NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Seven & i Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared based on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the Consolidated Financial Statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying Consolidated Financial Statements also include the accounts of the Company's foreign consolidated subsidiaries, which are prepared in accordance with accounting principles generally accepted in their own countries.

Certain items presented in the Consolidated Financial Statements filed with the Japanese Ministry of Finance have been reclassified for the convenience of readers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

On September 1, 2005, Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd. and Denny's Japan Co., Ltd. established the Company and became wholly owned subsidiaries of the Company by means of a stock transfer. Upon the stock transfer, the Company paid ¥21.50 ($0.19), ¥16.00 ($0.14) and ¥15.50 ($0.13) per share to the shareholders of Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd. and Denny's Japan Co., Ltd., respectively, recorded in the registers of shareholders as of August 31, 2005, instead of paying interim dividends for the fiscal year ended February 28, 2006.

The consolidation procedures in connection with the stock transfer were accounted for in a manner similar to the pooling-of-interest method. The accompanying Consolidated Financial Statements were prepared assuming that the above 3 subsidiaries were combined on March 1, 2005, and capital surplus and retained earnings in the Consolidated Financial Statements of Ito-Yokado Co., Ltd. as of February 28, 2005 were carried forward and recorded as the beginning balances of capital surplus and retained earnings in the Consolidated Financial Statements of the Company.

The accompanying Consolidated Financial Statements include the accounts of the Company and 76 subsidiaries which, with an exception due to materiality, include Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd., Millennium Retailing, Inc. (Note), Sogo Co., Ltd. (Note), THE SEIBU DEPARTMENT STORES, LTD. (Note), Denny's Japan Co., Ltd. and 7-Eleven, Inc.

(Note) The number of consolidated subsidiaries increased by 14 in connection with the acquisition of 67.7% of the share capital of Millennium Retailing, Inc. in January and February 2006. Only assets and liabilities on a consolidation basis of Millennium Retailing, Inc. were included in the accompanying Consolidated Financial Statements, assuming that the acquisition was made on February 28, 2006.

The fiscal year-end of some subsidiaries, including 7-Eleven, Inc. and its subsidiaries, is December 31. The financial statements of such subsidiaries as of and for the year ended December 31 are used in preparing the Consolidated Financial Statements of the Company. All material transactions during the period from January 1 to February 28 are adjusted for in the consolidation process. The fiscal year-end of Seven Bank, Ltd. is March 31. Pro forma financial statements as of February 28 prepared in a manner that is substantially identical to the preparation of the official financial statements were prepared for Seven Bank, Ltd. in order to facilitate its consolidation.

Eleven affiliates which include York-Benimaru Co., Ltd. and THE LOFT CO., LTD. (Note) are accounted for using the equity method. Puerto Rico-7, Inc. and Brazos Comercial E Empreendimentos Ltda. were unconsolidated subsidiaries to which the equity method was applied in the prior year in the Consolidated Financial Statements of Ito-Yokado Co., Ltd. The investment in Puerto Rico-7, Inc. was sold and Brazos Comercial E Empreendimentos Ltda. was liquidated in the fiscal year ended February 28, 2006. The affiliates which have a different fiscal year-end are included in the Consolidated Financial Statements based on their respective fiscal year-end. The investments in and advance to an affiliate that has negative net assets were reduced to zero and a reserve for additional loss was provided.

(Note) The number of affiliates to which the equity method was applied increased by 6 in connection with the acquisition of investment in Millennium Retailing, Inc.

All material intercompany transactions and account balances have been eliminated.

The Company's interest portion in the assets and liabilities of subsidiaries and affiliates was revalued on acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is recognized as goodwill.

(2) Inventories

Inventories are valued principally at the lower of cost or market. Cost is determined principally by the average retail method for domestic consolidated subsidiaries and by the LIFO method for foreign consolidated subsidiaries.

Supplies are carried at cost. Cost is determined by the last purchase price method.

(3) Securities

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

Available-for-sale securities are classified into two categories, where: (a) the fair value is available and (b) the fair value is not available.

(a) Securities whose fair value is available are valued at the quoted market price prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of shareholders' equity at a net-of-tax amount. Cost of sales is determined using the moving-average method.

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

(4) Derivatives

Derivative financial instruments are valued at fair value.

(5) Property and equipment

Depreciation of property and equipment is computed generally using the declining-balance method for the Company and its domestic consolidated subsidiaries except for the domestic consolidated subsidiaries in the department store business and using the straight-line method for the domestic consolidated subsidiaries in the department store business and foreign consolidated subsidiaries.

(6) Intangible assets

Intangible assets are amortized using the straight-line method for domestic consolidated subsidiaries.

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

Goodwill arising from domestic consolidated subsidiaries is amortized over a period of 20 years on a straight-line basis, or charged to income if immaterial. The goodwill recognized in applying the equity method was treated in the same manner.

The consolidated subsidiaries in the United States carry out an impairment test for goodwill and other intangible assets with indefinite lives in accordance with the provisions of Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets", and decrease the book value if required.

(7) Deferred assets

New organization costs are amortized using the straight-line method over 5 years, or charged to income if immaterial.

(8) Income taxes

The income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, inhabitant taxes and enterprise taxes.

Deferred tax accounting is applied.

(9) Allowances

(a) Allowance for doubtful accounts

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

(b) Allowance for 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. In the department store business, estimated costs of sales for goods to be purchased by coupon tickets issued through the point system are provided for.

(c) Allowance for bonuses to employees

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

(d) Allowance for accrued pension and severance costs

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. Unrecognized actuarial differences are amortized on a straight-line basis over the period of mainly 10 years from the next year in which they arose.

(e) Allowance for retirement benefits to directors and corporate auditors

An allowance for retirement benefits to directors and corporate auditors is provided in accordance with the Company's internal policy.

(10) Leases

Finance leases, except those for which ownership of the leased assets is considered to be transferred to the lessee, are accounted for as operating leases in Japan.

U.S. subsidiaries account for finance leases as assets and obligations at an amount equal to the present value of future minimum lease payments, during the lease term.

(11) Hedge accounting

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the recognition of gains and losses resulting from the changes in fair value of interest rate swap contracts is deferred until the related gains and losses on the hedged items are recognized. However, certain interest rate swap contracts which meet specific hedging criteria are not measured at market value but the differences between the paid and received amount under the swap contracts are recognized and included in interest income or expenses as incurred.

Interest rate swap contracts are utilized as hedging instruments and the related hedged items are bonds and loans payable.

The Company and its subsidiaries have a policy to utilize derivative instruments for the purposes of hedging their exposure to fluctuations in foreign currency rates and interest rates, and reducing finance costs. The Company and its subsidiaries do not hold or issue derivative instruments for trading or speculative purposes. The hedge effectiveness for interest rate swap contracts is assessed quarterly except for those that meet specific hedging criteria.

(12) Dividends

Dividends are proposed by the Board of Directors and approved at the shareholders' meeting held subsequent to the fiscal year-end to which the dividends are applicable. Shareholders on the register at the end of the fiscal year are entitled to receive the subsequently declared dividends. Dividends charged to retained earnings on the Consolidated Statement of Shareholders' Equity represent dividends approved by the shareholders and paid during the year ended February 28, 2006 and do not represent cash dividends applicable to the year.

(13) Per share information

Shareholders' equity and net income per share are ¥1,772.25 ($15.28) and ¥100.83 ($0.87), respectively. Net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the year.

Basis for the calculation of net income per share for the year ended February 28, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Net income	¥87,931	$758,026
Less components not pertaining to common shareholders:		
Bonuses to directors and corporate auditors	(198)	(1,707)
Net income pertaining to common shareholders	¥87,733	$756,319
Weighted average number of shares of common stock outstanding	870,127,116 shares	

Cash dividends per share shown in the accompanying Consolidated Statement of Income represent dividends declared as applicable to the year.

(14) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the proposal for appropriation of retained earnings (including cash dividend payments) by the Board of Directors is required to be approved by the shareholders' meeting, which must be held within three months of the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying Consolidated Financial Statements represents that applicable to the immediately preceding fiscal year which was approved at the shareholders' meeting and disposed of during the current year.

As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year. Such payments therefore constitute part of the appropriation of the retained earnings.

(15) Treasury stock

Treasury stock shown in the accompanying Consolidated Balance Sheet includes the portion of the Company's interests in its treasury stock held by affiliates accounted for using the equity method according to the Japanese regulation on the presentation of treasury stock.

(16) Accounting for consumption taxes and excise tax

The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying Consolidated Statement of Income. The excise tax levied in the U.S. and Canada is included in the accompanying Consolidated Statement of Income.

(17) Translation of foreign currency

All assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates. Translation gains or losses are included in the accompanying Consolidated Statement of Income.

All balance sheet accounts of foreign subsidiaries, except shareholders' equity, are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates and all income and expense accounts are translated at the average exchange rate for the period. The resulting translation adjustments are included in the accompanying Consolidated Balance Sheet under "Minority interests in consolidated subsidiaries" and "Cumulative translation adjustments".

(18) Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents in the accompanying Consolidated Statement of Cash Flows are comprised of cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition, that are liquid, readily convertible into cash and are subject to minimum risk of price fluctuation.

(19) Accounting for franchised stores in convenience store operations

7-Eleven, Inc. includes the assets, liabilities, equity and results of operations of its franchised stores in its consolidated financial statements. Seven-Eleven Japan Co., Ltd. recognizes franchise commission from its franchised stores as revenues and includes it in "Other operating revenue".

(20) Reclassification of accounts

Prior year amounts have been reclassified to conform with the current year's presentation.

3. UNITED STATES DOLLAR AMOUNTS

The accounts of the Consolidated Financial Statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥116=US$1, the approximate rate of exchange prevailing at February 28, 2006. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or at any other rate.

4. SECURITIES INFORMATION

A. The following tables summarize the book value and fair value of held-to-maturity debt securities whose fair value is available as of February 28, 2006:

	Millions of yen		
	2006		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	¥310	¥310	¥ 0
Debt securities with fair value not exceeding book value	435	433	(2)
Total	¥745	¥743	¥(2)

	Thousands of U.S. dollars (Note 3)		
	2006		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	$2,672	$2,672	$ 0
Debt securities with fair value not exceeding book value	3,750	3,733	(17)
Total	$6,422	$6,405	$(17)

B. The following tables summarize the acquisition cost and book value of available-for-sale securities whose fair value is available as of February 28, 2006:

	Millions of yen		
	2006		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥36,734	¥ 89,004	¥52,270
Debt securities	5,999	6,004	5
Sub-total	42,733	95,008	52,275
Securities with book value not exceeding acquisition cost:			
Equity securities	277	227	(50)
Debt securities	47,542	47,538	(4)
Sub-total	47,819	47,765	(54)
Total	¥90,552	¥142,773	¥52,221

	Thousands of U.S. dollars (Note 3)		
	2006		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	$316,672	$ 767,276	$450,604
Debt securities	51,716	51,759	43
Sub-total	368,388	819,035	450,647
Securities with book value not exceeding acquisition cost:			
Equity securities	2,388	1,957	(431)
Debt securities	409,845	409,810	(35)
Sub-total	412,233	411,767	(466)
Total	$780,621	$1,230,802	$450,181

C. Available-for-sale securities sold during the fiscal year ended February 28, 2006

Information has not been disclosed since they are considered to be immaterial.

D. The following table summarizes the book value of major securities with no available fair value as of February 28, 2006:

TYPE	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Held-to-maturity debt securities:		
Bonds	¥ 204	$ 1,759
Available-for-sale securities:		
Non-listed securities	18,229	157,147
Non-listed foreign securities	5,052	43,551
Total	¥23,485	$202,457

E. Redemption schedules of available-for-sale securities with fixed maturities and held-to-maturity debt securities as of February 28, 2006 are as follows:

	Millions of yen				
	2006				
TYPE	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	¥53,532	¥455	¥ —	¥—	¥53,987
Corporate bonds	—	204	300	—	504
Total	¥53,532	¥659	¥300	¥—	¥54,491

	Thousands of U.S. dollars (Note 3)				
	2006				
TYPE	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	$461,483	$3,922	$ —	$—	$465,405
Corporate bonds	—	1,759	2,586	—	4,345
Total	$461,483	$5,681	$2,586	$—	$469,750

F. Investments in affiliates included in "Investments in securities" in the accompanying Consolidated Balance Sheet as of February 28, 2006 are ¥47,564 million ($410,034 thousand).

5. DERIVATIVE TRANSACTIONS

The Company and its subsidiaries have a policy to use interest rate swap contracts, forward currency exchange contracts and currency swap contracts only for the purposes of mitigating the risk of fluctuations in interest rates and foreign currency exchange rates, and reducing finance costs. The Company and its subsidiaries do not hold or issue derivative instruments for trading or speculative purposes. Currency-related transactions and interest rate swap contracts include the market risk of fluctuations in foreign currency exchange rates and interest rates, respectively. The risk of nonperformance is considered to be low as the contracts are entered into with prestigious financial institutions. The responsible departments in the Company and its subsidiaries enter into and control these contracts in accordance with the respective internal policies. The estimated unrealized gains and losses from these contracts as of February 28, 2006 are summarized in the following tables. The estimated fair values of these contracts are based on values prepared by financial institutions.

Derivative transactions to which hedge accounting has been applied are excluded from this disclosure.

(1) Currency-related transactions

	Millions of yen			
	As of February 28, 2006			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	¥ 3,256	¥ —	¥3,254	¥ (2)
Buy Euro	11	—	11	(0)
Currency swap contracts:				
U.S. dollar	¥47,472	¥35,454	¥2,436	¥2,436

	Thousands of U.S. dollars (Note 3)			
	As of February 28, 2006			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	$ 28,069	$ —	$28,052	$ (17)
Buy Euro	95	—	95	(0)
Currency swap contracts:				
U.S. dollar	$409,241	$305,638	$21,000	$21,000

(2) Interest-rate-related transactions

	Millions of yen			
	As of February 28, 2006			
	Contract amount		Estimated fair value	Unrealized losses
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	¥35,000	¥35,000	¥(71)	¥(71)

	Thousands of U.S. dollars (Note 3)			
	As of February 28, 2006			
	Contract amount		Estimated fair value	Unrealized losses
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	$301,724	$301,724	$(612)	$(612)

6. PROPERTY AND EQUIPMENT

Property and equipment at February 28, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Buildings and structures	¥1,200,569	$10,349,733
Furniture, fixtures and other	469,227	4,045,060
	1,669,796	14,394,793
Less: Accumulated depreciation	(981,030)	(8,457,155)
	688,766	5,937,638
Land	488,152	4,208,207
Construction in progress	23,574	203,224
Total	¥1,200,492	$10,349,069

7. IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT

For the year ended February 28, 2006, the Company and its consolidated subsidiaries recognized ¥31,040 million ($267,586 thousand) of impairment loss on the following group of assets.

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars (Note 3)
Stores (Convenience stores)	Land and buildings, etc.	Tokyo 34 stores Kanagawa Pref. 34 stores Other (including U.S.)	¥30,976	$267,034
Stores (Superstores)	Land and buildings, etc.	Hokkaido 7 stores Chiba Pref. 5 stores Other 23 stores		
Stores (Restaurants)	Buildings and structures, etc.	Tokyo & other 51 stores		
Other facilities, etc.	Land, etc.	Saitama Pref. & other 2 stores	64	552
Total			¥31,040	$267,586

The Company and its consolidated domestic subsidiaries group their fixed assets by store, which is the minimum cash-generating unit. The book values of stores whose land had significantly depreciated, or which incurred consecutive operating losses, were reduced to recoverable amounts, and such deducted amount was recorded as impairment loss.

A breakdown of impairment loss for the year ended February 28, 2006 is as follows:

Classification	Millions of yen			Thousands of U.S. dollars (Note 3)
	Stores	Other facilities, etc.	Total	
Buildings and structures	¥14,810	¥—	¥14,810	$127,672
Land	13,196	34	13,230	114,052
Other	2,970	30	3,000	25,862
Total	¥30,976	¥64	¥31,040	$267,586

In the case where net selling prices were used as recoverable amounts, relevant assets were evaluated based on real estate appraisal standards, and in the case where values in use were used as recoverable amounts, relevant assets were evaluated by discounting estimated future cash flows to which the 3.1%–6.0% discount rates were applied.

8. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(1) Summary of net assets (assets and liabilities) and net payment for the acquisition of shares of companies newly included in consolidation following the acquisition of shares:

A. Hua Tang Yokado Commercial Co., Ltd. ("Hua Tang")	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current assets	¥ 5,447	$ 46,957
Non-current assets	1,216	10,483
Goodwill	1,946	16,776
Current liabilities	(2,469)	(21,284)
Minority interests	(2,023)	(17,441)
Sub-total	4,117	35,491
Carrying value of investment in Hua Tang under the equity method at the time that the Company acquired the majority of voting rights	(1,541)	(13,284)
Acquisition cost of shares	2,576	22,207
Cash and cash equivalents of Hua Tang	(2,101)	(18,112)
Net payment for the acquisition of shares	¥ 475	$ 4,095

B. TOWER BAKERY CO., LTD. ("TOWER BAKERY")(a)	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current assets	¥ 761	$ 6,560
Non-current assets	3,754	32,362
Goodwill	809	6,974
Current liabilities	(2,906)	(25,052)
Non-current liabilities	(742)	(6,397)
Minority interests	(276)	(2,378)
Acquisition cost of shares	1,400	12,069
Cash and cash equivalents of TOWER BAKERY	(0)	(0)
Net payment for the acquisition of shares	¥ 1,400	$ 12,069

C. Millennium Retailing, Inc. ("Millennium")(a)	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current assets	¥ 148,978	$ 1,284,293
Non-current assets	486,842	4,196,914
Goodwill	105,716	911,345
Current liabilities	(268,292)	(2,312,862)
Non-current liabilities	(273,564)	(2,358,310)
Minority interests (b)	(64,205)	(553,492)
Acquisition cost of shares	135,475	1,167,888
Cash and cash equivalents of Millennium	(62,678)	(540,328)
Net payment for the acquisition of shares	¥ 72,797	$ 627,560

D. Seven and Y Corp. ("Seven and Y")(a)	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current assets	¥ 975	$ 8,405
Non-current assets	300	2,586
Goodwill	461	3,974
Current liabilities	(1,082)	(9,328)
Minority interests	(95)	(818)
Sub-total	559	4,819
Carrying value of investment in Seven and Y under the equity method at the time that the Company acquired the majority of voting rights	(59)	(509)
Acquisition cost of shares	500	4,310
Cash and cash equivalents of Seven and Y	(462)	(3,982)
Net payment for the acquisition of shares	¥ 38	$ 328

(a) The amounts of assets and liabilities represent the amounts included in the accompanying Consolidated Financial Statements.
(b) ¥40,000 million ($344,828 thousand) of preferred stock held by a third party is included.

(2) Major non-cash transaction

	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Finance lease obligations for property and equipment recorded for the year	¥1,098	$9,466

9. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate statutory rates of approximately 40.7% for the year ended February 28, 2006.

The significant components of deferred tax assets and liabilities as of February 28, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Deferred tax assets:		
Inventory reserve	¥ 3,123	$ 26,922
Allowance for bonuses to employees	5,754	49,603
Allowance for sales promotion expenses	6,740	58,104
Accrued payroll	3,089	26,629
Allowance for retirement benefits to directors and corporate auditors	1,333	11,491
Allowance for accrued pension and severance costs	1,392	12,000
Depreciation and amortization	7,238	62,397
Tax loss carried forward	51,587	444,716
Valuation loss on available-for-sale securities	1,540	13,276
Allowance for doubtful accounts	2,646	22,810
Unrealized loss on property and equipment	12,537	108,078
Impairment loss on property and equipment and valuation loss on land	30,700	264,655
Accrued enterprise taxes and business office taxes	8,068	69,552
Non-deductible accrued expenses	12,338	106,362
Other	11,697	100,836
Sub-total	159,782	1,377,431
Less: Valuation allowance	(79,334)	(683,914)
Total	80,448	693,517
Deferred tax liabilities:		
Unrealized gain on property and equipment	(56,291)	(485,267)
Royalties, etc.	(17,154)	(147,879)
Deferred gain on sales of property and equipment	(1,130)	(9,741)
Unrealized gain on available-for-sale securities	(23,589)	(203,354)
Other	(1,757)	(15,147)
Total	(99,921)	(861,388)
Net deferred tax liabilities (a)	¥ (19,473)	$ (167,871)

(a) Net deferred tax liabilities are included in the following assets and liabilities:

Current assets – Deferred income taxes	¥ 31,725	$ 273,491
Other assets – Deferred income taxes	26,978	232,569
Current liabilities – Other	(963)	(8,302)
Non-current liabilities – Deferred income taxes	(77,213)	(665,629)

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 28, 2006 is as follows:

	(%)
Statutory tax rate	40.7
Adjustments:	
Equity in earnings of affiliates	(0.4)
Non-deductible items such as entertainment expenses	0.3
Changes of valuation allowance	5.0
Inhabitant taxes per capita	0.8
Other	(0.8)
Effective tax rate	45.6

10. RETIREMENT BENEFITS

(1) Summary of retirement benefit plans

The Company and its domestic consolidated subsidiaries provide two types of defined benefit plans: the employees' pension fund plan and the lump-sum severance payment plan.

A premium on employees' retirement benefit may be added upon retirement of the employee.

A consolidated subsidiary in the United States has a defined contribution pension plan in addition to a defined benefit plan.

"IY Group Employees' Pension Fund", which the Company and its domestic consolidated subsidiaries participate in, changed its name to "Seven & i Holdings Employees' Pension Fund" on September 1, 2005.

(2) Projected retirement benefit obligations

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Projected benefit obligations (a)	¥(161,132)	$(1,389,069)
Fair value of plan assets (including employee retirement benefit trust)	171,780	1,480,862
Unfunded pension obligations	10,648	91,793
Unrecognized actuarial differences	(10,870)	(93,707)
Unrecognized prior service cost	(2,570)	(22,155)
Others	(641)	(5,526)
Allowance for accrued pension and severance costs	¥ (3,433)	$ (29,595)

(a) For some of the consolidated subsidiaries, the simplified method is used for computing retirement benefit obligations.

(3) Net periodic benefit cost

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Service cost (a)	¥ 8,601	$ 74,147
Interest cost	4,080	35,172
Expected return on plan assets	(5,792)	(49,931)
Amortization of actuarial differences	634	5,466
Amortization of prior year service cost	474	4,086
Premium on employees' retirement benefit	6,295	54,267
Gain from amendment of pension plan (b)	(3,011)	(25,957)
Net periodic benefit cost (c)	¥11,281	$ 97,250

(a) Net periodic benefit cost of subsidiaries using the simplified method is included.
(b) Gain from amendment of pension plan was recorded in certain subsidiaries in the United States.
(c) Besides the above net periodic benefit cost, ¥1,775 million ($15,302 thousand) of benefit cost related to the defined contribution plan employed by a subsidiary in the United States was recorded for the year ended February 28, 2006.

(4) Assumptions used in accounting for retirement benefit obligations

	2006
Allocation method of estimated total retirement benefits: Mainly	Point basis
Discount rate: Mainly	2.5%
Consolidated subsidiaries in the United States	6.0%
Expected rate of return on plan assets: Mainly	3.5%
Periods over which the prior service cost is amortized	Immediate recognition or 10 years
Periods over which the actuarial differences are amortized (a): Mainly	10 years

(a) Actuarial differences are amortized in the year following the year in which the differences are recognized primarily using the straight-line method over the period (mainly 10 years) which is shorter than the average remaining years of service of the eligible employees. Consolidated subsidiaries in the United States have adopted the corridor approach for the amortization of actuarial differences.

11. SHORT-TERM LOANS AND LONG-TERM DEBT

The following summarizes information concerning short-term loans:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Outstanding balance at fiscal year-end:		
Short-term bank loans (a)	¥114,462	$986,741
Weighted-average interest rate at year-end:		
Short-term bank loans	1.3%	

(a) The total amount of short-term loans with collateral is ¥64,678 million ($557,569 thousand) at February 28, 2006 (Note 13).

Long-term debt at February 28, 2006 consists of the following:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Outstanding balance at fiscal year-end:		
Loans, principally from banks and insurance companies, due fiscal 2007 to 2023 with interest rates ranging from 0.5% to 7.5% (b)	¥416,147	$3,587,474
Ito-Yokado Co., Ltd.		
1.72% unsecured straight bonds, due March 29, 2007	30,000	258,621
1.96% unsecured straight bonds, due March 29, 2010	20,000	172,414
0.65% unsecured straight bonds, due September 18, 2009	50,000	431,034
Seven Bank, Ltd.		
0.88% unsecured straight bonds, due December 10, 2008	15,000	129,310
7-Eleven, Inc.		
Commercial paper	41,765	360,043
Capital lease obligations, due fiscal 2007 to 2029	24,920	214,828
	597,832	5,153,724
Current portion of long-term debt	(50,395)	(434,440)
	¥547,437	$4,719,284

(b) The total amount of long-term debt with collateral is ¥268,061 million ($2,310,871 thousand) at February 28, 2006 (Note 13).

The aggregate annual maturities of long-term debt are as follows:

Fiscal years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 3)
2007	¥ 50,395	$ 434,440
2008	74,635	643,405
2009	108,066	931,603
2010	101,093	871,491
2011	43,206	372,466
Thereafter	220,437	1,900,319
	¥597,832	$5,153,724

12. LEASES

(1) Finance leases

Finance lease charges to the Company and its consolidated subsidiaries for the year ended February 28, 2006 are ¥8,396 million ($72,379 thousand). The Company and its domestic consolidated subsidiaries' finance lease contracts that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases with appropriate footnote disclosures. "As if Capitalized" information for significant leased assets under the finance lease contracts of the Company and its domestic consolidated subsidiaries as of and for the year ended February 28, 2006 are as follows:

As lessee:

Acquisition cost, accumulated depreciation and net book value, including the interest portion, as of February 28, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Furniture, fixtures and equipment:		
Acquisition cost	¥ 53,561	$ 461,733
Accumulated depreciation	(30,184)	(260,207)
Net book value	¥ 23,377	$ 201,526
Software:		
Acquisition cost	¥ 1,371	$ 11,819
Accumulated depreciation	(707)	(6,095)
Net book value	¥ 664	$ 5,724
Lease payments	¥ 8,396	$ 72,379
Depreciation expense (a) and (b)	¥ 8,396	$ 72,379

(a) Depreciation expense included the interest portion.
(b) Depreciation expense is computed using the straight-line method over the lease term assuming no residual value.

The future lease payments of the Company and its consolidated subsidiaries' finance leases, including the interest portion, as of February 28, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Due within one year	¥ 8,942	$ 77,086
Due over one year	15,099	130,164
Total	¥24,041	$207,250

As lessor:

Acquisition cost, accumulated depreciation and net book value as of February 28, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Furniture, fixtures and equipment:		
Acquisition cost	¥21,536	$185,655
Accumulated depreciation	(8,851)	(76,302)
Net book value	¥12,685	$109,353
Lease income	¥ 3,819	$ 32,922
Depreciation expense	¥ 3,550	$ 30,603
Interest income (c)	¥ 374	$ 3,224

(c) Allocation of interest income to each period is computed using the interest method.

The future lease income of the Company and its consolidated subsidiaries' finance leases as of February 28, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Due within one year	¥ 3,578	$ 30,845
Due over one year	9,380	80,862
Total	¥12,958	$111,707

(2) Operating leases

The amounts of outstanding future lease payments under lease agreements other than finance leases, including the interest portion, as of February 28, 2006 are as follows:

As lessee:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Due within one year	¥ 67,685	$ 583,491
Due over one year	419,364	3,615,207
Total	¥487,049	$4,198,698

(3) Impairment loss on leased assets

No impairment loss was recognized on leased assets for the year ended February 28, 2006.

13. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(1) Guarantees

As of February 28, 2006, the Company and its consolidated subsidiaries are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥1,180 million ($10,172 thousand). The amount of guarantee in relation to the loans of a certain store lessor and to the loans of a certain affiliate was ¥767 million ($6,612 thousand) and ¥218 million ($1,879 thousand), respectively.

(2) Pledged assets

A. The amounts of assets pledged as collateral by the Company and its consolidated subsidiaries for their loans from certain financial institutions are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Bank deposits	¥ 3,423	$ 29,509
Accounts receivable, trade	6,921	59,664
Other current assets	5,273	45,457
Buildings and structures	70,738	609,810
Furniture, fixtures and equipment	1,313	11,319
Land	115,917	999,284
Other intangible assets	14,207	122,474
Investments in securities	112,563	970,371
Long-term leasehold deposits	35,672	307,517
Other investments	775	6,681
Total	¥366,802	$3,162,086

Debts for the pledged assets above are as follows: short-term loans, ¥64,678 million ($557,569 thousand); long-term loans (including the current portion), ¥268,061 million ($2,310,871 thousand); and long-term accounts payable, ¥1,887 million ($16,267 thousand).

B. The amounts of assets pledged as collateral for the debts of affiliates and vendors are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Buildings	¥2,345	$20,216
Land	2,829	24,387
Total	¥5,174	$44,603

Debts of affiliates and vendors for the pledged assets above is ¥5,156 million ($44,448 thousand).

C. Other

The amounts of assets pledged as collateral for fund transfer and for real estate business are ¥5,501 million ($47,422 thousand) and ¥35 million ($302 thousand), respectively. The amount of assets pledged as collateral for installment sales and gift tickets is ¥5,666 million ($48,845 thousand). The amount of gift tickets issued by subsidiaries is ¥19,199 million ($165,509 thousand). To secure approximately half of the amount of gift tickets issued, ¥3,243 million ($27,957 thousand) of additional assets was pledged as collateral.

(3) Litigation and securitization

A. Litigation

Sogo Co., Ltd. ("Sogo"), a consolidated subsidiary of the Company, has been named as a defendant in a lawsuit which has been filed in the Tokyo District Court by Organization for Promoting Urban Development on November 28, 2002, regarding the cancellation of "sales contract of properties of Kobe North Parking dated February 1996" against the notice of cancellation of the buy-back agreement by Sogo based on the Civil Rehabilitation Law. On August 29, 2005, the Tokyo District Court judged that Sogo should pay ¥13,138 million for the buy-back of such properties (land) and annually 6% of interest from the claim date. Then, Sogo appealed to the Tokyo High Court and the appeal has been pending.

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

B. Securitization of store properties

THE SEIBU DEPARTMENT STORES, LTD. ("SEIBU"), a consolidated subsidiary of the Company, established certain real estate trusts comprising of the land, land leasehold rights and part of the buildings of several stores and sold the beneficiary rights of the trusts to several Special Purpose Corporations ("SPCs"). Concurrently, SEIBU has entered into silent partnership arrangements with SPCs with certain investments. Also, SEIBU leased back such store properties from SPCs who have the beneficiary rights of the trusts.

Under these arrangements, the above noted investments are subordinated to all liabilities to other members of silent partnerships and third parties other than members of the silent partnerships.

A summary of store names, amount of investments and SPC names is as follows:

Store name	Amount of investment	SPC name
Ikebukuro	¥5,850 million ($50,431 thousand)	Asset Ikesei Corp.
Sapporo, Funabashi and Shibuya-LOFT	¥2,065 million ($17,802 thousand)	Global Asset Ikesei Corp.
Shibuya-Movita	¥470 million ($4,052 thousand)	Asset Movita

Information about SPCs is as follows:

SPC name	Year-end	Total assets at the latest closing date
Asset Ikesei Corp.	July	¥124,161 million ($1,070,353 thousand)
Global Asset Ikesei Corp.	August	¥44,331 million ($382,164 thousand)
Asset Movita	August & February (Half year-end)	¥9,877 million ($85,147 thousand)

14. ACCOUNTS AND NOTES PAYABLE: TRADE FOR FRANCHISED STORES

The balance of the "Accounts and notes payable: Trade for franchised stores" account represents the amount payable to vendors for merchandise purchased by Seven-Eleven Japan Co., Ltd. ("SEJ"). SEJ centralizes all purchasing procedures for merchandise purchased by an individual franchised store and makes collective payments to all vendors on behalf of the franchisees.

15. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

(1) The franchise commission from SEJ's franchised stores is included in "Other operating revenue".

The franchise commission from franchised stores and concurrent net sales of franchised stores are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Franchise commission from franchised stores	¥ 356,907	$ 3,076,784
Net sales of franchised stores	2,365,345	20,390,905

(2) Inventory valuation losses included in "Cost of sales" is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Inventory valuation losses	¥7,181	$61,905

(3) Major items included in "Gain on sales of property and equipment" are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Buildings and structures	¥1,069	$ 9,215
Land	768	6,621
Others	6	52
Total	¥1,843	$15,888

(4) Major items included in "Loss on disposals of property and equipment" are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Buildings and structures	¥(4,049)	$(34,905)
Furniture, fixtures and equipment	(1,376)	(11,862)
Software	(1,751)	(15,095)
Others	(1,009)	(8,699)
Total	¥(8,185)	$(70,561)

(5) Major items included in "Selling, general and administrative expenses" are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Advertising and decoration expenses	¥ 87,667	$ 755,750
Salaries and wages	328,255	2,829,784
Provision for allowance for bonuses to employees	8,931	76,991
Legal welfare expenses	35,550	306,466
Land and building rent	167,182	1,441,224
Depreciation and amortization	93,615	807,026
Utility expenses	75,231	648,543
Store maintenance and repair	64,564	556,586

16. RELATED PARTY TRANSACTIONS

There was no related party transaction during the fiscal year ended February 28, 2006.

17. SEGMENT INFORMATION

(1) Business segments

Fiscal year ended February 28, 2006	Millions of yen								
	Convenience store operations	Superstore operations	Department store operations	Restaurant operations	Financial services	Others	Total before eliminations	Eliminations/ corporate	Consolidated total
Revenues:									
Customers	¥2,014,335	¥1,675,204	¥ —	¥122,246	¥ 71,193	¥12,794	¥3,895,772	¥ —	¥3,895,772
Intersegment	901	12,531	—	1,779	11,096	6,987	33,294	(33,294)	—
Total revenues	2,015,236	1,687,735	—	124,025	82,289	19,781	3,929,066	(33,294)	3,895,772
Operating expenses	1,805,421	1,672,353	—	121,400	65,011	18,973	3,683,158	(32,326)	3,650,832
Operating income	¥ 209,815	¥ 15,382	¥ —	¥ 2,625	¥ 17,278	¥ 808	¥ 245,908	¥ (968)	¥ 244,940
Assets	¥1,177,401	¥1,018,184	¥741,536	¥ 83,562	¥717,402	¥18,021	¥3,756,106	¥(331,227)	¥3,424,879
Depreciation	¥ 64,428	¥ 20,796	¥ —	¥ 3,020	¥ 9,529	¥ 38	¥ 97,811	¥ 0	¥ 97,811
Impairment loss on property and equipment	¥ 6,341	¥ 23,861	¥ —	¥ 838	¥ —	¥ —	¥ 31,040	¥ —	¥ 31,040
Capital expenditures	¥ 83,788	¥ 49,532	¥ —	¥ 4,724	¥ 22,853	¥ 34	¥ 160,931	¥ 11	¥ 160,942

Fiscal year ended February 28, 2006	Thousands of U.S. dollars (Note 3)								
	Convenience store operations	Superstore operations	Department store operations	Restaurant operations	Financial services	Others	Total before eliminations	Eliminations/ corporate	Consolidated total
Revenues:									
Customers	$17,364,957	$14,441,413	$ —	$1,053,845	$ 613,733	$110,293	$33,584,241	$ —	$33,584,241
Intersegment	7,767	108,026	—	15,336	95,655	60,233	287,017	(287,017)	—
Total revenues	17,372,724	14,549,439	—	1,069,181	709,388	170,526	33,871,258	(287,017)	33,584,241
Operating expenses	15,563,974	14,416,836	—	1,046,552	560,440	163,560	31,751,362	(278,672)	31,472,690
Operating income	$ 1,808,750	$ 132,603	$ —	$ 22,629	$ 148,948	$ 6,966	$ 2,119,896	$ (8,345)	$ 2,111,551
Assets	$10,150,009	$ 8,777,448	$6,392,552	$ 720,362	$6,184,500	$155,353	$32,380,224	$(2,855,405)	$29,524,819
Depreciation	$ 555,414	$ 179,276	$ —	$ 26,034	$ 82,147	$ 327	$ 843,198	$ 0	$ 843,198
Impairment loss on property and equipment	$ 54,664	$ 205,698	$ —	$ 7,224	$ —	$ —	$ 267,586	$ —	$ 267,586
Capital expenditures	$ 722,310	$ 427,000	$ —	$ 40,724	$ 197,009	$ 293	$ 1,387,336	$ 95	$ 1,387,431

Notes:

1. The classification of business segments is made by the type of products and services and the type of sales.
2. Major businesses in each segment are as follows:
   - Convenience store operations........................Convenience store business operated by corporate stores and franchised stores under the name of "7-Eleven"
   - Superstore operations ....Superstore, supermarket and specialty shop
   - Department store operations ....Sogo Co., Ltd., THE SEIBU DEPARTMENT STORES, LTD. and other companies included in the department store business
   - Restaurant operations...Coffee shop style restaurant, family restaurant operated in shopping center and catering
   - Financial services ....Bank, credit card and lease business
   - Others..Electronic commerce business and other services

(2) Geographic area segments

Fiscal year ended February 28, 2006	Millions of yen Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues:						
Customers	¥2,342,849	¥1,514,403	¥38,520	¥3,895,772	¥ —	¥3,895,772
Intersegment	200	2,505	—	2,705	(2,705)	—
Total revenues	2,343,049	1,516,908	38,520	3,898,477	(2,705)	3,895,772
Operating expenses	2,130,172	1,484,415	38,953	3,653,540	(2,708)	3,650,832
Operating income (loss)	¥ 212,877	¥ 32,493	¥ (433)	¥ 244,937	¥ 3	¥ 244,940
Assets	¥2,795,282	¥ 657,447	¥19,061	¥3,471,790	¥(46,911)	¥3,424,879

Fiscal year ended February 28, 2006	Thousands of U.S. dollars (Note 3) Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues:						
Customers	$20,196,974	$13,055,198	$332,069	$33,584,241	$ —	$33,584,241
Intersegment	1,724	21,595	—	23,319	(23,319)	—
Total revenues	20,198,698	13,076,793	332,069	33,607,560	(23,319)	33,584,241
Operating expenses	18,363,551	12,796,681	335,802	31,496,034	(23,344)	31,472,690
Operating income (loss)	$ 1,835,147	$ 280,112	$ (3,733)	$ 2,111,526	$ 25	$ 2,111,551
Assets	$24,097,259	$ 5,667,647	$164,318	$29,929,224	$(404,405)	$29,524,819

Notes:
1. The classification of geographic area segments is made according to geographical distances.
2. "Others" consists of the business results mainly in the People's Republic of China ("P.R.C.").

(3) Overseas sales

Fiscal year ended February 28, 2006	Millions of yen North America	Others	Total
Overseas sales	¥1,514,403	¥38,520	¥1,552,923
Consolidated sales	—	—	3,895,772
Percentage of overseas sales to consolidated sales (%)	38.9	1.0	39.9

Fiscal year ended February 28, 2006	Thousands of U.S. dollars (Note 3) North America	Others	Total
Overseas sales	$13,055,198	$332,069	$13,387,267
Consolidated sales	—	—	33,584,241
Percentage of overseas sales to consolidated sales (%)	38.9	1.0	39.9

Notes:
1. The classification of geographic area segments is made according to geographical distances.
2. "Others" consists of sales mainly in P.R.C.
3. "Overseas sales" represents net sales and other operating revenue of consolidated subsidiaries in countries and areas outside of Japan.

18. SUBSEQUENT EVENTS

1. Cash dividend

Subsequent to February 28, 2006, the Company's Board of Directors declared a year-end cash dividend of ¥26,187 million ($225,750 thousand) to be payable on May 26, 2006 to shareholders on record on February 28, 2006. The dividend declared was approved by the shareholders at the meeting held on May 25, 2006.

2. Split-up and merger of Ito-Yokado Co., Ltd.

In accordance with the resolutions approved at the meetings of the Board of Directors held on January 10 and 24, 2006, Ito-Yokado Co., Ltd., which is a wholly owned subsidiary of the Company, changed its name to Ito-Yokado SHC Co., Ltd. and transferred the superstore business and function of controlling its group companies to a newly established company on March 1, 2006. The Company merged with Ito-Yokado SHC Co., Ltd. and Ito-Yokado SHC Co., Ltd. was dissolved on the same date.

3. Additional acquisition of shares of Millennium Retailing, Inc.

The Company acquired 7,766,840 shares of Millennium Retailing, Inc. in the amount of ¥20,365 million ($175,560 thousand)on March 27, 2006 in accordance with the basic agreement on business integration which was entered into with Millennium Retailing, Inc. on December 26, 2005. As a result, the Company holds 59,435,303 shares and the percentage of ownership is 73.3%.

4. Stock-for-stock exchange with York-Benimaru Co., Ltd.

On April 11, 2006, the Company's Board of Directors approved a resolution to make York-Benimaru Co., Ltd. ("YB") a wholly owned subsidiary by means of a stock-for-stock exchange, without an approval of resolution at the shareholders' meeting which was in accordance with Article 358 of the Japanese Commercial Code.

On April 11, 2006, the Board of Directors also approved a resolution to issue new shares of the Company and the Company entered into the agreement on the stock-for-stock exchange. An outline of the stock-for-stock exchange is provided below.

(1) Objective of stock-for-stock exchange

To maximize effectiveness of the business portfolio and the corporate value of the entire group in order to enhance profitability of the supermarket business.

(2) Method and date of stock-for-stock exchange

Shares of the Company will be issued to current shareholders of YB, excluding the Company, and shares of YB will be transferred to the Company on September 1, 2006 ("exchange date"). As a result, YB will become a wholly owned subsidiary of the Company.

(3) Stock exchange ratio

1 common share issued by YB, except for the 15,884,265 shares held by the Company, will be allocated to 0.88 common share of the Company.

(4) Common stock and additional paid-in capital upon stock-for-stock exchange

Common stock of the Company to be increased upon the stock-for-stock exchange is nil.

Additional paid-in capital of the Company to be increased is calculated as follows:

Additional paid-in capital to be increased =

Net assets as of exchange date

$$\times \frac{\text{Number of YB shares to be transferred to the Company}}{\text{Number of YB shares outstanding}}$$

Note: Additional paid-in capital is included in "Capital surplus" in the Consolidated Balance Sheet.

(5) Overview of York-Benimaru Co., Ltd.

1. Name	York-Benimaru Co., Ltd.
2. Address	18-2, Asahi 2-chome, Koriyama, Fukushima, Japan
3. Representative director	President Zenko Ohtaka
4. Common stock	¥9,928 million ($85,586 thousand)
5. Business	Supermarket operations

6. Revenues from operations and net income for the year ended February 28, 2006

Revenues from operations	¥297,446 million ($2,564,190 thousand)
Net income	¥6,716 million ($57,897 thousand)

7. Total amounts of assets, liabilities and shareholders' equity as of February 28, 2006

Total assets	¥126,978 million ($1,094,638 thousand)
Total liabilities	¥22,785 million ($196,422 thousand)
Total shareholders' equity	¥104,193 million ($898,216 thousand)

5. Stock-for-stock exchange with Millennium Retailing, Inc.

On April 12, 2006, the Company's Board of Directors approved a resolution to make Millennium Retailing, Inc. ("Millennium") a wholly owned subsidiary by means of a stock-for-stock exchange, without an approval of resolution at the shareholders' meeting which was in accordance with Article 358 of the Japanese Commercial Code.

On April 12, 2006, the Board of Directors also approved a resolution to issue new shares of the Company and the Company entered into the agreement on the stock-for-stock exchange. An outline of the stock-for-stock exchange is provided below.

(1) Objective of stock-for-stock exchange

To create the "new comprehensive life-style industry" by establishing a global and comprehensive retail corporate group and maximizing the corporate value of the Company and Millennium and its respective subsidiaries.

(2) Method and date of stock-for-stock exchange

Shares of the Company will be issued to current shareholders of Millennium, excluding the Company, and shares of Millennium will be transferred to the Company on June 1, 2006 ("exchange date"). As a result, Millennium will become a wholly owned subsidiary of the Company.

(3) Stock exchange ratio

1 common share issued by Millennium, except for the 59,435,303 shares held by the Company, will be allocated to 0.61 common share of the Company. 1 preferred stock (Type 1) will be allocated to 0.642105215 common share of the Company.

(4) Common stock and additional paid-in capital upon stock-for-stock exchange

Common stock of the Company to be increased upon the stock-for-stock exchange is nil.

Additional paid-in capital of the Company to be increased is calculated as follows:

Additional paid-in capital to be increased =

Net assets as of exchange date

$$\times \frac{\text{Number of Millennium shares to be transferred to the Company}}{\text{Number of Millennium shares outstanding}}$$

Note: Additional paid-in capital is included in "Capital surplus" in the Consolidated Balance Sheet.

(5) Overview of Millennium Retailing, Inc.

1. Name	Millennium Retailing, Inc.
2. Address	1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
3. Representative director	President Kazuyoshi Sano
4. Common stock	¥34,941 million ($301,216 thousand)
5. Business	Management of department store operations and related business

6. Revenues from operations and net income for the year ended February 28, 2006

Revenues from operations	¥8,724 million ($75,207 thousand)
Net income	¥174 million ($1,500 thousand)

7. Total amounts of assets, liabilities and shareholders' equity as of February 28, 2006

Total assets	¥78,677 million ($678,250 thousand)
Total liabilities	¥1,394 million ($12,017 thousand)
Total shareholders' equity	¥77,283 million ($666,233 thousand)

6. Cancellation of treasury stock

Following the approval of a resolution to reclassify additional paid-in capital of ¥300,000 million ($2,586,207 thousand) to other capital surplus at the annual shareholders' meeting held on May 25, 2006, the Company's Board of Directors approved the cancellation of the Company's treasury stock, pursuant to Article 178 of the Japanese Company Law. Details are as follows:

(1) Reason for cancellation of treasury stock

To improve capital efficiency and shareholder value by decreasing number of shares issued.

(2) Method of cancellation

Reduction of capital surplus

(3) Class of shares to be cancelled

Common stock

(4) Number of shares to be cancelled

427,509,908 shares

(5) Scheduled date of cancellation

Immediately after capital surplus reduction which is expected to be completed on July 4, 2006

Notes:

1. Both additional paid-in capital and other capital surplus are included in "Capital surplus" in the Consolidated Balance Sheet.
2. The Company merged with Ito-Yokado SHC Co., Ltd., one of its consolidated subsidiaries, on March 1, 2006, and Ito-Yokado SHC Co., Ltd. was dissolved on the same day. As a result, the 427,509,908 shares of the Company's stock held by Ito-Yokado SHC Co., Ltd. became treasury stock of the Company.