

[Reference]

Nonconsolidated Financial Results for the Fiscal Year Ended February 28, 2006

April 12, 2006

Sogo Co. Ltd.

President : Syunichiro Uchimura

Date of the Board of Directors' meeting to approve the accounts: April 12, 2006

1. Business Results for the Current Fiscal Year (from March 1, 2005 to February 28, 2006)

(1) Result of Operations (Millions of yen, except per share amounts)

	Revenue from operations [Net Sales]		Operating Income		Ordinary Income	
Current Fiscal Year	474,731	5.7 %	17,247	1.8 %	15,207	(3.8) %
	[468,994]	[5.7 %]				
Prior Fiscal Year	449,049	(0.8) %	16,951	27.8 %	15,802	12.8 %
	[443,845]	[(1.0) %]				

	Net Income		Net Income Per Share	Ratio of Net Income to Shareholders' Equity	Ratio of Ordinary Income to Total Assets	Ratio of Ordinary Income to Revenue from Operations
Current Fiscal Year	21,219	13.8 %	81,612.83 (yen)	62.6%	5.1%	3.2%
Prior Fiscal Year	18,643	37.3 %	71,244.17 (yen)	132.4 %	5.5%	3.5%

Notes: 1. Weighted average number of shares outstanding:

Fiscal year ended February 28, 2006: 260,000 shares

Fiscal year ended February 28, 2005: 260,000 shares

2. Change in accounting policies: no

3. Percentages above represent increase (decrease) over fiscal year unless otherwise stated.

(2) Financial Position (Millions of yen, except per share amounts)

	Total Assets	Shareholders' Equity	Ratio of Shareholder's Equity to Total Assets	Shareholder's Equity per Share
February 28, 2006	299,574	44,470	14.8%	171,040.30 (yen)
February 28, 2005	293,849	23,339	7.9%	89,769.10 (yen)

Notes: 1. Number of outstanding shares at the end of the fiscal year:

As of February 28, 2006: 260,000 shares

As of February 28, 2005: 260,000 shares

2. Number of treasury stock at the end of the fiscal year:

As of February 28, 2006: - shares

As of February 28, 2005: - shares

NONCONSOLIDATED BALANCE SHEETS

(Millions of yen)

	February 28, 2006		February 28, 2005		Increase (Decrease)
	Amount	%	Amount	%	
ASSETS					
Total current assets	73,384	24.5	81,747	27.8	(8,363)
Cash and deposits	33,850		53,589		(19,739)
Notes receivable, trade	464		70		394
Accounts receivable, trade	10,876		8,154		2,722
Merchandise inventories	8,543		8,294		249
Supplies Inventories	70		68		1
Prepaid expenses	2,789		2,857		(68)
Short-term loans receivable	2		9		(7)
Accounts receivable, other	2,801		2,793		8
Refundable taxes	793		11		782
Current portion of construction subsidy	3,749		5,449		(1,700)
Deferred income taxes	9,004		-		9,004
Other	444		450		(6)
Allowance for doubtful accounts	(5)		(1)		(3)
Total non-current assets	226,189	75.5	212,101	72.2	14,088
Property and equipment	137,679	46.0	120,494	41.0	17,185
Buildings	80,743		62,263		18,479
Structures	1,590		1,093		497
Machinery and equipment	638		392		246
Furniture and equipment	4,978		4,105		873
Land	49,106		49,116		(10)
Construction in progress	620		3,522		(2,901)
Intangible assets	19,307	6.4	19,477	6.6	(169)
Land rights	19,063		19,063		-
Others	244		413		(169)
Investments and other assets	69,202	23.1	72,130	24.6	(2,927)
Investment in securities	1,264		1,536		(272)
Investment in subsidiaries	3		8		(5)
Long-term loans receivable	16		18		(2)
Long-term deposits	33,672		33,372		300
Construction subsidy	28,701		31,259		(2,557)
Long-term accounts receivable, other	2,027		2,250		(223)
Receivable in bankruptcy of grouping companies	2,290		2,539		(248)
Receivable in restructurings	338		640		(301)
Other	1,411		1,214		197
Allowance for doubtful accounts	(524)		(710)		185
TOTAL ASSETS	299,574	100.0	293,849	100.0	5,724

(Millions of yen)

	February 28, 2006		February 28, 2005		Increase (Decrease)
	Amount	%	Amount	%	
LIABILITIES					
Total current liabilities	88,952	29.7	86,983	29.6	1,968
Accounts payable, trade	18,942		16,758		2,184
Short-term loans	42,487		44,690		(2,203)
Accounts payable, other	4,204		3,379		824
Accrued income taxes	314		45		268
Consumption taxes withheld	-		905		(905)
Accrued expenses	2,500		2,091		409
Allowance for bonuses to employees	2,076		2,132		(56)
Advance received	1,248		1,463		(215)
Deposits received	2,767		1,769		998
Issued gift tickets	10,014		9,618		395
Allowance for sales promotion expenses	4,274		4,014		259
Other current liabilities	122		114		8
Total non-current liabilities	166,150	55.5	183,525	62.5	(17,375)
Long-term loans	160,873		174,615		(13,741)
Long-term accounts payable, other	1,360		1,162		197
Allowance for retirement benefits to employees	-		4,086		(4,086)
Allowance for retirement benefits to directors	54		32		21
Subsidy received from tenants	218		1,352		(1,134)
Deposits received from tenants	2,530		2,265		265
Deferred income taxes	1,112		9		1,103
TOTAL LIABILITIES	255,103	85.2	270,509	92.1	(15,406)
SHAREHOLDER'S EQUITY					
Common stock	1,000	0.3	130	0.0	870
Capital surplus	500	0.2	500	0.2	-
Additional paid-in capital	500		500		-
Retained earnings	42,924	14.3	22,695	7.7	20,229
Unappropriated retained earnings	42,924		22,695		20,229
Net unrealized gains on available-for-sale securities	45	0.0	14	0.0	31
TOTAL SHAREHOLDER'S EQUITY	44,470	14.8	23,339	7.9	21,130
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	299,574	100.0	293,849	100.0	5,724

NONCONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Current Fiscal Year		Prior Fiscal Year		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Net sales	468,994	100.0	443,845	100.0	25,149	105.7
Cost of sales	352,025	75.1	331,621	74.7	20,404	106.2
Gross Profit	116,968	24.9	112,223	25.3	4,744	104.2
Other operating income	5,737	1.2	5,204	1.1	533	110.2
Operating gross profit	122,705	26.1	117,427	26.4	5,277	104.5
Selling, general and administrative expenses	105,457	22.4	100,476	22.6	4,981	105.0
Operating income	17,247	3.7	16,951	3.8	296	101.8
Non-operating income						
Interest income	56		60			
Dividend income	30		66			
Gain from uncollectible gift tickets	850		1,140			
Subsidy from renovation construction of sale area	1,044		599			
Other	338		259			
Total non-operating income	2,319	0.4	2,126	0.5	193	109.1
Non-operating expenses						
Interest expenses	2,543		1,964			
Loss from uncollectible gift tickets	907		934			
Amortization of development expenses	846		318			
Other	62		58			
Total non-operating expenses	4,360	0.9	3,275	0.7	1,085	133.1
Ordinary income	15,207	3.2	15,802	3.6	(595)	96.2
Special gains						
Gain from cancellation of corporate pension fund	1,392		-			
Gain on sales of property and equipment	17		369			
Gain on sales of investments in securities	-		731			
Gain on settlement based on determination of exceptional rights	-		1,462			
Reversal of allowance for sales promotion expenses	-		3,155			
Other	217		202			
Total special gains	1,627	0.3	5,921	1.3	(4,294)	27.5
Special losses						
Loss on investment in securities	12		2			
Loss on sales of property and equipment	5		1,073			
Loss on disposal of property and equipment	2,805		1,396			
Loss on settlement based on determination of exceptional rights	-		250			
Other	668		374			
Total special losses	3,492	0.7	3,097	0.7	395	112.8
Income before income taxes	13,341	2.8	18,626	4.2	(5,285)	71.6
Income taxes - current	45	0.0	45	0.0	0	100.0
Income taxes - deferred	(7,923)	(1.7)	-	-	(7,923)	-
Reversal of prior years' income taxes	-	-	(62)	(0.0)	62	-
Net income	21,219	4.5	18,643	4.2	2,575	113.8
Retained earnings brought forward	21,705		4,051			
Unappropriated retained earnings	42,924		22,695			

PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS

(Millions of yen)

	Current Fiscal Year	Prior Fiscal Year	Increase (Decrease)
Unappropriated retained earnings at end of fiscal year	42,924	22,695	20,229
The above shall be appropriated as follows:			
Common stock	-	870	(870)
Bonuses for directors and corporate auditors		120	(120)
[Portion to corporate auditors]	[-]	[25]	[(25)]
Unappropriated retained earnings carried forward	42,924	21,705	21,219

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

1. Significant Accounting Policies

1. Valuation of securities

Investments in subsidiaries and affiliates are valued at cost, determined using the moving-average method.

Held-to-maturity debt securities are carried at amortized cost.

Other securities are classified into two categories: (i) fair value is available and (ii) fair value is not available.

- (i) Securities, whose fair value is available, are valued at fair market value prevailing at the end of the fiscal year. (Net unrealized gains or losses on these securities, net of taxes are reported as a separate component in the shareholders' equity. Cost of sales is determined by the moving-average method.)
- (ii) Securities, whose fair value is not available, are valued at cost, being determined by the moving-average method.

2. Valuation of inventories

Merchandise inventories are valued at cost, being determined by the retail method. Supplies inventories are valued at cost, being determined the last purchase price method.

3. Depreciation and amortization

(1) Property and equipment

Depreciation expenses for vehicles are computed using the declining-balance method over the estimated useful lives of assets. Depreciation expenses except for vehicles are computed using the straight-line method over the estimated useful lives of assets.

Depreciation expenses for lease improvements in sales area are computed in applying estimated useful lives based on practical elements such as investment cycle of restructuring and improvement plan for stores and sales area

Depreciated assets for acquisition costs, exceeded 100 thousand yen and under 200 thousand yen, are computed using the straight-line method over three years in accordance with the Japanese tax regulations.

(2) Intangible assets

Amortization expenses for intangible assets are computed using the straight-line method. Software for internal use is amortized using the straight-line method over an estimated useful life of 5 years.

4. Deferred assets

Development costs paid for market research were expensed when incurred.

5. Allowance for doubtful accounts

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

6. Allowance for bonuses to employees

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

7. Allowance for retirement benefits to employees

An allowance for accrued pension and severance costs is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. For the fiscal year, this allowance in total is reversed due to the cancellation of corporation pension fund.

8. 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 policy. This is the allowance regulated by article 43 of the practical rules in the Japanese Commercial Law.

9. Allowance for sales promotion expenses

An allowance for sales promotion expenses is provided for the use of points given to customers at the amount expected to be used on the balance sheet date in accordance with the sales promotion point card program (Millennium Pint). This is the allowance for regulated by article 43 of the practical rules in the Japanese Commercial Law.

10. Leases

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

11. Consumption taxes

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

2. Notes

(Notes to balance sheet)

1. Short-term monetary receivable to parent companies	59 million yen
Short-term monetary payable to parent companies	32 million yen

2. Accumulated depreciation of property and equipment	145,858 million yen
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3. Property and equipment used by lease contracts

Other than property and equipment disclosed in the balance sheet, POS terminal and related equipment are used under lease contracts.

4. Allowance for doubtful accounts are provided for bankruptcy and restructuring receivable in grouping companies. These are offset in the balance sheet.

5. Assets pledged as collateral

Cash and deposits	3,423 million yen
Accounts receivable, trade	6,921
Accounts receivable, other	136
Current portion of construction subsidy	2,861
Buildings	42,190
Structures	785
Machinery and equipment	233
Land	48,042
Land rights	18,933
Investment in securities	71
Deposits	10,612

Construction subsidy	25,059
Long-term accounts receivable	<u>774</u>
Total	160,045 million yen

Other than the above, the following assets are pledged as collateral due to the guarantee of half of the gift tickets of 19,198 million yen issued by the Company, in accordance with the law related to the regulations of prepaid voucher.

Deposit to the Governmental Law office	Deposits	2,008 million (deposit of cash)
Providing to contracted companies with guarantee	Cash deposits	3,000 million (establishment of the right of pledge)
	Insurance reserve	243 million (establishment of the right of pledge)

6. Significant assets in foreign currencies

Bankruptcy and restructuring receivable	1,092 million yen
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7. The increase of net assets of 45 million yen due to the increase of fair value of assets regulated in article 124-3 of Japanese practical regulations in the Japanese Commercial Law.

(Notes to income statement)

1. Major transactions with parent companies	4,066 million yen
2. Earning par share	81,612.83 yen

3. Additional Information

1. Deferred assets

The costs of 846 million yen paid for market research, of which are occurred until the new opening of Shinsaibashi Main Store, are recorded by “Development costs” as deferred assets and fully amortized in the fiscal year.

2. Allowance for retirement benefits to employees

The Company reversed remaining balance of allowance for retirement benefits to employee due to cancellation of the Sogo corporate pension fund.

Based on this cancellation of retirement benefits to employees, the Company recorded 1,392 million yen of gain from cancellation of corporate pension fund, which was computed net of 4,075 million of reversal of allowance for retirement benefits, 1,327 million yen of payable for minimum payment to cancellation and 1,355 million of compensation in the fiscal year.

3. Accounting for Pro Forma Standard Taxation Portions of Corporate Taxes

The 2003 Law Revising Parts of the Local Tax Law (2003 Law No. 9) was promulgated on March 31, 2003, and the external standard taxation system was instituted with the business year that began April 1, 2004.

Beginning with that fiscal year, in accordance with the “Operational Handling of Disclosures Regarding Pro Forma Standard Taxation Portions of Corporate Taxes in Statements of income” (Corporate Accounting Standards Committee Operational Response Report No. 12, dated February 13, 2004), we recorded the discounted value-added and discounted capital of Enterprise tax, as selling, general and administrative expenses.

As a result, selling, general and administrative expenses increased by 269million yen causing a 269 million yen reduction in Operating income, Ordinary income and Income before income taxes.

4. Litigation

The Company has been named as a defendant in lawsuit, which has been filed in Tokyo District Court by Organization for Promotion Urban Development on November28, 2002, regarding the cancellation for “sales contract of properties of Kobe North Parking” against the notice of cancellation for buy-back agreement by the Company based on the Civil Rehabilitation Law. On November 30, 2005, Tokyo District Court judged that the Company should pay 13,138 million yen for buy-buck such properties and annually 6% of interest from claim date. Then, the Company appealed to the Tokyo High Court and it has been pending.

It is the opinion of management that this lawsuit which is pending against the Company will not have material adverse effect on the Company’s operating results, liquidity or financial position.

5. Deferred taxes

The component of deferred tax assets and liabilities

(Deferred tax assets)

Excess of tax limitation of allowance for doubtful accounts	215 million
Allowance for bonuses to employees	843
Allowance for sales promotion expenses	1,737
Accrued expenses for defined contribution pension plan	742
Accrued business and enterprise taxes	227
Accrued social warfare costs	109
Accrued acquisition tax for real estate	199
Amortization of deferred charges	59
Accrued retirements to directors	22
Excess of depreciation expenses	178
Valuation loss on the securities	166
Tax loss carryforward	12,012
Other	<u>137</u>
Deferred tax assets	16,650 million
Valuation allowance	<u>(729)</u>
Total deferred tax assets	15,921 million

(Deferred tax liabilities)

Gain from valuation of land	7,995 million
Other	<u>2</u>
Total deferred tax liabilities	<u>7,998</u>
Net deferred tax assets	<u>7,923 million</u>

Reconciliation between the statutory tax rate and the effective tax rate

Statutory tax rate	40.64%
(Reconciliation)	
Permanent differences	0.33 %
Disallowable income, such as dividend income	(0.03)
Inhabitant tax per capita	0.34
Deduction of tax loss carryforward	(39.79)
Decrease in valuation allowance	<u>(60.53)</u>
Effective tax rate	<u>(59.04) %</u>