

[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 |
|---|---------------------|

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 |
|---|-------------------|

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> |