a new HR policy was formulated in March 2007. There are four major changes from the previous policy: 1) new evaluation system, 2) creation of the Career Promotion Choice Program enabling diversified working styles, 3) new compensation system, and 4) launch of the Senior Partner Program offering employment until the age of 65.

The Career Promotion Choice Program is the central component of the new HR arrangement for part-timers. Under the new system, part-time employees assume one of three positions — “Regular,” “Career” or “Leader” —

Percentage of part-time employees in the total workforce

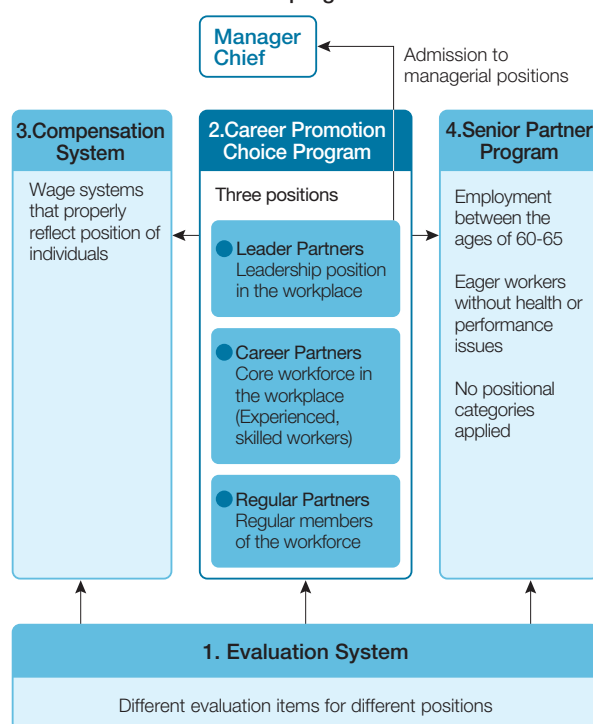


depending on their roles, job nature, and required skills and experience. Promotion is available for those who apply. Successful candidate must demonstrate excellent performance in their daily operations, obtain required internal licenses, and score highly in a written test for the promotion. Application for the promotion is voluntary so as to accommodate various needs of part-timers. Therefore, part-time workers can of course opt out of the promotion, if they prefer to stay in their current position, because, for instance, they prefer short working hours due to their parental or other duties, or wish to avoid earning more money to maintain their tax dependent status. Implementation of this new program has entailed the revision of the performance evaluation system, and compensation systems to properly reward performance of each individual.

Under the new systems, our part-timers include 881 Leader Partners and 2,319 Career Partners (as of March 1, 2007). We held a training session for all Leader Partners in June 2007. To facilitate subsequent on-the-job training at the sales floor, we also developed and distributed the “Leader Partners Step-up Notebook,” with which Leader Partners and managers of their store sections assess the performance of the Leader Partners.

Through these and other programs, we aim to support fulfilling careers of our part-time employees, who strive for the success of our stores by performing their assigned duties.

### Overall structure of new HR programs





## Active dialogues with the labor union to create a better workplace

To facilitate collaborative efforts to improve working environment of, and HR programs for part-timers, Ito-Yokado has revised the union contract effective in December 2005, which allows even part-time employees to become eligible to join the labor union, if they have at least one year of service and work for no less than 30 hours a week.

In addition, local branches of the labor union regularly hold dialogue sessions and listen to the employees of various positions.

During FY 2006, the union held a total of 1,000 meetings across Japan, in which more than 5,000 employees, including non-union part-timers, participated to discuss their working environment and preferable HR programs. The outcomes of those meetings were incorporated into the new HR systems for part-timers.

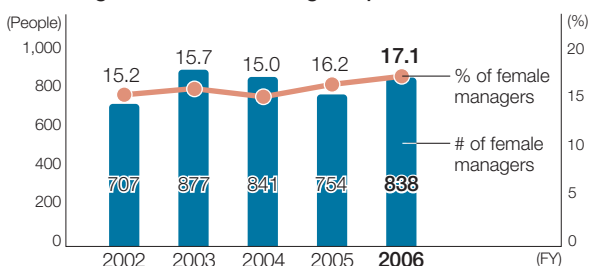
## Advancement of female workers in the workplace and greater representation in managerial positions

In April 2003, an advisory panel on gender equality to the prime minister announced its action programs, calling for 30% female representation in leadership roles by 2020. Amendment of the Equal Employee Opportunity Law in 2006 spurred initiatives to eliminate gender discrimination from the workplace.

Even before these laws and recommendations, Ito-Yokado has long been promoting advancement of our female workers under our gender-free policies applied to all HR decisions, including hiring, promotion, pay-raise, compensation, and retirement plans. As of February 28, 2007, Ito-Yokado had two female corporate executives; 615 women assumed managerial positions at Ito-Yokado stores (including three store managers, 11 deputy store managers, and 95 floor section managers); and 223 women were in managerial positions at the headquarters (including four department heads and seven managers).

Ito-Yokado is committed to creating a gender-equal workplace and promotion of further advancement of female workers.

Percentage of women in managerial positions



## Continuous improvement of parental and nursing-care support programs based on users' feedback

Employees of Ito-Yokado can use the Re-Challenge Plan, our support programs for parenting and nursing care. The Plan consists of three programs—1) Leave Plan, allowing employees to take parental leave for up to two years (three years in exceptional cases) and nursing care leave for up to one year, 2) Shorter-Hours Plan, allowing employees to reduce working hours by up to four hours, and 3) Re-employment Plan, allowing departed employees to be reemployed on a preferential basis. In May 2006, a new program was included, under which full-time employees with children of third grade or younger leave the office no later than seven p.m. To support a smooth comeback after the leave, employees on parental/nursing care leave using the Re-Challenge Plan receive a copy of “Re-Challenge Mail,” describing updates of their departments, and of the company newsletter each month.

In April 2007, Ito-Yokado was recognized by the Health Ministry as a company implementing statutorily recommended supportive programs for the development of future generations. Those accredited corporations can use the label shown on the right.



Users of the Re-Challenge Plan

(People)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
For parenting	153 (11)	168 (55)	195 (40)	180 (56)	204 (54)
For nursing care	5 (3)	12 (4)	14 (5)	14 (7)	20 (14)

\*Numbers of part-time employees are shown in parentheses.

## Promoting the “Normalization” of society by employing people with disabilities on an active and on-going basis

Ito-Yokado is an active supporter and promoter of the “Normalization,” which aims to realize a society where everyone regardless of disabilities or age can play their societal roles naturally and easily. We hire talented new employees with disabilities each year, an aggregate of about 600 employees as of June 1, 2006.

We also operate a special subsidiary called Terre Verte. Fifteen employees with disabilities grow *shiitake* mushroom or conduct printing business in this company, jointly owned by Ito-Yokado, Seven & i Holdings, Seven-Eleven Japan, York-Benimaru, Seven & i Food Systems, and the City of Kitami (Hokkaido).

As of June 1, 2006, workers with disabilities consisted of 2.09% of the employees of the Group.



## Responsibilities to Employees

### Support for building employees' capacity

#### In-house license accreditation program to keep employees motivated

The value of Ito-Yokado's products is determined, not only by the products themselves, but by capabilities of each employee in our stores, including their customer contact skills and perishables handling abilities. Through our in-house licensing program and skill contests, we aim to improve our employees' necessary skills to provide even higher quality service to our customers, and to support employees in their voluntary efforts to enhance their capabilities.

#### Expanded eligibility for our licensing program aiming to improve employees' skills

At Ito-Yokado, the "Friends Mate" licensing program started in April 2004 to help the employees maintain high morale and achieve great performance. In this program, licenses are granted to individuals who have acquired necessary working knowledge, skills and customer service techniques, and passed a series of internal test procedures. License status is recorded in the HR database for personnel appraisal and other purposes.

The program offers 19 licenses, covering all divisions and functions except the perishables department (as of July 31, 2007, including five new licenses effective from the first half of 2007). So far, 23,486 employees have become license holders.

Beginning from September 2007, these licenses will expire after a two-year period in order to ensure that each licensee maintains up-to-date skill levels and work toward clear customer service goals. To renew license status, existing license holders will need to take examinations to review their customer service quality, as well as knowledge and skill levels. To foster employees who can satisfy our customers with their self-motivated actions, and enhanced skills and services, Ito-Yokado has been encouraging employees to obtain these accreditations. We will continue to communicate about this program through various means, including internal posters, meetings for store managers and for corporate managers.

Meanwhile, the perishables department holds the Annual Skill Contest for part-time employees working in the sections of meat, fish, sushi, and prepared food. Out of 32 candidates selected as a result of store-level screening and regional zone-level preliminaries, the top 12 performers (top three from each section) receive the award in the Contest. Award winners will serve as lecturers in some subsequent

training programs. This event helps reinforce part-time employees' motivation for excellent performance.

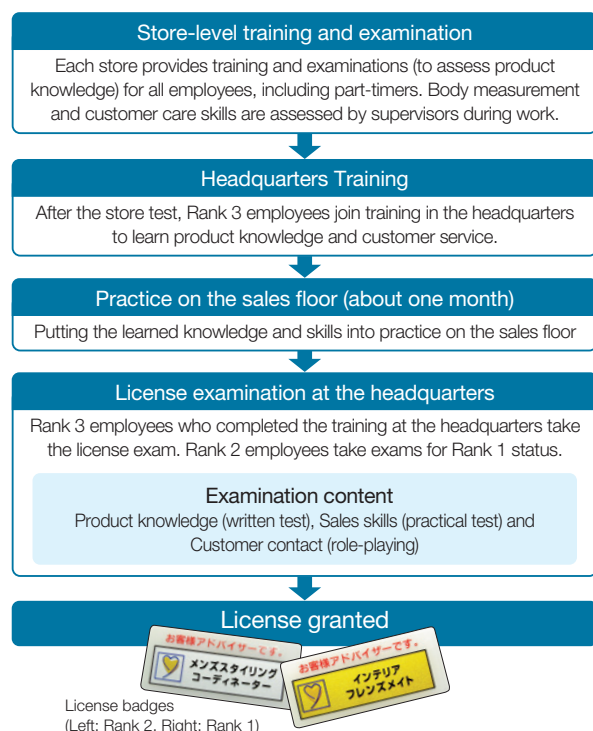
List of license holders (as of July 31, 2007)

(People)

	Name of license	# of holders
Apparel	Ladies' Shoes Styling Coordinator	1,905
	Shoes Adviser	1,456
	Men's Styling Coordinator	1,594
	Child Friend Mate	1,472
	Underwear Adviser	1,609
	YUKATA Friends Mate	784
Household Goods	Bedding Products Friends Mate	1,112
	Interior Friends Mate	1,040
	Kitchen Adviser	1,443
	Cosmetics Adviser*	1,112
	Home Electronics Friends Mate*	350
	Stringing Adviser	17
	Toys and Stationery Friends Mate*	983
	Care Support Adviser	326
Food and General Goods	Grocery Adviser*	1,943
	Daily Food Adviser*	1,678
BR	Service Friends Mate	1,098
	Checker Friends Mate	2,918
	Telephone Operator Friends Mate	646

\*New licenses effective in the first half of 2007

#### Accreditation process in the Friends Mate program



License examination for Interior Friends Mate



License examination for Men's Styling Coordinator



# Responsibilities to the Environment

## Global warming prevention

### Improvement of store facilities to reduce energy use

As Ito-Yokado operates a growing number of stores with larger floor size and longer operating hours, we strive to curtail the resulting increase in environmental impact that we generate. Accordingly, our new and remodeled stores use state-of-the-art energy efficient facilities to minimize their electricity consumption. We also conduct regular inspections and maintenance of store facilities and equipment to ensure effective use of energy.

### Installation of ice thermal storage systems and light-adjusting facilities for reduced energy use in large stores

To reduce the energy use for air-conditioning, stores of Ario Kawaguchi, Ario Kameari and Ario Yao, opened in or after November 2005, have installed “ice thermal storage” air-conditioners which use ice made during off-peak night hours. During that time shift, lower percentage of electricity is generated from fossil fuel. As a result, these devices emit 5% less CO<sub>2</sub> per year than the air conditioners installed in other stores.

In addition, all new stores launched from June 2006 onwards use “continuously adjusting lighting equipment,” which automatically adjusts light levels on the sales floor. This new equipment has allowed us to slash electricity use by lighting fixtures by 30% on average.

Together with these ice thermal storage system and light-adjusting facilities, we also intend to use other natural energy sources in the facilities of our new stores. We will consider adopting new type of equipment, such as air-conditioners using well water, depending on the environment of each planned store.



Ice thermal storage system using nocturnal ice-making



Continuously adjusting lighting facilities fine-tuning light levels

### Accelerated installation of energy-efficient facilities to reduce CO<sub>2</sub> emissions

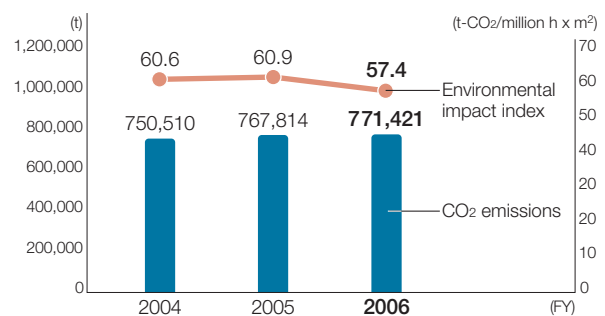
Ito-Yokado installed heat pump water heaters in Yokodai Store (Kanagawa) and Kofu-Showa Store (Yamanashi) in August 2006. These devices are air-sourced water heaters, applying the principle that when air is compressed, its temperature will rise, and vice versa. They can convert electrical energy to three times more heat energy, which also means a substantial saving of electricity use for heating facilities. In our follow-up review, it was confirmed that annual CO<sub>2</sub> emissions by Kofu-Showa Store can be reduced by 190 tonnes.

Besides the installation of ice thermal storage systems in new stores and energy efficient facilities (e.g. heat-pump water heaters and cogeneration systems) in existing stores, reinforcement of our daily energy management was another key energy-saving effort during FY 2006.

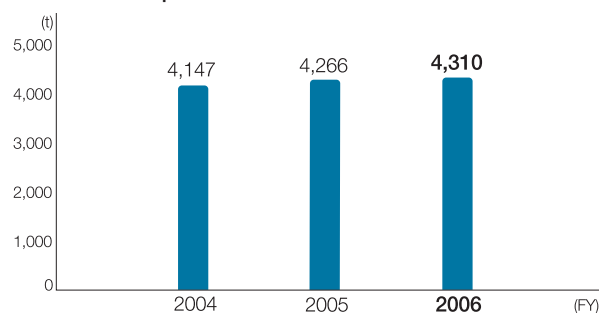
As a result, despite the opening of large stores and the extension of store opening hours, in FY 2006, Ito-Yokado saw only a 0.5% increase in total CO<sub>2</sub> emissions, or a 6% decrease in CO<sub>2</sub> emissions per basic unit (operating hours x total floor areas), from the previous year.

Going forward, we will remain mindful of efficient use of energy and intensify our emission control efforts, such as accelerated installation of energy efficient facilities and regular inspection and daily maintenance of store facilities and equipment.

### CO<sub>2</sub> emissions and environmental impact index



### CO<sub>2</sub> emissions per store







## Waste reduction

### Reduction of food waste through efficient use and recycling

Operators of food businesses in Japan are required to reduce or recycle 20% of the annual food waste generated by March 31, 2007, under the Food Recycling Law, which came into effect in May 2001. To achieve this statutory target, Ito-Yokado has set up internal rules for use of cooking oil and has reduced the amount of waste oil generated. We also provide financial support to business operators to promote their recycling activities.

### Reducing waste oil by implementing three rules for cooking oil usage

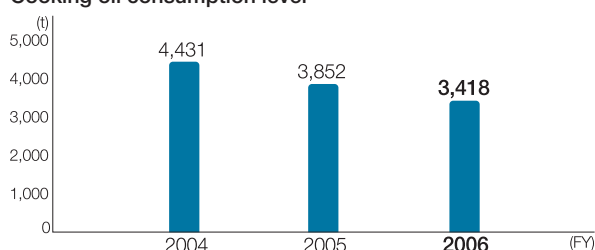
In Ito-Yokado stores, we cook croquettes, tempura and other deep fried food at the in-store kitchen in the food section, so that customers can pick fresh-from-the-fryer food items. To waste less oil after use, we developed internal rules for the use of cooking oil in making prepared food products, in August 2005.

The rules call for 1) use of optimal numbers of fryers; each store decides the appropriate levels of fryer use in reference to current and historical usage. By avoiding the use of excess numbers of fryers, cooking oil consumption can be reduced; 2) strict temperature control to prevent oil oxidization; and 3) regular removal of over-fried pieces from oil surface to prevent browning of oil and in turn, unnecessary oil change due to the darkened color. Prepared food sections have strictly observed these rules to reduce generation of waste oil.

As a result, Ito-Yokado used 3,418 tonnes of cooking oil in FY 2006, achieving a reduction of 434 tonnes from the previous year. The amount of waste oil was also reduced by 525 tonnes.

We aim to reduce our annual cooking oil consumption even further, to 3,000 tonnes. To meet this goal, we intend to install thinner fryers which use less oil, and adopt better methods to strain used oil which enables more repetitive use.

Cooking oil consumption level



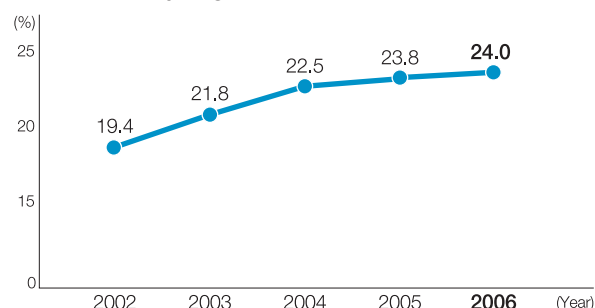
### Improved recycling rates through the Food Waste Recycling Financial Support Program

Through the Food Waste Recycling Financial Support Program, Ito-Yokado covers a part of recycling costs incurred by the contract waste management companies and transportation companies who collect and dispose of our food waste. The support level is determined in proportion to the volume of waste disposed. This program, started in FY 2002 to facilitate recycling of food waste, is currently available at 19 of our stores.

The program has made a great contribution to the notable improvement of our corporate-wide recycling rates to 24.0% in FY 2006, from 19.4% in FY 2002, the initial year of the program.

As a next step, we will be working to achieve centralized collection of food waste and development of recycling loop systems, under the initiatives of the Environmental Management Sub-Committee (p.20). Stores and restaurants of our group companies—SEJ, Ito-Yokado, York-Benimaru and Denny's—in neighboring areas will be working closely together and with local communities to achieve higher food recycling rates.

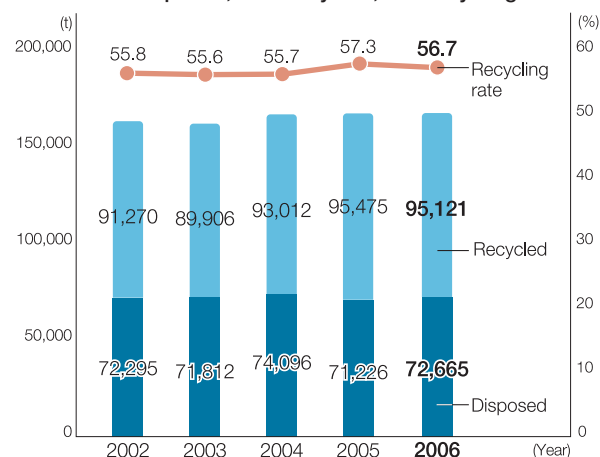
Food waste recycling rate



Food waste recycling rate  
 $(\text{waste oil} + \text{fish guts/bones} + \text{recycled food}) / (\text{waste oil} + \text{fish guts/bones} + \text{recycled food} + (\text{food waste} \times 70\%))$

\*Excluding impurities accounting for 30% of food waste (raw refuse)

Food waste disposed, food recycled, and recycling rate



## Reduced use of packaging material

### Working together with customers to practice simpler packaging

Ito-Yokado uses various types of packaging material, such as plastic bags to carry purchased products, and trays and containers for food products. To reduce package consumption and resulting waste, and achieve effective use of resources, we have been refining our daily practices, changing packaging material, and calling on customers to join our package reduction efforts. Furthermore, we launched a pilot program for paid-for plastic bags in FY 2006.

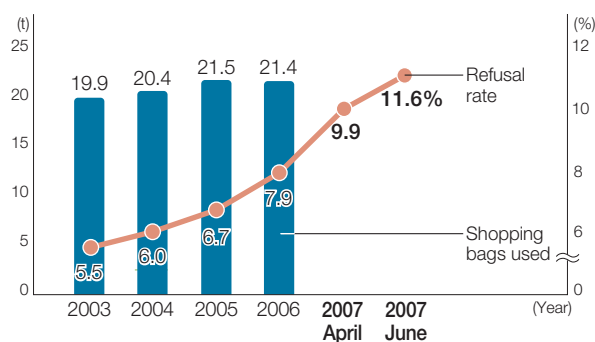
#### Pilot program for paid-for plastic bags in Wakabadai Store

Ito-Yokado has been taking various steps to reduce plastic bag consumption. For instance, we sell original reusable shopping bags, operate “stamp card” programs for those who declined to take plastic bags, and ask customers at the checkout if they need bags.

To move one step further, we started to charge fees for plastic shopping bags on a trial basis in Wakabadai Store (Kanagawa) from June 1, 2007. This is part of our intensified efforts to comply with the Amended Container and Packaging Recycling Law effective in April 2007, and meet a 30% shopping bag refusal rate by the end of FY 2010, an industry-wide target by Japan Chain Stores Association announced in March 2007.

After the first three months, some 82% of customers declined to use plastic bags, while only 13% customers did so before the program\*. This is equivalent to the reduction of 590,000 shopping bags, 36 tonnes of CO<sub>2</sub> emissions, or 54 drums (200 L) of petroleum.

Percentage of customers not using store shopping bags and shopping bag consumption per store



\* Percentage of customers who declined the use of store shopping bags was calculated based on the stamp card points which were used for purchase. Some 180,000 shopping bags per store were saved under this program in FY 2006.

## Reduced consumption of containers and packaging to meet the Amended Container and Packaging Recycling Law

To reduce consumption of packaging material, Ito-Yokado started to sell original shopping tote bags in June 2006, and large shopping bags in the same size as in-store shopping baskets in February 2007. During FY 2006, a total of 300,000 original shopping bags were sold at Ito-Yokado, York-Benimaru and York-Mart combined. We have also revised our internal manual to ensure proper numbers and size of plastic bags should be provided at the checkout in accordance with the volume of purchased items.

As a result, the weight of consumed plastic bags per store in FY 2006 was reduced by 21.4 tonnes, or a 0.4% decrease from the previous year.

At the same time, we have been shifting to environmentally-sound material in trays and plastic containers used for prepared food, lunch boxes, and perishables. We are increasingly using paper or nonpetroleum trays, and special trays that enable easy removal of attached sticker labels, which allows easy sorting for recycling.

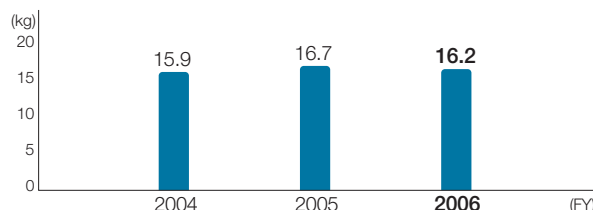
As a result, total consumption of food trays during FY 2006 decreased 7% from the previous year, or a 3% reduction per 10,000 items. In addition, 76.5% of our food trays are recyclable.

We also attained an 8% reduction in the numbers of consumed complimentary chopsticks from the FY 2005 level. Chopsticks are now handed at the register only to the customers who request them when they check out, while they used to be available any time at the food section.



Original large-sized reusable shopping bag

Consumption of food trays per 10,000 product items



Consumption of disposable chopsticks per store

